

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST

**Consolidated Financial Statements
(Unaudited)**

**For the Three-Month and Nine-Month Periods Ended
September 30, 2008**

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
CONSOLIDATED BALANCE SHEETS
(Unaudited)**

(in thousands)	Note	September 30, 2008	December 31, 2007
ASSETS			
Rental properties	4	\$805,290	\$693,862
Properties under development	4	43,853	15,762
Deferred expenses	5	60,893	52,441
Other assets	6	45,567	45,383
Cash		741	1,179
		\$956,344	\$808,627
LIABILITIES			
Mortgages payable	7	\$499,807	\$456,329
Bank indebtedness	7	24,661	32,192
Accounts payable and other liabilities	8	37,498	27,604
Distributions payable		3,423	2,637
		565,389	518,762
UNITHOLDERS' EQUITY	9	390,955	289,865
		\$956,344	\$808,627

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
(Unaudited)**

(in thousands)

	Notes	Cumulative Capital	Cumulative Issue Costs	Cumulative Net Income	Cumulative Distributions	Contributed Surplus	Total
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		-	-	-	-	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
Nine Months Ended September 30, 2008							
Net income		\$ -	\$ -	\$9,216	\$ -	\$ -	\$9,216
Distributions		-	-	-	(28,412)	-	(28,412)
Public offering		120,738	(5,562)	-	-	-	115,176
Distribution reinvestment plan		4,067	-	-	-	-	4,067
Unit option plan - options exercised	11	425	-	-	-	-	425
Contributed surplus, unit option plan		-	-	-	-	366	366
Long-Term incentive plan	12	252	-	-	-	-	252
Unitholders' equity, September 30, 2008		\$488,006	\$(24,122)	\$38,436	\$(111,767)	\$402	\$390,955

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
(Unaudited)

(in thousands, except unit and per unit amounts)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Revenues				
Rental properties	\$33,795	\$27,718	\$96,606	\$75,688
Real estate services	184	220	518	761
	33,979	27,938	97,124	76,449
Expenses				
Rental property operating	12,776	10,578	38,055	29,408
Real estate services	89	114	264	431
Financing	6,745	6,251	19,148	15,891
Trust	828	537	2,600	1,814
Amortization of rental properties	4,221	3,758	11,851	9,349
Amortization of deferred expenses	5,260	5,789	14,963	14,000
Amortization of other assets	350	231	1,027	721
	30,269	27,258	87,908	71,614
Net income and comprehensive income for the period	\$3,710	\$680	\$9,216	\$4,835
Net income per unit				
Basic	\$0.121	\$0.028	\$0.321	\$0.211
Fully diluted	\$0.119	\$0.027	\$0.317	\$0.208
Weighted average number of units (Note 10)				
Basic	30,654,315	24,722,413	28,683,128	22,885,780
Fully diluted	31,041,608	25,132,093	29,071,679	23,292,946

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

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

		Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
CASH PROVIDED BY (USED IN):					
Operating activities					
Net income		\$3,710	\$ 680	\$9,216	\$ 4,835
Items not affecting cash					
Amortization of rental properties		4,221	3,758	11,851	9,349
Amortization of office equipment		62	11	184	34
Amortization of deferred expenses		5,258	5,815	14,961	14,034
Amortization of tenant improvements		284	220	839	688
Step rent adjustments (revenue)		(282)	(262)	(773)	(922)
Step rent adjustments (expenses)		38	44	122	114
Mark to market rent adjustments		265	1,188	1,865	2,118
Amortization, premium on assumed mortgages		(76)	(80)	(159)	(264)
Changes in other non-cash financing expenses		141	60	383	247
Compensation expense, unit option plan		122	-	366	-
Interest benefit granted under long-term incentive plan		-	-	-	6
		13,743	11,434	38,855	30,239
Change in other non-cash operating items		4,350	(1,511)	(2,019)	(24,050)
Cash provided by operating activities		18,093	9,923	36,836	6,189
Investing activities					
Rental properties acquired, net of non-cash consideration	2	(60,039)	(19,543)	(103,361)	(130,625)
Properties under development acquired	2	-	-	(24,153)	-
Capital expenditures, rental properties and other assets		(1,617)	(1,184)	(6,988)	(4,320)
Capital expenditures, properties under development		(1,419)	(145)	(3,938)	(790)
Tenant improvements and leasing cost		(1,216)	(1,316)	(3,386)	(2,933)
Tenant inducements		(345)	-	(635)	-
Recoverable expenses		(42)	-	(88)	(116)
Cash used in investing activities		(64,678)	(22,188)	(142,549)	(138,784)
Financing activities					
Repayment of mortgages payable		(8,721)	(14,163)	(18,610)	(25,851)
Proceeds from new mortgages payable		24,736	21,647	39,122	50,205
Distributions		(8,235)	(7,866)	(23,559)	(19,403)
Proceeds of public offering (net of issue costs)		57,716	-	115,176	95,541
Proceeds from exercise of unit options		-	-	425	130
Proceeds from units issued under the LTIP (net of issue costs)	12	86	71	252	419
Net increase (decrease) in bank indebtedness		(19,475)	11,910	(7,531)	28,644
Cash provided by financing activities		46,107	11,599	105,275	129,685
Net change in cash and cash equivalents		(478)	(666)	(438)	(2,910)
Cash and cash equivalents, beginning of period		1,219	1,161	1,179	3,405
Cash and cash equivalents, end of period		\$741	\$495	\$741	\$495
Other cash flow information					
Interest paid		\$7,113	\$8,689	\$20,376	\$15,337
Supplemental cash flow information					
Units issued pursuant to the distribution reinvestment plan		\$1,660	\$ -	\$4,067	\$1,904

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

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In thousands of dollars except per unit and unit amounts)
September 30, 2008 and September 30, 2007

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 (the "Declaration"), subsequently amended and restated on February 6, 2003 and on May 15, 2008. 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 September 30, 2008 and the statements of unitholders' equity, results of operations and cash flows for the period ended September 30, 2008.

2. Acquisitions

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

	Nine Months Ended September 30, 2008	Three Months Ended September 30, 2008	Year Ended December 31, 2007
Rental properties	\$116,290	\$67,671	\$272,688
Properties under development	24,153	-	-
Other assets	86	85	2,784
Fair value of in-place leases and tenant relationships	20,877	15,274	34,756
Fair value of above-market leases	771	-	15,551
Fair value of below-market leases	(10,224)	(9,889)	(4,382)
Mortgages payable	(22,741)	(12,355)	(150,154)
Accounts payable and accrued liabilities	(1,698)	(747)	(20,263)
Cash consideration paid for the net assets acquired	\$127,514	\$60,039	\$150,980

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.

3. Summary of Significant Accounting Policies

(a) Basis of Presentation

The REIT's unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are consistent with the accounting policies used in the REIT's audited consolidated financial statements for the year ended December 31, 2007, except as described in Note 3(b) below. The interim consolidated financial statements do not include all the information and disclosures required for annual financial statements and therefore these consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements.

Certain comparative figures have been reclassified to conform to these financial statements.

(b) Change in Accounting Policies

Effective January 1, 2008 the REIT adopted the new standards of the Canadian Institute of Chartered Accountants ("CICA") comprising CICA Handbook Sections 1535, Capital Disclosures; Section 3862 , Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation.

Section 1535 requires disclosure of the REIT's objectives, policies and processes for managing capital, quantitative data about what the REIT considers as capital and disclosure of any externally imposed capital requirements and consequences of non-compliances.

Section 3862 and 3863 replaces the existing Section 3861, Financial Instruments – Disclosure and Presentation to revise and enhance disclosure requirements and carry forward the unchanged existing presentation requirements. These new sections require disclosure about the nature and extent of risks arising from the financial instruments and how the REIT manages those risks.

The adoption of these new standards resulted in additional disclosure in the interim consolidated financial statements (see note 14) but do not affect the REIT's consolidated financial position, results of operations or cash flows.

(c) Future Changes to Accounting Policies

In February 2008, the CICA released new Handbook Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. This new section will be effective for annual periods beginning on or after October 1, 2008. Accordingly, the REIT will adopt this new section for its fiscal year beginning January 1, 2009. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The standards concerning goodwill are unchanged from the standards included in previous section 3062. The REIT is currently evaluating the impact of the adoption of this new Section.

In February 2008, the Accounting Standards Board ("AcSB") of the CICA confirmed that Canadian GAAP for publically accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective in the calendar year 2011. The conversion to IFRS will be required, for the REIT, for interim and annual financial statements beginning on January 1, 2011. The REIT continues to assess the potential impact of this changeover and develop its plan accordingly.

4. Rental Properties and Properties Under Development

Rental Properties

As at September 30, 2008	Cost	Accumulated Amortization	Net Carrying Amount
Buildings, improvements and other costs	\$686,683	\$43,574	\$643,109
Land	162,181	-	162,181
	\$848,864	\$43,574	\$805,290

As at December 31, 2007	Cost	Accumulated Amortization	Net Carrying Amount
Buildings, improvements and other costs	\$590,619	\$31,723	\$558,896
Land	134,966	-	134,966
	\$725,585	\$31,723	\$693,862

Properties Under Development

Included in properties under development is interest capitalized in the period of \$1,410 (for the year ended December 31, 2007 - \$661).

5. Deferred Expenses

Deferred expenses consist of costs incurred by the REIT, net of accumulated amortization of \$50,487 (December 31, 2007 - \$35,890), 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 remaining term of the respective leases to which the costs or fair value relate.

As at September 30, 2008	Cost	Accumulated Amortization	Net Carrying Amount
Leasing costs	\$8,054	\$1,899	\$6,155
Tenant inducements	876	151	725
Amounts ascribed to leasing costs and tenant relationships on rental properties acquired	101,140	47,965	53,175
Amounts recorded on the acquisition of the property manager – contracts and customer relationships	959	312	647
Recoverable expenditures	351	160	191
	\$111,380	\$50,487	\$60,893
As at December 31, 2007	Cost	Accumulated Amortization	Net Carrying Amount
Leasing costs	\$6,373	\$1,308	\$5,065
Tenant inducements	248	75	173
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
	\$88,331	\$35,890	\$52,441

6. Other Assets

Other assets consist of:

	September 30, 2008	December 31, 2007
Above-market rents of leases acquired through rental property acquisitions net of accumulated amortization of \$11,480 (December 31, 2007 - \$7,576)	\$13,857	\$16,990
Accounts receivable and deposits for property acquisitions	16,069	15,632
Tenant improvements, net of accumulated amortization of \$2,182 (December 31, 2007 - \$1,870)	5,597	5,027
Prepaid expenses	4,171	1,041
Escrow accounts held by mortgagors	5,074	6,543
Computer and office equipment, net of accumulated amortization of \$177 (December 31, 2007 - \$87)	718	120
Leasehold improvements, net of accumulated amortization of \$3 (December 31, 2007 - \$8)	81	30
	\$45,567	\$45,383

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. Contractual interest rates on the mortgages payable are between 4.94% and 8.10%.

Mortgages payable at September 30, 2008 are due as follows:	Principal Repayments	Balance due at Maturity	Total
Year ended December 31, 2008	\$2,847	\$277	\$3,124
Year ended December 31, 2009	12,839	14,938	27,777
Year ended December 31, 2010	12,944	5,978	18,922
Year ended December 31, 2011	13,449	14,868	28,317
Year ended December 31, 2012	13,658	18,615	32,273
Thereafter	35,135	357,670	392,805
	\$90,872	\$412,346	\$503,218
Discount on assumed mortgages (net of accumulated amortization of \$1,301)			(192)
Deferred financing costs (net of accumulated amortization of \$1,035)			(3,219)
			\$499,807

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
	\$100,470	\$358,262	\$458,732
Premium on assumed mortgages (net of accumulated amortization of \$1,142)			499
Deferred financing costs (net of accumulated amortization of \$694)			(2,902)
			\$456,329

The REIT has a \$70,000 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 September 30, 2008.

At September 30, 2008 the amount outstanding under the credit facility was \$24,661 (December 31, 2007 \$32,192).

8. Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist of:

	September 30, 2008	December 31, 2007
General operating payables and tenant deposits	\$20,824	\$19,274
Below market rents of leases acquired through rental property acquisition – net of accumulated amortization of \$6,036 (December 31, 2007 - \$3,997)	14,449	6,264
Accrued interest	2,225	2,066
	\$37,498	\$27,604

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, 2006	20,130,313
Units issued pursuant to offering on April 12, 2007	4,825,000
Units issued pursuant to the Long Term Incentive Plan (Note 12)	51,500
Units issued under the Distribution Reinvestment Plan	89,895
Units issued pursuant to Unit Option Plan (Note 11)	13,000
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Units outstanding, December 31, 2007	25,109,708
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Units issued pursuant to offering on January 3, 2008	2,900,000
Units issued pursuant to offering on July 2, 2008	2,850,000
Units issued under the Distribution Reinvestment Plan	216,233
Units issued under the Unit Option Plan (Note 11)	42,500
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Units outstanding, September 30, 2008	31,118,441

10. Weighted Average Units

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

	Three Months Period Ended September 30, 2008	Three Months Period Ended September 30, 2007	Nine Months Period Ended September 30, 2008	Nine Months Period Ended September 30, 2007
Basic	30,654,315	24,722,413	28,683,128	22,885,780
Unit option plan	-	22,387	1,258	27,384
Long-term incentive plan	387,293	387,293	387,293	379,782
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Fully diluted	31,041,608	25,132,093	29,071,679	23,292,946

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. All 345,000 options have been exercised.

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.

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, 2006	55,500	\$10.00
Exercised in 2007	(13,000)	\$10.00
Options granted on December 17, 2007	710,000	\$21.13
Options outstanding and exercisable as at December 31, 2007	752,500	\$20.50
Options exercised in nine month period ended September 30, 2008	(42,500)	\$10.00
Options outstanding as at September 30, 2008	710,000	\$21.13

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 September 30, 2008 (Unaudited)	Nine Months Ended September 30, 2008 (Unaudited)	Cumulative as at December 31, 2007 (Audited)
Number of units issued	412,293	-	412,293
Units issued	\$6,282	-	\$6,282
Compensation cost	474	-	474
	6,756	-	6,756
LTIP installment loans receivable	(5,852)	-	(5,852)
Interest on installment loans receivable	(512)	(126)	(386)
Distributions applied against installment loans receivable	1,510	378	1,132
Repayments of installment loans	145	-	145
	(4,709)	252	(4,961)
	\$2,047	252	\$1,795

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

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. Capital Management and Financial Instruments Risk Management

The fair values of the REIT's financial assets and liabilities with current maturities approximate their recorded values as at September 30, 2008 and December 31, 2007. The fair values of the mortgages payable is \$497,138 (December 31, 2007 - \$456,153).

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.

The REIT defines capital as the aggregate of unitholder's equity, mortgages payable and bank indebtedness. The REIT manages its capital to comply with investment and debt restrictions pursuant to the Declaration; to comply with debt covenants; to ensure sufficient operating funds are available to fund business strategies; to fund leasing and capital expenditures; to fund acquisitions and development of properties; and to provide stable and growing cash distributions to unitholders.

Various debt, equity and earnings distributions ratios are used to monitor capital adequacy and requirements. For debt management, debt to gross book value, debt average term to maturity, variable debt as a percentage of total debt are the primary ratios used in capital management. The Declaration requires the REIT to maintain debt to gross book value, as defined by the Declaration, of less than 60% (65% of gross book value, including the principal amount of indebtedness outstanding pursuant to convertible debentures) and that variable rate debt and debt having maturities of less than one year to not exceed 15% of gross book value. As at September 30, 2008 the REIT debt to gross book value is 49.7% and variable rate debt and debt having maturities of less than one year aggregated 3.8% of gross book value.

The carrying value of the REIT's equity is impacted by earnings and distributions. The REIT makes annual distributions of \$1.32 per unit and is required to distribute at least 70% of its distributable income, as defined by the Declaration. For the three month and nine month periods ended September 30, 2008, the REIT distributed 78.9% and 77.7% respectively of its distributable income.

Market risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market prices. The REIT does not acquire, hold or issue derivative financial instruments for hedging or trading purposes.

(a) Interest Rate Risk

All of the REIT's mortgages payable at September 30, 2008 are at fixed interest rates. Bank indebtedness is at floating rate interest rates and is exposed to changes. As fixed rate debt matures the REIT is 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.

The following table outlines the impact of a 1% change in the interest rate on variable rate debt and mortgages payable maturing within one year.

For the Three Months Ended September 30, 2008		-1%	-1%	+1%	-1%
	Carrying Amount	Income	Equity	Income	Equity
Bank indebtedness	\$24,661	\$62	\$62	(\$62)	(\$62)
Mortgages payable maturing with one year	\$15,401	\$38	\$38	(\$38)	(\$38)

(b) Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments, resulting in the REIT incurring a financial loss. The REIT manages credit risk to mitigate exposure to financial loss by staggering lease maturities, diversifying revenue sources over a large tenant base, ensuring no individual tenant contributes a significant portion of the REIT's revenues and conducting credit review of new tenants. Management reviews tenant receivables on a regular basis and reduces carrying amounts through the use of allowance for doubtful accounts and the amount of any loss is recognized in the Consolidated Statement of Earnings within rental property operating cost. As at September 30, 2008 and December 31, 2007, allowance for doubtful accounts were \$517 and \$393, respectively. During the three-month and nine-month periods ended September 30 2008, the loss recognized relating to the allowance for doubtful accounts were \$109 and \$201, respectively. As a result of a dispute regarding operating cost recoveries since 2006, a balance of \$2,159 is due from one tenant. Based on the advice of legal counsel and an independent firm of chartered accountants, Management is of the view that there is no merit to the tenant's position and is diligently pursuing the matter.

(c) Liquidity Risk

Liquidity risk is the risk that the REIT will not have sufficient funds available to meet its operational requirements and investing plans. The REIT monitors and manages its liquidity to ensure access to sufficient funds. Access to funding is achieved through credit facilities, mortgage financing and equity capital. The REIT's liquidity is monitored regularly by management. A schedule of principal repayments on mortgages payable and an explanation of the REIT credit facilities is set out in notes 7 and 18.

15. Segmented Disclosure

The REIT's assets are in, and its revenue is derived from, the downtown office markets in five 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 September 30, 2008 and December 31, 2007 were \$3,114 and \$3,313, respectively.

The REIT is subject to legal and other claims in the normal course of business. Management and the REIT's legal counsel evaluate all claims. In the opinion of management any liability from such claims would not have a significant effect on the REIT's consolidated financial statements.

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 three month periods ended September 30, 2008 and 2007 real estate service revenue earned from these properties were \$55 and \$79, respectively. For the nine month periods ended September 30, 2008 and 2007 real estate service revenue earned from these properties were \$164 and \$270 respectively. These revenues have been fully paid in the respective periods. These transactions are in the normal course of operations and measured at the exchange amount.

(b) Rental Revenues

Rental revenues included amounts received from related parties as follows:

Related Party	Nature of Revenue	Three Month Period Ended September 30, 2008	Three Month Period Ended September 30, 2007	Nine Month Period Ended September 30, 2008	Nine Month Period Ended September 30, 2007
Vendors of properties	Head Lease	\$28	\$6	\$79	\$18
TechSpaceCanada Inc.	Guarantee	-	\$10	\$3	\$43
		\$28	\$16	\$82	\$61

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 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. Effective July 1, 2005, the REIT entered into another direct lease of this space with Loblaw's Properties Limited for a term ending October 31, 2010, on the condition that the original indemnity of the Developer remain in place.

18. Subsequent Events

On October 15, 2008, the REIT completed the first mortgage financing of 5505 Saint-Laurent Boulevard in Montréal in the aggregate principal amount of \$19,500, for a term of three and a half years, bearing interest at 5.26% and payable in blended monthly instalments of principal and interest based on a 25-year amortization.

On October 23, 2008, the REIT completed the first mortgage financing of 451-481 St. Catherine Street West in Montréal in the aggregate principal amount of \$4,000 for a term of 10 years, bearing interest at 6.14% and payable in blended monthly instalments of principal and interest based on a 25-year amortization.