



ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST

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

SEPTEMBER 30, 2005

DATED NOVEMBER 7, 2005

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PART I

Forward-Looking Disclaimer

Management's discussion and analysis of results of operations and financial condition ("MD&A") should be read in conjunction with the financial statements and notes thereto of Allied Properties Real Estate Investment Trust ("REIT") as at September 30, 2005, and December 31, 2004. Unless otherwise indicated, dollar amounts in this MD&A are in thousands.

This MD&A contains forward-looking statements relating to the REIT's operations and the environment in which the REIT operates, which are based on expectations, estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. Therefore, actual outcomes and results may differ materially from those expressed in these forward-looking statements. Readers should not place undue reliance on any such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made. Management believes that the expectations reflected in forward-looking statements are based on reasonable assumptions but can give no guarantees or assurances that actual results will be consistent with these forward-looking statements.

Many factors could cause actual results to differ from the forward-looking statements in this MD&A. Important factors that could cause actual results to differ include, but are not limited to, the following:

- the results of the REIT's efforts to implement its acquisition strategies;
- the effect of economic conditions, including rising interest rates;
- the REIT's ability to generate sufficient cash flow from rental properties;
- the REIT's ability to maintain occupancy and to lease or re-lease space at favourable rents on a timely basis;
- tenants' financial difficulties;
- changes in operating costs;
- the cost of the REIT's equity and debt capital;
- changes in the REIT's capital requirements and availability of financing;
- the actions of the REIT's competitors and its ability to respond to those actions; and
- environmental uncertainties and disasters and the ability to obtain adequate insurance coverage at reasonable cost.

These forward-looking statements are made as of November 7, 2005, and the REIT undertakes no obligation to update publicly any such statements to reflect new information or the occurrence of future events or circumstances.

November 7, 2005

Business Overview and Strategy

The REIT is 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 (“Declaration”). The REIT is governed by the laws of Ontario. The units of the REIT are publicly traded on the Toronto Stock Exchange under the symbol AP.UN. Additional information relating to the REIT is available on SEDAR at www.sedar.com.

The objectives of the REIT are to provide stable and growing cash distributions to its unitholders and to maximize unitholder value through the effective management and the accretive growth of its portfolio.

Property Portfolio

The REIT completed its Initial Public Offering (“IPO”) on February 20, 2003. The net proceeds of the IPO were used to acquire a portfolio of 14 predominantly Class I office properties in downtown Toronto with approximately 820,000 square feet of gross leasable area (“GLA”). The REIT acquired eight additional properties in 2003 and 2004, seven in downtown Toronto and one in downtown Montreal, bringing the 2004 year-end total to 22 properties with 1.64 million square feet of GLA.

The REIT has made the following acquisitions in 2005, bringing the portfolio to 37 properties with 2.3 million square feet of GLA:

Class I Office Property	Acquired	Office GLA	Retail GLA	Total GLA	Occupancy
469 King Street West, Toronto	Jan 1, 2005	62,639	11,250	73,889	100.0%
3575 Saint-Laurent Boulevard, Montreal	April 18, 2005	164,344	17,464	181,808	87.6%
115 Bannatyne Avenue, Winnipeg	June 1, 2005	34,495	4,815	39,310	94.02%
602-606 King Street West	July 8, 2005	39,516	19,947	59,463	97.2%
67 Richmond West	Oct. 11, 2005	44,870	5,794	50,664	87.0%
579 Richmond Street West	Nov. 1, 2005	29,311	-	29,311	91.2%
141 Bathurst Street	Nov. 1, 2005	10,521	-	10,521	100.0%
662 King Street West	Nov. 1, 2005	29,691	2,126	31,817	90.9%
312 Adelaide Street West	Nov. 1, 2005	63,904	7,891	71,795	82.5%
208-210 Adelaide Street West	Nov. 1, 2005	12,330	-	12,330	100.0%
200 Adelaide Street West	Nov. 1, 2005	28,024	-	28,024	100.0%
116 Simcoe Street	Nov. 1, 2005	13,819	-	13,819	100.0%
489 Queen Street East	Nov. 1, 2005	32,592	-	32,592	100.0%
100 Lombard Street	Nov. 1, 2005	45,600	-	44,600	68.4%
145 Berkeley Street	Nov. 1, 2005	10,625	-	10,625	19.3%

The REIT’s portfolio of predominantly Class I office properties accommodates a diversified base of business tenants. 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, post and beam structural frames, exposed interior brick and hardwood floors. When restored and retrofitted to the standards of the REIT’s portfolio, Class I buildings can satisfy the needs of the most demanding office and retail tenants. When operated in the coordinated manner of REIT’s portfolio, these buildings become a vital part of the urban fabric and contribute meaningfully to a sense of community.

The REIT is a leading provider of Class I office and ancillary retail space and intends to build on this advantage by consolidating ownership in large, fragmented and growing target markets. Through this consolidation, the REIT will strive to realize ever greater operating efficiencies, to diversify further its tenant mix and to reduce further its reliance upon any particular tenant.

The REIT has an option agreement (“Option Agreement”) with Allied Canadian Corporation (“Developer”), a leading developer of Class I office properties, pursuant to which the Developer must offer to sell to the REIT at fair market value all developed or redeveloped office properties upon substantial completion. Three of the properties in the REIT’s portfolio were acquired pursuant to the Option Agreement.

The REIT’s portfolio has operated stably. The chart below summarizes the levels of GLA and leased area in the portfolio since the REIT’s IPO:

	IPO	Dec. 31, 2003	Dec. 31, 2004	Sept. 30, 2005
GLA (square feet)	820,120	984,856	1,636,343	1,985,409
% leased	96.9	97.5	99.2	97.4

Stable portfolio operations and manageable growth in assets have enabled the REIT to achieve its overriding objective of providing regular and growing cash distributions to unitholders. The chart below summarizes the annualized cash distribution level and the total annual return for each fiscal year since the REIT's IPO and the total return for the nine-month period ended September 30, 2005:

	IPO Feb 20, 2003	Dec. 31, 2003	Dec. 31, 2004	Sept. 30, 2005
Distribution level per unit annualized	\$1.10	\$1.10	\$1.14	\$1.18
Total return with reinvestment	NA	40.7%	17.6%	37.0%
Total return without reinvestment	NA	38.0%	15.2%	31.5%

Property Management

On July 4, 2005, with an effective date of July 1, 2005, the REIT's wholly owned subsidiary, Allied Properties Management Limited Partnership ("Property Manager"), completed the acquisition of the property management business of the Developer, which involved the provision of property management and related services to the REIT and to third-party owners of commercial real estate in Toronto.

The Developer was appointed by the REIT as its property manager at the time of the REIT's IPO. The principal reason for the external arrangement was the fact that the REIT's initial portfolio was not large enough on its own for the property management function to be undertaken profitably.

Recognizing the substantial growth of the REIT's portfolio by early 2005, the Trustees of the REIT established an Independent Committee to consider the possibility of internalizing the property management function. The Independent Committee retained Desjardins Securities Inc. to act as its financial advisor.

On completion of the evaluation process by the Independent Committee and Desjardins Securities Inc., the independent Trustees of the REIT approved the acquisition ("Property Management Acquisition") by the REIT of the property management business of the Developer for a base price of \$8.5 million and an additional payment on March 31, 2007, equal to the lesser of \$0.9 million and the amount, if any, by which a five-times multiple of actual EBITDA from the business in 2006 exceeds the base price. Desjardins Securities Inc. delivered its opinion that the acquisition was fair, from a financial point of view, to unitholders.

The Developer employed 44 employees in its property management business, all of whom became employees of the Property Manager on closing of the Property Management Acquisition. The Developer and its operating principals have agreed not engage in the third-party property management business. The Developer is no longer entitled to use the name "Allied Properties" or the logo associated with the name "Allied Properties", which name and logo became the sole and exclusive property of the REIT on closing of the Property Management Acquisition. The Developer will continue to engage in the business of real estate development, subject to the provisions of the Option Agreement.

The REIT expects the Property Management Acquisition to increase its net operating income by approximately \$1.9 million in 2006 and to increase its Distributable Income per unit by approximately five cents in 2006. The REIT also expects that the Property Management Acquisition will enable it to develop additional service-based sources of income as it continues to grow.

Performance Indicators

The REIT measures the long-term success of its strategies through key financial and operating performance indicators.

Financial Indicators

1. Distributions

The REIT is focused on increasing distributions to its unitholders on a regular and prudent basis. During its first 12 months of operations, the REIT made regular monthly distributions of \$1.10 per unit on an annualized basis. In March of 2004, the REIT increased its monthly distributions by 3.6% to \$1.14 per unit on an annualized basis. In March of 2005, the REIT increased its monthly distributions by 3.5% to \$1.18 per unit on an annualized basis.

2. Distributable Income

Increasing distributions can be achieved prudently by increasing Distributable Income. In 2003, the REIT forecast \$1.06 per unit in Distributable Income and achieved \$1.122 per unit. In 2004, Distributable Income was \$1.325 per unit, up 18% from the abbreviated comparable period in 2003. In the nine-month period ended September 30, 2005, Distributable Income was \$1.018 per unit, up 3.7% from the same period in 2004.

3. Pay-out Ratio

To ensure it retains sufficient cash to meet its capital improvement and leasing objectives, the REIT will strive to maintain an appropriate pay-out ratio, the ratio of actual distributions in a given period to Distributable Income in such period. In 2003, the REIT forecast a pay-out ratio of 90% and achieved a pay-out ratio of 85%. In 2004, the REIT achieved a pay-out ratio of 88.1%. In the nine-month period ended September 30, 2005, the REIT achieved a pay-out ratio of 88.3%.

4. Debt Ratio

Gross Book Value ("GBV") is defined pursuant to the Declaration as the book value of the assets of the REIT shown on the most recent balance sheet plus accumulated depreciation and amortization and an amount equal to the property management internalization expense recorded by the REIT in the quarter ended September 30, 2005. A conservative ratio of debt to GBV ("Debt Ratio") mitigates unitholder risk. In 2003, the REIT forecast a 56% Debt Ratio and finished the year with a 51% Debt Ratio. As at December 31, 2004, the Debt Ratio was 56.3%. As at September 30, 2005, the Debt Ratio was 47.7%, a level that Management considers to be low. Management expects the Debt Ratio to increase to more normal levels over the balance of 2005. See "Subsequent Events".

Operating Indicators

1. Tenant Retention and Replacement

The REIT places 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, the REIT will strive for high-quality replacement tenants. Leases representing 207,584 square feet of GLA mature in 2005. As at September 30, 2005, the REIT had renewed leases representing 71,036 square feet of this GLA and released another 60,527 square feet of this GLA, representing 63% of the GLA covered by the maturing leases. It had also renewed leases representing 41,969 square feet of GLA maturing in 2006 and 5,900 square feet of GLA maturing in 2007.

2. Occupancy

The REIT strives to maintain consistently high levels of occupancy. By the end of 2003, the REIT increased its leased area to 97.5%. By the end of 2004, the REIT's leased area was 99.2%. As at September 30, 2005, the REIT's leased area was 97.4%.

3. Same-Asset Net Operating Income

The REIT strives to maintain or increase same-asset net operating income over time. Same-asset refers to those properties that were owned and operated by the REIT 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 marked-to-market rent adjustment), the same-asset net operating income was \$12,996 in the nine-month period ended September 30, 2005, \$631 higher than the comparable period in 2004.

4. Leasing Expenditures

The REIT monitors leasing expenditures carefully. In the nine-month period ended September 30, 2005, the REIT leased or renewed leases on 193,011 square feet of GLA. As at September 30, 2005, the REIT incurred or committed to \$1,933 in leasing expenditures in connection with this leasing activity. This represents \$10.51 per square foot of space leased in the period.

5. Capital Expenditures

The REIT strives to maintain the properties in its portfolio in top physical condition. As at September 30, 2005, the REIT incurred \$796 in expenditures for capital improvements. This represents \$0.49 per square foot of the REIT's portfolio at the outset of 2005.

Summary

The following table summarizes the key financial and operating performance indicators for the nine-month periods ended September 30, 2005, and September 30, 2004, as well as the change between the two periods.

	Period 2005	Period 2004	Change
Distribution level per unit annualized	\$1.18	\$1.14	\$0.04
Distributable Income per unit	\$1.018	\$0.982	\$0.037
Pay-out ratio	88.3%	89.8%	(1.5%)
Debt Ratio	47.7%	52.3%	(4.6%)
Renewal/replacement % of leases maturing	63%	95%	(32%)
End of period occupancy	97.4%	98.6%	(1.2%)
Same-asset net operating income	\$12,966	\$12,365	\$631
Leasing costs per leased square foot	\$10.51	\$12.35	(\$1.84)
Capital expenditures per portfolio square foot	\$0.49	\$1.47	(\$0.98)

Business Environment and Outlook

The Toronto office market has strengthened in 2005, with the overall vacancy rate declining to 9.9% at the end of the third quarter and the Class I category recording positive absorption of 172,188 square feet in the first three quarters of the year.¹

The downtown Montreal office market has been flat in 2005, with an overall vacancy rate of 12.4% at the end of the third quarter.² While Class I office space is not tracked separately, there is data available on the Old Montreal sub-market. In the first three quarters of 2005, there was slight negative absorption of 16,807 square feet in Old Montreal.³

The downtown Winnipeg office market has strengthened in 2005, with the overall vacancy rate declining to 7.5%⁴ at mid-year. Class I office space is not tracked separately in Winnipeg.

¹ Colliers International, *Greater Toronto Office Quarterly Update, Third Quarter 2005*.

² Colliers International, *Greater Montreal Office Quarterly Update, Third Quarter 2005*.

³ Colliers International, *Greater Montreal Office Quarterly Update, Third Quarter 2005*.

⁴ Royal LePage, *Winnipeg Office Market Pulse, Second Quarter, 2005*.

In summary, the REIT's target markets are stable, with little new supply of office space generally and Class I office space in particular. Combined with the operating advantages stemming from the size and quality of the REIT's portfolio, the stable markets afford Management a reasonable basis for confidence in the REIT's near-term performance and in the REIT's ability to sustain a manageable rate of growth.

The REIT intends to continue the consolidation process in its Toronto target market and to expand the foothold it has established in its Montreal and Winnipeg target markets. On November 1, 2005, the REIT completed the acquisition of a 285,434 square foot, Class I office portfolio in downtown Toronto. This acquisition significantly bolstered the REIT's position as the leading provider of Class I office space in Toronto, increasing the size of its portfolio in King West Central by 12%, in the Entertainment District by 33% and in Downtown East by 22%.

The REIT has not established a rigid target in terms of the allocation of its portfolio between the Toronto, Montreal and Winnipeg target markets. As at September 30, 2005, the properties in the Toronto, Montreal and Winnipeg target markets represented 78.5%, 19.5% and 2%, respectively, of the total GLA in the portfolio.

PART II

Summary Information and Performance for the Period ended September 30, 2005

The following sets out summary information and financial results for the nine-month period ended September 30, 2005, and the comparable period in 2004 and the change between the two.

(In thousands except for per unit and % amounts)	Period 2005	Period 2004	Change	%Change
Revenue from rental properties	\$36,879	\$24,446	\$12,433	50.9%
Rental property operating cost	13,119	8,364	4,755	56.9%
Net rental income	23,760	16,082	7,678	47.7%
Real estate service income	84	-	84	
Financing expense				
Interest	7,195	5,221	1,974	37.8%
Amortization - Mortgage premium	(348)	(341)	(7)	2.1%
Depreciation and amortization				
Rental properties	4,379	3,015	1,364	45.2%
Deferred leasing cost	438	133	305	229.3%
Origination cost and acquired tenant relationships	3,324	920	2,404	261.3%
Acquired contracts and customer relationships	24	-	24	
Deferred financing cost	150	82	68	82.9%
Computer and office equipment	6	-	6	
Income from operations	8,676	7,052	1,624	23.0%
Trust expense	1,370	1,183	187	15.8%
Property management internalization expense	7,877	-	7,877	
Net income (loss)	(571)	5,869	(6,440)	(109.7%)
Amortization				
Rental properties	4,379	3,015	1,364	45.2%
Mortgage premium	(348)	(341)	(7)	2.1%
Acquired leases	1,449	512	937	183.0%
M-T-M acquired leases	48	(49)	97	(198.0%)
Acquired tenant relationships	1,874	408	1,466	359.3%
Acquired contracts and customer relationships	24	-	-	
Step-rent adjustments	(1,042)	(1,049)	7	(0.7%)
Property management internalization expense	7,877	-	7,877	
LTIP compensation expense	109	63	46	73.0%
Distributable Income [†]	\$13,799	\$8,428	\$5,371	63.7%
Weighted average units outstanding (basic)	13,550	8,584	4,966	57.9%
Weighted average units outstanding (diluted)	13,786	8,661	5,125	59.2%
Distributable Income per unit (basic)	\$1.018	\$0.982	0.037	3.7%
Distributable Income per unit (diluted)	\$1.001	\$0.973	0.028	2.9%
Distributions	12,183	7,567	4,616	61.0%
Pay-out ratio	88.3%	89.8%	(1.5%)	
Funds from operations	15,447	9,937	5,510	55.4%
Funds from operations per unit (basic)	\$1.140	\$1.158	\$ (0.018)	(1.5%)
Funds from operations per unit (diluted)	\$1.120	\$1.147	\$ (0.027)	(2.3%)
Net operating income	22,766	14,984	7,782	51.9%
Net income (loss) per unit (basic)	\$(0.042)	\$0.684	\$ (0.727)	(106.2%)
Net income (loss) per unit (diluted)	\$(0.042)	\$0.678	\$ (0.719)	(106.1%)
Total assets	\$321,659	\$237,786	83,873	35.3%
Total debt (excludes premium on assumed debt)	\$163,182	\$126,666	36,516	28.8%
Debt to GBV	47.7%	52.3%	(4.6%)	
Total GLA (square feet)	1,985	1,430	555	38.8%
Leased GLA (square feet)	1,933	1,410	523	37.1%
Leased GLA (% total GLA)	97.4%	98.6%	(1.2%)	

[†] Distributable Income, which is not defined within Canadian generally accepted accounting principles, has been calculated in accordance with the terms of the Declaration.

Net loss for the nine-month period ended September 30, 2005, was \$571, as compared to net income of \$5,869 in the same period ended September 30, 2004. Net loss per unit (basic) for the period was \$0.042, as compared to net income per unit (basic) of \$0.684 in the comparable period. The net loss for the period was due entirely to expense of \$7,877 associated with the internalization of property management (see “*Property Management Internalization Expense*” below).

Distributable Income for the nine-month period ended September 30, 2005, increased by 63.7% to \$13,799 from \$8,428 for the same period ended September 30, 2004. Distributable Income per unit (basic) for the period was \$1.018, as compared to \$0.982 in the comparable period.

Net Rental Income

Net rental income for the nine-month period ended September 30, 2005, increased by 47.7% to \$23,760 from \$16,082 in the same period ended September 30, 2004, as follows:

- (i) \$151 due to the increase in same-asset net rental income from properties owned for the entire period and the entire comparable period;
- (ii) \$7,265 due to net rental income from properties acquired in 2004 and the period; and
- (iii) \$262 due to the internalization of the property management function effective July 1, 2005.

Net rental income per occupied square foot for the nine-month period ended September 30, 2005, was \$12.29 (\$16.39 annualized), as compared to \$11.40 (\$15.20 annualized) in the same period ended September 30, 2004.

Real Estate Service Income

The Property Manager provided real estate services to third-party owners of commercial real estate in Toronto from the effective date of July 1, 2005. For the period ended September 30, 2005, real estate services income was \$84.

Property Management Acquisition Benefit

The economic benefit to the REIT of the Property Management Acquisition from the effective date of July 1, 2005, to September 30, 2005, is summarized in the following table:

(In thousands)	July 1 to September 30, 2005
Increase in net rental income	\$262
Real estate service income	84
Reduction in leasing expenditures payable as leasing fees	8
Reduction in capital expenditures payable as project management fees	33
Total	\$387

This is consistent with Management’s expectations for the period in question.

Property Management Internalization Expense

The Property Management Acquisition was recorded using the very specific guidance of the Emerging Issues Committee of the Canadian Institute of Chartered Accountants in EIC-138, “Internalization of the Management Function in Royalty and Income Trusts”. Except for the portion of the acquisition cost allocated to (i) tangible assets and (ii) the component of the acquired business that relates to providing services to third-party owners, the acquisition cost was treated as a penalty cost for the early termination of the original property management agreement between the REIT and the Developer and was expensed in the quarter ended September 30, 2005. \$77 was allocated to tangible assets and recorded accordingly on the REIT’s balance sheet. \$959 was allocated to the third-party component of the acquired business and was recorded as acquired contracts and customer relationships on the REIT’s balance sheet. The remainder of the acquisition cost, \$7,877, was recorded as property management internalization expense in the quarter ended September 30, 2005.

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. The amortization of the premiums and discounts on assumed mortgages reduced financing expense by \$348 in the nine-month period ended September 30, 2005.

Financing expense for the nine-month period ended September 30, 2005, increased by 40.3% to \$6,847 from \$4,880 in the same period ended September 30, 2004, due to the increase in financing expense associated with properties acquired in 2004 and in the period.

Depreciation and Amortization

Effective January 1, 2004, the REIT records depreciation on its buildings on a straight-line basis over their expected life. (In 2003, the REIT recorded depreciation on its buildings on a 5%, 40-year sinking fund basis). Depreciation recorded on buildings for the nine-month period ended September 30, 2005, increased by 45.2% to \$4,379 from \$3,015 in the same period ended September 30, 2004.

The REIT records amortization of deferred leasing costs and the assigned fair value of the origination costs 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. Deferred financing cost is amortized on a straight-line basis over the term of the corresponding debt.

Trust Expense

Trust expense includes cost incurred by the REIT that is 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 nine-month period ended September 30, 2005, increased by 15.8% to \$1,370 from \$1,183 in the same period ended September 30, 2005, primarily due to an increase in executive management staff and salary increases.

Leasing Activity

Leasing activity for the nine-month period ended September 30, 2005, is summarized in the following table:

	Vacant or Maturing	Leased in Period	% Leased in Period	Vacant End of Period
Vacant GLA on January 1, 2005	15,555	13,579	87	1,976
Vacant GLA on acquisition in 2005	11,765	-	-	11,765
Total originally vacant GLA	27,320	13,579	50	13,741
GLA maturing in period	131,353	93,423	71	37,930
GLA maturing in remainder of 2005	76,231	38,140	50	NA
Total GLA maturing in 2005	207,584	131,563	63	37,930
GLA maturing in 2006	194,633	41,969	22	NA
GLA maturing in 2007	255,978	5,900	2	NA
Total GLA maturing in 2006 and 2007	450,611	47,869	11	NA
Total	685,515	193,011	28	51,671

15,555 square feet of GLA were vacant at the beginning of 2005. During the nine-month period ended September 30, 2005, the REIT

- (i) acquired properties with 11,765 square feet of vacant GLA, bringing the total originally vacant GLA to 27,320 square feet and
- (ii) leased 13,579 square feet of the 27,320 square feet of originally vacant GLA, leaving 13,741 square feet of the originally vacant GLA vacant at the end of the period.

Leases for 207,584 square feet of GLA matured or mature in 2005. During the nine-month period ended September 30, 2005, the REIT

- (i) renewed or replaced leases for 93,423 square feet of the 131,353 square feet of GLA that matured in the period, leaving 37,930 square feet of the GLA that matured in the period vacant at the end of the period,
- (ii) renewed or replaced 38,140 square feet of GLA maturing in the fourth quarter of 2005,
- (iii) renewed leases representing 41,969 square feet of GLA maturing in 2006 and
- (iv) renewed leases representing 5,900 square feet of GLA maturing in 2007.

Capital Expenditures

The REIT's portfolio requires ongoing investments for general capital improvements and tenant installation costs related to new and renewal leasing. These include the following: maintenance capital expenditures; 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; and improvement allowances, inducements 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 nine-month period ended September 30, 2005, expenditures for capital improvements were \$796 and expenditures for leasing were \$1,595. The leasing expenditures were incurred in connection with the leasing of space that was vacant as at December 31, 2004, or the renewal or replacement of tenants occupying space covered by maturing leases in 2005, 2006 and 2007.

Distributable Income

The REIT defines Distributable Income as the net income of the REIT determined in accordance with Canadian generally accepted accounting principles ("GAAP") adjusted by adding back or deducting as required:

- (i) depreciation 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;
- (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 Acquisition to acquired contracts and customer relationships; and
- (viii) property management internalization expense recorded in connection with the Property Management Acquisition.

Distributable Income 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. The REIT considers Distributable Income to be a measure of its overall operating performance and is one of Management's key performance indicators.

Pursuant to the Ontario Securities Commission Revised CSA Staff Notice 52-306, the Commission recommends that distributable cash (which is synonymous with Distributable Income) be reconciled to cash flows from operating activities as presented in the financial statements. Set out below is this reconciliation.

(In thousands except for unit and per unit amounts)	Period 2005	Period 2004
Cash from operating activities	\$738	\$8,065
Amortization of deferred leasing and financing cost	(589)	215
Amortization of computer and office equipment	(6)	-
Change in non-cash operating items	5,779	578
Property management internalization expense	7,877	-
Distributable Income¹	\$13,799	\$8,428

¹ Distributable Income, which is not defined within Canadian generally accepted accounting principles, has been calculated in accordance with the terms of the Declaration of Trust.

Distributions for the nine-month period ended September 30, 2005, were \$12,183, representing a pay-out ratio of 88.3%, as compared to distributions for the same period ended September 30, 2004, of \$7,567, representing a pay-out ratio of 89.8%.

Funds From Operations

Funds From Operations (“FFO”) 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. The REIT considers FFO to be an indicative measure of operating performance, which is widely used by the real estate industry. The following sets out FFO, calculated in accordance with recommendations of Real Property Association of Canada in its White Paper on Funds From Operations dated November 30, 2004, and adjusted to add back the property management internalization expense recorded by the REIT in the quarter ended September 30, 2005.

(In thousands)	Period 2005	Period 2004
Net income	\$(571)	\$5,867
Amortization on rental properties	4,379	3,015
Amortization of deferred leasing expenses	438	133
Amortization of origination cost and acquired tenant relationships	3,324	920
Property management internalization expense	7,877	-
FFO	\$15,447	\$9,937

PART III

Financial Condition

The REIT finances its operations through three sources of capital: (i) mortgage debt secured by the REIT's rental properties, (ii) secured short-term debt financing with Canadian chartered banks and (iii) equity. As at September 30, 2005, the REIT had mortgage debt of \$163,182, bank indebtedness of \$1,295 and unitholders' equity of \$140,008.

The Declaration provides for a maximum Debt Ratio of 60% excluding convertible debentures (or 65%, including the entire principal pursuant to any convertible debentures outstanding). GBV is defined pursuant to the Declaration to mean the book value of the assets of the REIT shown on the most recent balance sheet of the REIT plus accumulated depreciation and amortization and an amount equal to the property management internalization expense recorded by the REIT in the quarter ended September 30, 2005. As at September 30, 2005, the Debt Ratio was 47.7%, compared to 56.3% as at December 31, 2004.

Unitholders' Equity

As at December 31, 2004, the REIT had a market capitalization of approximately \$143,323 based on a closing unit price of \$13.80 on the Toronto Stock Exchange. As at September 30, 2005, the REIT had a market capitalization of approximately \$262,467 based on a closing unit price of \$17.85.

In the nine-month period ended September 30, 2005, the REIT issued a total of 4,317,921 units for equity contributions of \$58,154. Costs incurred to issue the units were \$2,716. Units were issued as follows:

- (i) on January 4, 2005, the REIT issued 1.9 million units at \$13.00 per unit for gross proceeds of \$24,700;
- (ii) on April 18, 2005, the REIT issued 2.15 million units at \$14.00 per unit for gross proceeds of \$30,100;
- (iii) in the nine-month period ended September 30, 2005, the REIT issued 123,000 units at \$10.00 per unit for \$1,230 to certain officers and trustees who exercised options under the REIT's Unit Option Plan;
- (iv) in the nine-month period ended September 30, 2005, the REIT issued 76,224 units to certain officers and trustees under the LTIP at \$13.46 per unit for \$1,026, plus compensation costs of \$109; and
- (v) in the nine-month period ended September 30, 2005, the REIT issued 68,697 units under its distribution re-investment plan at an average price of \$14.40 per unit for \$989.

The REIT adopted a Unit Option Plan at the time of its IPO and granted at that time options to the trustees and officers of the REIT to acquire 345,000 units at an exercise price of \$10.00 per unit prior to February 19, 2008. In 2004, the maximum number of units reserved for the Unit Option Plan was reduced from 604,390 units to 345,000 units. In 2004 and in the nine-month period ended September 30, 2005, the trustees and officers of the REIT exercised 263,500 options in accordance with their terms. As at September 30, 2005, 81,500 options were outstanding, all of which had vested.

In May of 2004, the REIT adopted the LTIP whereby trustees and officers of the REIT ("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 the REIT as security for payment of the LTIP Loan, and all distributions paid on the units are forwarded by the Custodian to the REIT and applied first on account of interest on the LTIP Loan and then to reduce the outstanding balance of the LTIP loans. The maximum

number of units reserved for the LTIP is 259,390 units, of which 147,500 units were issued in 2004 and 76,224 in the nine-month period ended September 30, 2005.

Mortgages Payable

Mortgages payable as at September 30, 2005, consisted of mortgage debt of \$163,182 and premium on mortgages assumed (net of accumulated amortization) of \$702.

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.

The following sets out the maturity schedule of the REIT's mortgage debt, together with the weighted average interest on the mortgages that mature in the respective year.

	Periodic Principal Payments (\$000)	Balance Due at Maturity (\$000)	Total Principal (\$000)	% of Total Principal	Weighted Average Interest Rate of Maturing Mortgages (%)
2005	\$ 1,106	\$ -	\$ 1,106	0.7%	N/A
2006	4,495	2,999	7,494	4.6%	7.63%
2007	4,557	19,408	23,965	14.7%	6.44%
2008	3,807	14,404	18,211	11.2%	5.95%
2009	3,794	8,735	12,529	7.7%	6.84%
Thereafter	21,146	78,731	99,877	61.1%	
	\$38,905	\$ 124,277	\$ 163,182		

Interest rates on the mortgage debt are between 4.94% and 8.10% with a weighted average interest rate of 6.24%. The weighted average term of the mortgage debt is 6.54 years.

Each individual mortgage loan of the REIT 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 the assets of the REIT.

The REIT attempts 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. Additionally, the REIT attempts to maintain 15 to 20% of its rental properties free from traditional long-term mortgage financing with a view to providing these assets as security for bank credit facilities.

Bank Credit Facilities

The REIT has credit facilities with two Canadian chartered banks as follows:

- (i) a \$5,000 revolving credit facility bearing interest at bank prime plus 1.0%, which matures on February 28, 2006 ("Acquisition Credit Facility"); and
- (ii) a \$25,000 revolving credit facility bearing interest at bank prime plus 1.0%, which matures on May 31, 2006 ("New Credit Facility").

Subordinated mortgage charges and security agreements on three rental properties secure the Acquisition Credit Facility. First mortgage charges against four rental properties, subordinate mortgage charges against three other rental properties and security agreements on each of the seven properties secure the New Credit Facility.

In the nine-month period ended September 30, 2005, the average borrowings under the credit facilities were \$272. As at September 30, 2005, the borrowings under the credit facilities were \$1,772.

Liquidity and Commitments

Net operating income generated from the rental properties is the primary source of liquidity to fund the REIT's financing expense, trust expenses and distributions to unitholders. The Declaration requires it to declare distributions each year not less than the greater of (i) 75% of its Distributable Income or (ii) an

amount to ensure that the REIT will not be subject to tax on its income and capital gains. The REIT intends to pay distributions of approximately 85% to 90% of Distributable Income.

The REIT expects that increased financing on maturing mortgages will provide sufficient cash flow to fund mortgage repayments. The REIT plans to fund anticipated ongoing commitments, obligations, capital expenditures and leasing costs using cash flow from operations retained by the REIT and through available borrowing capacity under the New Credit Facility.

The Acquisition Credit Facility, the New Credit Facility, new mortgage indebtedness and the access to the public equity markets will provide the necessary capital the REIT requires for acquisitions. The REIT's acquisition capacity, meaning the ability of the REIT to acquire rental properties using un-utilized borrowing capacity while not exceeding the 60% Debt Ratio, is \$105,000.

As at September 30, 2005, the REIT had future commitments as set out below.

(In thousands)	September 30, 2005
Leasing commissions	\$217
Tenant inducements	193
Building renovations	192
Expenses	446
	\$1,048

PART IV

Summary Information and Performance for the Quarter ended September 30, 2005

The following sets out summary information and financial results for the quarter ended September 30, 2005, and the comparable quarter in 2004 and the change between the two.

(In thousands except for per unit and % amounts)	Q3 2005	Q3 2004	Change	%Change
Revenue from rental properties	\$12,822	\$9,734	\$ 3,088	31.7%
Rental property operating cost	4,442	3,369	1,073	31.8%
Net rental income	8,380	6,365	2,015	31.7%
Real estate service income	84	-	84	
Financing expense				
Interest	2,505	2,070	435	21.0%
Amortization - Mortgage premium	(145)	(113)	(32)	28.3%
Depreciation and amortization				
Rental properties	1,549	1,175	374	31.8%
Deferred leasing costs	186	81	105	129.6%
Origination cost and acquired tenant relationships	1,256	558	698	125.1%
Acquired contracts and customer relationships	24	-	24	
Deferred financing cost	54	41	13	31.7%
Computer and office equipment	6	-	6	
Income from operations	3,029	2,553	476	18.6%
Trust expense	404	305	99	32.5%
Property management internalization expense	7,877	-	7,877	
Net income (loss)	(5,252)	2,248	(7,500)	(333.6%)
Amortization				
Rental properties	1,549	1,175	374	31.8%
Mortgage premium	(145)	(113)	(32)	28.3%
Acquired leases	535	266	269	101.1%
M-T-M acquired leases	-	38	(38)	(100.0%)
Acquired tenant relationships	720	291	429	147.4%
Acquired contracts and customer relationships	24	-	-	
Step-rent adjustments	(287)	(375)	88	(23.5%)
Property management internalization expense	7,877	-	7,877	
LTIP compensation expense	-	-	-	
Distributable Income ¹	\$5,021	\$3,530	\$1,491	42.2%
Weighted average units outstanding (basic)	14,471	10,200	4,271	41.9%
Weighted average units outstanding (diluted)	14,727	10,348	4,379	42.3%
Distributable Income per unit (basic)	\$0.347	\$0.346	0.001	0.3%
Distributable Income per unit (diluted)	\$0.341	\$0.341	-	-
Distributions	4,317	2,933	1,384	47.2%
Pay-out ratio	86.0%	83.1%	2.9%	
Funds from operations	5,616	4,062	1,554	38.3%
Funds from operations per unit (basic)	\$0.388	\$0.398	\$(0.010)	(2.5%)
Funds from operations per unit (diluted)	\$0.381	\$0.393	\$(0.011)	(2.9%)
Net operating income	8,093	6,028	2,065	34.3%
Net income (loss) per unit (basic)	\$(0.363)	\$0.220	\$(0.583)	(264.7%)
Net income (loss) per unit (diluted)	\$(0.363)	\$0.217	\$(0.574)	(267.1%)
Total assets	\$321,659	\$237,786	83,873	35.3%
Total debt (excludes premium on assumed debt)	\$163,182	\$126,666	36,516	35.3%
Debt to GBV	47.7%	52.3%	(4.6)%	
Total GLA (square feet)	1,985	1,430	555	38.8%
Leased GLA (square feet)	1,933	1,410	523	37.1%
Leased GLA (% total GLA)	97.4%	98.6%	(1.2)%	

¹ Distributable Income, which is not defined within Canadian generally accepted accounting principles, has been calculated in accordance with the terms of the Declaration.

Net loss for the quarter ended September 30, 2005, was \$5,252, as compared to net income of \$2,248 in the quarter ended September 30, 2004. Net loss per unit (basic) for the quarter was \$0.363, as compared to net income per unit (basic) of \$0.220 in the comparable quarter. The net loss in the quarter was due entirely to expense of \$7,877 associated with the internalization of property management (see “*Property Management Internalization Expense*” below).

Distributable Income for the quarter ended September 30, 2005, increased by 42.2% to \$5,021 from \$3,530 for the quarter ended September 30, 2004. Distributable Income per unit (basic) for the quarter was \$0.347, as compared to \$0.346 in the comparable quarter.

Net Rental Income

Net rental income for the quarter ended September 30, 2005, increased by 31.7% to \$8,380 from \$6,365 in the quarter ended September 30, 2004, as follows:

- (i) \$1,867 due to net rental income from properties acquired not owned for the entire quarter and the entire comparable quarter;
- (ii) \$262 due to the internalization of the property management function effective July 1, 2005;
- (iii) offset by \$114 due to the decrease in same-asset net rental income from properties owned for the entire quarter and the entire comparable quarter.

Net rental income per occupied square foot for the quarter ended September 30, 2005, was \$4.34 (\$17.36 annualized), as compared to \$4.51 (\$18.04 annualized) in the quarter ended September 30, 2004.

Real Estate Service Income

The Property Manager has provided real estate services to third-party owners of commercial real estate in Toronto from an effective date of July 1, 2005. For the quarter ended September 30, 2005, real estate services income was \$84.

Property Management Acquisition Benefit

The economic benefit to the REIT of the Property Management Acquisition for the quarter ended September 30, 2005, is summarized in the following table:

(In thousands)	Q3 2005
Increase in net rental income	\$262
Real estate service income	84
Reduction in leasing expenditures payable as leasing fees	8
Reduction in capital expenditures payable as project management fees	33
Total	\$387

This is consistent with Management’s expectations for the quarter.

Property Management Internalization Expense

The Property Management Acquisition was recorded using the very specific guidance of the Emerging Issues Committee of the Canadian Institute of Chartered Accountants in EIC-138, “Internalization of the Management Function in Royalty and Income Trusts”. Except for the portion of the acquisition cost allocated to (i) tangible assets and (ii) the component of the acquired business that relates to providing services to third-party owners, the acquisition cost was treated as a penalty cost for the early termination of the original property management agreement between the REIT and the Developer and was expensed in the quarter ended September 30, 2005. \$77 was allocated to tangible assets and recorded accordingly on the REIT’s balance sheet. \$959 was allocated to the third-party component of the acquired business and was recorded as acquired contracts and customer relationships on the REIT’s balance sheet. The remainder of the acquisition cost, \$7,877, was recorded as property management internalization expense in the quarter ended September 30, 2005.

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. The amortization of the premiums and discounts on assumed mortgages reduced financing expense by \$145 in the quarter ended September 30, 2005.

Financing expense for the quarter ended September 30, 2005, increased by 20.6% to \$2,360 from \$1,957 in the quarter ended September 30, 2004, due to the increase in financing expense associated with additional properties acquired in 2004 and in the nine-month period ended September 30, 2005.

Depreciation and Amortization

Effective January 1, 2004, the REIT records depreciation on its buildings on a straight-line basis over their expected life. (In 2003, the REIT recorded depreciation on its buildings on a 5%, 40-year sinking fund basis). Depreciation recorded on buildings for the quarter ended September 30, 2005, increased by 31.8% to \$1,549 from \$1,175 in the quarter ended September 30, 2004.

The REIT records amortization of deferred leasing costs and the assigned fair value of the origination costs 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. Deferred financing cost is amortized on a straight-line basis over the term of the corresponding debt.

Trust Expense

Trust expense includes cost incurred by the REIT that is 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 ended September 30, 2005, increased by 32.5% to \$404 from \$305 in the quarter ended September 30, 2004, due to an increase in executive management staff and salary increases.

PART V

Summary Quarterly Information and Performance

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

(In thousands except for per unit and % amounts)	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004	Q4 2003
Revenue from rental properties	\$12,822	\$12,260	\$11,797	\$10,119	\$9,734	\$7,933	\$6,779	\$5,541
Rental property operating cost	4,442	4,480	4,197	3,664	3,369	2,656	2,339	1,776
Net rental income	8,380	7,780	7,600	6,455	6,365	5,277	4,440	3,765
Real estate service income	84	-	-	-	-	-	-	-
Financing expense	2,360	2,218	2,269	2,117	1,957	1,618	1,305	1,200
Depreciation and amortization	3,075	2,910	2,336	1,958	1,855	1,354	941	263
Income from operations	3,029	2,652	2,995	2,380	2,553	2,305	2,194	2,302
Trust expense	404	469	497	382	305	527	351	303
Property management internalization expense	7,877	-	-	-	-	-	-	-
Net income (loss)	(5,252)	2,183	2,498	1,998	2,248	1,778	1,843	1,999
Amortization								
Rental properties	1,549	1,461	1,369	1,194	1,175	1,001	839	246
Mortgage premium	(145)	(99)	(104)	(103)	(113)	(120)	(108)	(94)
Acquired leases	535	501	413	308	267	172	73	-
M-T-M acquired leases	-	24	24	31	38	(34)	(53)	-
Acquired tenant relationships	720	761	393	317	291	117	-	-
Acquired contracts and customer relationships	24	-	-	-	-	-	-	-
Step-rent adjustments	(287)	(350)	(405)	(276)	(375)	(361)	(313)	-
Property management internalization expense	7,877	-	-	-	-	-	-	-
LTIP compensation expense	-	-	109	26	-	63	-	-
Distributable Income ¹	\$5,021	\$4,481	\$4,297	\$3,495	\$3,531	\$2,616	\$2,281	\$2,151
Weighted average units outstanding (basic)	14,471	14,036	12,118	10,226	10,200	8,396	7,138	6,352
Weighted average units outstanding (diluted)	14,727	14,289	12,329	10,389	10,348	8,427	7,174	6,365
Distributable Income per unit (basic)	\$0.347	\$0.319	\$0.355	\$0.342	\$0.346	\$0.312	\$0.320	\$0.338
Distributable Income per unit (diluted)	\$0.341	\$0.314	\$0.348	\$0.336	\$0.341	\$0.310	\$0.318	\$0.338
Distributions	4,317	4,295	3,557	2,939	2,933	2,638	1,996	1,675
Pay-out ratio	86.0%	95.8%	82.7%	84.1%	83.1%	100.8%	87.5%	77.9%
Funds from operations	5,616	5,045	4,786	3,912	4,062	3,103	2,772	2,225
Funds from operations per unit (basic)	\$0.388	\$0.359	\$0.395	\$0.383	\$0.398	\$0.370	\$0.388	\$0.247
Funds from operations per unit (diluted)	\$0.381	\$0.353	\$0.388	\$0.377	\$0.393	\$0.368	\$0.386	\$0.244
Net operating income	8,093	7,454	7,219	6,210	6,028	4,882	4,074	3,765
Net income (loss) per unit (basic)	\$(0.363)	\$0.156	\$0.206	\$0.195	\$0.220	\$0.212	\$0.258	\$0.222
Net income (loss) per unit (diluted)	\$(0.363)	\$0.153	\$0.203	\$0.192	\$0.217	\$0.211	\$0.257	\$0.220
Total assets	\$321,659	309,822	284,741	266,835	237,786	236,330	165,809	157,069
Total debt	\$163,182	144,596	147,418	154,273	125,514	125,247	87,207	80,891
Total debt to GBV	47.7%	44.8%	50.0%	56.3%	52.1%	52.3%	52.7%	51.2%
Total GLA (sq. ft)	1,985	1,925	1,703	1,641	1,430	1,428	1,042	984
Leased GLA (sq. ft.)	1,933	1,885	1,687	1,627	1,410	1,407	1,017	960
Leased Area (%GLA)	97.4%	97.3%	99.1%	99.2%	98.6%	98.5%	97.6%	97.5%

¹ Distributable Income, which is not defined within Canadian generally accepted accounting principles, has been calculated in accordance with the terms of the Declaration.

PART VI

Critical Accounting Estimates

The significant accounting policies used in preparing the REIT's 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 the REIT's 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 the mortgage indebtedness of the REIT 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

The REIT is required to write down to fair value any long-life assets that are determined to have been permanently impaired. The REIT's long-life assets consist of rental properties. The REIT's 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, the REIT commissions an appraisal and conducts due-diligence to satisfy itself that the acquisition price is representative of fair market value.

Depreciation

A significant portion of the purchase price of rental properties is allocated to buildings. The depreciation 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 depreciation will not be appropriately recorded.

PART VII

Related Party Transactions

At the time of its IPO, the REIT entered into an agreement (“Property Management Agreement”) with the Developer, a company controlled by the President and CEO of the REIT. The Executive Vice President of the REIT owns a significant interest in the Developer.

Pursuant to the Property Management Agreement, the Developer was responsible for the overall management and operations of the REIT’s rental properties, all aspects of the leasing of the rental properties owned by the REIT and the provision of fully equipped office and support staff. The initial term of the Property Management Agreement was five years to February 19, 2008, and renewable by the REIT for successive two year terms.

The REIT completed the Property Management Acquisition on July 4, 2005, with an effective date of July 1, 2005. Immediately prior to the effective date of the Property Management Acquisition, the Developer ceased to provide services to the REIT under the Property Management Agreement.

Set out below are the fees paid by the REIT to the Developer in connection with the provision of services under the Property Management Agreement for the period ended June 30, 2005, the day prior to the effective date of the closing of the Property Management Acquisition.

(in thousands)	Recoverable Operating Expenses	Trust Expenses	Deferred Expenses	Rental Properties	Commit- ments	Total
Management fee	\$ 895	\$ -	\$ -	\$ -	\$ -	\$ 895
Maintenance	510	-	-	-	-	510
On-site personnel	153	-	-	-	-	153
Disbursements	13	3	-	-	-	16
Leasing fees	-	-	72	-	55	127
Project management fees	-	-	-	10	-	10
Office and support staff	-	30	-	-	-	30
	\$1,571	\$33	\$72	\$10	\$55	\$1,741

At the time of the REIT’s IPO, a subsidiary of the Developer leased 29,102 square feet of office space from the REIT pursuant to a lease expiring on September 30, 2010. Effective July 1, 2005, the REIT entered into a direct lease of this space with Loblaws Properties Limited for a term ending October 31, 2010, on the condition that the original indemnity of the Developer protecting the REIT from any revenue shortfall (on a cash basis) from the original lease remain in full force and effect.

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 REIT's portfolio is focused on a particular asset class in the two largest metropolitan real estate markets in Canada. This concentration enables management to capitalize on certain economies of scale and competitive advantages that would not otherwise be available.

Financing and Interest Rate Risk

The REIT is 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 the success of the REIT. In order to minimize risk associated with debt financing, the REIT will attempt to re-finance maturing loans with long-term fixed-rate debt and to stagger the maturities over time.

Interest rates on the REIT's mortgage debt are between 4.94% and 8.10% with a weighted average interest rate of 6.24%. The weighted average term of the REIT's mortgage debt is 6.54 years. As at September 30, 2005, the borrowings under the REIT's credit facilities were \$1,772.

Credit Risk

The REIT is subject to credit risk. Credit risk arises from the possibility that tenants may not be able to fulfill their lease obligations. The REIT will strive to mitigate this risk by maintaining a diversified tenant-mix and limiting exposure to any single tenant. As at September 30, 2005, there were 256 tenants in the REIT's portfolio.

The following sets out the REIT's tenant-mix on the basis of percentage of rental revenue for the nine-month period ended September 30, 2005, and the year ended December 31, 2004.

Category	% of Rental Revenue Period	% of Rental Revenue 2004
Service and professional	37	39
Retail (head office and storefront)	20	22
Telecommunications and information technology	11	16
Media and film	11	13
Financial services	11	4
Government	3	3
Other	7	3

The following sets out the percentage of rental revenue from the REIT's top-10 tenants by rental revenue for the nine-month period ended September 30, 2005, and the year ended December 31, 2004.

Tenant	% of Rental Revenue Period	% of Rental Revenue 2004
Desjardins	8.2	0.9
Cossette Communications	6.3	9.1
MTS Allstream	4.3	5.3
Publicis Toronto	3.4	3.1
St. Joseph Media	3.3	2.6
Algorithmics	2.8	3.2
Nelvana	2.5	1.9
Indigo Books & Music	2.5	4.3
Blast Radius	2.4	3.4
Redwood Communications	2.3	2.4

Lease Roll-Over Risk

The REIT is subject to lease roll-over risk. Lease roll-over risk arises from the possibility that the REIT may experience difficulty renewing or replacing tenants occupying space covered by leases that mature.

The REIT strives to stagger its lease maturity schedule so that it is not faced with a disproportionately large level of lease maturity in a given year.

97.4% of the GLA in the REIT's portfolio was leased as at September 30, 2005. The following sets out the total GLA of the leases that have matured or mature during the period from January 1, 2005, to December 31, 2009, assuming tenants do not exercise renewal options, and the percentage of total GLA represented by the expiring leases.

Year Ended	Square Feet	% of Total GLA
December 31, 2005	207,584	10.5
December 31, 2006	194,633	9.8
December 31, 2007	255,978	12.9
December 31, 2008	122,919	6.2
December 31, 2009	299,911	15.1

Leases representing 63% of the GLA that matured or matures in 2005 have been renewed or replaced. Leases representing 22% of the GLA that matures in 2006 have been renewed. Leases representing 2% of the GLA that matures in 2007 have been renewed.

The weighted average term to maturity of the REIT's leases is 5.2 years.

Environmental Risk

As an owner of real property, the REIT is subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that the REIT 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 the REIT's ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims against the REIT. The REIT is not aware of any material non-compliance with environmental laws at any of the properties in its portfolio. The REIT is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the properties in its portfolio or any pending or threatened claims relating to environmental conditions at the properties in its portfolio.

PART IX

Subsequent Events

On October 7, 2005, the REIT completed an upward refinancing of the first mortgage on 134 Peter Street, Toronto, to a principal amount of \$6,500, affording the REIT approximately \$3,500 in upward refinancing proceeds. The new first mortgage has a term of 10 years and bears interest at the annual rate of 5.1%.

On October 11, 2005, the REIT acquired 67 Richmond Street West, Toronto, for \$9,500. The property was free and clear on closing.

On October 27, 2005, the REIT placed a first mortgage on 602-606 King Street West, Toronto, in the principal amount of \$8,000 for a term of 10 years at an annual interest rate of 5.16%.

On October 28, 2005, the REIT placed a first mortgage on 67 Richmond Street West, Toronto, in the principal amount of \$6,650 for a term of 10 years at an annual interest rate of 5.19%.

On November 1, 2005, the REIT acquired a 285,434 square foot, Class I office portfolio in Toronto for \$56,000 and completed a concurrent issuance of 1.3 million voting units at \$15.50 per unit pursuant to a public offering (the "Offering"), resulting in gross proceeds of \$20,150.