

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST**

**Consolidated Financial Statements**

**For the Years Ended  
December 31, 2007 and 2006**

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## Management's Responsibility for Financial Reporting

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The accompanying consolidated financial statements, management's discussion and analysis of results of operations and financial condition and the annual report are the responsibility of the Management of Allied Properties Real Estate Investment Trust (the "REIT"). The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and where appropriate, include amounts, which are based on best estimates and judgment of Management.

Management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized.

The Board of Trustees (the "Board") is responsible for ensuring that Management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee (the "Committee"), which is comprised entirely of outside trustees. The Committee reviews the consolidated financial statements with both management and the independent auditors. The Committee reports its findings to the Board, which approves the consolidated financial statements before they are submitted to the Unitholders of the REIT.

BDO Dunwoody LLP (the "Auditors"), the independent auditors of the REIT, have audited the consolidated financial statements of the REIT in accordance with Canadian generally accepted auditing standards to enable them to express to the Unitholders their opinion on the consolidated financial statements. The Auditors had direct and full access to, and meet periodically with the Committee, both with and without Management present.

(signed) "Michael R. Emory"  
Michael R. Emory  
President and Chief Executive Officer

(signed) "Tom Wenner"  
Tom Wenner, CA  
Chief Financial Officer

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## Auditors' Report

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### **To the Unitholders of Allied Properties Real Estate Investment Trust**

We have audited the consolidated balance sheets of Allied Properties Real Estate Investment Trust as at December 31, 2007 and 2006 and the consolidated statements of unitholders' equity, earnings and comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) BDO Dunwoody LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario

March 7, 2008

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST  
CONSOLIDATED BALANCE SHEETS**

(in thousands) December 31	Note	2007	2006
<b>ASSETS</b>			
Rental properties	4	\$ 693,862	\$ 426,442
Properties under development		15,762	17,074
Deferred expenses	5	52,441	34,736
Other assets	6	45,383	20,852
Cash		1,179	3,405
		<b>\$ 808,627</b>	<b>\$ 502,509</b>
<b>LIABILITIES</b>			
Mortgages payable	7	\$ 456,329	\$ 264,286
Bank indebtedness	7	32,192	-
Accounts payable and other liabilities	8	27,604	20,473
Distributions payable		2,637	2,046
		<b>518,762</b>	<b>286,805</b>
<b>UNITHOLDERS' EQUITY</b>	<b>9</b>	<b>289,865</b>	<b>215,704</b>
		<b>\$ 808,627</b>	<b>\$ 502,509</b>

The accompanying notes are an integral part of these consolidated financial statements.

"Gordon Cunningham"	Gordon Cunningham Trustee
"Michael R. Emory"	Michael R. Emory Trustee

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST  
CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY**

(in thousands)

	Notes	Cumulative Capital	Cumulative Issue Costs	Cumulative Net Income	Cumulative Distributions	Contributed Surplus	Total
Unitholders' equity, December 31, 2005		\$184,708	\$(10,482)	\$ 15,693	\$ (33,135)	\$ -	\$ 156,784
Year Ended December 31, 2006							
Net income		-	-	7,717	-	-	7,717
Distributions		-	-	-	(20,457)	-	(20,457)
Public offering		73,300	(3,481)	-	-	-	69,819
Distribution reinvestment plan		856	-	-	-	-	856
Unit option plan - options exercised	11	260	-	-	-	-	260
Long-Term incentive plan	12	742	(17)	-	-	-	725
Unitholders' equity, December 31, 2006		\$ 259,866	\$ (13,980)	\$ 23,410	\$ (53,592)	\$ -	\$ 215,704
Year Ended December 31, 2007							
Net income		\$ -	\$ -	\$ 5,810	\$ -	\$ -	\$ 5,810
Distributions		-	-	-	(29,763)	-	(29,763)
Public offering		100,119	(4,578)	-	-	-	95,541
Distribution reinvestment plan		1,904	-	-	-	-	1,904
Unit option plan - options exercised	11	130	-	-	-	-	130
Contributed surplus, unit option plan	11	-	-	-	-	36	36
Long-Term incentive plan	12	505	(2)	-	-	-	503
Unitholders' equity, December 31, 2007		\$ 362,524	\$ (18,560)	\$ 29,220	\$ (83,355)	\$ 36	\$ 289,865

The accompanying notes are an integral part of these consolidated financial statements.

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST**  
**CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME**

(in thousands, except unit and per unit amounts)

For the Years Ended December 31	2007	2006
<b>Revenues</b>		
Rental properties	\$ 105,998	\$ 64,229
Real estate services	909	1,010
	<b>106,907</b>	65,239
<b>Expenses</b>		
Rental property operating	41,777	23,181
Real estate services	510	574
Financing	22,414	12,826
Trust	2,713	2,377
Amortization of rental properties	13,026	7,628
Amortization of deferred expenses	19,674	9,272
Amortization of other assets	983	764
Internalization of property management (Note 2)	-	900
	<b>101,097</b>	57,522
<b>Net income and comprehensive income for the year</b>	<b>\$ 5,810</b>	<b>\$ 7,717</b>
<b>Net income per unit</b>		
Basic	\$ 0.249	\$ 0.464
Fully diluted	\$ 0.245	\$ 0.455
Weighted average number of units (Note 10)		
Basic	23,348,712	16,631,597
Fully diluted	23,756,519	16,964,265

The accompanying notes are an integral part of these consolidated financial statements.

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

For the Years Ended December 31	Notes	2007	2006
<b>CASH PROVIDED BY (USED IN):</b>			
<b>Operating activities</b>			
Net income		\$ 5,810	\$ 7,717
Items not affecting cash			
Amortization of rental properties		13,026	7,628
Amortization of office equipment		47	32
Amortization of deferred expenses		19,674	9,272
Amortization of tenant improvements		937	732
Amortization of tenant inducements		49	26
Step rent adjustments (revenue)		(1,487)	(920)
Step rent adjustments (expenses)		155	-
Mark to market rent adjustments		3,206	162
Amortization, premium on assumed mortgages		(327)	(284)
Changes in other non-cash financing expenses		318	-
Compensation expense, unit option plan		36	-
Interest benefit granted under long-term incentive plan		6	270
		41,450	24,635
Change in other non-cash operating items		(24,755)	1,453
<b>Cash from operating activities</b>		<b>16,695</b>	<b>26,088</b>
<b>Investing activities</b>			
Rental properties acquired, net of non-cash consideration	<b>2 (a)</b>	(150,980)	(87,296)
Properties under development acquired	<b>2 (a)</b>	-	(10,986)
Capital expenditures, rental properties and other assets		(6,717)	(4,206)
Capital expenditures, properties under development		(975)	(1,045)
Tenant improvements and leasing cost		(4,753)	(4,271)
Tenant inducements		(40)	(208)
Recoverable expenses		(87)	(79)
<b>Cash used in investing activities</b>		<b>(163,552)</b>	<b>(108,091)</b>
<b>Financing Activities</b>			
Repayment of mortgages payable		(33,535)	(21,032)
Proceeds from new mortgages payable		77,074	67,735
Deferred financing costs		-	(653)
Distributions		(27,268)	(19,130)
Proceeds of public offering (net of issue costs)		95,541	69,819
Proceeds from exercise of unit options		130	260
Proceeds from units issued under the LTIP (net of issue costs)	<b>12</b>	497	454
Net increase (decrease) in bank indebtedness		32,192	(13,853)
<b>Cash provided by financing activities</b>		<b>144,631</b>	<b>83,600</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>(2,226)</b>	<b>1,597</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>3,405</b>	<b>1,808</b>
<b>Cash and cash equivalents, end of year</b>		<b>\$ 1,179</b>	<b>\$ 3,405</b>
<b>Other cash flow information</b>			
Interest paid		\$ 22,428	\$ 13,419

The accompanying notes are an integral part of these consolidated financial statements.

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(In thousands of dollars except per unit and unit amounts)  
**December 31, 2007 and December 31, 2006**

**1. The Trust**

Allied Properties Real Estate Investment Trust (the "REIT") is an unincorporated closed-end real estate investment trust created pursuant to the Declaration of Trust dated October 25, 2002, subsequently amended and restated on February 6, 2003. The REIT is governed by the laws of the Province of Ontario and began operations on February 19, 2003. The units of the Trust are traded on the Toronto Stock Exchange.

These consolidated financial statements present the financial position of the REIT as at December 31, 2007 and 2006 and the statements of unitholders' equity, results of operations and cash flows for the years then ended.

**2. Acquisitions**

**(a) Rental Properties and Properties Under Development**

Net assets with respect to rental properties and properties under development acquired were as follows (using the purchase method of accounting):

For the Years Ended December 31	2007	2006
Rental properties	\$ 272,688	\$ 91,779
Properties under development	-	10,986
Other assets	2,784	561
Fair value of in-place leases and tenant relationships	34,756	15,363
Fair value of above-market leases	15,551	1,708
Fair value of below-market leases	(4,382)	(1,360)
Mortgages payable	(150,154)	(18,991)
Accounts payable and accrued liabilities	(20,263)	(1,764)
Cash consideration paid for the net assets acquired	\$ 150,980	\$ 98,282

The REIT allocates the purchase price of an acquisition on a preliminary basis, to the identified assets and liabilities acquired based on their estimated fair values at the time of acquisition. The purchase-price allocations are considered preliminary until the REIT has obtained the necessary information to complete its allocations.

**(b) Property Management Business**

Effective July 1, 2005, the REIT acquired, through wholly owned subsidiaries set out in Note 3 (b), the property management business from Allied Canadian Development Corporation for a cash purchase price of \$8,500 and additional consideration of up to \$900, contingent on the achievement of profitability criteria of the property management business for the year ended December 31, 2006, plus legal, advisory and other costs.

The REIT accounted for the acquisition in accordance with EIC 138 "Internalization of the Management Function in Royalty and Income Trusts".

The following costs incurred are in connection with the internalization of the management function and were recorded as an expense in the consolidated statement of earnings for the years ended December 31, 2007 and 2006:

For the Years Ended December 31	2007	2006
Internalization of property management	\$ -	\$900

### 3. Summary of Significant Accounting Policies

#### (a) Basis of Presentation

The REIT's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

#### (b) Basis of Consolidation

The REIT's consolidated financial statements include the accounts of the REIT's subsidiaries as follows:

<b>Entity</b>	<b>Interest Held on December 31, 2007</b>	<b>Interest Held on December 31, 2006</b>	<b>Accounting Method</b>
Allied Properties Management Limited Partnership	100%	100%	Consolidation
Allied Properties Management Trust	100%	100%	Consolidation
Allied Properties Management GP Limited	100%	100%	Consolidation

#### (c) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates and assumptions include those related to the valuation of above and below market leases, in place leases and tenant relationships.

#### (d) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less.

#### (e) Rental Properties

Rental properties include land, buildings, improvements and acquisition costs that are capitalized as part of the cost of rental properties.

Rental properties are stated at cost less accumulated amortization. Amortization on buildings is recorded on the straight-line basis over the useful life of the buildings, estimated at 40 years.

Upon the acquisition of rental properties, the REIT evaluates all in-place tenant lease agreements to determine if the leases are at, below or above market rates. If a lease is determined to be above or below market rates, a corresponding asset or liability is recorded and amortized into income over the life of the lease. Also at the time of acquisition, an asset representing the fair value of the costs of the leasing commissions and tenant inducements that the REIT would have otherwise incurred if it had originated each lease agreement acquired is recorded and amortized over the lease's remaining life. Furthermore, an asset representing the fair value, if any, of the relationship with a customer or tenant is created upon the acquisition of the property.

#### (f) Impairment of Long-Lived Assets

The impairment of an asset is recognized if the carrying amount of the asset exceeds the aggregated undiscounted future cash flows expected from use of the asset and the eventual disposal of the asset. The impairment recognized is measured as the amount by which the carrying amount of the asset exceeds its fair value.

**(g) Properties Under Development**

Properties under development are stated at cost. Cost includes the cost of acquisition, other direct cost, realty tax, other operating expense and applicable financing expense during the development period, less the amount of operating revenue during the development period. The principal factors in determining when the redevelopment-period ends are (i) the achievement of positive cash flow after applicable interest expense and (ii) the passage of a predetermined period of time. Other criteria may be considered in determining when a redevelopment-period ends if warranted by circumstances relating to the relevant property under development. Included in properties under development is interest capitalized in the year of \$661 (2006 - \$595).

**(h) Computer, Office Equipment and Leasehold Improvements**

Amortization on computer, office equipment and leasehold improvements is recorded on a straight-line basis over estimated useful lives of three to five years.

**(i) Mortgages Payable**

Mortgages payable consists of the legal liabilities owing pursuant to loans secured by mortgages and premiums and discounts recognized on loans assumed on acquisition of properties, netted against the transaction cost, and the effective interest method of amortization is applied to the premiums, discounts and transaction costs.

**(j) Distribution Reinvestment Plan (DRIP)**

The REIT has instituted a DRIP whereby Canadian unitholders may elect to have their distributions automatically reinvested in additional units. Unitholders who so elect will receive a further distribution of units equal in value to 5% of each distribution that was reinvested. No commissions, service charges or brokerage fees are payable by participants in connection with the DRIP. Effective June 18, 2007, the REIT temporarily suspended the DRIP. Effective December 20, 2007 the REIT reinstated the DRIP.

**(k) Revenue Recognition**

Rental revenue includes rents from tenants under leases, property tax and operating cost recoveries, parking income and incidental income. Rental revenue with respect to rents from tenants under lease is recognized rateably over the term of the lease. Real estate services revenue is recorded on an accrual basis as services are provided.

**(l) Unit-based Compensation Plan**

The REIT accounts for employee unit-based options by measuring the compensation cost for options granted on or after January 1, 2002 under the fair value-based method using a Black-Scholes option pricing model.

**(m) Per Unit Calculations**

Basic net income per unit is calculated by dividing net income by the weighted average number of units outstanding for the year, excluding those units issued under the Long Term Incentive Plan, which are not fully paid up. The calculations of net income per unit on a diluted basis consider the potential exercise of outstanding unit purchase options, if dilutive, and are calculated using the treasury stock method. The calculation of net income per unit on a diluted basis includes those units issued under the Long Term Incentive Plan, which are not fully paid up.

**(n) Contracts and Customer Relationships**

Contracts and customer relationships included in deferred expenses consists of the values assigned to property management clients upon initial acquisition and are amortized on a straight-line basis over their estimated useful lives of 10 years.

**(o) Leasing Costs and Tenant Improvements**

Leasing costs include costs associated with leasing activities such as commissions. These costs are amortized on a straight-line basis over the terms of the leases to which they relate.

The REIT may provide funding to tenants through allowances. In accounting for a tenant allowance, the REIT determines whether the allowance is for funding the construction of improvements and the ownership of such improvements. In those circumstances where the REIT is considered the owner of the improvements, the REIT capitalizes the amount of the allowance as a tenant improvement and amortizes it over the shorter of the useful life of the improvement and the lease term. If the REIT provides an allowance that does not represent a payment for funding improvements, or in the event the REIT is not considered the owner of the improvement, the allowance would be considered a lease incentive and would be deferred and amortized over the lease term as a reduction of revenue. Determination of the accounting treatment of a tenant allowance is made on a case-by-case basis.

**(p) Comparative Amounts**

The comparative amounts presented in the consolidated financial statements have been reclassified to conform to the current year's presentation.

**(q) Change in Accounting Policies**

Effective January 1, 2007 the REIT adopted the new recommendations of the Canadian Institute of Chartered Accountants Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; and Section 3861, Financial Instruments – Disclosure and Presentation. These new Handbook sections, which are effective for fiscal years commencing on or after October 1, 2006, set out criteria for the recognition, measurement, disclosure and presentation of financial instruments. These new standards do not require policies followed in prior periods to be revised. Thus, the comparative figures have not been restated.

Section 3855 requires all financial assets and liabilities to be classified into one of the following five categories: held-for-trading; held-to-maturity; loans and receivables; available-for-sale financial assets; and other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at cost. Subsequent measurement and recognition of the changes in fair value of financial instruments depends upon their initial classifications, as follows:

Held-for-trading financial assets: measured at fair value with subsequent changes in fair value recognized in current period net income;

Held-to-maturity assets, loans and receivables and other financial liabilities: initially measured at fair value and subsequently measured at amortized cost with changes recognized in current period net income;

Available-for-sale financial assets: measured at fair value with subsequent gains and losses included in other comprehensive income until the asset is removed from the balance sheets; and

Derivative financial instruments: classified as held-for-trading financial instruments and measured at fair value, with respect to gains and losses in the current period net income.

Upon the adoption of these new standards, the REIT designated its cash as held-for-trading, its accounts receivable as loans and receivables, and its bank indebtedness, accounts payable and other liabilities, distributions payable and mortgages payable as other financial liabilities. The REIT had no held-to-maturity or available-for-sale financial assets during the year ended December 31, 2007.

Comprehensive income represents the changes in unitholders' equity from transactions and other events from non-owner sources. Other comprehensive income refers to items that are recognized in the comprehensive income but excluded from net income calculated in accordance with Canadian generally accepted accounting principles until such time as it is considered appropriate to recognize them in net

income. The REIT had no “other comprehensive income or loss” transactions during the year ended December 31, 2007 and no opening or closing balances of accumulated other comprehensive income or loss.

The adoption of these new recommendations had the following impact on the REIT’s consolidated financial statements:

Deferred financing charges related to the REIT’s mortgages payable, previously carried as deferred expenses, have been netted against the book value of these financial instruments with an adjustment to their effective interest rates payable. This resulted in reductions to deferred expenses of \$1,669 and to mortgages payable of \$1,669. The effect on the adoption on opening unitholders’ equity was insignificant. Financing expense of \$318 related to this change in accounting policy was recorded in the year ended December 31, 2007.

**(r) Future Accounting Changes**

New accounting standards that are effective for the REIT’s future fiscal years as follows:

Sections 1535, Capital Disclosures, includes required disclosure of the REIT’s objectives, policies and processes for managing capital, and quantitative data about what the REIT regards as capital.

Sections 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation replace the existing Section 3861, Financial Instruments – Disclosure and Presentation. The new sections revise and enhance disclosure requirements about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

In February 2008, the Canadian Institute of Chartered Accountants issued Section 3064, Goodwill and Intangible Assets and the REIT is evaluating the impact of the adoption of this new section. In 2006, Canada’s Accounting Standards Board ratified a plan that will result in Canadian GAAP, as used by public entities being converged with International Financial Reporting Standards over a transitional period. The impact this transition will have on the REIT’s consolidated financial statements has not been determined.

**4. Rental Properties**

<b>As at December 31, 2007</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Buildings, improvements and other costs	\$ 590,619	\$ 31,723	\$ 558,896
Land	134,966	-	134,966
	<b>\$ 725,585</b>	<b>\$ 31,723</b>	<b>\$ 693,862</b>
<hr/>			
As at December 31, 2006	Cost	Accumulated Amortization	Net Carrying Amount
Buildings, improvements and other costs	\$ 359,386	\$ 18,698	\$ 340,688
Land	85,754	-	85,754
	<b>\$ 445,140</b>	<b>\$18,698</b>	<b>\$ 426,442</b>

**5. Deferred Expenses**

Deferred expenses consist of costs incurred by the REIT, net of accumulated amortization of \$35,890 (December 31, 2006 - \$16,553), with respect to leasing costs incurred, the fair value attributed to in-place leases acquired, the fair value attributed to customer relationships with respect to rental property acquisitions and amounts recorded on the acquisition of the property manager – contracts and customer relationships. Amortization is recorded on a straight-line basis over the term of the respective credit facility and over the remaining term of the respective leases to which the costs or fair value relate.

As at December 31, 2007	Cost	Accumulated Amortization	Net Carrying Amount
Leasing costs	\$ 6,373	\$ 1,308	\$ 5,065
Tenant inducements	248	75	173
Deferred financing costs	-	-	-
Amounts ascribed to leasing costs and tenant relationships on rental properties acquired	80,488	34,186	46,302
Amounts recorded on the acquisition of the property manager – contracts and customer relationships	959	240	719
Recoverable expenditures	263	81	182
	<b>\$ 88,331</b>	<b>\$ 35,890</b>	<b>\$ 52,441</b>

As at December 31, 2006	Cost	Accumulated Amortization	Net Carrying Amount
Leasing costs	\$ 3,995	\$ 758	\$ 3,237
Tenant inducements	208	26	182
Deferred financing costs	2,017	376	1,641
Amounts ascribed to leasing costs and tenant relationships on rental properties acquired	43,990	15,224	28,766
Amounts recorded on the acquisition of the property manager – contracts and customer relationships	959	144	815
Recoverable expenditures	100	5	95
	<b>\$ 51,269</b>	<b>\$ 16,533</b>	<b>\$ 34,736</b>

## 6. Other Assets

Other assets consist of:

December 31	2007	2006
Above-market rents of leases acquired through rental property acquisitions net of amortization of \$ 7,576 (December 31, 2006 - \$2,712)	\$ 16,990	\$ 6,281
Accounts receivable and deposits for property acquisitions	15,632	7,214
Tenant improvements, net of amortization of \$1,870 (December 31, 2006 - \$1,158 )	5,027	3,880
Prepaid expenses	1,041	259
Escrow accounts held by mortgagees	6,543	3,101
Computer and office equipment, net of amortization of \$87 (December 31, 2006 - \$43)	120	84
Leasehold improvements, net of amortization of \$8 (December 31, 2006 - \$4)	30	33
	<b>\$ 45,383</b>	<b>\$20,852</b>

## 7. Mortgages Payable and Bank Indebtedness

Substantially all of the REIT's assets have been pledged as security under the related mortgages and other security agreements. Effective interest rates on the mortgages payable are between 5.1% and 7.4% (contractual 4.94% and 8.10%).

Mortgages payable at December 31, 2007 are due as follows:

	Principal Repayments	Balance due at Maturity	Total
Year ended December 31, 2008	\$ 11,153	\$ 6,486	\$ 17,639
Year ended December 31, 2009	11,346	14,022	25,368
Year ended December 31, 2010	11,673	4,478	16,151
Year ended December 31, 2011	12,106	8,496	20,602
Year ended December 31, 2012	12,253	12,317	24,570
Thereafter	41,939	312,463	354,402
	<b>\$ 100,470</b>	<b>\$ 358,262</b>	<b>\$ 458,732</b>
Premium on assumed mortgages (net of amortization of \$ 1,142)			499
Deferred financing costs (net of amortization of \$694)			(2,902)
			<b>\$456,329</b>

Mortgages payable at December 31, 2006 are due as follows:

	Principal Repayments	Balance due at Maturity	Total
Year ended December 31, 2007	\$ 6,979	\$19,433	\$ 26,412
Year ended December 31, 2008	6,810	6,437	13,247
Year ended December 31, 2009	6,698	14,022	20,720
Year ended December 31, 2010	6,772	4,478	11,250
Year ended December 31, 2011	6,938	8,496	15,434
Thereafter	26,476	149,922	176,398
	<b>\$ 60,673</b>	<b>\$ 202,788</b>	<b>\$ 263,461</b>
Premium on assumed mortgages (net of amortization of \$ 815)			825
			<b>\$ 264,286</b>

The REIT has a \$50,000 revolving credit facility with a Canadian chartered bank, which matures August 31, 2010 and bears interest at bank prime rate. Security for the facility consists of first and second mortgage charges on seven rental properties and security agreements covering assignment of rents and personal property with respect to the seven properties. The credit facility has a number of covenants which were met as at December 31, 2007.

At December 31, 2007 the amount outstanding under the credit facility was \$32,192 (December 31, 2006 \$ nil).

## 8. Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist of:

December 31	2007	2006
General operating payables and tenant deposits	<b>\$ 19,272</b>	\$ 15,988
Below market rents of leases acquired through rental property acquisition – net of amortization of \$3,997 (December 31, 2006 - \$2,340)	<b>6,264</b>	3,274
Accrued interest	<b>2,066</b>	1,196
Capital lease obligations	<b>2</b>	15
	<b>\$ 27,604</b>	\$ 20,473

## 9. Unitholders' Equity

The REIT is authorized to issue an unlimited number of trust units, each of which represents a unitholder's proportionate undivided beneficial interest in the REIT. No unitholder has or is deemed to have any right of ownership in any of the assets of the REIT.

The number of units issued and outstanding are as follows:

	Units
Units outstanding, December 31, 2005	16,018,933
Units issued pursuant to offering on September 1, 2006	1,900,000
Units issued pursuant to offering on December 1, 2006	2,000,000
Units issued pursuant to the Long Term Incentive Plan (Note 12)	137,069
Units issued pursuant to Unit Option Plan (Note 11)	26,000
Units issued under the Distribution Reinvestment Plan	48,311
Units outstanding, December 31, 2006	20,130,313
<b>Units issued pursuant to offering on April 12, 2007</b>	<b>4,825,000</b>
<b>Units issued pursuant to the Long Term Incentive Plan (Note 12)</b>	<b>51,500</b>
<b>Units issued under the Distribution Reinvestment Plan</b>	<b>89,895</b>
<b>Units issued under the Unit Option Plan (Note 11)</b>	<b>13,000</b>
<b>Units outstanding, December 31, 2007</b>	<b>25,109,708</b>

## 10. Weighted Average Units

The weighted average units outstanding for the purposes of calculating net income per unit are as follows:

For the Years Ended December 31	2007	2006
<b>Basic</b>	<b>23,348,712</b>	16,631,597
Unit option plan	26,131	27,935
Long-term incentive plan	381,676	304,733
<b>Fully diluted</b>	<b>23,756,519</b>	16,964,265

## 11. Unit Option Plan

The REIT adopted a Unit Option Plan providing for the issuance, from time to time, at the discretion of the trustees, of options to purchase Units for cash. Participation in the Unit Option Plan is restricted to the trustees and the officers of the REIT. The Unit Option Plan complies with the requirements of the Toronto Stock Exchange. The exercise price of any option granted will not be less than the closing market price of the units on the day preceding the date of grant. The options may have a maximum term of ten years from the date of grant.

On February 20, 2003, 345,000 options were granted to trustees and officers with an exercise price of \$10.00 and expiring on February 19, 2008. 115,000 options vested on each of February 20, 2003, February 20, 2004 and February 20, 2005.

On December 17, 2007, 710,000 options were granted to trustees and officers with an exercise price of \$21.13 and expiring on December 17, 2012. 128,331 options will vest on each of December 17, 2008 and December 17, 2009 and 128,338 options will vest on December 17, 2010. 108,333 options will vest on each of December 17, 2008 and December 17, 2009 and 108,334 options will vest on December 17, 2010, provided that certain performance achievements are met.

The REIT accounts for its unit option plan using the fair value method, under which compensation expense is measured at the date options are granted and recognized over the vesting period. Compensation expense under the unit option plan and assumptions utilized in the calculation thereof using the Black-Scholes Model for option valuation are as follows:

For the Year Ended December 31	2007
Compensation expense	\$ 36
Unit options granted	710,000
Unit option holding period (years)	5
Volatility rate	19.8%
Distribution yield	5.96%
Risk free interest rate	3.94%

A summary of the status of the Unit Option Plan is as follows:

	Units/ Options	Weighted Average Exercise Price
Options exercisable as at December 31, 2005	81,500	\$10.00
Exercised	(26,000)	\$10.00
Options outstanding and exercisable as at December 31, 2006	55,500	\$10.00
Exercised	(13,000)	\$10.00
<b>Options granted on December 17, 2007</b>	<b>710,000</b>	<b>\$21.13</b>
<b>Options outstanding as at December 31, 2007</b>	<b>752,500</b>	<b>\$20.50</b>
Options exercisable as at December 31, 2007, and subsequently exercised	42,500	\$10.00

## 12. Long-Term Incentive Plan

Officers and trustees of the REIT have been granted the right to participate in a LTIP, whereby the participants may subscribe for units for a purchase price equal to the weighted average trading price of the units for five trading days preceding the date of the grant. The purchase price is payable as to 5% upon issuance and as to the balance (“installment loan receivable”) over a term not exceeding 10 years. The installment loan receivable bears interest at rates of 3% or 5% per annum on any outstanding balance and is a direct, personal obligation of the participant. The units issued under the LTIP are held by a custodian for the benefit of the participants until the installment loan receivable has been paid in full. Cash distributions paid in respect of the units issued under the LTIP are applied first to the interest and then to reduce the balance of the installment loan receivable.

The fair value of the LTIP is the estimated present value of the imputed interest benefit over an estimated expected term of ten years. The LTIP installment loans receivable are recognized as deductions from units issued. Distributions received under the LTIP are charged to unitholders’ equity while interest received under the LTIP is credited to distributions.

Units issued under the LTIP	Cumulative as at December 31, 2007	Year Ended December 31, 2007	Cumulative as at December 31, 2006
<b>Number of units issued</b>	<b>412,293</b>	<b>51,500</b>	360,793
<b>Units issued</b>	<b>\$6,282</b>	<b>\$ 1,160</b>	\$5,122
<b>Compensation cost</b>	<b>474</b>	<b>6</b>	468
	<b>6,756</b>	<b>1,166</b>	5,590
<b>LTIP installment loans receivable</b>	<b>(5,852)</b>	<b>(1,102)</b>	(4,750)
<b>Interest on installment loans receivable</b>	<b>(386)</b>	<b>(174)</b>	(212)
<b>Distributions applied against installment loans receivable</b>	<b>1,132</b>	<b>470</b>	662
<b>Repayments of installment loans</b>	<b>145</b>	<b>145</b>	-
	<b>(4,961)</b>	<b>(661)</b>	(4,300)
	<b>\$ 1,795</b>	<b>\$505</b>	\$ 1,290

Units issued under the LTIP	Cumulative as at December 31, 2006	Year Ended December 31, 2006	Cumulative as at December 31, 2005
<b>Number of units issued</b>	<b>360,793</b>	<b>137,069</b>	223,724
<b>Units issued</b>	<b>\$5,122</b>	<b>\$ 2,359</b>	\$2,763
<b>Compensation cost</b>	<b>468</b>	<b>270</b>	198
	<b>5,590</b>	<b>2,629</b>	2,961
<b>LTIP installment loans receivable</b>	<b>(4,750)</b>	<b>(2,126)</b>	(2,624)
<b>Interest on installment loan receivable</b>	<b>(212)</b>	<b>(121)</b>	(91)
<b>Distributions applied against installment loan receivable</b>	<b>662</b>	<b>360</b>	302
	<b>(4,300)</b>	<b>(1,887)</b>	(2,413)
	<b>\$ 1,290</b>	<b>\$742</b>	\$ 548

## 13. Income Taxes

The REIT is taxed as a “Mutual Fund Trust” for income tax purposes. The REIT is required by its Declaration of Trust to distribute or designate all of its taxable income to unitholders and to deduct such distributions or designation for income tax purposes. Accordingly, no provision for income taxes has been made. Income tax obligations relating to distributions of the REIT are the obligations of the unitholders.

## 14. Financial Instruments

The fair values of the REIT's financial assets and liabilities with current maturities approximate their recorded values as at December 31, 2007 and December 31, 2006. The fair values of the mortgages payable is \$456,153 (2006 - \$270,969).

In the normal course of its business, the REIT is exposed to a number of financial risks that can affect its operating performance. These risks and the actions taken to manage them are noted below. The REIT does not have foreign exchange risks as it holds only Canadian dollar denominated assets and liabilities.

### (a) Interest Rate Risk

All of the REIT's mortgages payable at December 31, 2007 are at fixed interest rates and are not exposed to changes in interest rates. Bank indebtedness is at floating rate interest rates and is exposed to changes in interest rates. As fixed rate debt matures and as the REIT utilizes additional floating rate debt under the revolving credit facilities, the REIT will be further exposed to changes in interest rates. As part of its risk management program, the REIT endeavors to maintain an appropriate mix of fixed rate and floating rate debt and to stagger the maturities of its debt.

### (b) Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT's credit risk is limited to the recorded amount of tenant receivables.

The REIT does not acquire, hold or issue derivative financial instruments for hedging or trading purposes.

## 15. Segmented Disclosure

The REIT's assets are in, and its revenue is derived from, the downtown office markets in four major Canadian cities.

## 16. Commitments and Contingencies

The REIT has entered into commitments for acquisitions, building renovations, leasing commissions and tenant inducements with respect to leasing activities and for repairs and operating costs. The commitments as at December 31, 2007 and December 31, 2006 were \$3,313 and \$2,545, respectively.

## 17. Related Party Transactions

### (a) Real Estate Services

The REIT engages in third-party property management business, including the provision of services for properties in which certain trustees of the REIT have an ownership interest. For the year ended December 31, 2007 real estate service revenue earned from these properties was \$323 (December 31, 2006 - \$383), which was fully paid in the year. These transactions are in the normal course of operations and were measured at the exchange amount set out in agreement between the respective property owners and the Developer, prior to the REIT acquiring the business. The REIT assumed the terms of these agreements.

### (b) Rental Revenues

Rental revenues included amounts received from related parties as follows:

Related Party	Nature of Revenue	For the Years Ended December 31	2007	2006
Vendors of properties	Head Lease		\$ 23	\$ 25
TechSpaceCanada Inc.	Guarantee		63	33
Vendors of properties	Bridge Covenants		25	39
			\$111	\$ 97

#### Head Lease:

Certain vendors entered into a lease dated February 20, 2003 for 16,686 square feet of office space for a five year term, expiring on February 19, 2008 (the "Head Lease"). The vendors, which are under common control of certain trustees of the REIT, honoured all of their obligations under the Head Lease and were released from the balance of their obligations there under when the REIT entered into direct lease arrangements with acceptable replacement tenants on acceptable terms.

#### Guarantee:

TechSpace Canada Inc. ("TechSpace"), a subsidiary of the Developer, leased 29,102 square feet of office space from the REIT on commercial terms. The lease was to expire on December 31, 2010. The Developer indemnified the REIT in respect of all of TechSpace's obligations under the lease. Effective January 1, 2004, the REIT entered into a direct lease of this space with a new tenant for a term ending on December 31, 2010, on the condition that the original indemnity of the Developer remain in place to protect the REIT from any revenue shortfall (on a cash basis) from the original TechSpace lease. Effective July 1, 2005, the REIT entered into a direct lease of this space with Loblaws Properties Limited for a term ending October 31, 2010, on the condition that the original indemnity of the Developer remain in place to protect the REIT from any revenue shortfall (on a cash basis) from the original TechSpace lease.

#### Bridge Covenants:

Certain vendors of the rental properties provided bridge covenants (collectively the "Bridge Covenants") to the REIT in respect of certain office space leased to third party, non-related tenants. These Bridge Covenants provided the REIT with an income stream to coincide with rent-free periods that these vendors provided to the tenants prior to the REIT acquiring the rental properties. The vendors, which are under common control of certain trustees of the REIT, honoured all of their obligations under the Bridge Covenants.

#### **(c) Rental Property Acquisitions**

Effective September 1, 2007 the REIT acquired from certain vendors that are under common control of certain Trustees of the REIT, 559 College Street for a purchase price of \$14,250. Effective December 1, 2006 the REIT acquired from certain vendors that are under common control of certain Trustees of the REIT, 441 King Street West, King-Brant Parking Facilities and the Castle – Phase II for purchase prices of \$3,000, \$8,500 and \$16,600, respectively. The purchase prices net of standard adjustments were paid in cash and was determined by an independent appraisal.

#### **18. Subsequent Events**

On January 3, 2008, the REIT completed an offering of 2,900,000 units at a price of \$20.75 per unit for gross proceeds of \$60,175. The REIT used the net proceeds to repay amounts drawn on the Facility, to fund a portion of the purchase price for acquisitions that closed later in January and for general corporate purposes.

From January 9 to 11, 2008 the REIT completed the acquisitions of 544 King Street West and 1-9 Morrison Street in Toronto and 72 Victoria Street, an 85,610 square foot, Class I office building located in the Warehouse District of downtown Kitchener. The aggregate purchase price was \$21,302, and was financed by cash and the assumption of a \$6,241 loan, secured by a first charge on 72 Victoria Street, bearing interest at 5.73% and maturing on July 1, 2016.

On February 1, 2008 the REIT completed the acquisition of a parcel of land adjacent to 425 Viger Avenue West, Montreal for a purchase price of \$500. The purchase was financed by cash.

On March 3, 2008 the REIT completed the acquisitions of 179 John Street, a 67,393 square foot Class I office building and 96 Spadina Avenue, an 89,275 square foot Class I office building, both located in the Downtown West submarket. The aggregate purchase price was \$28,000, and was financed by cash, utilization of the REIT's credit facility and the assumption of a \$4,105 loan, secured by a first charge on 179 John Street, bearing interest at 6.6% and maturing on January 1, 2016.