



**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

**December 31, 2008**

**DATED MARCH 10, 2009**

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## PART I

### Forward-Looking Disclaimer

The terms “Allied Properties”, “the REIT”, “we”, “us” and “our” in the following Management’s Discussion and Analysis of Results of Operations and Financial Condition (“MD&A”) refer to Allied Properties Real Estate Investment Trust and its consolidated financial position and results of operations for the year ended December 31, 2008. This MD&A is based on financial statements prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). This MD&A should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 31, 2008. Historical results and percentage relationships contained in our consolidated financial statements and MD&A, including trends that might appear, should not be taken as indicative of our future results, operations or performance. Unless otherwise indicated, all amounts in this MD&A are in thousands of Canadian dollars.

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws, including, among other things, statements concerning our objectives and our strategies to achieve those objectives, statements with respect to Management’s beliefs, plans, estimates and intentions and statements concerning anticipated future events, circumstances, expectations, results, operations or performance that are not historical facts. Forward-looking statements can be identified generally by the use of forward-looking terminology, such as “indicators”, “outlook”, “objective”, “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “should”, “plans”, “continue” or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect Management’s current beliefs and are based on information currently available to Management.

The forward-looking statements in this MD&A are not guarantees of future results, operations or performance and are based on estimates and assumptions that are subject to risks and uncertainties, including those described below in this MD&A under “Risks and Uncertainties”, which could cause actual results, operations or performance to differ materially from the forward-looking statements in this MD&A. Those risks and uncertainties include risks associated with property ownership, property development, geographic focus, asset-class focus, competition for real property investments, financing and interest rates, government regulations, environmental matters, construction liability, unitholder liability and taxation. Material assumptions that were made in formulating the forward-looking statements in this MD&A include the following: that our current target markets remain stable, with moderating demand for office space and no material increase in supply of directly-competitive office space; that acquisition capitalization rates increase; that the trend toward intensification within our target markets continues; and that the equity and debt markets continue to provide us with access to capital at a reasonable cost to fund our future growth and to refinance our mortgage debt as it matures. Although the forward-looking statements contained in this MD&A are based on what Management believes are reasonable assumptions, there can be no assurance that actual results, operations or performance will be consistent with these statements.

All forward-looking statements in this MD&A are qualified by this forward-looking disclaimer. These statements are made as of March 10, 2009, and, except as required by applicable law, we undertake no obligation to update publicly or revise any such statements to reflect new information or the occurrence of future events or circumstances.

## Business Overview and Strategy

We are an unincorporated closed-end real estate investment trust created pursuant to the Declaration of Trust dated October 25, 2002, as amended and restated on February 6, 2003 and May 14, 2008 (“Declaration”). We are governed by the laws of Ontario. Our units are publicly traded on the Toronto Stock Exchange under the symbol AP.UN. Additional information on us, including our annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

We are the leading owner and manager of Class I office properties in Canada, with portfolio assets in the urban areas of Toronto, Montréal, Winnipeg, Québec City and Kitchener. Our objectives are to provide stable and growing cash distributions to unitholders and to maximize unitholder value through effective management and accretive portfolio growth.

Class I office properties are created through the adaptive re-use of light industrial structures in urban areas. They typically feature high ceilings, abundant natural light, exposed structural frames, interior brick and hardwood floors. When restored and retrofitted to the standards of our portfolio, Class I buildings can satisfy the needs of the most demanding office and retail tenants. When operated in the coordinated manner of our portfolio, these buildings become a vital part of the urban fabric and contribute meaningfully to a sense of community.

The Class I value proposition includes (i) proximity to central business districts in areas well served by public transportation, (ii) distinctive internal and external environments that assist tenants in attracting, retaining and motivating employees (iii) significantly lower overall occupancy costs than those that prevail in the central business districts. The value proposition has proven appeal to a diverse base of business tenants, including the full range of service and professional firms, telecommunications and information technology providers, media and film groups and storefront retailers.

### Property Portfolio

We completed our Initial Public Offering (“IPO”) on February 20, 2003. We used the net proceeds of the IPO to acquire a portfolio of 14 predominantly Class I office properties in downtown Toronto with 820,000 square feet of gross leasable area (“GLA”). By the end of 2007, we had acquired another 31 office properties in downtown Toronto, 30 of them Class I office properties, bringing our total GLA in that market to over 2.4 million square feet. We had also acquired 14 predominantly Class I office properties in downtown Montréal, seven in downtown Winnipeg and five in Québec City, bringing our total portfolio at the end of 2007 to 70 properties with over 4.8 million square feet of GLA.

We made the following acquisitions in 2008, bringing our portfolio to 81 properties with over 5.5 million square feet of GLA:

Property	Acquired	Office GLA	Retail GLA	Total GLA	Parking Spaces
72 Victoria Street, Kitchener-Waterloo	January 9, 2008	89,875	0	89,875	228
544 King Street West, Toronto*	January 9, 2008	36,000	0	36,000	8
179 John Street, Toronto	March 4, 2008	67,393	0	67,393	14
96 Spadina Avenue, Toronto**	March 4, 2008	85,366	5,849	91,215	0
489 King Street West, Toronto	June 3, 2008	15,621	10,650	26,271	0
495 King Street West, Toronto	June 3, 2008	11,183	0	11,183	26
499 King Street West, Toronto	June 3, 2008	0	8,400	8,400	10
183 Bathurst Street, Toronto	June 3, 2008	24,879	0	24,879	0
204-214 King Street East, Toronto	July 2, 2008	128,970	5,460	134,430	50
70 Richmond Street East, Toronto	July 2, 2008	34,414	0	34,414	0
5505 Saint-Laurent Boulevard, Montréal	August 1, 2008	252,452	2,524	254,976	0
<b>Total</b>		<b>746,153</b>	<b>32,883</b>	<b>779,036</b>	<b>336</b>

\*includes 1-9 Morrison Street, Toronto, with which it is treated as a single Property Under Development

\*\*Property Under Development

We also acquired the second of two parcels of land adjacent and ancillary to 425 Viger Avenue West in Montréal on February 1, 2008, the first having been acquired in late 2007. The two parcels afford the REIT the opportunity of adding up to 60,000 square feet of GLA to 425 Viger Avenue West.

Four Toronto properties (47 and 47A Fraser Avenue, 134 Peter Street, 544 King Street West and 96 Spadina Avenue) and one Montréal property (4450 Saint-Laurent Boulevard) are currently properties

under development (“Properties Under Development” or “PUDs”). They are undergoing redevelopment, development or intensification. See “Properties Under Development” below.

### **Property Management**

Our wholly owned subsidiary, Allied Properties Management Limited Partnership, provides property management and related services to us and to third-party property owners on a fee-for-service basis.

### **Sustainability**

We are committed to sustainability, both as it relates to our business and to the physical environment within which we operate. Most of our buildings were created through the adaptive re-use of structures built nearly a century ago. They are recycled buildings, and the recycling has had considerably less impact on the environment than new construction of equivalent GLA would have had. To the extent we undertake new construction through development or intensification, we are committed to obtaining LEED certification. See “*Properties Under Development*” and “*Intensification*” below. LEED certification is a program established by the U.S. Green Building Council for certifying the design, construction and operation of high-performance green buildings. The program has gained wide acceptance in North America and elsewhere.

### **Performance Measures**

We measure the success of our strategies through key financial and operating performance measures.

#### **Financial Measures**

##### **1. Distributions**

We are focused on increasing distributions to our unitholders on a regular and prudent basis. During our first 12 months of operations, we made regular monthly distributions of \$1.10 per unit on an annualized basis. In March of each year from 2004 through to 2008, we increased our monthly distributions as set out in the table below:

	<b>March, 2004</b>	<b>March, 2005</b>	<b>March, 2006</b>	<b>March, 2007</b>	<b>March, 2008</b>
Annualized increase per unit	\$0.04	\$0.04	\$0.04	\$0.04	\$0.06
% increase	3.6%	3.5%	3.4%	3.3%	4.8%
Annualized distribution per unit	\$1.14	\$1.18	\$1.22	\$1.26	\$1.32

##### **2. Distributable Income**

Increasing distributions can be achieved prudently by increasing Distributable Income (“DI”), as defined in the Declaration. See “Distributable Income” below. In the year ended December 31, 2008, DI per unit (diluted) was \$1.65, the same as the comparable period in 2007.

##### **3. DI Pay-Out Ratio**

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate DI pay-out ratio, the ratio of actual distributions to DI in a given period. In 2008, we achieved a DI pay-out ratio of 79.1%.

##### **4. Funds From Operations**

Unlike DI, Funds From Operations (“FFO”) has a standardized definition. See “Funds From Operations” below. In 2008, FFO per unit (diluted) was \$1.68, up 1.2% from the comparable period in 2007.

##### **5. FFO Pay-Out Ratio**

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate FFO pay-out ratio, the ratio of actual distributions to FFO in a given period. In 2008, we achieved an FFO pay-out ratio of 77.6%.

##### **6. Adjusted Funds From Operations**

Increasing distributions cannot be achieved prudently without reference to adjusted funds from operations (“AFFO”), as this financial measure takes account of regular maintenance capital expenditures and regular leasing expenditures while ignoring the impact of non-cash revenue. See “Adjusted Funds from Operations” below. In 2008, AFFO per unit (diluted) was \$1.51, up 1.3% from the comparable period in 2007.

## 7. AFFO Pay-Out Ratio

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate AFFO pay-out ratio, the ratio of actual distributions to AFFO in a given period. In 2008, we achieved an AFFO pay-out ratio of 86.6%.

## 8. Debt Ratio

Gross Book Value ("GBV") is defined as the book value of the assets shown on our most recent balance sheet plus accumulated depreciation and amortization and an amount equal to the property management internalization expense that we have recorded. A conservative ratio of debt to GBV ("Debt Ratio") mitigates unitholder risk. At the end of 2008, our Debt Ratio was 49.4%, down significantly from 55.2% at the end of 2007.

### **Operating Measures**

#### 1. Tenant Retention and Replacement

We place a high value on tenant retention, as the cost of retention is typically lower than the cost of securing new tenancies. If retention is neither possible nor desirable, we strive for high-quality replacement tenants. Leases representing 585,670 square feet of GLA matured in 2008. By the end of 2008, we had renewed leases representing 352,633 square feet of this GLA and re-leased another 165,129 square feet of this GLA, representing 88.4% of the GLA covered by the maturing leases.

#### 2. Occupancy

We strive to maintain consistently high levels of occupancy. At the end of 2008, our leased area was 97.3% (not including Properties Under Development). The chart below summarizes the levels of GLA and leased area in our portfolio since the end of 2003:

	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2008
GLA (square feet)	984,856	1,636,343	2,321,507	3,415,279	4,761,211	5,350,208
% leased	97.5	99.2	97.0*	96.3*	97.9*	97.3*

\*not including Properties Under Development

#### 3. Same-Asset Net Operating Income

We strive to maintain or increase same-asset net operating income ("NOI") over time. See "Net Operating Income" below. Same-asset refers to those properties that we owned and operated for the entire period in question and for the same period in the prior year. Ignoring the step-rent revenue and the amortization of the fair value assigned to above-market and below-market rents with respect to acquired properties (the mark-to-market rent adjustment), same-asset NOI was \$47,604 in 2008, up 0.3% from 2007.

#### 4. Leasing Expenditures

We monitor leasing expenditures carefully. 587,514 square feet of the GLA leased in 2008 involved new leases or lease-renewals that commenced in the year. \$4,275 in leasing expenditures related to this space, representing \$7.28 per leased square foot, in-line with the amount per square foot in prior years.

#### 5. Capital Expenditures

We strive to maintain our properties in top physical condition. In 2008, we incurred \$1,951 in regular maintenance capital expenditures, representing \$0.36 per square foot of our portfolio, in-line with the amount per square foot in prior years.

### **Summary**

The following table summarizes the key financial and operating performance measures for the year ended December 31, 2008, and the comparable period, as well as the change between the two.

	2008	2007	Change	% Change
Period-end distribution level per unit annualized	\$1.32	\$1.26	\$0.06	4.8%
DI per unit (diluted)	\$1.65	\$1.65	\$0.00	0.0%
DI pay-out ratio	79.1%	75.8%	3.3%	
FFO per unit (diluted)	\$1.68	\$1.66	\$0.02	1.2%
FFO pay-out ratio	77.6%	75.6%	2.0%	
AFFO per unit (diluted)	\$1.51	\$1.49	\$0.02	1.3%
AFFO pay-out ratio	86.6%	84.3%	2.3%	
Debt Ratio	49.4%	55.2%	(5.8%)	
Renewal/replacement % of leases maturing in year	88.4%	91.7%	(3.3%)	
Period-end leased area (not including PUD)	97.3%	97.9%	(0.6%)	
Same-asset NOI	\$47,604	\$47,476	\$128	0.3%
Leasing expenditures	\$4,275	\$3,794	(\$481)	12.7%
Leasing expenditures per leased square foot	\$7.28	\$5.74	\$1.54	26.8%
Maintenance capital expenditures	\$1,951	\$2,107	(\$156)	(7.4%)
Maintenance capital expenditures per portfolio square foot	\$0.36	\$0.46	(0.10)	(21.7%)

## Business Environment and Outlook

We operate in five target markets—downtown Toronto, downtown and midtown Montréal, downtown Winnipeg, downtown Québec City and downtown Kitchener. The following is a brief description of our target markets and current outlook:

### ***Downtown Toronto***

This target market includes 13.3 million square feet of office inventory in three sub-markets, Downtown East (2.1 million square feet), Downtown West (9.2 million square feet) and King West (2.0 million square feet). Approximately half of the office inventory in this target market falls within the Class I category. By the end of 2008, the overall vacancy rate for the downtown Toronto office market was 3.8%, with the Downtown East, Downtown West and King West sub-markets finishing the year at 5.5%, 4.6% and 10.4%, respectively.<sup>1</sup>

Our assessment of our Toronto target market has traditionally been based on the high-quality data published by Cushman & Wakefield LePage, which divides the downtown Toronto office market into five distinct and clearly delineated sub-markets. In an effort to understand how this target market might evolve over time, we retained Real Estate Search Corporation (“RESC”) (i) to identify a larger area that might in time be suitable for us and (ii) to develop an inventory of Class I office space within that larger area. According to RESC, the larger area includes approximately 19.3 million square feet of Class I office space and extends from University Avenue as far west as Jane Street (12.3 million square feet) and from Yonge Street as far east as Victoria Park Avenue (6.0 million square feet), in both cases between Lakeshore Boulevard and Eglinton Avenue for the most part. While we will continue to regard our Toronto target market as consisting of the Downtown East, Downtown West and King West sub-markets, as defined by Cushman Wakefield LePage, we consider RESC’s delineation and data as indicative of the extent to which our Toronto target might evolve over time.

### ***Downtown and Midtown Montréal***

This target market includes 17.7 million square feet of office inventory in three sub-markets, Downtown East (7.5 million square feet), Old Montréal (7.7 million square feet) and Mile End (2.5 million square

<sup>1</sup> Cushman & Wakefield LePage, *Fourth Quarter 2008 Statistical Summary, Toronto Office Market*.

feet). Approximately half of the office inventory in this target market falls within the Class I category. By the end of 2008, the overall vacancy rate for the downtown Montréal office market was 5.5%, with the Downtown East and Old Montréal sub-markets finishing the year at 2.7% and 5.3%, respectively.<sup>2</sup>

#### ***Downtown Winnipeg***

This target market includes 1.8 million square feet of office inventory, principally in the Exchange District. Most of the office inventory in this target market falls within the Class I category. The downtown Winnipeg office market was active throughout 2008, with vacancy reaching its lowest rate in more than a decade. By the end of 2008, the overall vacancy rate was 5.7%.<sup>3</sup>

#### ***Downtown Québec City***

This target market includes 1.5 million square feet of office inventory in the St. Roch office node. Most of the office inventory in this target market falls within the Class I category. The Québec City office market was strong throughout 2008, ending the year with a vacancy rate in the downtown core of 1.6%.<sup>4</sup>

#### ***Downtown Kitchener***

This target market includes approximately 1 million square feet of existing and potential office inventory in the Warehouse District. Much of the office inventory in this target market falls within the Class I office category. The overall vacancy rate in the downtown Kitchener office market increased from 8.1% at the start of 2008 to 11.1% by the end of the year.<sup>5</sup>

#### ***Outlook***

Demand for office space in our target markets was strong throughout most of 2008. In the latter part of 2008 and so far in 2009, we have observed indications of a slowdown in demand for office space in Toronto and Montréal. The slowdown is moderate in our Toronto and Montréal target markets and is more pronounced in respect of vacant space than in respect of space that is up for renewal. Despite the slowdown, we achieved very good leasing results in the early part of 2009 (see “Leasing Activity” below) and expect our portfolio to continue to perform well, due to our exceptional market penetration, significantly lower operating costs and highly sought-after building attributes.

A significant new supply of Class A office space is slated to come to the downtown Toronto market primarily in the Downtown Core sub-market in late 2009 and 2010. While we do not expect this space to be directly competitive with our Toronto properties, we do expect it to put upward pressure on office vacancy rates in the Downtown Core in 2010 and beyond. Significant new supply of Class A office space is also being created in Québec City. While we do not expect this space to be directly competitive with our Québec City properties, we do expect it put upward pressure on office vacancy rates in Québec City in 2009 and beyond.

Over the course of 2008, we bolstered our balance sheet through a series of equity and debt financings, bringing our Debt Ratio to 49.4% at the end of the year. We also kept our pay-out ratios relatively low. We believe that our conservative ratios put us in a good position to meet challenges and take advantage of opportunities as we move forward.

Our mortgage maturity schedule is very moderate. We have \$36,055 in mortgages maturing over the next three years, \$15,209 in 2009 (2.9% of our total mortgage debt), \$5,978 in 2010 (1.1% of our total mortgage debt) and \$14,868 in 2011 (2.8% of our total mortgage debt). We believe this bolsters our financial stability in an uncertain credit environment.

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<sup>2</sup> Cushman & Wakefield LePage, *Fourth Quarter 2008 Statistical Summary, Montréal Office Market*.

<sup>3</sup> Cushman & Wakefield LePage, *National Real Estate Market Intelligence, Fourth Quarter 2008*.

<sup>4</sup> Avison Young, *2008 Annual Review, 2009 Forecast*.

<sup>5</sup> Colliers International, *Fourth Quarter 2008*.

## PART II

### Summary Information and Performance for the Year Ended December 31, 2008

The following sets out summary information and financial results for the year ended December 31, 2008, and the comparable period and the change between the two.

(In thousands except for per unit and % amounts)	2008	2007	Change	%Change
Revenue from rental properties	131,808	105,998	25,810	24.3%
Rental property operating cost	52,387	41,777	10,610	25.4%
Net rental income	79,421	64,221	15,200	23.7%
Real estate service income	327	399	(72)	(18.0%)
Financing expense				
Interest	25,783	22,423	3,360	15.0%
Amortization - Mortgage premium	(164)	(327)	163	(49.8%)
Amortization – Deferred financing cost	547	318	229	72.0%
Amortization				
Rental properties	16,135	13,026	3,109	23.9%
Deferred leasing cost and tenant improvements	2,319	1,777	542	30.5%
Origination cost and acquired tenant relationships	18,757	18,737	20	0.1%
Acquired contracts and customer relationships	96	96	-	0.0%
Computer and office equipment	257	47	210	446.8%
Income from operations	16,018	8,523	7,495	87.9%
Trust expense	3,506	2,713	793	29.2%
Net income	12,512	5,810	6,702	115.4%
Amortization				
Rental properties	16,135	13,026	3,109	23.9%
Mortgage premium	(164)	(327)	163	(49.8%)
Acquired leases	6,392	5,849	543	9.3%
M-T-M acquired leases	2,060	3,206	(1,146)	(35.7%)
Acquired tenant relationships	12,365	12,888	(523)	(4.1%)
Acquired contracts and customer relationships	96	96	-	0.0%
Step-rent adjustments	(992)	(1,332)	340	(25.5%)
Compensation expenses, LTIP and stock options	489	42	447	1064.3%
DI	48,893	39,258	9,635	24.5%
Weighted average units outstanding (basic)	29,214	23,349	5,865	25.1%
Weighted average units outstanding (diluted)	29,603	23,757	5,846	24.6%
Distributions	38,667	29,763	8,904	29.9%
DI per unit (basic)	\$1.67	\$1.68	(\$0.01)	(0.6%)
DI per unit (diluted)	\$1.65	\$1.65	\$0.00	0.0%
DI pay-out ratio	79.1%	75.8%	3.3%	
FFO	49,818	39,350	10,468	26.6%
FFO per unit (basic)	\$1.71	\$1.69	\$0.02	1.2%
FFO per unit (diluted)	\$1.68	\$1.66	\$0.02	1.2%
FFO pay-out ratio	77.6%	75.6%	2.0%	
AFFO	44,660	35,323	9,337	26.4%
AFFO per unit (basic)	\$1.53	\$1.51	\$0.02	1.3%
AFFO per unit (diluted)	\$1.51	\$1.49	\$0.02	1.3%
AFFO pay-out ratio	86.6%	84.3%	2.3%	
NOI	80,489	66,095	14,394	21.8%
Same-asset net operating income	47,604	47,476	128	0.3%
Total assets	\$949,385	\$808,627	\$140,810	17.4%
Total debt (excludes premium on assumed debt)	\$526,478	\$490,924	\$35,554	7.2%
Debt to GBV	49.4%	55.2%	(5.8%)	
Total GLA (s.f., excluding PUD)	5,350	4,571	779	17.0%
Leased GLA (s.f., excluding PUD)	5,204	4,476	728	16.3%
Leased GLA (% total GLA)	97.3%	97.9%	(0.6%)	

**Net Income**

Net income for the year ended December 31, 2008 was \$12,512, as compared to \$5,810 in the year ended December 31, 2007. Net income per unit (diluted) for the year was \$0.42, as compared to \$0.25 in the comparable year.

DI for the year ended December 31, 2008 increased by 24.5% to \$48,893 from \$39,258 for the year ended December 31, 2007. DI per unit (diluted) for the year was \$1.65, as compared to \$1.65 in the comparable year.

**Net Rental Income**

Net rental income for the year ended December 31, 2008 increased by 23.7% to \$79,421 from \$64,221 in the year ended December 31, 2007 as follows: (i) \$976 decrease in same-asset net rental income from properties owned for the entire period and the entire comparable period (which includes the year-over-year change in step-rent adjustments and market to market rent adjustments); and (ii) \$16,176 due to net rental income from properties not owned for the entire year and the entire comparable year.

Of the \$105,269 of net rental income for the year ended December 31, 2006 and 2007, \$1,382 of operating cost recoveries is in dispute with a tenant. Of the \$79,421 of net rental income for the year ended December 31, 2008, \$959 of operating cost recoveries is in dispute with the same 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.

Net rental income per occupied square foot for the year ended December 31, 2008 was \$15.26 annualized, as compared to \$14.35 annualized in the comparable year.

**Real Estate Service Income**

The Property Manager provides real estate services to third-party property owners. Real estate service income for the year ended December 31, 2008 was \$327, as compared to \$399 in the year ended December 31, 2007.

**Financing Expense**

Financing expense includes interest cost on mortgage debt and other credit facilities and the amortization of the premiums and discounts on assumed mortgages.

Financing expense for the year ended December 31, 2008 increased by 16.7% to \$26,166 from \$22,414 in the year ended December 31, 2007 due to the increase in financing expense associated with additional properties acquired in 2007 and 2008 and the change in accounting policies described in note 3(o) of our consolidated financial statements for the year ended December 31, 2007.

**Amortization**

We record amortization on our buildings on a straight-line basis over their expected life. Amortization recorded on buildings for the year ended December 31, 2008 increased by 23.9% to \$16,135 from \$13,026 in the year ended December 31, 2007.

We record amortization of deferred leasing cost, tenant improvements and the assigned fair value of the origination cost and tenant relationships for in-place leases acquired on acquisition of a rental property on a straight-line basis over the term of the corresponding lease.

**Trust Expense**

Trust expense includes cost not directly attributable to rental property, such as officers' compensation, trustees' fees, professional fees for legal and audit services, trustees' and officers' insurance premiums and general administrative expenses.

Trust expense for the year ended December 31, 2008 increased by 29.2% to \$3,506 from \$2,713 in the year ended December 31, 2007 as a result of increased salary and occupancy costs. \$489 of the year-over-year increase involved a non-cash expense associated with the issuance of options in December 2007 under our Unit Option Plan.

## Leasing Activity

Leasing activity as at December 31, 2008, is summarized in the following table:

	GLA	Leased by December 31	% Leased by December 31	Vacant on December 31*
Vacancy on January 1, 2008*	94,711	47,949	50.6%	46,762
Vacancy acquired in 2008	1,600	1,600	100.0%	-
Vacancy arranged in 2008	54,232	22,908	42.2%	31,324
Regular maturities in 2008	585,670	517,762	88.4%	67,908
Month-to-month maturities in 2008	34,707	34,707	100.0%	-
<b>Total</b>	<b>770,920</b>	<b>624,926</b>	<b>81.06%</b>	<b>145,994</b>

\*not including Properties Under Development

94,711 square feet of GLA was vacant at the beginning of 2008. By year-end, we leased 47,949 square feet of this GLA, leaving 46,762 square feet vacant. We acquired 1,600 square feet of vacant GLA with our 2008 acquisitions, all of which we leased by year-end. We also gained access to 54,232 square feet of GLA for repositioning from light-industrial to office use, of which 22,908 square feet were leased by year end.

Leases for 585,670 square feet of GLA matured in 2008. By year-end, we renewed or replaced leases for 517,762 square feet of the GLA that matured in the year, leaving 67,908 square feet vacant at the end of the year.

We also had 34,707 square feet of GLA maturing in connection with month-to-month leases, primarily in our Winnipeg target market. By year-end, we renewed leases for all of this GLA.

With respect to the maturing leases renewed or replaced in 2008 (517,762 square feet of GLA), we achieved rental rates (i) above in-place rental rates with respect to 85% of this GLA and (ii) equal to in-place rental rates with respect to 15% of this GLA.

We had a good rate of tenant retention in 2008 and were successful in securing replacement tenants in most instances where tenants did not renew. We had two significant non-renewals at the beginning of the fourth quarter, 24,030 square feet over three floors at 99 Spadina Avenue in Toronto and 32,966 square feet over six floors at 193 Yonge Street in Toronto. Effective January 1, 2009, we re-leased two of the three floors (15,998 square feet) at 99 Spadina on similar financial terms to the prior lease and all six floors at 193 Yonge on significantly better financial terms than the prior lease.

Early in 2009, we leased 22,968 square feet at 96 Spadina Avenue in Toronto on favourable financial terms. The commencement date for the lease is May 1, 2009, at which time 96 Spadina will cease to be a PUD and become a rental property for accounting purposes. We also leased 3,674 square feet at 47 Fraser Avenue in Toronto on favourable financial terms. The commencement date for the lease is April 1, 2009, at which time 47 Fraser will be 34% leased.

## Capital Expenditures

Our portfolio requires ongoing maintenance capital expenditures and leasing expenditures. Leasing expenditures include the cost of in-suite or base-building improvements made in connection with the leasing of vacant space or the renewal or replacement of tenants occupying space covered by maturing leases, as well as improvement allowances and commissions paid in connection with the leasing of vacant space and the renewal or replacement of tenants occupying space covered by maturing leases.

In the year ended December 31, 2008, we incurred (i) \$1,951 in regular maintenance capital expenditures (\$0.36 per portfolio square foot) and (ii) \$4,275 in leasing expenditures (\$7.28 per leased square foot) in connection with new leases or lease-renewals that commenced in the year. In addition, we incurred \$6,713 in revenue-enhancing capital and leasing expenditures in connection with space that was significantly reconfigured and retrofitted to accommodate high-value new tenancies and in connection with the completion of redevelopment projects.

\$671 of the salary expense incurred in the period was capitalized in connection with capital improvements to our rental properties and Properties Under Development. This amount was equivalent to approximately 5.8% of the associated development costs.

## Properties Under Development

### 1. Completed

Our completed developments are summarized in the following table:

Completed PUDs	GLA	Complete	Total Cost	FMV	Value Add	Debt	Equity	ROE
<b>Completed and Financed*</b>								
145 Berkeley, Toronto	10,625	1-Nov-06	1,725	2,170	445	1,630	95	77%
257 Adelaide West, Toronto	45,893	1-Jul-07	8,345	11,970	3,625	7,200	1,145	36%
<b>Completed**</b>								
QRC South, Toronto	44,600	1-Apr-07	6,750	10,000	3,250	6,000	750	60%
1500 Notre Dame, Winnipeg	111,400	1-Oct-08	3,920	5,000	1,080	0	3,920	11%
<b>Completed PUDs</b>	<b>212,518</b>		<b>20,740</b>	<b>29,140</b>	<b>8,400</b>	<b>14,830</b>	<b>5,910</b>	

\*Debt financing is in place. 145 Berkeley was appraised in February of 2007 and 257 Adelaide West in June of 2008.

\*\*Debt financing is either pending or not planned. FMV is Management's estimate based on projected NOI.

There can be no assurance with respect to any of the estimates set out in the table above. The four projects referred to in the table were very compact in scope. They should not be taken as indicative of what we can achieve with larger-scale projects. Indeed, we expect lower returns on equity from our current Properties Under Development.

### 2. In Progress

Our developments in progress are summarized in the following table:

PUDs in Progress	Estimated GLA
96 Spadina, Toronto	91,000
47 and 47A Fraser, Toronto*	30,000
4450 Saint-Laurent, Montréal*	22,000
544 King West, Toronto**	150,000
134 Peter, Toronto**	280,000
Total	573,000

\*Conditional on satisfactory pre-leasing

\*\*Conditional on municipal approval and satisfactory pre-leasing

96 Spadina Avenue, Toronto, includes a renovated building with approximately 91,000 square feet of GLA. We have leased 39,517 square feet since acquiring the property, bringing the leased area to approximately 75%. We expect to have this project completed on May 1, 2009.

47 and 47A Fraser Avenue, Toronto, include two un-renovated, satellite buildings at The Castle in Liberty Village with approximately 30,000 square feet of GLA. Our plan is to renovate the two buildings on a customized basis for the ultimate tenants. We leased 3,674 square feet in 47 Fraser Avenue, bringing the leased area of that building to 34%.

4450 Saint-Laurent Boulevard, Montréal, includes 5,500 square feet of land adjacent to our Class I office building at 4446 Saint Laurent Boulevard. Our plan is to construct on the land an office building with Class I attributes and approximately 22,000 square feet of GLA. The execution of this project, as currently conceived, is contingent upon achieving a level of pre-leasing satisfactory to Management and the Trustees.

544 King Street West, Toronto, includes approximately 19,400 square feet of land with frontage on King and Morrison Streets. Our plan is to construct a LEED-certified, office building with Class I attributes, approximately 135,000 square feet of GLA and approximately 60 on-site parking spaces. The execution of this project is contingent upon obtaining municipal approvals and achieving a level of pre-leasing satisfactory to Management and the Trustees. We expect to obtain the necessary zoning variances in early April of this year and will explore pre-leasing prospects with the brokerage community.

134 Peter Street, Toronto, includes approximately 14,500 square feet of surplus land with frontage on Peter and Richmond Streets. Our plan is to restore the existing historic building and to construct a new, LEED-certified, office building with Class I attributes and approximately 220,000 square feet of GLA. The execution of this project is contingent upon obtaining municipal approvals and achieving a level of pre-leasing satisfactory to Management and the Trustees. We have obtained the necessary zoning variances and will explore pre-leasing prospects with the brokerage community.

Properties Under Development are stated at the lower of cost and net recoverable value. 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 development-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 development-period ends if warranted by circumstances relating to the relevant Property Under Development.

As at December 31, 2008, the cost of our Properties Under Development was \$42,463, which was equivalent to 4.0% of our GBV.

### ***Intensification***

The buildings on most of our 55 Toronto properties have considerably less GLA than is permissible under the current zoning. This affords us the opportunity to create additional GLA without land cost and with correspondingly high returns on equity. The combined land area of our Toronto properties is approximately 932,000 square feet or 21.4 acres. We have evaluated the Toronto portfolio on a property-by-property basis and have estimated that it is practically possible to create between 500,000 and 750,000 square feet of additional GLA in the near term, market conditions permitting.

We have initiated the planning and approval stage of a large-scale intensification of 134 Peter Street, Toronto and 544 King Street West, Toronto (discussed above under *Properties Under Development*). We have also initiated the planning stage of a large-scale intensification of 230 Richmond Street East, Toronto. This property includes approximately 18,800 square feet of surplus land with frontage on Richmond and George Streets. Our plan is to construct on the surplus land a LEED-certified office building with Class I attributes, approximately 150,000 square feet of GLA and approximately 180 on-site parking spaces. We can execute this intensification projects without interrupting the income stream from the existing building. The execution of each of these projects, as currently conceived, is contingent upon obtaining municipal approvals and achieving a level of pre-leasing satisfactory to Management and the Trustees.

### **Distributable Income**

We define DI as the net income determined in accordance with GAAP adjusted by adding back or deducting as required:

- (i) amortization on rental properties;
- (ii) amortization of the premiums or discounts on assumed mortgages;
- (iii) non-cash rental revenue recorded to recognize rental income rateably over the life of each lease;
- (iv) non-cash compensation expense with respect to the LTIP and Unit Option Plan;
- (v) amortization of values ascribed in a building acquisition to in-place leases and tenant relationships;
- (vi) amortization of values ascribed in a building acquisition to above-market and below-market leases;
- (vii) amortization of values ascribed in the property management internalization to acquired contracts and customer relationships; and
- (viii) property management internalization expense.

DI is a non-GAAP financial measure used by some Canadian real estate investment trusts and should not be considered as an alternative to net income, cash flow from operations or any other measure prescribed under GAAP. DI does not have any standardized meaning prescribed by GAAP. As computed by us, DI may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations.

Management considers DI to be a useful measure of cash available for distributions. The following reconciles cash flow from operations, as presented in the consolidated financial statements, to DI.

(In thousands)	Year ended December 31, 2008	Year ended December 31, 2007
Cash flow from operations	\$52,391	\$16,695
Amortization of deferred leasing cost, tenant improvements	(2,319)	(1,777)
Amortization of deferred financing cost	(547)	(318)
Amortization of computer and office equipment	(257)	(47)
Change in non-cash operating items	(375)	20,706
<b>DI</b>	<b>\$48,893</b>	<b>\$39,258</b>

Distributions for the year ended December 31, 2008, were \$38,667, representing a DI pay-out ratio of 79.1%, as compared to distributions for the year ended December 31, 2007, of \$29,763, representing a DI pay-out ratio of 75.8%.

### Funds From Operations

FFO is a non-GAAP financial measure used by most Canadian real estate investment trusts and should not be considered as an alternative to net income, cash flow from operations or any other measure prescribed under GAAP. While FFO does not have any standardized meaning prescribed by GAAP, the Real Property Association of Canada ("REALpac") established a standardized definition of FFO in its White Paper on Funds From Operations dated November 30, 2004. Essentially, the REALpac definition is net income with most non-cash expenses added back. Management believes that this definition is followed by most Canadian real estate investment trusts and that it is a useful measure of cash available for distributions. The following reconciles net income, as presented in the consolidated financial statements, with FFO, as calculated in accordance with recommendations of the REALpac definition.

(In thousands)	Year ended December 31, 2008	Year ended December 31, 2007
Net income	\$12,512	\$5,810
Amortization on rental properties	16,135	13,026
Amortization of deferred leasing cost and tenant improvements	2,414	1,777
Amortization of origination cost and acquired tenant relationships	18,757	18,737
<b>FFO</b>	<b>\$49,818</b>	<b>\$39,250</b>

Distributions for the year ended December 31, 2008, represented an FFO pay-out ratio of 77.6%, as compared to distributions for the year ended December 31, 2007, which represented an FFO pay-out ratio of 75.6%.

### Adjusted Funds From Operations

AFFO is a non-GAAP financial measure used by most Canadian real estate investment trusts and should not be considered as an alternative to net income, cash flow from operations or any other measure prescribed under GAAP. AFFO does not have any standardized meaning prescribed by GAAP. As computed by us, AFFO may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers AFFO to be a useful measure of cash available for distributions. The principal advantage of AFFO is that it starts from the standardized definition of FFO and takes account of maintenance capital expenditures and regular leasing expenditures while ignoring the impact of non-cash revenue. Because maintenance capital expenditures and regular leasing expenditures are not incurred evenly throughout a fiscal year, there can be volatility in AFFO on a quarterly basis. The following reconciles net income, as presented in the consolidated financial statements, with AFFO, calculated in accordance with what Management believes to be industry practice.

(In thousands)	Year ended December 31, 2008	Year ended December 31, 2007
FFO	\$49,818	\$39,250
Step-rent adjustments	(992)	(1,332)
M-T-M acquired leases	2,060	3,206
Leasing expenditures	(4,275)	(3,794)
Maintenance capital expenditures	(1,951)	(2,107)
<b>AFFO</b>	<b>\$44,660</b>	<b>\$35,323</b>

Distributions for the year ended December 31, 2008, represented an AFFO pay-out ratio of 86.6%, as compared to distributions for the year ended December 31, 2007, which represented an AFFO pay-out ratio of 84.3%.

### Net Operating Income

NOI is a non-GAAP financial measure and should not be considered as an alternative to net income, cash flow from operations or any other measure prescribed under GAAP. NOI does not have any standardized meaning prescribed by GAAP. As computed by us, NOI may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers NOI to be a useful measure of performance for rental properties. The following reconciles net rental income, as presented in the consolidated financial statements, to NOI.

(In thousands)	Year ended December 31, 2008	Year ended December 31, 2007
Revenue from rental properties	\$131,808	\$105,998
Rental property operating cost	52,387	41,777
Net rental income	79,421	64,221
M-T-M acquired leases	2,060	3,206
Step-rent adjustments	(992)	(1,332)
<b>NOI</b>	<b>\$80,489</b>	<b>\$66,095</b>

## PART III

### Financial Condition

We finance our operations through three sources of capital: (i) mortgage debt secured by our rental properties, (ii) secured short-term debt financing with a Canadian chartered bank and (iii) equity. As at December 31, 2008, we had mortgage debt of \$523,556, bank indebtedness of \$2,922 and unitholders' equity of \$385,651.

### Unitholders' Equity

As at December 31, 2008, we had a market capitalization of approximately \$388,884 based on a closing unit price of \$12.45 on the Toronto Stock Exchange. As at December 31, 2007, we had a market capitalization of approximately \$520,775 based on a closing unit price of \$20.74 on the Toronto Stock Exchange.

In the year ended December 31, 2008, we issued a total of 6,125,962 units for equity contributions of \$126,675. Costs incurred to issue the units were \$5,562. Units were issued as follows: (i) 2,900,000 units at \$20.75 per unit for gross proceeds of \$60,175, pursuant to a bought deal that closed on January 3, 2008; (ii) 2,850,000 units at \$21.25 per unit gross proceeds of \$60,563, pursuant to a bought deal that closed on July 2, 2008; (iii) 333,462 units under our distribution re-investment plan at an average price of \$16.53 per unit for \$5,512 and (iv) 42,500 units at \$10 per unit for \$425 to certain officers who exercised their options under the Unit Option Plan. The proceeds of the issuance of units pursuant to the bought deals that closed on January 3, 2008, and July 2, 2008, were used in the manner disclosed in the short-form prospectuses dated December 12, 2007, and June 13, 2008, respectively. As of March 10, 2009, we had 31,325,456 units issued and outstanding.

We adopted a Unit Option Plan at the time of our IPO. In May of 2004, we adopted a long-term incentive plan ("LTIP") whereby our trustees and officers ("Participants") may from time to time, at the discretion of the trustees and subject to regulatory approval, subscribe for units at a market price established in accordance with the provisions of the LTIP. The price for the units is payable as to 5% upon issuance and as to the balance ("LTIP Loan") over 10 years with interest on the LTIP Loan at an annual rate established in accordance with the provisions of the LTIP. The units issued pursuant to the LTIP are registered in the name of a Custodian on behalf of the Participants who are the beneficial owners. The units are pledged to us as security for payment of the LTIP Loan, and all distributions paid on the units are forwarded by the Custodian to us and applied first on account of interest on the LTIP Loan and then to reduce the outstanding balance of the LTIP Loan. In May of 2007, we amended the Unit Option Plan and the LTIP to limit the number of units authorized for issuance under the Unit Option Plan, the LTIP or any other equity compensation plan to 5% of the issued and outstanding units from time to time. As of March 10, 2009, we had options to purchase 735,417 units outstanding, of which 128,331 had vested, and 387,293 units issued under the LTIP.

### Mortgages Payable

Mortgages payable as at December 31, 2008, consisted of mortgage debt of \$523,556. The following sets out the maturity schedule of our mortgage debt and the weighted average interest rate on the maturing mortgages.

	Periodic Principal Payments	Balance Due at Maturity	Total Principal	% of Total Principal	WA Interest Rate
2009	13,029	15,209	28,238	5.4%	6.4%
2010	13,433	5,978	19,411	3.7%	5.3%
2011	13,965	14,868	28,833	5.5%	6.2%
2012	13,780	36,805	50,585	9.6%	5.9%
2013	13,992	21,997	35,989	6.9%	6.0%
Thereafter	21,766	338,734	360,500	59.9%	5.4%
Total	89,965	433,591	523,556	100.0%	

The principal balances due at maturity by type of lender are as follows:

	Direct Mortgage Lender	Conduit Mortgage Lender
2009	9,923	5,286
2010	5,978	-
2011	9,714	5,154
2012	24,488	12,317
2013	21,997	-
Thereafter	253,636	85,098
<b>Total</b>	<b>325,736</b>	<b>107,855</b>

Interest rates on the mortgage debt are between 4.37% and 8.10% with a weighted average interest rate of 5.6%. The weighted average term of the mortgage debt is 5.85 years.

Each individual mortgage loan is secured by a mortgage registered on title of a rental property and by security agreements covering assignment of rents and personal property with respect to such property. The mortgage debt provides the holder with recourse to our assets. We attempt to stagger the maturity of its mortgages and to have mortgages maturing each year to be in a position to upward finance the principal amount of maturing mortgages as needed. Additionally, we attempt to maintain 15 to 20% of our rental properties free from traditional long-term mortgage financing with a view to providing these assets as security for bank credit facilities.

#### **Bank Credit Facility**

As at December 31, 2008 we had a \$70,000 revolving credit facility ("Facility") with a Canadian chartered bank bearing interest at bank prime and maturing on August 31, 2010. The credit facility is secured by a combination of mortgage charges and security agreements on certain of our rental properties. In the year ended December 31, 2008, the average borrowings under the Facility were \$14,832. As at December 31, 2008, the borrowings under the Facility were \$2,922.

#### **Liquidity and Commitments**

Net operating income generated from our rental properties is the primary source of liquidity to fund our financing expense, trust expense and distributions to unitholders. The Declaration requires us to declare distributions each year not less than the greater of (i) 75% of our DI or (ii) an amount to ensure that we will not be subject to tax on our income and capital gains. We intend to pay distributions of approximately 75 to 80% of DI.

We expect that increased financing on maturing mortgages will provide sufficient cash flow to fund mortgage repayments. We plan to fund anticipated ongoing commitments, obligations, capital expenditures and leasing expenditures by using retained cash flow from operations and availing ourselves of borrowing capacity under the Facility.

The Facility, new mortgage financing and the access to the public equity markets will provide the necessary capital we require for acquisitions. Our acquisition capacity, meaning our ability to use unutilized borrowing capacity while not exceeding the 60% Debt Ratio, is \$270,000.

As at December 31, 2008, we had future commitments as set out below.

(In thousands)	December 31, 2008
Leasing commissions	\$655
Tenant improvements	832
Building renovations and maintenance capital expenditures	855
Revenue-enhancing capital and leasing expenditure	93
Expenses	65
<b>Total</b>	<b>\$2,500</b>

## PART IV

### Summary Information and Performance for the Quarter Ended December 31, 2008

The following sets out summary information and financial results for the quarter ended December 31, 2008, and the comparable quarter and the change between the two.

(In thousands except for per unit and % amounts)	Q4 2008	Q4 2007	Change	%Change
Revenue from rental properties	35,202	30,310	4,892	16.1%
Rental property operating cost	14,332	12,369	1,963	15.9%
Net rental income	20,870	17,941	2,929	16.3%
Real estate service income	73	69	4	5.8%
Financing expense				
Interest	6,859	6,515	344	5.3%
Amortization - Mortgage premium	(5)	(63)	58	(92.1%)
Amortization – Deferred financing cost	164	71	93	131.0%
Amortization				
Rental properties	4,284	3,677	607	16.5%
Deferred leasing cost and tenant improvements	594	485	109	22.5%
Origination cost and acquired tenant relationships	4,754	5,414	(660)	(12.2%)
Acquired contracts and customer relationships	24	24	-	0.0%
Computer and office equipment	67	13	54	415.4%
Income from operations	4,202	1,874	2,328	124.2%
Trust expense	906	899	7	0.8%
Net income	3,296	975	2,321	238.1%
Amortization				
Rental properties	4,284	3,677	607	16.5%
Mortgage premium	(5)	(63)	58	(92.1%)
Acquired leases	1,644	1,740	(96)	(5.5%)
M-T-M acquired leases	195	1,088	(893)	(82.1%)
Acquired tenant relationships	3,110	3,673	(563)	(15.3%)
Acquired contracts and customer relationships	24	24	-	0.0%
Step-rent adjustments	(341)	(524)	183	(34.9%)
Compensation expenses, LTIP and stock options	123	36	87	241.7%
DI	12,330	10,626	1,704	16.0%
Weighted average units outstanding (basic)	30,796	24,722	6,074	24.6%
Weighted average units outstanding (diluted)	31,184	25,132	6,052	24.1%
Distributions	10,255	7,866	2,389	30.4%
DI per unit (basic)	\$0.40	\$0.43	(\$0.03)	(7.0%)
DI per unit (diluted)	\$0.40	\$0.42	(\$0.02)	(4.8%)
DI pay-out ratio	83.2%	74.0%	9.2%	
FFO	13,023	10,551	2,472	23.4%
FFO per unit (basic)	\$0.42	\$0.43	\$0.01	(2.3%)
FFO per unit (diluted)	\$0.42	\$0.42	(\$0.00)	0.0%
FFO pay-out ratio	78.7%	74.6%	4.1%	
AFFO	10,603	9,383	1,220	13.0%
AFFO per unit (basic)	\$0.34	\$0.38	(\$0.04)	(10.5%)
AFFO per unit (diluted)	\$0.34	\$0.37	(\$0.03)	(8.1%)
AFFO pay-out ratio	96.7%	83.8%	12.9%	
NOI	20,724	18,505	2,219	12.0%
Same-asset net operating income	17,539	17,781	(242)	(1.4%)
Total assets	\$949,385	\$808,627	140,810	17.4%
Total debt (excludes premium on assumed debt)	\$526,478	\$490,924	35,554	7.2%
Debt to GBV	49.4%	55.2%	(5.8%)	
Total GLA (s.f., excluding PUD)	5,350	4,571	779	17.0%
Leased GLA (s.f., excluding PUD)	5,204	4,476	728	16.3%
Leased GLA (% total GLA)	97.3%	97.9%	(0.6%)	

**Net Income**

Net income for the quarter was \$3,296, as compared to \$975 in the comparable quarter. Net income per unit (diluted) for the quarter was \$0.11, as compared to \$0.04 in the comparable quarter.

DI for the quarter increased by 16.0% to \$12,330 from \$10,626 for the comparable quarter. DI per unit (diluted) for the quarter was \$0.40, as compared to \$0.42 in the comparable quarter.

**Net Rental Income**

Net rental income for the quarter increased by 16.3% to \$20,870 from \$17,941 in the comparable quarter as follows: (i) \$430 due to the decrease in same-asset net rental income from properties owned for the entire quarter and the entire comparable quarter (which includes the year-over-year change in step-rent adjustments and market to market rent adjustments); and (ii) \$3,359 due to net rental income from properties not owned for the entire quarter and the entire comparable quarter.

Of the \$20,870 of net rental income for the quarter ended December 31, 2008, and \$182 of operating cost recoveries is in dispute with a 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.

Net rental income per occupied square foot for the quarter was \$16.04 annualized, as compared to \$16.03 annualized in the comparable quarter.

**Real Estate Service Income**

The Property Manager provides real estate services to third-party property owners. Real estate service income for the quarter was \$73, as compared to \$69 in the comparable quarter.

**Financing Expense**

Financing expense includes interest cost on mortgage debt and other credit facilities and the amortization of the premiums and discounts on assumed mortgages.

Financing expense for the quarter increased by 7.6% to \$7,018 from \$6,523 in the comparable quarter due to the increase in financing expense associated with additional properties acquired in 2007 and 2008.

**Amortization**

We record amortization on our buildings on a straight-line basis over their expected life. Amortization recorded on buildings for the quarter increased by 16.5% to \$4,284 from \$3,677 in the comparable quarter.

We record amortization of deferred leasing cost, tenant improvements and the assigned fair value of the origination cost and tenant relationships for in-place leases acquired on acquisition of a rental property on a straight-line basis over the term of the corresponding lease.

**Trust Expense**

Trust expense includes cost not directly attributable to rental property, such as officers' compensation, trustees' fees, professional fees for legal and audit services, trustees' and officers' insurance premiums and general administrative expenses.

Trust expense for the quarter increased by 0.8% to \$906 from \$899 in the comparable quarter as a result of increased salary and occupancy costs. \$123 of the trust expense for the quarter involved a non-cash expense associated with the issuance of options in December 2007 under our Unit Option Plan.

## PART V

### Summary Quarterly Information and Performance

The following sets out summary information and financial results for the eight most recently completed fiscal quarters.

(In thousands except for per unit and % amounts)	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Revenue from rental properties	35,202	33,795	30,961	31,850	30,310	27,718	27,424	20,546
Rental property operating cost	14,332	12,776	12,169	13,110	12,369	10,578	10,831	7,999
Net rental income	20,870	21,019	18,792	18,740	17,941	17,140	16,593	12,547
Real estate service income	73	95	88	71	69	106	137	87
Financing expense	7,018	6,745	6,422	5,981	6,523	6,251	5,914	3,726
Amortization	9,723	9,831	9,041	8,969	9,613	9,778	8,615	5,677
Income from operations	4,202	4,538	3,417	3,861	1,874	1,217	2,201	3,231
Trust expense	906	828	856	916	899	537	587	690
PM internalization expense	-	-	-	-	-	-	-	-
Net income (loss)	3,296	3,710	2,561	2,945	975	680	1,614	2,541
Amortization								
Rental properties	4,284	4,221	3,853	3,777	3,677	3,758	3,280	2,311
Mortgage premium	(5)	(76)	(23)	(60)	(63)	(80)	(92)	(92)
Acquired leases	1,644	1,647	1,565	1,536	1,740	1,778	1,531	800
M-T-M acquired leases	195	265	817	783	1,088	1,188	907	23
Acquired tenant relationships	3,110	3,282	2,929	3,044	3,673	3,804	3,412	1,999
Acquired contracts and customer relationships	24	24	24	24	24	24	24	24
Step-rent adjustments	(341)	(244)	(155)	(252)	(525)	(218)	(465)	(125)
PM internalization expense	-	-	-	-	-	-	-	-
LTIP and Unit Option Plan expense	123	122	122	122	36	-	-	6
DI	12,330	12,951	11,693	11,919	10,626	10,934	10,211	7,487
Weighted average units (basic)	30,796	30,654	27,757	27,616	24,722	24,722	24,087	19,793
Weighted average units (diluted)	31,184	31,042	28,145	28,007	25,132	25,132	24,517	20,176
Distributions	10,255	10,218	9,249	8,945	7,866	7,866	7,922	6,109
DI per unit (basic)	\$0.40	\$0.42	\$0.42	\$0.43	\$0.43	\$0.44	\$0.42	\$0.38
DI per unit (diluted)	\$0.40	\$0.42	\$0.42	\$0.43	\$0.42	\$0.44	\$0.42	\$0.37
DI pay-out ratio	83.2%	78.9%	79.1%	75.0%	74.0%	71.9%	77.6%	81.6%
FFO	13,023	13,449	11,512	11,834	10,551	10,423	10,192	8,184
FFO per unit (basic)	\$0.42	\$0.44	\$0.42	\$0.43	\$0.43	\$0.42	\$0.42	\$0.41
FFO per unit (diluted)	\$0.42	\$0.43	\$0.41	\$0.42	\$0.42	\$0.42	\$0.42	\$0.41
FFO pay-out ratio	78.7%	76.0%	80.3%	75.6%	74.6%	75.5%	77.7%	74.6%
AFFO	10,603	11,600	10,759	11,698	9,383	9,762	8,648	7,530
AFFO per unit (basic)	\$0.34	\$0.38	\$0.39	\$0.42	\$0.38	\$0.40	\$0.36	\$0.38
AFFO per unit (diluted)	\$0.34	\$0.37	\$0.38	\$0.42	\$0.37	\$0.39	\$0.35	\$0.37
AFFO pay-out ratio	96.7%	88.1%	86.0%	76.5%	83.8%	80.6%	91.6%	81.1%
NOI	20,724	21,040	19,454	19,271	18,505	18,110	17,035	12,445
Net income per unit (basic)	\$0.43	\$0.12	\$0.09	\$0.11	\$0.04	\$0.03	\$0.07	\$0.13
Net income per unit (diluted)	\$0.42	\$0.12	\$0.09	\$0.11	\$0.04	\$0.03	\$0.07	\$0.13
Total assets	949,385	956,344	884,321	857,166	808,627	789,876	771,353	532,302
Total debt	526,478	527,879	517,997	485,371	490,924	464,633	443,334	295,776
Debt Ratio	49.4%	49.7%	52.7%	51.3%	55.2%	54.2%	53.3%	50.7%
Total GLA (excluding PUD)	5,350	5,236	4,812	4,742	4,571	4,484	4,446	3,409
Leased GLA (excluding PUD)	5,204	5,095	4,684	4,625	4,476	4,391	4,295	3,272
Leased Area (%GLA)	97.3%	97.3%	97.3%	97.6%	97.9%	97.9%	96.6%	96.0%

Factors that cause variation from quarter to quarter include but are not limited to our Debt Ratio, the extent to which we have invested capital in PUDs, our same-asset NOI, our rate of property acquisition, our regular leasing expenditures and our regular maintenance capital expenditures.

## PART VI

### **Critical Accounting Estimates**

The significant accounting policies used in preparing our consolidated financial statements are described in Note 3 to those statements. The following is a discussion of Management's estimates that are most important to the presentation of our results of operations and financial condition and are most subjective as a result of matters that are inherently uncertain.

#### ***Fair Value of Assumed Mortgages Payable and Fair Value of Mortgages Payable***

Most of our mortgage indebtedness was assumed in conjunction with rental property acquisitions. GAAP requires that the mortgages payable assumed on acquisition of properties be recorded at fair value. The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using market rates for debt of similar terms and credit risks. Market rates for debt are based on the yield of Canadian government bonds with similar maturity dates plus a credit spread based on Management's experience in obtaining financing and the current market conditions.

#### ***Impairment of Assets***

We are required to write down to fair value any long-lived assets that are determined to have been permanently impaired. Our long-lived assets consist of rental properties. Our policy is to assess any potential impairment by making a comparison of the current and projected operating cash flow of a rental property over its remaining useful life, on an un-discounted basis, to the carrying amount of the rental property. If such carrying amount was in excess of the projected operating cash flow of the rental property, impairment in value would be recognized to adjust the carrying amount to its estimated fair market value. Current operating cash flows are based on leases in place and projected operating cash flows are based on Management's estimates of future rental rates. Prior to acquiring a rental property, we commission an appraisal and conduct due-diligence to satisfy itself that the acquisition price is representative of fair market value.

#### ***Amortization***

A significant portion of the purchase price of rental properties is allocated to buildings. The amortization recorded on buildings is based on the straight-line basis over their expected useful life. The allocation of purchase price to buildings and the estimated useful life are based on Management's estimates and, if these estimates prove incorrect, the amortization will not be appropriately recorded.

#### ***Mark-to-Market Rent Adjustment, Cité Multimédia***

We completed the acquisition of Cité Multimédia on April 18, 2007, with an effective date of April 1, 2007. At the time of acquisition, based on data compiled by an independent real estate appraiser, Management estimated that the average in-place rental rates for the tenants at Cité Multimédia exceeded current market rental rates by approximately 9%. Accordingly, our financial statements for the year ended December 31, 2008, recognize a \$3,576 net mark-to-market rent adjustment in respect of Cité Multimédia. Our net income was affected by this mark-to-market rent adjustment. Our DI and AFFO were not affected, as we add non-cash items back in calculating DI and AFFO. Our FFO was affected, as we do not add mark-to-market rent adjustments back in calculating FFO.

#### ***Future Changes in Accounting Policies***

The Accounting Standards Board has confirmed that the transition date to International Financial Reporting Standards ("IFRS") from current Canadian GAAP will be January 1, 2011. We will issue consolidated financial statements in accordance with IFRS commencing in the first quarter ended March 31, 2011, with comparative information. The impact of IFRS on our consolidated financial statements may be significant. We commenced a conversion project in 2008 which consists of the following: (i) training and education; (ii) an assessment of the impact of IFRS on our financial statements, information technology, data systems, disclosure and control procedures and internal control processes; (iii) design and implementation of systems and process changes; and (iv) post-implementation review.

We have commenced training and education and have completed a preliminary assessment of the impact of IFRS on the REIT financial statements. We have identified differences between current GAAP and IFRS which may impact on our financial results. These differences include accounting for investment properties, impairment testing for assets, accounting for our units, accounting for distributions and

financial statement presentation and disclosure. The International Accounting Standards Board has projects underway that may change IFRS, and we will assess these new pronouncements as they are issued.

## PART VII

### Related Party Transactions

Allied Canadian Development Corporation (“ACDC”) is a company controlled by the President and Chief Executive Officer of the REIT and in which the Executive Vice President of the REIT has an interest. At the time of our IPO, a subsidiary of ACDC leased 29,102 square feet of office space from us pursuant to a lease expiring on September 30, 2010. Effective July 1, 2005, we 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 ACDC protecting us from any revenue shortfall (on a cash basis) from the original lease remain in full force and effect.

We have an option agreement (“Option Agreement”) with ACDC, pursuant to which it must offer to sell to us at fair market value all developed or redeveloped office properties upon substantial completion. Seven of the properties in our portfolio were acquired pursuant to the Option Agreement. ACDC has no properties under development or redevelopment at this time. While the Option Agreement permits it to engage in development and redevelopment activity on an ongoing basis, ACDC is not currently pursuing office development or redevelopment opportunities and does not expect to do so in the foreseeable future.

## PART VIII

### Risk and Uncertainties

There are certain risk factors inherent in the investment and ownership of real estate. Real estate investments are capital intensive, and success from real estate investments depends upon maintaining occupancy levels and rental income flows to generate acceptable returns. These success factors are dependent on general economic conditions and local real estate markets, demand for leased premises and competition from other available properties. The general economic conditions have deteriorated significantly in the past six months. While this has not yet had a commensurate impact on the demand for leased premises in our target markets, it is reasonable to expect that it will going forward and that it will heighten the financing and interest rate risk, credit risk, lease roll-over risk and development risk outlined below.

Our portfolio is focused on a particular asset class in five metropolitan real estate markets in Canada. This focus enables Management to capitalize on certain economies of scale and competitive advantages that would not otherwise be available.

#### **Financing and Interest Rate Risk**

We are subject to risk associated with debt financing. The availability of debt to re-finance existing and maturing loans and the cost of servicing such debt will influence our success. In order to minimize risk associated with debt financing, we strive to re-finance maturing loans with long-term fixed-rate debt and to stagger the maturities over time.

Interest rates on our mortgage debt are between 4.37% and 8.10% with a weighted average interest rate of 5.6%. The weighted average term of our mortgage debt is 5.85 years. As at December 31, 2008, the borrowings under the Facility were \$2,922.

#### **Credit Risk**

We are subject to credit risk. Credit risk arises from the possibility that tenants may not be able to fulfill their lease obligations. We strive to mitigate this risk by maintaining a diversified tenant- mix and limiting exposure to any single tenant.

The following sets out our tenant-mix on the basis of percentage of rental revenue for the year ended December 31, 2008.

<b>Category</b>	<b>% of Rental Revenue Year Ended December 31, 2008</b>
Business service and professional	31.4%
Telecommunications and information technology	25.7%
Retail (head office and storefront)	14.7%
Media and entertainment	12.4%
Financial services	6.4%
Government	1.7%
Other	7.7%

The following sets out the percentage of rental revenue from our top-10 tenants by rental revenue for the year ended December 31, 2008.

<b>Tenant</b>	<b>% of Rental Revenue Year Ended December 31, 2008</b>
CGI	5.9%
Desjardins	3.9%
Cossette Communications	2.5%
Ubisoft Divertissements Inc.	2.0%
SAP Labs	1.9%
Motorola	1.6%
MTS Allstream	1.5%
Indigo Books & Music	1.4%
Compuware	1.4%
Publicis Toronto	1.4%

### Lease Roll-Over Risk

We are subject to lease roll-over risk. Lease roll-over risk arises from the possibility that we may experience difficulty renewing or replacing tenants occupying space covered by leases that mature. We strive to stagger our lease maturity schedule so that we are not faced with a disproportionately large level of lease maturity in a given year.

97.3% of the GLA in our portfolio was leased as at December 31, 2008 (not including Properties Under Development). The weighted average term to maturity of our leases is four years. The following sets out the total GLA of the leases that mature during the period from January 1, 2009, to December 31, 2013, assuming tenants do not exercise renewal options, the percentage of total GLA represented by the maturing leases, the weighted average in-place net rental rate on the maturing leases and the weighted average market net rental rate on the space covered by the maturing leases. The weighted average market net rental rate is based on Management's current estimates and is supported in part by independent appraisals of certain of the relevant properties. There can be no assurance that Management's current estimates are accurate or that they will not change with the passage of time.

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2009	755,906	13.9%	\$13.74	\$13.84
December 31, 2010	1,196,749	22.0%	\$15.56	\$16.45
December 31, 2011	868,255	16.0%	\$13.21	\$16.95
December 31, 2012	763,611	14.0%	\$15.58	\$17.34
December 31, 2013	728,446	13.4%	\$14.39	\$16.15

The following sets out lease maturity information for each of our five target markets, with our Toronto and Kitchener target markets being combined.

#### 1. Toronto and Kitchener

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2009	453,659	8.3%	\$16.98	\$17.37
December 31, 2010	402,525	7.4%	\$15.13	\$18.02
December 31, 2011	400,124	7.4%	\$15.11	\$18.53
December 31, 2012	393,201	7.2%	\$19.46	\$19.24
December 31, 2013	323,201	5.9%	\$16.64	\$18.55

#### 2. Montréal

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2009	154,852	2.8%	\$11.34	\$10.75
December 31, 2010	718,552	13.2%	\$16.38	\$16.45
December 31, 2011	420,869	7.7%	\$11.90	\$16.49
December 31, 2012	333,877	6.1%	\$11.45	\$16.04
December 31, 2013	349,972	6.4%	\$13.02	\$15.17

#### 3. Winnipeg

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2009	154,852	2.4%	\$5.94	\$5.98
December 31, 2010	41,143	0.8%	\$8.21	\$7.15
December 31, 2011	36,530	0.7%	\$7.36	\$7.12
December 31, 2012	11,815	0.2%	\$7.68	\$7.12
December 31, 2013	33,213	0.6%	\$7.93	\$7.04

#### 4. Québec City

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2009	16,207	0.3%	\$11.03	\$10.52
December 31, 2010	34,529	0.6%	\$12.15	\$9.62
December 31, 2011	10,732	0.2%	\$14.09	\$9.90
December 31, 2012	24,465	0.4%	\$13.97	\$9.62
December 31, 2013	22,060	0.4%	\$13.49	\$10.92

In evaluating our lease roll-over risk, it is informative to determine our sensitivity to a decline in occupancy. For every decline of 100 basis points in occupancy at our average rental rate per square foot, our AFFO would decline by approximately \$1.2 million (approximately four cents per unit). The decline in AFFO per unit would be more pronounced if the decline in occupancy involved space leased above our average rental rate per square foot and less pronounced if the decline in occupancy involved space leased below our average rental rate per square foot. Management is committed to staying within our normal range of leased area of 96% to 99% in 2009.

***Environmental Risk***

As an owner of real property, we are subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that we could be liable for the costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect our ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims against us. We are not aware of any material non-compliance with environmental laws at any of the properties in our portfolio. We are also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the properties in our portfolio or any pending or threatened claims relating to environmental conditions at the properties in our portfolio.

***Development Risk***

As an owner of Properties Under Development, we are subject to development risks, such as construction delays, cost over-runs and the failure of tenants to take occupancy and pay rent in accordance with lease arrangements. In connection with all Properties Under Development, we incur development costs prior to (and in anticipation of) achieving a stabilized level of rental revenue. In the case of the development of ancillary or surplus land, these risks are managed by not commencing construction until a satisfactory level of pre-leasing is achieved. Overall, these risks are managed by ensuring that Properties Under Development do not represent a large component of our GBV. As at December 31, 2008, the cost of Properties Under Development was equivalent to 4.0% of our GBV.

***Taxation Risk***

On June 22, 2007, rules changing the manner in which trusts are taxed were proclaimed into force. Trusts that meet the REIT exemption are not subject to these rules. The determination as to whether we qualify for the REIT exemption in a particular taxation year can only be made with certainty at the end of that taxation year. While there can be no assurance in this regard, due to uncertainty surrounding the interpretation of the relevant provisions of the REIT exemption, we expect that we will qualify for the REIT exemption in 2009 and beyond.

## PART IX

### Subsequent Events

On January 5, 2009, we announced that we had commenced a normal course issuer bid ("NCIB"), which would allow us to purchase up to 3,003,667 units for cancellation, representing approximately 10% of the public float of 30,036,674 units as of December 23, 2008. The NCIB terminates on the earlier of January 6, 2010, the date we complete the purchases pursuant to the notice of intention to make a NCIB filed with the TSX or the date of our notice of termination of the NCIB. Purchases will be made on the open market through the facilities of the TSX in accordance with the requirements of the TSX. Any purchases under the NCIB are made at the prevailing market price at the time of such purchases. Other than block purchases allowable under TSX rules, purchases will be subject to a daily purchase restriction of 14,457 units, being 25% of the average daily trading volume of 57,830 for the preceding six calendar months. We implemented this NCIB because we believe that the units have been trading in a price range which does not adequately reflect the value of the units in relation to our business and future prospects. As a result, we believe that the purchase of the units would be in our best interest. Such purchases will increase the proportionate interest of, and may be advantageous to, all remaining unitholders and may increase liquidity to unitholders. Unitholders may obtain a copy of the NCIB, without charge, by contacting us. We have not to date purchased units under the NCIB.

On February 9, 2009, we received from First Capital Realty Inc. an unsolicited proposal to explore business opportunities, which might or might not have resulted in a combination of ourselves and First Capital.

On February 10, 2009, after reviewing First Capital's proposal and its implications for our business and our unitholders, the independent Trustees decided not to enter into discussions with First Capital, as they disagreed with the stated benefits of the proposal and did not consider a combination with First Capital to be in the best interests of our unitholders.

## PART X

### Disclosure Controls and Internal Controls

Management maintains appropriate information systems, procedures and controls to ensure that information that is publicly disclosed is complete, reliable and timely. The Chief Executive Officer and Chief Financial Officer evaluated the design of our disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2008 and have concluded that such disclosure controls and procedures were appropriately designed and were operating effectively.

Management is responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Chief Executive Officer and Chief Financial Officer assessed our internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2008, using the Committee of Sponsoring Organizations Internal Control – Integrated Framework. Based on that assessment, the Chief Executive Officer and the Chief Financial Officer determined that our internal controls over financial reporting were appropriately designed and were operating effectively.

There has been no change in the design internal controls over financial reporting in the fourth quarter of 2008 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance of control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) that controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

## PART XI

### Property Table

December 31, 2008 Properties	Office GLA	Retail GLA	Total GLA	% Total GLA	Office Vacant	Retail Vacant	Total Leased	Leased %
555 College	40,913	19,145	60,058		-	-	60,058	100.0%
905 King W	103,105	8,991	112,096		-	-	112,096	100.0%
The Castle	106,393	34,323	140,716		-	-	140,716	100.0%
<b>King West</b>	<b>250,411</b>	<b>62,459</b>	<b>312,870</b>	<b>5.85%</b>	-	-	<b>312,870</b>	<b>100.0%</b>
141 Bathurst (+ land)	10,521	-	10,521		-	-	10,521	100.0%
183 Bathurst	24,879	-	24,879		-	-	24,879	100.0%
420 Wellington W	33,813	3,137	36,950		-	-	36,950	100.0%
425 Adelaide W	75,347	4,104	79,451		9,367	-	70,084	88.2%
425-439 King W	75,333	17,297	92,630		-	3,397	89,233	96.3%
441-443 King W	6,820	3,065	9,885		-	-	9,885	100.0%
445-455 King W	27,640	23,048	50,688		-	-	50,688	100.0%
468 King W	65,027	-	65,027		-	-	65,027	100.0%
469 King W	62,596	11,250	73,846		-	-	73,846	100.0%
489 King W	15,621	10,650	26,271		-	-	26,271	100.0%
495 King W	11,183	-	11,183		-	-	11,183	100.0%
499 King W	-	8,400	8,400		-	-	8,400	100.0%
500-522 King W	94,892	33,513	128,405		-	14,102	114,303	89.0%
579 Richmond W	29,043	-	29,043		-	-	29,043	100.0%
602-606 King W	39,727	24,320	64,047		-	-	64,047	100.0%
662 King W	30,774	2,126	32,900		-	-	32,900	100.0%
King-Brant Parking								
<b>King West Central</b>	<b>603,216</b>	<b>140,910</b>	<b>744,126</b>	<b>13.91%</b>	<b>9,367</b>	<b>17,499</b>	<b>717,260</b>	<b>96.4%</b>
116 Simcoe	14,989	-	14,989		-	-	14,989	100.0%
179 John St	67,331	-	67,331		-	-	67,331	100.0%
185 Spadina	55,814	-	55,814		-	-	55,814	100.0%
200 Adelaide W	28,024	-	28,024		-	-	28,024	100.0%
208-210 Adelaide W	12,422	-	12,422		-	-	12,422	100.0%
217-225 Richmond W	35,453	21,444	56,897		-	-	56,897	100.0%
257 Adelaide W	46,914	-	46,914		-	-	46,914	100.0%
312 Adelaide W	63,693	8,102	71,795		-	-	71,795	100.0%
331-333 Adelaide W	21,089	3,210	24,299		-	-	24,299	100.0%
358-360 Adelaide W	54,250	-	54,250		8,948	-	45,302	83.5%
364 Richmond W	18,518	17,300	35,818		-	-	35,818	100.0%
388 King W	32,529	11,765	44,294		-	-	44,294	100.0%
82 Peter	38,864	8,287	47,151		-	-	47,151	100.0%
99 Spadina	39,327	12,644	51,971		8,061	1,252	42,658	82.1%
<b>Entertainment District</b>	<b>529,217</b>	<b>82,752</b>	<b>611,969</b>	<b>11.44%</b>	<b>17,009</b>	<b>1,252</b>	<b>593,708</b>	<b>97.0%</b>
67 Richmond W	44,702	5,804	50,506		-	-	50,506	100.0%
193 Yonge	32,966	16,318	49,284		-	-	49,284	100.0%
<b>Downtown</b>	<b>77,668</b>	<b>22,122</b>	<b>99,790</b>	<b>1.87%</b>	-	-	<b>99,790</b>	<b>100.0%</b>
106 Front E	24,386	10,109	34,495		-	-	34,495	100.0%
35-39 Front E	34,858	17,850	52,708		-	-	52,708	100.0%
36-40 Wellington E	12,630	11,550	24,180		-	-	24,180	100.0%
41-45 Front E	20,024	19,811	39,835		-	-	39,835	100.0%
45-55 Colborne	27,815	12,526	40,341		1,000	-	39,341	97.5%
50 Wellington E	21,937	11,049	32,986		-	-	32,986	100.0%
<b>St. Lawrence Market</b>	<b>141,650</b>	<b>82,895</b>	<b>224,545</b>	<b>4.20%</b>	<b>1,000</b>	-	<b>223,545</b>	<b>99.6%</b>
145 Berkeley	8,124	2,687	10,811		-	-	10,811	100.0%
230 Richmond E	73,667	-	73,667		-	-	73,667	100.0%
489 Queen E	32,905	-	32,905		10,326	-	22,579	68.6%
Dominion Square	56,846	55,013	111,859		-	-	111,859	100.0%
QRC South	40,143	-	40,143		4,571	-	35,572	88.6%
Queen Richmond Centre	155,481	67,487	222,968		-	-	222,968	100.0%
70 Richmond St E	34,414	-	34,414		-	-	34,414	100.0%
204-214 King St E	128,970	5,460	134,430		-	-	134,430	100.0%
<b>Queen Richmond</b>	<b>530,550</b>	<b>130,647</b>	<b>661,197</b>	<b>12.36%</b>	<b>14,897</b>	-	<b>646,300</b>	<b>97.7%</b>
<b>Total Toronto</b>	<b>2,132,712</b>	<b>521,785</b>	<b>2,654,497</b>	<b>49.61%</b>	<b>42,273</b>	<b>18,751</b>	<b>2,593,473</b>	<b>97.7%</b>

December 31, 2008 Properties	Office GLA	Retail GLA	Total GLA	% Total GLA	Office Vacant	Retail Vacant	Total Leased	Leased %
3575 Saint-Laurent	167,402	17,464	184,866		12,003	-	172,863	93.5%
400 Atlantic	86,034	-	86,034		6,727	-	79,307	92.2%
425 Viger W (+ land)	205,193	820	206,013		-	-	206,013	100.0%
4446 Saint-Laurent	74,961	7,667	82,628		8,019	-	74,609	90.3%
5505 Saint Laurent Blvd	252,452	2,524	254,976		-	-	254,976	100.0%
451-481 Saint Catherine	20,899	9,757	30,656		-	-	30,656	100.0%
6300 Avenue du Parc	207,906	10,450	218,356		21,775	-	196,581	90.0%
111 Duke	374,760	-	374,760		-	-	374,760	100.0%
50 Queen	28,718	-	28,718		-	-	28,718	100.0%
700 Wellington	128,152	1,925	130,077		-	-	130,077	100.0%
75 Queen	249,450	2,128	251,578		-	-	251,578	100.0%
80 Queen	70,263	-	70,263		-	-	70,263	100.0%
87 Prince	106,628	1,065	107,693		-	-	107,693	100.0%
<b>Total Montreal</b>	<b>1,972,818</b>	<b>53,800</b>	<b>2,026,618</b>	<b>37.88%</b>	<b>48,524</b>	<b>-</b>	<b>1,978,094</b>	<b>97.6%</b>
115 Bannatyne	34,591	4,029	38,620		-	-	38,620	100.0%
138 Portage East	45,655	-	45,655		14,926	-	30,729	67.3%
165 Garry	9,000	5,800	14,800		-	-	14,800	100.0%
250 McDermot	34,946	10,040	44,986		3,844	-	41,142	91.5%
309 Hargrave	19,070	1,400	20,470		3,709	-	16,761	81.9%
50-70 Arthur	104,788	15,380	120,168		8,867	-	111,301	92.6%
1500 Notre Dame	111,400	-	111,400		3,300	-	108,100	97.0%
<b>Total Winnipeg</b>	<b>359,450</b>	<b>36,649</b>	<b>396,099</b>	<b>7.40%</b>	<b>34,646</b>	<b>-</b>	<b>361,453</b>	<b>91.3%</b>
390 Charest	66,751	6,261	73,012		-	-	73,012	100.0%
410 Charest	-	24,937	24,937		-	1,300	23,637	94.8%
420 Charest	43,551	13,285	56,836		500	-	56,336	99.1%
622 Saint Joseph	3,620	3,300	6,920		-	-	6,920	100.0%
633 Saint Joseph	15,655	6,000	21,655		-	-	21,655	100.0%
<b>Total Quebec City</b>	<b>129,577</b>	<b>53,783</b>	<b>183,360</b>	<b>3.43%</b>	<b>500</b>	<b>1,300</b>	<b>181,560</b>	<b>99.0%</b>
72 Victoria	89,634	-	89,634		-	-	89,634	100.0%
<b>Total Kitchener-Waterloo</b>	<b>89,634</b>	<b>-</b>	<b>89,634</b>	<b>1.68%</b>	<b>-</b>	<b>-</b>	<b>89,634</b>	<b>100.0%</b>
<b>Total Rental Portfolio</b>	<b>4,684,191</b>	<b>666,017</b>	<b>5,350,208</b>	<b>100.00%</b>	<b>125,943</b>	<b>20,051</b>	<b>5,204,214</b>	<b>97.3%</b>
47 Fraser, Toronto	11,772	-	11,772					
47A Fraser, Toronto	20,000	-	20,000					
96 Spadina, Toronto	85,091	6,320	91,411					
134 Peter, Toronto	30,151	19,518	49,669					
544 King, Toronto	36,000	-	36,000					
Adjacent Land, Montreal	-	-	-					
<b>Total PUD</b>	<b>183,014</b>	<b>25,838</b>	<b>208,852</b>					