



**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST**

**CANADA'S LEADING PROVIDER OF CLASS I OFFICE SPACE**

**QUARTERLY REPORT, SEPTEMBER 30, 2009**

**NOVEMBER 10, 2009**

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## LETTER TO UNITHOLDERS

### Fellow Unitholders of Allied Properties REIT

It's too early to say with confidence, but the third quarter may prove to have been a turning point for the Canadian commercial real estate sector. What started out earlier in the year as stabilization of the equity capital markets turned into outright acceleration over the course of the Summer. Canadian REITs responded zealously, raising over \$1.3 billion in equity and equity-related capital by the end of September. In my opinion, this bodes very well for the overall health of the real estate market. Not surprisingly, trading in commercial real estate is beginning to accelerate and net-asset-value estimates are beginning to rise.

With the potentially transitional third quarter now behind us, it's worth trying to put the past year into perspective. I see two valuable lessons, even if they're both somewhat obvious.

Lesson one--when it comes to the equity capital markets, confidence is everything. If confidence collapses, fund-flows evaporate and values erode, in both cases with very little regard for the underlying fundamentals. Exactly this happened late last year. The equity capital markets shut down for Canadian REITs (and just about everyone else) and unit prices nosedived, even though the underlying fundamentals for most sectors of the Canadian commercial real estate market were sound. The REITs that performed well through this, and happily most did, shared two attributes. One, they knew how to run their real estate and focussed intently on doing just that. Two, they were liquid. Investors who stuck with these REITs were rewarded for their fortitude, as distributions remained intact and equity values recovered within a reasonable timeframe.

This brings me to lesson two--when comes to real estate, operating capability and liquidity are everything. If a REIT has operating capability, it's likely to buy well and manage well in any operating environment. If it's liquid, it's likely to withstand the inevitable downturns, whatever form they take. In my opinion, this validates the Canadian REIT model in a big way. The emphasis on aligned management and internal liquidity has clearly served Canadian REITs and their unitholders well in the past year...and will continue to do so going forward.

### Operations

Turning to the specifics of our own operations in the third quarter, FFO per unit was in-line with the same quarter last year, while AFFO per unit was up 8.1%. Our FFO and AFFO pay-out ratios for the quarter were 76.6% and 83.2%, respectively.

We finished the third quarter in a strong liquidity position, with a conservative debt ratio of 49.4%. Aside from \$28 million drawn on our \$70 million line of credit, we had no variable rate debt at the end of the quarter. We have no mortgages maturing in the remainder of 2009, \$7 million next year and \$15 million in 2011.

Demand for office space in our target markets continued to be encouraging in the third quarter. We maintained a high level of leased area, finishing the quarter at 96.2%. Earlier in the year, we identified two significant non-renewals in our Toronto portfolio, one for 14,451 square feet at 425-439 King West and the other for 49,994 square feet at 905 King Street West. In the third quarter, we leased the former space for a term of 10 years and 18,929 square feet (38%) of latter space for a term of seven years, each commencing April 1 next year.

We renewed or replaced 88.4% of the leases that matured in the first nine months of 2009, in most cases at rental rates above in-place rents, and we expect renewals to remain strong over the remainder of the year. We also made progress in negotiations involving several large-scale renewals in 2010 and beyond.

We finalized one of those renewals earlier this month when Desjardins agreed to renew its lease of 192,157 square feet at 425 Viger Avenue West in Montreal for a term of five years to December 31, 2017, at net rental rates above in-place rents. At the option of Desjardins, which is exercisable prior to the end of the renewal term, we will construct approximately 50,000 square feet of additional space at the property, taking advantage of surplus land we acquired in 2006 and 2007. Upon occupancy of the additional space, Desjardins will enter into a new lease with us for approximately 242,157 square feet for

a term of 20 years at net rental rates above in-place rents and with escalations every five years. This is a good start in dealing with our large-scale renewals.

## **Acquisitions**

We had no reason to access the equity capital markets in the first half of this year, as our liquidity position was strong and we had no acquisitions to finance. In the latter part of third quarter, an exceptional opportunity came our way, and we were ready when it did. After intense due-diligence, we announced the acquisition of 151 Front Street West in Toronto for \$192 million and the issuance of 7.6 million units at \$16.50 per unit for gross proceeds of just over \$125 million. Both transactions closed in October.

151 Front Street West is a Class I office property with 325,772 square feet of gross leasable area, 56 surface parking spaces and 750,000 square feet of approved intensification potential. With this property, Toronto now represents 56% of our total portfolio area, Montreal 35%, Winnipeg 7% and the Quebec City 3%.

In addition to accommodating people, 151 Front Street West provides specialized facilities for telecommunications, networking and computer equipment. It fits well within our investment and operating focus, much like 905 King Street West in Toronto and portions of Cité Multimédia in Montreal, which have similar capabilities. Because of expected increases in demand for space in the property, we believe we can augment the net operating income over time. We also believe ownership of the property will strengthen the competitive position of our 56 other office properties in Downtown Toronto. Just as the acquisition of underground parking spaces enables us to provide better parking to our tenants, the acquisition of the property will enable us to offer superior computer-location facilities and internet connectivity to our tenants, something that will become another differentiating factor for our Toronto portfolio.

We expect the property to be accretive to our FFO and AFFO per unit, enabling us to continue the ongoing reduction in our FFO and AFFO pay-out ratios. The concurrent offering reduced our debt ratio to approximately 47.8% and enabled us to repay in full the amount drawn on our line of credit at the end of the third quarter.

## **Development**

1500 Notre Dame Avenue in Winnipeg was acquired as part of the Silpit Portfolio in 2006 and became a property under development in 2007. We completed the redevelopment of the property in October of last year, bringing the all-in cost to \$3.9 million. Following the end of the third quarter, the property was appraised at \$5.9 million, which enabled us to arrange \$3.5 million in first mortgage financing for a term of five years at an annual interest rate approximately of 5.85%. The financing is expected to close later this year.

We leased another floor at 47 Fraser Avenue in Toronto in the third quarter, bringing the leased area in that property to 67%, and initiated the lease-up of 47A Fraser with the lease of a floor following the end of the third quarter. Substantial lease-up for these two properties is targeted for mid-2010, at which time they'll become rental properties for accounting purposes.

We also completed the renovation at 544 King Street West in Toronto in the third quarter and initiated the leasing program with a view to achieving lease-up by mid-2010. We expect to achieve a respectable holding return and will revisit our development plans for the property in approximately five years time.

We made a lot of progress on our large-scale intensification project at 134 Peter Street in Toronto. Perhaps most importantly, we announced today the acquisition of 375-381 Queen Street West. Located on the southwest corner of the intersection of Queen and Peter Streets, just north of 134 Peter Street, this Class I property is comprised of 32,557 square feet of gross leasable area and 4,381 square feet of surplus land. We plan to incorporate the surplus land into the intensification project by creating dedicated parking spaces using parking-stacker technology. We also plan to incorporate the building into the project and to create additional office space by building onto and out from it. Although it will be incorporated into the intensification project, 375-381 Queen Street West provides a going-in yield of 7.4% and will be a rental property for accounting purposes for the time being.

We've long believed that the intensification of 134 Peter Street would be a landmark project in Downtown West. With the integration of 375-381 Queen Street West, the project is destined to become one of the best mixed-use, urban developments in the entire city.

## **Outlook**

Our strategy from inception has been to consolidate the ownership and operation of Class I office properties in targeted urban areas of major Canadian cities. We've executed this strategy with a lot of foresight and a lot of discipline. As a result, there's great value in our portfolio. The growing cash flow is only one component of the value. The other arises from multiple value-creation opportunities that we've identified and begun to pursue. Our recent acquisition of 151 Front Street West augments both components of value significantly.

Our strategy will hold us in good stead as we move forward. I'm thinking specifically of the competitive advantages that flow from our market-leading position, low operating costs and highly sought-after building attributes, as well as the stability that flows from our low pay-out ratios, strong balance sheet and limited mortgage maturities. Our management team will continue to work very hard to take advantage of the proven durability of Class I office space, with the result that our portfolio should continue to outperform the market.

\* \* \*

If you have any questions or concerns, please don't hesitate to call me at (416) 977-0643 or e-mail me at [memory@alliedpropertiesreit.com](mailto:memory@alliedpropertiesreit.com).

Yours truly,

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION  
AS AT SEPTEMBER 30, 2009**

**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 nine-month period and quarter ended September 30, 2009. 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 nine-month period and quarter ended September 30, 2009. 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 Quarterly Report 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 Quarterly Report 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 Quarterly Report. 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 Quarterly Report 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 stabilize; 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 Quarterly Report 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 Quarterly Report are qualified by this forward-looking disclaimer. These statements are made as of November 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-Waterloo. 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 2008, we had acquired another 40 office properties in downtown Toronto, 39 of them Class I office properties, bringing our total GLA in that market to nearly three million square feet. We had also acquired 15 predominantly Class I office properties in downtown Montréal, seven in downtown Winnipeg, five in Québec City and one in Kitchener-Waterloo, bringing our total portfolio at the end of 2008 to 81 properties with over 5.5 million square feet of GLA.

We announced the following acquisitions in the first quarter of 2009:

- (i) an undivided 50% interest in 92 underground commercial parking spaces to be constructed as part of the condominium project at 478 King Street West in Toronto, which is adjacent to three of our properties, 468 King Street West, 500-522 King Street West and the King-Brant underground commercial parking structure; and
- (ii) an undivided 75% interest in 71 underground commercial parking spaces to be constructed as part of the condominium project at 650 King Street West in Toronto, which is adjacent to our 662 King Street West and in close proximity to our 602-606 King Street West.

Each acquisition is conditional upon final condominium registration and is expected to close in 2011. We will manage both underground commercial parking structures on behalf of the co-owners, giving us operating control over 163 parking spaces in addition to the 208 parking spaces at our King-Brant underground commercial parking structure and the large number of surface commercial parking spaces adjacent to our many properties in the King & Spadina area.

In the second quarter of 2009, following rectification by the vendor of a minor title issue that was a precondition to closing, we completed the acquisition of 860 Richmond Street West in Toronto, a 24,199 square-foot, Class I office building located on the north side of Richmond Street, just east of Strachan Avenue. The acquisition was the final component of a portfolio acquisition announced and otherwise completed in the second quarter of 2008.

Three Toronto properties (47 and 47A Fraser Avenue, 134 Peter Street and 544 King Street West) 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:

	March, 2004	March, 2005	March, 2006	March, 2007	March, 2008
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 first nine months of 2009, DI per unit (diluted) was \$1.24, down 1.6% from the comparable period in 2008.

#### 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 the first nine months of 2009, we achieved a DI pay-out ratio of 79.8%.

#### 4. Funds From Operations

Unlike DI, Funds From Operations (“FFO”) has a standardized definition. See “Funds From Operations” below. In the first nine months of 2009, FFO per unit (diluted) was \$1.32, up 3.9% from the comparable period in 2008.

#### 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 the first nine months of 2009, we achieved an FFO pay-out ratio of 74.8%.

#### 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 the first nine months of 2009, AFFO per unit (diluted) was \$1.19, up 1.7% from the comparable period in 2008.

#### 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 the first nine months of 2009, we achieved an AFFO pay-out ratio of 82.9%.

#### 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 the first nine months of 2009, our Debt Ratio was 49.4%, down from 49.7% at the end of the comparable period in 2008.

## **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 755,906 square feet of GLA mature in 2009. By the end of the third quarter, we had renewed leases representing 417,585 square feet of this GLA and re-leased another 138,868 square feet of this GLA, representing 73.6% of the GLA covered by the maturing leases.

### **2. Occupancy**

We strive to maintain consistently high levels of occupancy. At the end of the third quarter, our leased area was 96.2% (not including Properties Under Development). The chart below summarizes the year-end levels of GLA and leased area in our portfolio since the end of 2003:

	<b>Dec. 31, 2003</b>	<b>Dec. 31, 2004</b>	<b>Dec. 31, 2005</b>	<b>Dec. 31, 2006</b>	<b>Dec. 31, 2007</b>	<b>Dec. 31, 2008</b>
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 \$56,306 in the first nine months of 2009, the same as the comparable period in 2008.

### **4. Leasing Expenditures**

We monitor leasing expenditures carefully. Leases for 565,361 square feet of GLA commenced in the first nine months of 2009. \$2,858 in leasing expenditures related to this space, representing \$5.05 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 the first nine months of 2009, we incurred \$1,022 in regular maintenance capital expenditures, representing \$0.19 per square foot of our portfolio, in-line with the amount per square foot in the same period in prior years.

## **Summary**

The following table summarizes the key financial and operating performance measures for the nine-month period ended September 30, 2009, and the comparable period, as well as the change between the two.

	9 Months 2009	9 Months 2008	Change	% Change
Period-end distribution level per unit annualized	\$1.32	\$1.32	\$0.00	0.0%
DI per unit (diluted)	\$1.24	\$1.26	(\$0.02)	(1.6%)
DI pay-out ratio	79.8%	77.7%	2.1%	
FFO per unit (diluted)	\$1.32	\$1.27	\$0.05	3.9%
FFO pay-out ratio	74.8%	77.2%	(2.4%)	
AFFO per unit (diluted)	\$1.19	\$1.17	\$0.02	1.7%
AFFO pay-out ratio	82.9%	83.4%	(0.5%)	
Debt Ratio	49.4%	49.7%	(0.3%)	
Renewal/replacement % of leases maturing in year	73.6%	82.5%	(8.9%)	
Period-end leased area (not including PUD)	96.2%	97.3%	(1.1%)	
Same-asset NOI	\$56,306	\$56,321	(\$15)	(0.0%)
Leasing expenditures	\$2,858	\$2,927	(\$69)	(2.4%)
Leasing expenditures per square foot	\$5.05	\$6.13	(\$1.08)	(17.6%)
Maintenance capital expenditures	\$1,022	\$1,025	(\$3)	(0.3%)
Maintenance capital expenditures per portfolio square foot	\$0.19	\$0.20	(\$0.01)	(5.0%)

## 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. At September 30, 2009, the overall vacancy rate for the downtown Toronto office market was 6.0%, with the Downtown East, Downtown West and King West sub-markets finishing the quarter at 8.4%, 7.2% and 13.0%, respectively.<sup>1</sup>

### ***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 feet). Approximately half of the office inventory in this target market falls within the Class I category. At September 30, 2009, the overall vacancy rate for the downtown Montréal office market was 8.1%, with the Downtown East and Old Montréal sub-markets finishing the quarter at 2.9% and 8.9%, 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 has remained strong despite the economic slowdown. The ongoing economic expansion together with little anticipated new office inventory suggest that the office leasing market in Winnipeg will

<sup>1</sup> Cushman & Wakefield, *Third Quarter 2009 Statistical Summary, Toronto Office Market*.

<sup>2</sup> Cushman & Wakefield, *Third Quarter 2009 Statistical Summary, Montréal Office Market*.

continue to be strong throughout 2009 and into 2010. At September 30, 2009, the overall vacancy rate was 6.5%.<sup>3</sup>

#### ***Downtown Québec City***

This target market includes 1.5 million square feet of office inventory in the Saint-Roch office node. Most of the office inventory in this target market falls within the Class I category. At September 30, 2009, the downtown Québec City vacancy rate was 4.6%.<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. At September 30, 2009, the overall vacancy rate in the downtown Kitchener office market was 11.2%.<sup>5</sup>

#### ***Outlook***

We have observed a moderate slowdown in demand for office space in our Toronto and Montréal target markets over the last 12 months. Despite this, we achieved good leasing results in the first nine months 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.

New supply of Class A office space is being created in the downtown Toronto market. 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. 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 this year and next.

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<sup>3</sup> Cushman & Wakefield, *Third Quarter 2009 Statistical Summary, National Office Market*.

<sup>4</sup> Avison Young, *National Office Market Report, Third Quarter 2009*.

<sup>5</sup> Colliers International, *Third Quarter 2009*.

**PART II**

**Summary Information and Performance for the Nine-Month Period Ended September 30, 2009**

The following sets out summary information and financial results for the nine-month period ended September 30, 2009, and the comparable period and the change between the two.

(In thousands except for per unit and % amounts)	9 Months 2009	9 Months 2008	Change	%Change
Revenue from rental properties	108,558	96,606	11,952	12.4%
Rental property operating cost	43,673	38,055	5,618	14.8%
Net rental income	64,885	58,551	6,334	10.8%
Real estate service income	205	254	(49)	(19.3%)
Financing expense				
Interest	20,481	18,924	1,557	8.2%
Amortization - Mortgage premium	(18)	(159)	141	(88.7%)
Amortization – Deferred financing cost	473	383	90	23.5%
Amortization				
Rental properties	13,260	11,851	1,409	11.9%
Deferred leasing cost and tenant improvements	2,667	1,725	942	54.6%
Origination cost and acquired tenant relationships	13,795	14,003	(208)	(1.5%)
Acquired contracts and customer relationships	72	72	-	0.0%
Computer and office equipment	218	190	28	14.7%
Income from operations	14,142	11,816	2,326	19.7%
Trust expense	2,527	2,600	(73)	(2.8%)
Net income	11,615	9,216	2,399	26.0%
Amortization				
Rental properties	13,260	11,851	1,409	11.9%
Mortgage premium	(18)	(159)	141	(88.7%)
Acquired leases	4,864	4,748	116	2.4%
M-T-M acquired leases	129	1,865	(1,736)	(93.1%)
Acquired tenant relationships	8,931	9,255	(324)	(3.5%)
Acquired contracts and customer relationships	72	72	-	0.0%
Step-rent adjustments	(283)	(651)	368	(56.5%)
Compensation expenses, LTIP and stock options	167	366	(199)	(54.4%)
DI	38,737	36,563	2,174	5.9%
Weighted average units outstanding (basic)	30,958	28,683	2,275	7.9%
Weighted average units outstanding (diluted)	31,362	29,072	2,290	7.9%
Distributions	30,924	28,412	2,512	8.8%
DI per unit (basic)	\$1.25	\$1.27	(\$0.02)	(1.6%)
DI per unit (diluted)	\$1.24	\$1.26	(\$0.02)	(1.6%)
DI pay-out ratio	79.8%	77.7%	2.1%	
FFO	41,337	36,795	4,542	12.3%
FFO per unit (basic)	\$1.34	\$1.28	\$0.06	4.7%
FFO per unit (diluted)	\$1.32	\$1.27	\$0.05	3.9%
FFO pay-out ratio	74.8%	77.2%	(2.4%)	
AFFO	37,303	34,057	3,246	9.5%
AFFO per unit (basic)	\$1.21	\$1.19	\$0.02	1.7%
AFFO per unit (diluted)	\$1.19	\$1.17	\$0.02	1.7%
AFFO pay-out ratio	82.9%	83.4%	(0.5%)	
NOI	64,731	59,765	4,966	8.3%
Same-asset net operating income	56,306	56,321	(15)	0.0%
Total assets	\$937,342	\$956,344	(\$19,002)	(2.0%)
Total debt (excludes premium on assumed debt)	\$533,348	\$527,879	\$5,469	1.0%
Debt Ratio	49.4%	49.7%	(0.3%)	
Total GLA (s.f., excluding PUD)	5,452	5,236	216	4.1%
Leased GLA (s.f., excluding PUD)	5,247	5,095	152	3.0%
Leased GLA (% total GLA)	96.2%	97.3%	(1.1%)	

### **Net Income**

Net income for the nine-month period ended September 30, 2009, was \$11,615, as compared to \$9,216 in the nine-month period ended September 30, 2008. Net income per unit (diluted) for the period was \$0.37, as compared to \$0.32 in the comparable period.

DI for the nine-month period ended September 30, 2009, increased by 5.9% to \$38,737 from \$36,563 for the nine-month period ended September 30, 2008. DI per unit (diluted) for the period was \$1.24, as compared to \$1.26 in the comparable period.

### **Net Rental Income**

Net rental income for the nine-month period ended September 30, 2009, increased by 10.8% to \$64,885 from \$58,551 in the nine-month period ended September 30, 2008, as follows: (i) \$47 decrease in same-asset net rental income from properties owned for the entire period and the entire comparable period (which includes the period-over-period change in step-rent adjustments and mark-to-market rent adjustments); and (ii) \$6,381 due to net rental income from properties not owned for the entire period and the entire comparable period.

Net rental income per occupied square foot for the nine-month period ended September 30, 2009, was \$16.49 annualized, as compared to \$15.02 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 nine-month period ended September 30, 2009, was \$205, as compared to \$254 in the nine-month period ended September 30, 2008.

### **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. For the nine-month period ended September 30, 2009, interest increased by 8.2% to \$20,481 from \$18,924 in the nine-month period ended September 30, 2008, due to the increase in financing expense associated with additional properties acquired in 2008 and 2009.

### **Amortization**

We record amortization on our buildings on a straight-line basis over their expected life. Amortization recorded on buildings for the nine-month period ended September 30, 2009, increased by 11.9% to \$13,260 from \$11,851 in the nine-month period ended September 30, 2008.

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 nine-month period ended September 30, 2009, decreased by 2.8% to \$2,527 from \$2,600 in the nine-month period ended September 30, 2008.

### **Leasing Activity**

Leasing activity as at September 30, 2009, is summarized in the following table:

	GLA	Leased by September 30	% Leased by September 30	Unleased on September 30*
Vacancy on January 1, 2009*	151,432	59,971	39.6%	91,461
Maturities in First 9 Months 2009	569,713	503,596	88.4%	66,117
Arranged Vacancies in 2009	38,354	12,586	32.8%	25,768
Vacancies from PUD in 2009	22,446	-	-	22,446
Maturities in remainder of 2009	186,193	52,857	28.4%	n/a
Total	968,138	629,010	65.0%	205,792

\*not including Properties Under Development

151,432 square feet of GLA was vacant at the beginning of 2009. By September 30, 2009, we leased 59,971 square feet of this GLA, leaving 91,461 square feet vacant at the end of the period.

Leases for 569,713 square feet of GLA matured in the first nine months of 2009. By the end of that period, we renewed or replaced leases for 503,596 square feet of this GLA, leaving 66,117 square feet vacant at the end of the period.

With respect to the maturing leases renewed or replaced in the first nine months of 2009 (503,596 square feet of GLA), we achieved rental rates (i) above in-place rental rates with respect to 72% of this GLA, (ii) equal to in-place rental rates with respect to 21% of this GLA and below in-place rates with respect to 7% of this GLA.

Of the 186,193 square feet of GLA maturing in the fourth quarter of 2009, we renewed or replaced 52,857 square feet by September 30, 2009.

We added 22,446 square feet of vacancy in the first nine months of 2009 by transitioning 96 Spadina in Toronto from a property under development to a rental property for accounting purposes. We also gained access in the nine-month-period ended September 30, 2009, to 38,354 square feet of GLA for repositioning and leased 12,586 square feet of this space, leaving 25,768 square feet vacant by the end of the period.

We monitor the level of sub-lease space in our portfolio. We are aware of 77,849 square feet being offered for sub-lease in our Toronto portfolio and 57,225 square feet in our Montréal portfolio. This level of sub-lease space is consistent with past experience and does not represent an operating or leasing challenge to us, especially in light of the fact that almost all of the sub-lease space in question has limited remaining term. In our experience, prospective sub-tenants of such space will strive to enter into a direct leasing relationship with us and thereby obtain extended term. This tends to put us in a very good bargaining position opposite both the head-tenant and the sub-tenant.

In the first quarter, we

- (i) leased 24,176 square feet at 96 Spadina Avenue in Toronto to Omnicom for a term of ten years commencing May 1, 2009, on favourable financial terms,
- (ii) initiated the lease-up program at 47 Fraser Avenue in Toronto, a property under development, and the reconfiguration and lease-up of the second floor at 425 Adelaide Street West in Toronto, in each case with a solid lease transaction appropriate to the property commencing April 1, 2009, and
- (iii) completed the early renewal of a lease of 35,790 square feet at Cité Multimédia in Montréal with Sid Lee, a leading Montréal-based ad agency, for a term of 7 years commencing August 1, 2011, at rental rates equal to in-place rents.

In the second quarter, we

- (i) entered into a short-term lease arrangement with respect to 3,397 square feet of storefront retail space at 425-439 King Street West in Toronto,
- (ii) leased 14,102 square feet of storefront retail space at 522 King West in Toronto to Alimento, a high-end food store, for a term of 15 years commencing December 1, 2009, at rental rates equal to and rising above prior in-place rents over the term,
- (iii) renewed a lease of 25,051 square feet at Cité Multimédia with Telus for a term of three years commencing February 1, 2010, at rental rates equal to in-place rents and
- (iv) completed the early replacement of a lease of 29,246 square feet at 469 King Street West in Toronto for a term commencing in part on January 1, 2010, and in part on April 1, 2010, and expiring on February 28, 2018, at rental rates above in-place rents.

In the third quarter, we

- (i) leased 14,451 square feet at 425-439 King West in Toronto to Transgaming, a computer game developer, for a term of 10 years commencing April 1, 2010, at rental rates below in-place rents,

- (ii) leased 18,929 square feet at 905 King Street West in Toronto to Intelix Technologies, a software developer, for a term of seven years commencing April 1, 2010, at rental rates below in-place rents for the first five years of the term and above in-place rents for the last two years of the term,
- (iii) leased 7,415 square feet at Dominion Square in Toronto to an existing tenant, Vistek, at rental rates above in-place rents and
- (iv) leased 3,625 square feet at 47 Fraser Avenue in Toronto to Extreme Communications, a marketing firm, for a term of four years and three months commencing January 1, 2010.

We also made progress in negotiations involving several large-scale renewals in 2010 and beyond. We finalized one of these renewals earlier in November when Desjardins agreed to renew its lease of 192,157 square feet at 425 Viger Avenue West in Montreal for a term of five years to December 31, 2017, at net rental rates above in-place rents. At the option of Desjardins, which is exercisable prior to the end of the renewal term, we will construct approximately 50,000 square feet of additional space at the property, taking advantage of surplus land we acquired in 2006 and 2007. Upon occupancy of the additional space, Desjardins will enter into a new lease with us for approximately 242,157 square feet for a term of 20 years at net rental rates above in-place rents and with escalations every five years. This is a good start in dealing with our large-scale renewals.

### **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 nine-month period ended September 30, 2009, we incurred (i) \$1,022 in regular maintenance capital expenditures (\$0.19 per portfolio square foot) and (ii) \$2,858 in leasing expenditures (\$5.05 per leased square foot) in connection with new leases or lease-renewals that commenced in the period. In addition, we incurred \$2,871 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.

\$455 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 7.67% of the associated development costs.

### **Properties Under Development**

#### 1. Completed

Our completed developments are summarized in the following table:

<b>Completed PUDs</b>	<b>GLA</b>	<b>Complete</b>	<b>Total Cost</b>	<b>FMV</b>	<b>Value Add</b>	<b>Debt</b>	<b>Equity</b>	<b>ROE</b>
<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%
1500 Notre Dame, Winnipeg	111,400	1-Oct-08	3,920	5,920	2,000	3,500	420	71%
<b>Completed**</b>								
96 Spadina, Toronto	91,092	1-May-09	23,000	26,500	3,500	15,000	8,000	11%
QRC South, Toronto	44,600	1-Apr-07	6,750	10,000	3,250	6,000	750	60%
<b>Completed PUDs</b>	<b>303,610</b>		<b>43,740</b>	<b>56,560</b>	<b>12,820</b>	<b>33,330</b>	<b>10,410</b>	

\*Debt financing is in place or arranged. 145 Berkeley was appraised in February of 2007, 257 Adelaide West in June of 2008 and 1500 Notre Dame in October of 2009.

\*\*Estimated debt financing. FMV is Management's estimate based on projected NOI.

1500 Notre Dame Avenue in Winnipeg was acquired as part of the Silpit Portfolio in 2006 and became a property under development in 2007. We completed the redevelopment of the property in October of last year, bringing the all-in cost to \$3,900. Following the end of the third quarter, the property was appraised at \$5,900, which enabled us to arrange \$3,500 in first mortgage financing for a term of five years at an annual interest rate of approximately 5.85%. The financing is expected to close later in 2009.

There can be no assurance with respect to any of the estimates set out in the table above. The projects referred to in the table were relatively 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:

<b>PUDs in Progress</b>	<b>Estimated GLA</b>
47 and 47A Fraser, Toronto	30,000
4450 Saint-Laurent, Montréal*	22,000
544 King West, Toronto*	135,000
134 Peter, Toronto*	300,000
<b>Total</b>	<b>487,000</b>

\*Conditional on satisfactory pre-leasing

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. We leased 3,625 square feet in 47 Fraser Avenue in the third quarter, bringing the leased area to 67%, and initiated the lease-up of 47A Fraser Avenue with the lease of 3,394 square feet following the end of the third quarter, bringing the leased area to 18%. Substantial lease-up for these two properties is targeted for mid-2010, at which time they'll become rental properties for accounting purposes.

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 initial plan was 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. Although we obtained the necessary zoning variances for our initial plan earlier this year, we decided to defer full-scale development for a period of time and to redevelop the existing building fronting on King for office and ancillary retail use. Because 495 and 499 King West will be available to us for large-scale intensification as early as 2012, we will lease the redeveloped building for a term of five or more years, which we believe will afford us a respectable holding return. We have now completed the renovation and initiated the leasing program with a view to achieving lease-up by mid-2010.

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 achieving a level of pre-leasing satisfactory to Management and the Trustees. Having obtained the necessary zoning variances and preliminary confirmation that the project will be well received by prospective tenants with large requirements, we've decided to initiate the site-plan approval process and formally launch the pre-leasing effort early next year.

On November 10, 2009, we announced the acquisition of 375-381 Queen Street West. Located on the southwest corner of the intersection of Queen and Peter Streets, just north of 134 Peter Street, this Class I property is comprised of 32,557 square feet of gross leasable area and 4,381 square feet of surplus land. We plan to incorporate the surplus land into the project by creating dedicated parking spaces for 134 Peter Street using parking-stacker technology. We also plan to incorporate the building into the project and to create additional office space by building onto and out from the building. Although it will be incorporated into the intensification project, 375-381 Queen Street West provides a going-in yield of 7.4% and will be a rental property for accounting purposes for the time being.

By incorporating 375-381 Queen Street West, the intensification of 134 Peter Street will now extend along Peter Street from Queen to Richmond Streets. For this reason, we've decided to refer to the expanded project as Queen Richmond Centre West or QRC West. Not only is this name descriptive, it builds on the fact that we own QRC, one of the very best Class I office complexes in Downtown East, as well as the

neighbouring QRC South. We plan to launch the pre-leasing of QRC West in January of next year. We expect that 12 to 18 months will be required to secure an appropriate anchor tenant.

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 September 30, 2009, the cost of our Properties Under Development was \$24,514, which was equivalent to 2.3% of our GBV.

### **Intensification**

The buildings on most of our 57 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 higher returns on equity. The combined land area of our Toronto properties is approximately 1,050,000 square feet or 24 acres. We have evaluated the Toronto portfolio on a property-by-property basis and have estimated that it is practically possible to create between 1.25 million and 1.75 square feet of additional GLA in the near term, market conditions permitting. 134 Peter Street is a very good example of the intensification that is possible within our existing portfolio, as is our recently acquired 151 Front Street West in Toronto.

### **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)	9 Months ended September 30, 2009	9 Months ended September 30, 2008
Cash flow from operations	\$37,556	\$36,836
Amortization of deferred leasing cost, tenant improvements	(2,667)	(1,725)
Amortization of deferred financing cost	(473)	(383)
Amortization of computer and office equipment	(218)	(184)
Change in non-cash operating items	4,539	2,019
<b>DI</b>	<b>\$38,737</b>	<b>\$36,563</b>

Distributions for the nine-month period ended September 30, 2009, were \$30,924, representing a DI pay-out ratio of 79.8%, as compared to distributions for the nine-month period ended September 30, 2008, of \$28,412, representing a DI pay-out ratio of 77.7%.

### 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)	9 Months ended September 30, 2009	9 Months ended September 30, 2008
Net income	\$11,615	\$9,216
Amortization on rental properties	13,260	11,851
Amortization of deferred leasing cost and tenant improvements	2,667	1,725
Amortization of origination cost and acquired tenant relationships	13,795	14,003
<b>FFO</b>	<b>\$41,337</b>	<b>\$36,795</b>

Distributions for the nine-month period ended September 30, 2009, represented an FFO pay-out ratio of 74.8%, as compared to distributions for the nine-month period ended September 30, 2008, which represented an FFO pay-out ratio of 77.2%.

### 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)	9 Months ended September 30, 2009	9 Months ended September 30, 2008
FFO	\$41,337	\$36,795
Step-rent adjustments	(283)	(651)
M-T-M acquired leases	129	1,865
Leasing expenditures	(2,858)	(2,927)
Maintenance capital expenditures	(1,022)	(1,025)
<b>AFFO</b>	<b>\$37,303</b>	<b>\$34,057</b>

Distributions for the nine-month period ended September 30, 2009, represented an AFFO pay-out ratio of 82.9%, as compared to distributions for the nine-month period ended September 30, 2008, which represented an AFFO pay-out ratio of 83.4%.

### 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)	9 Months ended September 30, 2009	9 Months ended September 30, 2008
Revenue from rental properties	\$108,558	\$96,606
Rental property operating cost	43,673	38,055
Net rental income	64,885	58,551
M-T-M acquired leases	129	1,865
Step-rent adjustments	(283)	(651)
<b>NOI</b>	<b>\$64,731</b>	<b>\$59,765</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 September 30, 2009, we had mortgage debt of \$504,954, bank indebtedness of \$28,394 and unitholders' equity of \$368,819.

#### **Unitholders' Equity**

As at September 30, 2009, we had a market capitalization of approximately \$518,982 based on a closing unit price of \$16.53 on the Toronto Stock Exchange. As at September 30, 2008, we had a market capitalization of approximately \$576,936 based on a closing unit price of \$18.54 on the Toronto Stock Exchange.

In the nine-month period ended September 30, 2009, we issued a total of 160,725 units for equity contributions of \$2,052. Costs incurred to issue the units were \$8. These units were issued under our distribution re-investment plan at an average price of \$12.77 per unit. As at November 10, 2009, we had 39,008,203 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 November 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 September 30, 2009, consisted of mortgage debt of \$504,954. The following sets out the maturity schedule of our mortgage debt and the weighted average interest rate on the maturing mortgages.

(In thousands)	Periodic Principal Payments	Balance Due at Maturity	Total Principal	% of Total Principal	WA Interest Rate
2009	3,394	-	3,394	0.7%	n/a
2010	13,709	7,039	20,748	4.1%	5.0%
2011	14,223	14,868	29,091	5.8%	6.2%
2012	14,051	36,805	50,856	10.1%	5.9%
2013	14,277	21,997	36,274	7.2%	6.0%
Thereafter	21,964	342,627	364,591	72.2%	5.4%
<b>Total</b>	<b>81,618</b>	<b>423,336</b>	<b>504,954</b>	<b>100.0%</b>	

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

(In thousands)	<b>Direct Mortgage Lender</b>	<b>Conduit Mortgage Lender</b>
2009	-	-
2010	7,039	-
2011	9,714	5,154
2012	24,488	12,317
2013	21,997	-
Thereafter	257,529	85,098
<b>Total</b>	<b>320,767</b>	<b>102,569</b>

Interest rates on the mortgage debt are between 2.91% and 8.10% with a weighted average interest rate of 5.55%. The weighted average term of the mortgage debt is 5.3 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 our 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 September 30, 2009, 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 nine-month period ended September 30, 2009, the average borrowings under the Facility were \$18,332. As at September 30, 2009, the borrowings under the Facility were \$28,394.

#### **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 \$285,000.

As at September 30, 2009, we had future commitments as set out below.

(In thousands)	<b>September 30, 2009</b>
Leasing commissions	\$967
Tenant improvements	494
Building renovations and maintenance capital expenditures	2,298
Revenue-enhancing capital and leasing expenditure	478
Expenses	198
<b>Total</b>	<b>\$4,435</b>

**PART IV**

**Summary Information and Performance for the Quarter Ended September 30, 2009**

The following sets out summary information and financial results for the quarter ended September 30, 2009, and the comparable quarter and the change between the two.

(In thousands except for per unit and % amounts)	Q3 2009	Q3 2008	Change	%Change
Revenue from rental properties	35,851	33,795	2,056	6.1%
Rental property operating cost	14,517	12,776	1,741	13.6%
Net rental income	21,334	21,019	315	1.5%
Real estate service income	70	95	(25)	(26.3%)
Financing expense				
Interest	6,898	6,680	218	3.3%
Amortization - Mortgage premium	(4)	(76)	72	(94.7%)
Amortization – Deferred financing cost	152	141	11	7.8%
Amortization				
Rental properties	4,462	4,221	241	5.7%
Deferred leasing cost and tenant improvements	844	589	255	43.3%
Origination cost and acquired tenant relationships	4,385	4,929	(544)	(11.0%)
Acquired contracts and customer relationships	24	24	-	0.0%
Computer and office equipment	80	68	12	17.6%
Income from operations	4,563	4,538	25	0.6%
Trust expense	774	828	(54)	(6.5%)
Net income	3,789	3,710	79	2.1%
Amortization				
Rental properties	4,462	4,221	241	5.7%
Mortgage premium	(4)	(76)	72	(94.7%)
Acquired leases	1,539	1,647	(108)	(6.6%)
M-T-M acquired leases	263	265	(2)	(0.8%)
Acquired tenant relationships	2,846	3,282	(436)	(13.3%)
Acquired contracts and customer relationships	24	24	-	0.0%
Step-rent adjustments	123	(244)	367	(150.4%)
Compensation expenses, LTIP and stock options	56	122	(66)	(54.1%)
DI	13,098	12,951	147	1.1%
Weighted average units outstanding (basic)	30,993	30,654	339	1.1%
Weighted average units outstanding (diluted)	31,411	31,042	369	1.2%
Distributions	10,320	10,218	102	1.0%
DI per unit (basic)	\$0.42	\$0.42	\$0.00	0.0%
DI per unit (diluted)	\$0.42	\$0.42	\$0.00	0.0%
DI pay-out ratio	78.8%	78.9%	(0.1%)	
FFO	13,480	13,449	31	0.2%
FFO per unit (basic)	\$0.43	\$0.44	(\$0.01)	(2.3%)
FFO per unit (diluted)	\$0.43	\$0.43	\$0.00	0.0%
FFO pay-out ratio	76.6%	76.0%	0.6%	
AFFO	12,401	11,600	801	6.9%
AFFO per unit (basic)	\$0.40	\$0.38	\$0.02	5.3%
AFFO per unit (diluted)	\$0.40	\$0.37	\$0.03	8.1%
AFFO pay-out ratio	83.2%	88.1%	(4.9%)	
NOI	21,720	21,040	680	3.2%
Same-asset net operating income	20,489	20,377	112	0.5%
Total assets	\$937,342	\$956,344	(\$19,002)	(2.0%)
Total debt (excludes premium on assumed debt)	\$533,348	\$527,879	\$5,469	1.0%
Debt Ratio	49.4%	49.7%	(0.3%)	
Total GLA (s.f., excluding PUD)	5,452	5,236	216	4.1%
Leased GLA (s.f., excluding PUD)	5,247	5,095	152	3.0%
Leased GLA (% total GLA)	96.2%	97.3%	(1.1%)	

**Net Income**

Net income for the quarter ended September 30, 2009, was \$3,789, as compared to \$3,710 in the quarter ended September 30, 2008. Net income per unit (diluted) for the quarter was \$0.12, as compared to \$0.12 in the comparable quarter.

DI for the quarter ended September 30, 2009, increased by 1.1% to \$13,098 from \$12,951 for the quarter ended September 30, 2008. DI per unit (diluted) for the quarter was \$0.42, as compared to \$0.42 in the comparable quarter.

**Net Rental Income**

Net rental income for the quarter ended September 30, 2009, increased by 1.5% to \$21,334 from \$21,019 in the quarter ended September 30, 2008 as follows: (i) \$397 decrease in same-asset net rental income from properties owned for the entire quarter and the entire comparable quarter (which includes the quarter-over-quarter change in step-rent adjustments and mark-to-market rent adjustments); and (ii) \$712 due to net rental income from properties not owned for the entire quarter and the entire comparable quarter.

Net rental income per occupied square foot for the quarter ended September 30, 2009, was \$16.26 annualized, as compared to \$16.50 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 quarter ended September 30, 2009, was \$70, as compared to \$95 in the quarter ended September 30, 2008.

**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. For the quarter ended September 30, 2009, interest increased by 4.5% to \$7,046 from \$6,745 in the quarter ended September 30, 2008, due to the increase in financing expense associated with additional properties acquired in 2008 and 2009.

**Amortization**

We record amortization on our buildings on a straight-line basis over their expected life. Amortization recorded on buildings for the quarter ended September 30, 2009, increased by 5.7% to \$4,462 from \$4,221 in the quarter ended September 30, 2008.

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 ended September 30, 2009, decreased by a 6.5% to \$774 from \$828 in the quarter ended September 30, 2008.

**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)	<b>Q3 2009</b>	<b>Q2 2009</b>	<b>Q1 2009</b>	<b>Q4 2008</b>	<b>Q3 2008</b>	<b>Q2 2008</b>	<b>Q1 2008</b>	<b>Q4 2007</b>
Revenue from rental properties	35,851	35,732	36,975	35,202	33,795	30,961	31,850	30,310
Rental property operating cost	14,517	13,912	15,244	14,332	12,776	12,169	13,110	12,369
Net rental income	21,334	21,820	21,731	20,870	21,019	18,792	18,740	17,941
Real estate service income	70	70	65	73	95	88	71	69
Financing expense	6,898	6,884	6,855	7,018	6,745	6,422	5,981	6,523
Amortization		10,073	10,144	9,723	9,831	9,041	8,969	9,613
Income from operations	4,563	4,782	4,797	4,202	4,538	3,417	3,861	1,874
Trust expense	774	832	921	906	828	856	916	899
Net income (loss)	3,789	3,950	3,876	3,296	3,710	2,561	2,945	975
Amortization								
Rental properties	4,462	4,417	4,381	4,284	4,221	3,853	3,777	3,677
Mortgage premium	(4)	(6)	(8)	(5)	(76)	(23)	(60)	(63)
Acquired leases	1,539	1,739	1,586	1,644	1,647	1,565	1,536	1,740
M-T-M acquired leases	263	(252)	118	195	265	817	783	1,088
Acquired tenant relationships	2,846	3,067	3,018	3,110	3,282	2,929	3,044	3,673
Acquired contracts and customer relationships	24	24	24	24	24	24	24	24
Step-rent adjustments	123	(191)	(215)	(341)	(244)	(155)	(252)	(525)
LTIP and Unit Option Plan expense	56	55	56	123	122	122	122	36
DI	13,098	12,803	12,836	12,330	12,951	11,693	11,919	10,626
Weighted average units (basic)	30,993	30,966	30,914	30,796	30,654	27,757	27,616	24,722
Weighted average units (diluted)	31,411	31,370	31,302	31,184	31,042	28,145	28,007	25,132
Distributions	10,320	10,308	10,296	10,255	10,218	9,249	8,945	7,866
DI per unit (basic)	\$0.42	\$0.41	\$0.42	\$0.40	\$0.42	\$0.42	\$0.43	\$0.43
DI per unit (diluted)	\$0.42	\$0.41	\$0.41	\$0.40	\$0.42	\$0.42	\$0.43	\$0.42
DI pay-out ratio	78.8%	80.5%	80.2%	83.2%	78.9%	79.1%	75.0%	74.0%
FFO	13,480	13,928	13,929	13,023	13,449	11,512	11,834	10,551
FFO per unit (basic)	\$0.43	\$0.45	\$0.45	\$0.42	\$0.44	\$0.42	\$0.43	\$0.43
FFO per unit (diluted)	\$0.43	\$0.44	\$0.44	\$0.42	\$0.43	\$0.41	\$0.42	\$0.42
FFO pay-out ratio	76.6%	74.0%	73.9%	78.7%	76.0%	80.3%	75.6%	74.6%
AFFO	12,401	12,632	12,270	10,603	11,600	10,759	11,698	9,383
AFFO per unit (basic)	\$0.40	\$0.41	\$0.40	\$0.34	\$0.38	\$0.39	\$0.42	\$0.38
AFFO per unit (diluted)	\$0.40	\$0.40	\$0.39	\$0.34	\$0.37	\$0.38	\$0.42	\$0.37
AFFO pay-out ratio	83.2%	81.6%	83.9%	96.7%	88.1%	86.0%	76.5%	83.8%
NOI	21,720	21,377	21,634	20,724	21,040	19,454	19,271	18,505
Net income per unit (basic)	\$0.12	\$0.13	\$0.13	\$0.11	\$0.12	\$0.09	\$0.11	\$0.04
Net income per unit (diluted)	\$0.12	\$0.13	\$0.12	\$0.11	\$0.12	\$0.09	\$0.11	\$0.04
Total assets	937,342	942,806	945,985	949,385	956,344	884,321	857,166	808,627
Total debt	533,348	531,857	527,174	526,478	527,879	517,997	485,371	490,924
Debt Ratio	49.4%	49.3%	49.3%	49.4%	49.7%	52.7%	51.3%	55.2%
Total GLA (excluding PUD)	5,452	5,451	5,335	5,350	5,236	4,812	4,742	4,571
Leased GLA (excluding PUD)	5,247	5,246	5,183	5,204	5,095	4,684	4,625	4,476
Leased Area (%GLA)	96.2%	96.3%	97.2%	97.3%	97.3%	97.3%	97.6%	97.9%

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 our consolidated financial statements for the nine-month period and quarter ended September 30, 2009, and for the year ended December 31, 2008. 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 ourselves 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 nine-month period and quarter ended September 30, 2009, recognize a \$2,595 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 that 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 year. 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 2.91% and 8.10% with a weighted average interest rate of 5.55%. The weighted average term of our mortgage debt is 5.3 years. As at September 30, 2009, the borrowings under the Facility were \$28,394.

#### ***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 nine-month period ended September 30, 2009.

<b>Category</b>	<b>% of Rental Revenue Period Ended September 30, 2009</b>
Business service and professional	29.4%
Telecommunications and information technology	23.4%
Retail (head office and storefront)	13.9%
Media and entertainment	16.9%
Financial services	6.5%
Government	1.4%
Other	8.5%

The following sets out the percentage of rental revenue from our top-10 tenants by rental revenue for the nine-month period ended September 30, 2009.

<b>Tenant</b>	<b>% of Rental Revenue Period Ended September 30, 2009</b>
CGI	5.5%
Ubisoft Divertissements Inc.	4.0%
Desjardins	3.6%
Cossette Communications	2.3%
Autodesk Canada	2.3%
SAP Labs	1.9%
St. Michael's Hospital	1.7%
Indigo Books & Music	1.7%
Motorola	1.5%
Cardinia Real Estate	1.5%

### **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.

96.2% of the GLA in our portfolio was leased as at September 30, 2009 (not including Properties Under Development). The weighted average term to maturity of our leases is 3.7 years. The following sets out the total GLA of the leases that mature during the period from October 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.

<b>Year Ended</b>	<b>Square Feet</b>	<b>% of Total GLA</b>	<b>WA Rental Rate</b>	<b>WA Market Rate</b>
December 31, 2009	133,336	2.5%	\$12.74	\$12.98
December 31, 2010	1,115,572	20.5%	\$16.16	\$15.46
December 31, 2011	888,556	16.3%	\$13.05	\$16.13
December 31, 2012	844,246	15.5%	\$15.76	\$16.96
December 31, 2013	747,770	13.7%	\$14.46	\$15.91

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

<b>Year Ended</b>	<b>Square Feet</b>	<b>% of Total GLA</b>	<b>WA Rental Rate</b>	<b>WA Market Rate</b>
December 31, 2009	78,761	1.4%	\$17.78	\$17.69
December 31, 2010	364,213	6.7%	\$15.77	\$16.46
December 31, 2011	405,575	7.4%	\$14.79	\$17.41
December 31, 2012	446,319	8.2%	\$17.07	\$18.68
December 31, 2013	336,246	6.2%	\$17.74	\$17.95

#### 2. Montréal

<b>Year Ended</b>	<b>Square Feet</b>	<b>% of Total GLA</b>	<b>WA Rental Rate</b>	<b>WA Market Rate</b>
December 31, 2009	23,342	0.4%	\$4.71	\$4.34
December 31, 2010	647,274	11.9%	\$17.46	\$16.03
December 31, 2011	425,300	7.8%	\$11.97	\$15.99
December 31, 2012	352,043	6.5%	\$14.69	\$15.85
December 31, 2013	359,106	6.6%	\$11.98	\$15.13

### 3. Winnipeg

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2009	24,736	0.5%	\$4.76	\$6.35
December 31, 2010	64,106	1.2%	\$7.72	\$7.80
December 31, 2011	46,510	0.9%	\$7.17	\$7.69
December 31, 2012	19,443	0.4%	\$7.59	\$7.80
December 31, 2013	33,978	0.6%	\$8.04	\$7.94

### 4. Québec City

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2009	6,497	0.1%	\$10.80	\$12.09
December 31, 2010	39,979	0.7%	\$12.20	\$9.54
December 31, 2011	11,171	0.2%	\$15.83	\$9.87
December 31, 2012	26,441	0.5%	\$14.01	\$9.57
December 31, 2013	18,440	0.3%	\$14.87	\$8.74

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 annual AFFO would decline by approximately \$1,480 (approximately five 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 September 30, 2009, the cost of Properties Under Development was equivalent to 2.3% 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**

### **Disclosure Controls and Internal Controls**

Management maintains information systems, procedures and controls designed reasonably to ensure that publicly discussed information is complete, reliable and timely. The Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures to provide reasonable assurance that material information about our business is made known to them in a timely way. They have also designed 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.

There was no change in the design of internal controls over financial reporting in the third quarter of 2009 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 X**

### **Subsequent Events**

On October 2, 2009, we closed the previously announced offering of 7,600,000 units at a price of \$16.50 per unit for gross proceeds of just over \$125,000.

On October 28, 2009, we closed the previously announced acquisition of 151 Front Street West in Toronto.

On November 10, 2009, we announced the acquisition of 375-381 Queen Street West in Toronto for \$21,750. Located on the southwest corner of the intersection of Queen and Peter Streets, just north of 134 Peter Street, this Class I property is comprised of 32,557 square feet of gross leasable area and 4,381 square feet of surplus land. The acquisition is scheduled to close on December 17, 2009.

On November 10, 2009, we announced the acquisition for approximately \$8,900 of an undivided 50% interest in (i) 18,360 square feet of retail space that will form part of Fashion House, a commercial condominium project at 560 King Street West in Toronto, and (ii) 140 underground retail parking spaces to be constructed as part of Fashion House, directly beneath the commercial space referred to above. The acquisition is conditional upon final condominium registration and is expected to close in 2013.

PART XI

Property Table

September 30, 2009 Properties	Office GLA	Retail GLA	Total GLA	% Total GLA	Office Vacant	Retail Vacant	Total Leased	Leased %
555 College	41,023	19,145	60,168		-	-	60,168	100.00%
860 Richmond W	24,199	-	24,199		-	-	24,199	100.00%
905 King W	103,105	8,991	112,096		5,000	2,000	105,096	93.76%
The Castle	106,393	34,323	140,716		-	-	140,716	100.00%
<b>King West</b>	<b>274,720</b>	<b>62,459</b>	<b>337,179</b>	<b>6.18%</b>	<b>5,000</b>	<b>2,000</b>	<b>330,179</b>	<b>97.92%</b>
141 Bathurst (+ land)	10,521	-	10,521		5,105	-	5,416	51.48%
183 Bathurst	24,879	-	24,879		2,279	-	22,600	90.84%
420 Wellington W	33,813	3,137	36,950		-	-	36,950	100.00%
425 Adelaide W	74,434	4,104	78,538		6,232	-	72,306	92.06%
425-439 King W	75,333	17,297	92,630		-	-	92,630	100.00%
441-443 King W	6,820	3,065	9,885		-	-	9,885	100.00%
445-455 King W	27,640	23,048	50,688		-	-	50,688	100.00%
468 King W	65,027	-	65,027		-	-	65,027	100.00%
469 King W	62,596	11,250	73,846		-	-	73,846	100.00%
489 King W	15,621	10,650	26,271		-	-	26,271	100.00%
495 King W	11,183	-	11,183		-	-	11,183	100.00%
499 King W	-	8,400	8,400		-	-	8,400	100.00%
500-522 King W	94,892	33,513	128,405		-	-	128,405	100.00%
579 Richmond W	29,043	-	29,043		-	-	29,043	100.00%
602-606 King W	39,727	24,320	64,047		-	-	64,047	100.00%
662 King W	30,774	2,126	32,900		-	-	32,900	100.00%
96 Spadina	91,092	-	91,092		16,126	6,320	68,646	75.36%
King-Brant Parking	-	-	-		-	-	-	
<b>King West Central</b>	<b>693,395</b>	<b>140,910</b>	<b>834,305</b>	<b>15.30%</b>	<b>29,742</b>	<b>6,320</b>	<b>798,243</b>	<b>95.68%</b>
116 Simcoe	15,289	-	15,289		-	-	15,289	100.00%
179 John St	67,331	-	67,331		1,771	-	65,560	97.37%
185 Spadina	55,814	-	55,814		-	-	55,814	100.00%
200 Adelaide W	28,024	-	28,024		-	-	28,024	100.00%
208-210 Adelaide W	12,423	-	12,423		2,313	-	10,110	81.38%
217-225 Richmond W	35,453	21,200	56,653		-	-	56,653	100.00%
257 Adelaide W	46,914	-	46,914		-	-	46,914	100.00%
312 Adelaide W	66,043	5,752	71,795		-	4,402	67,393	93.87%
331-333 Adelaide W	20,503	3,210	23,713		-	-	23,713	100.00%
358-360 Adelaide W	54,250	-	54,250		8,948	-	45,302	83.51%
364 Richmond W	22,018	17,300	39,318		-	-	39,318	100.00%
388 King W	32,603	11,765	44,368		-	-	44,368	100.00%
82 Peter	38,811	8,287	47,098		-	-	47,098	100.00%
99 Spadina	39,327	11,392	50,719		8,061	-	42,658	84.11%
<b>Entertainment District</b>	<b>534,803</b>	<b>78,906</b>	<b>613,709</b>	<b>11.26%</b>	<b>21,093</b>	<b>4,402</b>	<b>588,214</b>	<b>95.85%</b>
67 Richmond W	44,702	5,804	50,506		-	2,790	47,716	94.48%
193 Yonge	34,836	16,318	51,154		-	-	51,154	100.00%
<b>Downtown</b>	<b>79,538</b>	<b>22,122</b>	<b>101,660</b>	<b>1.86%</b>	<b>-</b>	<b>2,790</b>	<b>98,870</b>	<b>97.26%</b>
106 Front E	24,386	10,109	34,495		-	-	34,495	100.00%
35-39 Front E	34,858	17,850	52,708		-	-	52,708	100.00%
36-40 Wellington E	12,630	11,550	24,180		-	-	24,180	100.00%
41-45 Front E	20,024	19,811	39,835		-	-	39,835	100.00%
45-55 Colborne	30,328	12,526	42,854		1,000	-	41,854	97.67%
50 Wellington E	21,937	11,049	32,986		-	-	32,986	100.00%
<b>St. Lawrence Market</b>	<b>144,163</b>	<b>82,895</b>	<b>227,058</b>	<b>4.16%</b>	<b>1,000</b>	<b>-</b>	<b>226,058</b>	<b>99.56%</b>
145 Berkeley	8,124	2,687	10,811		-	-	10,811	100.00%
230 Richmond E	73,667	-	73,667		-	-	73,667	100.00%
489 Queen E	25,242	-	25,242		15,468	-	9,774	38.72%
Dominion Square	65,339	45,622	110,961		8,845	700	101,416	91.40%
QRC South	37,754	-	37,754		7,719	-	30,035	79.55%
Queen Richmond Centre	155,481	64,593	220,074		11,555	5,255	203,264	92.36%
70 Richmond St E	34,414	-	34,414		-	-	34,414	100.00%
204-214 King St E	128,970	5,460	134,430		-	-	134,430	100.00%
<b>Queen Richmond</b>	<b>528,991</b>	<b>118,362</b>	<b>647,353</b>	<b>11.87%</b>	<b>43,587</b>	<b>5,955</b>	<b>597,811</b>	<b>92.35%</b>
<b>Total Toronto</b>	<b>2,255,610</b>	<b>505,654</b>	<b>2,761,264</b>	<b>50.64%</b>	<b>100,422</b>	<b>21,467</b>	<b>2,639,375</b>	<b>95.56%</b>

Properties	Office GLA	Retail GLA	Total GLA	% Total GLA	Office Vacant	Retail Vacant	Total Leased	Leased %
3575 Saint-Laurent	167,053	17,464	184,517		7,559	-	176,958	95.90%
400 Atlantic	86,034	-	86,034		8,387	-	77,647	90.25%
425 Viger W (+ land)	205,193	820	206,013		-	-	206,013	100.00%
4446 Saint-Laurent	74,961	7,667	82,628		8,019	-	74,609	90.30%
5505 Saint Laurent	252,452	2,524	254,976		-	-	254,976	100.00%
451-481 Sainte-Catherine	22,222	8,434	30,656		-	-	30,656	100.00%
6300 Avenue du Parc	207,853	10,450	218,303		21,687	-	196,616	90.07%
111 Duke	375,111	-	375,111		-	-	375,111	100.00%
50 Queen	31,541	-	31,541		-	-	31,541	100.00%
700 Wellington	128,229	1,925	130,154		-	-	130,154	100.00%
75 Queen	249,450	2,128	251,578		-	-	251,578	100.00%
80 Queen	70,263	-	70,263		-	-	70,263	100.00%
87 Prince	106,628	1,065	107,693		-	-	107,693	100.00%
<b>Total Montréal</b>	<b>1,976,990</b>	<b>52,477</b>	<b>2,029,467</b>	<b>37.22%</b>	<b>45,652</b>	<b>-</b>	<b>1,983,815</b>	<b>97.75%</b>
115 Bannatyne	34,591	4,029	38,620		-	-	38,620	100.00%
138 Portage East	39,565	-	39,565		9,796	-	29,769	75.24%
165 Garry	9,000	5,800	14,800		1,800	-	13,000	87.84%
250 McDermot	34,946	10,040	44,986		2,159	-	42,827	95.20%
309 Hargrave	19,070	1,400	20,470		5,573	-	14,897	72.77%
50-70 Arthur	105,267	15,380	120,647		14,854	-	105,793	87.69%
1500 Notre Dame	109,518	-	109,518		-	-	109,518	100.00%
<b>Total Winnipeg</b>	<b>351,957</b>	<b>36,649</b>	<b>388,606</b>	<b>7.13%</b>	<b>34,182</b>	<b>-</b>	<b>354,424</b>	<b>91.20%</b>
390 Charest	66,751	6,348	73,099		-	-	73,099	100.00%
410 Charest	-	24,937	24,937		-	1,300	23,637	94.79%
420 Charest	43,551	13,285	56,836		1,245	-	55,591	97.81%
622 Saint Joseph	3,620	3,300	6,920		-	-	6,920	100.00%
633 Saint Joseph	15,655	6,000	21,655		-	-	21,655	100.00%
<b>Total Québec City</b>	<b>129,577</b>	<b>53,870</b>	<b>183,447</b>	<b>3.36%</b>	<b>1,245</b>	<b>1,300</b>	<b>180,902</b>	<b>98.61%</b>
72 Victoria	89,634	-	89,634		1,524	-	88,110	98.30%
<b>Total Kitchener-Waterloo</b>	<b>89,634</b>	<b>-</b>	<b>89,634</b>	<b>1.64%</b>	<b>1,524</b>	<b>-</b>	<b>88,110</b>	<b>98.30%</b>
<b>Total Rental Portfolio</b>	<b>4,803,768</b>	<b>648,650</b>	<b>5,452,418</b>	<b>100.00%</b>	<b>183,025</b>	<b>22,767</b>	<b>5,246,626</b>	<b>96.22%</b>
47 Fraser, Toronto	11,772	-	11,772					
47A Fraser, Toronto	20,000		20,000					
134 Peter, Toronto	30,151	19,518	49,669					
544 King, Toronto	36,000		36,000					
Adjacent Land, Montréal	-	-	-					
<b>Total PUD</b>	<b>97,923</b>	<b>19,518</b>	<b>117,441</b>					

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST**  
**CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 2009**

**Consolidated Balance Sheets**  
**(Unaudited)**

(in thousands)	Note	September 30, 2009	December 31, 2008
<b>Assets</b>			
Rental properties	4	\$823,457	\$807,270
Properties under development		24,514	42,463
Deferred expenses	5	42,999	55,645
Other assets	6	46,012	43,223
Cash		360	784
		<b>\$937,342</b>	<b>\$949,385</b>
<b>Liabilities</b>			
Mortgages payable	7	\$502,130	\$520,308
Bank indebtedness	7	28,394	2,922
Accounts payable and other liabilities	8	34,545	37,068
Distributions payable		3,454	3,436
		<b>568,523</b>	<b>563,734</b>
<b>Unitholders' Equity</b>	<b>9</b>	<b>368,819</b>	<b>385,651</b>
		<b>\$937,342</b>	<b>\$949,385</b>

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

"Gordon Cunningham"

Gordon Cunningham  
Trustee

"Michael R. Emory"

Michael R. Emory  
Trustee

**Consolidated Statements of Unitholders' Equity  
(Unaudited)**

(in thousands)

	Notes	Cumulative Capital	Cumulative Issue Costs	Cumulative Net Income	Cumulative Distributions	Contributed Surplus	Total
Unitholders' equity, December 31, 2007		\$362,524	(\$18,560)	\$29,220	(\$83,355)	\$36	\$289,865
Year ended December 31, 2008							
Net income		-	-	12,512	-	-	\$12,512
Distributions		-	-	-	(38,667)	-	(38,667)
Public offering		120,738	(5,562)	-	-	-	115,176
Distribution reinvestment plan		5,512	-	-	-	-	5,512
Unit option plan – options exercised	11	425	-	-	-	-	425
Contributed surplus unit option plan	11	-	-	-	-	489	489
Long-Term incentive plan	12	339	-	-	-	-	339
Unitholders' equity, December 31, 2008		\$489,538	(\$24,122)	\$41,732	(\$122,022)	\$525	\$385,651
<b>Nine Months Ended September 30, 2009</b>							
Net income		-	-	\$11,615	-	-	\$11,615
Distributions		-	-	-	(30,924)	-	(30,924)
Distribution reinvestment plan		2,052	-	-	-	-	2,052
Contributed surplus, unit option plan		-	-	-	-	167	167
Long-Term Incentive plan	12	266	(8)	-	-	-	258
Unitholders' equity, September 30, 2009		\$491,856	(24,130)	\$53,347	(152,946)	\$692	\$368,819

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

## Consolidated Statements of Earnings and Comprehensive Income (Unaudited)

(in thousands, except unit and per unit amounts)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
<b>Revenues</b>				
Rental properties	\$35,851	\$33,795	\$108,558	\$96,606
Real estate services	155	184	440	518
	<b>36,006</b>	33,979	<b>108,998</b>	97,124
<b>Expenses</b>				
Rental property operating	14,517	12,776	43,673	38,055
Real estate services	85	89	235	264
Financing	7,046	6,745	20,936	19,148
Trust	774	828	2,527	2,600
Amortization of rental properties	4,462	4,221	13,260	11,851
Amortization of deferred expenses	4,802	5,260	15,093	14,963
Amortization of other assets	531	350	1,659	1,027
	<b>32,217</b>	30,269	<b>97,383</b>	87,908
<b>Net income and comprehensive income for the period</b>	<b>\$3,789</b>	\$3,710	<b>\$11,615</b>	\$9,216
<b>Net income per unit</b>				
Basic	\$0.12	\$0.12	\$0.38	\$0.32
Fully diluted	\$0.12	\$0.12	\$0.37	\$0.32
Weighted average number of units (Note 10)				
Basic	30,992,525	30,654,315	30,957,828	28,683,128
Fully diluted	31,411,280	31,041,608	31,361,792	29,071,679

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

## Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
<b>Notes</b>				
<b>CASH PROVIDED BY (USED IN):</b>				
<b>Operating activities</b>				
Net income	\$3,789	\$3,710	\$11,615	\$ 9,216
Items not affecting cash				
Amortization of rental properties	4,462	4,221	13,260	11,851
Amortization of office equipment	80	62	218	184
Amortization of deferred expenses	4,803	5,258	15,093	14,961
Amortization of tenant improvements	450	284	1,441	839
Step rent adjustments (revenue)	52	(282)	(504)	(773)
Step rent adjustments (expenses)	71	38	221	122
Mark to market rent adjustments	263	265	129	1,865
Amortization, premium on assumed mortgages	(4)	(76)	(18)	(159)
Changes in other non-cash financing expenses	152	141	473	383
Compensation expense, unit option plan	56	122	167	366
	<b>14,174</b>	<b>13,743</b>	<b>42,095</b>	<b>38,855</b>
Change in other non-cash operating items	(2,926)	4,350	(4,539)	(2,019)
<b>Cash from operating activities</b>	<b>11,248</b>	<b>18,093</b>	<b>37,556</b>	<b>36,836</b>
<b>Investing activities</b>				
Rental properties acquired, net of non-cash consideration	2 (10)	(60,039)	(4,375)	(103,361)
Properties under development acquired	2 -	-	-	(24,153)
Capital expenditures, rental properties and other assets	(2,219)	(1,617)	(3,734)	(6,988)
Capital expenditures, properties under development	(512)	(1,419)	(4,040)	(3,988)
Tenant improvements and leasing cost	(699)	(1,216)	(3,832)	(3,386)
Tenant inducements	(26)	(345)	(241)	(635)
Recoverable expenses	-	(42)	-	(88)
<b>Cash used in investing activities</b>	<b>(3,466)</b>	<b>(64,678)</b>	<b>(16,222)</b>	<b>(142,549)</b>
<b>Financing Activities</b>				
Repayment of mortgages payable	(3,317)	(8,721)	(24,766)	(18,610)
Proceeds from new mortgages payable	5,221	24,736	6,132	39,122
Distributions	(9,867)	(8,235)	(28,854)	(23,559)
Proceeds of public offering (net of issue costs)	-	57,716	-	115,176
Proceeds from exercise of unit options	-	-	-	425
Proceeds from units issued under the LTIP (net of issue costs)	12 91	86	258	252
Net increase (decrease) in bank indebtedness	(441)	(19,475)	25,472	(7,531)
<b>Cash provided by (used in) financing activities</b>	<b>(8,313)</b>	<b>46,107</b>	<b>(21,758)</b>	<b>105,275</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(531)</b>	<b>(478)</b>	<b>(424)</b>	<b>(438)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>891</b>	<b>1,219</b>	<b>784</b>	<b>1,179</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$360</b>	<b>\$741</b>	<b>\$360</b>	<b>\$741</b>
<b>Other cash flow information</b>				
Interest paid	\$7,098	\$7,113	\$21,468	\$20,376
<b>Supplemental cash flow information</b>				
Units issued	\$449	\$1,660	\$2,052	\$4,067

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

**Notes To Consolidated Financial Statements**  
**(In thousands of dollars except per unit and unit amounts)**  
**(Unaudited)**  
**September 30, 2009 and September 30, 2008**

**1. The REIT**

Allied Properties Real Estate Investment Trust (the "REIT") is an unincorporated closed-end real estate investment trust created pursuant to the Declaration of Trust dated October 25, 2002, subsequently amended and restated on February 6, 2003 and on May 14, 2008. The REIT is governed by the laws of the Province of Ontario and began operations on February 19, 2003. The units of the Trust are traded on the Toronto Stock Exchange.

**2. Acquisitions**

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

	Nine Months Ended September 30, 2009	Three Months Ended September 30, 2009	Year Ended December 31, 2008
Rental properties	\$3,787	\$10	\$116,323
Properties under development	-	-	24,153
Other assets	11	-	86
Fair value of in-place leases and tenant relationships	496	-	20,877
Fair value of above-market leases	143	-	771
Fair value of below-market leases	(11)	-	(10,224)
Mortgages payable	-	-	(22,741)
Accounts payable and accrued liabilities	(61)	-	(1,698)
Cash consideration paid for the net assets acquired	\$4,375	\$10	\$127,547

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

**3. Summary of Significant Accounting Policies**

**(a) Basis of Presentation**

The REIT's unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are consistent with the accounting policies used in the REIT's audited consolidated financial statements for the year ended December 31, 2008, except as described in Note 3(b) below. The interim consolidated financial statements do not include all the information and disclosures required for annual financial statements and therefore consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements. Certain comparative figures have been reclassified to conform to these financial statements.

**(b) Change in Accounting Policies**

Effective January 1, 2009, the REIT adopted Section 3064, Goodwill and Intangible Assets, which was issued by the Canadian Institute of Chartered Accountants ("CICA"). This Section replaced the existing Section 3062, Goodwill and Intangible Assets and Section 3450, Research and Development Costs, respectively. Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset.

The impact of this change on the REIT's financial statements is that certain expenditures previously capitalized as recoverable expenditures have been reclassified as building improvements and included in rental properties. These adjustments have been adopted on a retrospective basis and have resulted in the restatement of certain financial statement comparative amounts.

Recoverable expenditures at December 31, 2008 having a net book value of \$181 were reclassified as building improvements and included in rental properties. There was no impact to net income per unit for the quarter and nine months ended September 30, 2009.

(c) Future Changes to Accounting Policies

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

#### 4. Rental Properties and Properties Under Development

As at September 30, 2009	Cost	Accumulated Amortization	Net Carrying Amount
Buildings, improvements and other costs	\$714,398	\$61,119	\$653,279
Land	170,178	-	170,178
	<b>\$884,576</b>	<b>\$61,119</b>	<b>\$823,457</b>

  

As at December 31, 2008	Cost	Accumulated Amortization	Net Carrying Amount
Buildings, improvements and other costs	\$690,749	\$47,858	\$642,891
Land	164,379	-	164,379
	<b>\$855,128</b>	<b>\$47,858</b>	<b>\$807,270</b>

Included in Properties Under Development is interest capitalized during the nine months ended September 30, 2009 of \$750 and during the year ended December 31, 2008 of \$1,858.

#### 5. Deferred Expenses

Deferred expenses consist of costs incurred by the REIT, net of accumulated amortization of \$69,846 (December 31, 2008 - \$55,384), with respect to leasing costs incurred, the fair value attributed to in-place leases acquired, the fair value attributed to customer relationships with respect to rental property acquisitions and amounts recorded on the acquisition of the property manager – contracts and customer relationships. Amortization is recorded on a straight-line basis over the remaining term of the respective leases to which the costs or fair value relate.

As at September 30, 2009	Cost	Accumulated Amortization	Net Carrying Amount
Leasing costs	\$9,025	\$2,510	\$6,515
Tenant inducements	936	301	635
Leasing costs and tenant relationships on rental properties acquired	101,925	66,627	35,298
Amounts recorded on the acquisition of the property manager – contracts and customer relationships	959	408	551
	<b>\$112,845</b>	<b>\$69,846</b>	<b>\$42,999</b>

  

As at December 31, 2008	Cost	Accumulated Amortization	Net Carrying Amount
Leasing costs	\$8,184	\$2,083	\$6,101
Tenant inducements	742	246	496
Leasing costs and tenant relationships on rental properties acquired	101,144	52,719	48,425
Amounts recorded on the acquisition of the property manager – contracts and customer relationships	959	336	623
	<b>\$111,029</b>	<b>\$55,384</b>	<b>\$55,645</b>

## 6. Other Assets

Other assets consist of:

	September 30, 2009	December 31, 2008
Above-market rents of leases acquired through rental property acquisitions net of accumulated amortization of \$16,417 (December 31, 2008 - \$12,760)	\$9,090	\$12,604
Accounts receivable and deposits for property acquisitions	18,695	16,376
Tenant improvements, net of accumulated amortization of \$3,001 (December 31, 2008 - \$2,439)	6,591	5,854
Prepaid expenses	6,793	605
Escrow accounts held by mortgagees	4,131	7,051
Computer and office equipment, net of accumulated amortization of \$455 (December 31, 2008 - \$243)	632	656
Leasehold improvements, net of accumulated amortization of \$12 (December 31, 2008 - \$5)	80	77
	<b>\$46,012</b>	<b>\$43,223</b>

## 7. Mortgages Payable and Bank Indebtedness

Substantially all of the REIT's assets have been pledged as security under the related mortgages and other security agreements. Effective interest rates on the mortgages payable are between 2.91% and 8.1% (contractual 2.91% and 8.10%).

Mortgages payable at September 30, 2009 are due as follows:

	Principal Repayments	Balance due at Maturity	Total
Year ended December 31, 2009	\$3,394	-	\$3,394
Year ended December 31, 2010	13,709	7,039	20,748
Year ended December 31, 2011	14,223	14,868	29,091
Year ended December 31, 2012	14,051	36,805	50,856
Year ended December 31, 2013	14,277	21,997	36,274
Thereafter	21,964	342,627	364,591
	<b>\$81,618</b>	<b>\$423,336</b>	<b>\$504,954</b>
Net discount on assumed mortgages (net of accumulated amortization of \$1,323)			(212)
Deferred financing costs (net of accumulated amortization of \$1,645)			(2,612)
			<b>\$502,130</b>

Mortgages payable at December 31, 2008 are due as follows:

	Principal Repayments	Balance due at Maturity	Total
Year ended December 31, 2009	\$13,029	\$15,209	\$28,238
Year ended December 31, 2010	13,433	5,978	19,411
Year ended December 31, 2011	13,965	14,868	28,833
Year ended December 31, 2012	13,780	36,805	50,585
Year ended December 31, 2013	13,992	21,997	35,989
Thereafter	21,766	338,734	360,500
	<b>\$89,965</b>	<b>\$433,591</b>	<b>\$523,556</b>
Net premium on assumed mortgages (net of accumulated amortization of \$1,305)			(196)
Deferred financing costs (net of accumulated amortization of \$1,199)			(3,052)
			<b>\$520,308</b>

The REIT has a \$70,000 revolving credit facility with a Canadian chartered bank, which matures August 31, 2010 and bears interest at bank prime rate. Security for the facility consists of first and second mortgage charges on seven rental properties and security agreements covering assignment of rents and personal property with respect to the seven properties. The credit facility has a number of covenants which were met as at September 30, 2009.

At September 30, 2009 the amount outstanding under the credit facility was \$28,394 (December 31, 2008 \$2,922).

#### 8. *Accounts Payable and Other Liabilities*

Accounts payable and other liabilities consist of:

	September 30, 2009	December 31, 2008
General operating payables and tenant deposits	\$22,478	\$21,314
Below market rents of leases acquired through rental property acquisition – net of accumulated amortization of \$10,695 (December 31, 2008 - \$7,121)	9,885	13,363
Accrued interest	2,182	2,391
	<b>\$34,545</b>	<b>\$37,068</b>

#### 9. *Unitholders' Equity*

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

The number of units issued and outstanding are as follows:

	Units
Units outstanding, December 31, 2007	25,109,708
Units issued pursuant to offering on January 3, 2008	2,900,000
Units issued pursuant to offering on July 2, 2008	2,850,000
Units issued under the Distribution Reinvestment Plan	333,462
Units issued under the Unit Option Plan (Note 11)	42,500
	<b>31,235,670</b>
Units outstanding, December 31, 2008	<b>31,235,670</b>
Units issued under the Distribution Reinvestment Plan	<b>160,725</b>
	<b>31,396,395</b>
Units outstanding, September 30, 2009	<b>31,396,395</b>

#### 10. *Weighted Average Units*

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

	Three Months Period Ended September 30, 2009	Three Months Period Ended September 30, 2008	Nine Months Period Ended September 30, 2009	Nine Months Period Ended September 30, 2008
Basic	30,992,525	30,654,315	30,957,828	28,683,128
Unit option plan	31,462	-	16,671	1,258
Long-term incentive plan	387,293	387,293	387,293	387,293
Fully diluted	<b>31,411,280</b>	<b>31,041,608</b>	<b>31,361,792</b>	<b>29,071,679</b>

#### 11. *Unit Option Plan*

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

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

each of December 17, 2009 and December 17, 2010, provided that certain performance achievements are met. 108,333 options expired in 2008 as certain performance achievements were not met.

On December 15, 2008, 3,750 options were granted to trustees and employees with an exercise price of \$10.87 and expiring on December 15, 2013. 1,250 options will vest on each of December 15, 2009, December 15, 2010 and December 15, 2011.

On January 15, 2009 130,000 options were granted to employees and officers with an exercise price of \$12.34 and expiring on January 15, 2014. 43,333, 43,333 and 43,334 options will vest on each of January 15, 2010, January 15, 2011 and January 15, 2012, provided that certain performance achievements are met.

The REIT accounts for its unit option plan using the fair value method, under which compensation expense is measured at the date options are granted and recognized over the vesting period.

Compensation expense for the quarters ended September 30, 2009 and 2008 were \$56 and \$122, respectively. The Unit Option Plan and assumptions utilized in the calculation thereof using the Black-Scholes Model for option valuation are as follows:

	January 2009	December 2008	December 2007
Unit options granted	130,000	3,750	710,000
Unit option holding period (years)	5	5	5
Volatility rate	24.0%	24.1%	19.8%
Distribution yield	10.6%	11.1%	6.0%
Risk free interest rate	1.6%	2.1%	3.9%
Value of options granted	\$70	\$3	\$1,504

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

	Units/ Options	Weighted Average Exercise Price
Options outstanding as at December 31, 2007	752,500	\$20.50
Options exercised in the year ended December 31, 2008	(42,500)	\$10.00
Options granted in the year ended December 31, 2008	3,750	\$10.87
Options expired in the year ended December 31, 2008	(108,333)	\$21.13
Options outstanding as at December 31, 2008	605,417	\$21.06
Options granted in the period ended September 30, 2009	130,000	\$12.34
Options outstanding as at September 30, 2009	735,417	\$19.52
Options exercisable as at September, 2009	128,331	\$21.13

## 12. Long-Term Incentive Plan

Officers and trustees of the REIT have been granted the right to participate in a LTIP, whereby the participants may subscribe for units for a purchase price equal to the weighted average trading price of the units for five trading days preceding the date of the grant. The purchase price is payable as to 5% upon issuance and as to the balance ("installment loan receivable") over a term not exceeding 10 years. The installment loan receivable bears interest at rates of 3% or 5% per annum on any outstanding balance and is a direct, personal obligation of the participant. The units issued under the LTIP are held by a custodian for the benefit of the participants until the installment loan receivable has been paid in full. The value of these units held by the Custodian as at September 30, 2009 and December 31, 2008 were \$6,402 and \$4,822, respectively. Cash distributions paid in respect of the units issued under the LTIP are applied first to the interest and then to reduce the balance of the installment loan receivable.

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

Units issued under the LTIP	Cumulative as at September 30, 2009	Nine Months Ended September 30, 2008	Cumulative as at December 31, 2008
Number of units issued	412,293	-	412,293
Units issued	\$6,282	-	\$6,282
Compensation cost	474	-	474
	6,756	-	6,756
LTIP installment loans receivable	(5,852)	-	(5,852)
Interest on installment loans receivable	(669)	(117)	(552)
Distributions applied against installment loans receivable	2,020	383	1,637
Repayments of installment loans	145	-	145
	(4,356)	266	(4,622)
	\$2,400	\$266	\$2,134

  

Units issued under the LTIP	Cumulative as at December 31, 2008	Year Ended December 31, 2008	Cumulative as at December 31, 2007
Number of units issued	412,293	-	412,293
Units issued	\$6,282	-	\$6,282
Compensation cost	474	-	474
	6,756	-	6,756
LTIP installment loans receivable	(5,852)	-	(5,852)
Interest on installment loan receivable	(552)	(166)	(386)
Distributions applied against installment loan receivable	1,637	505	1,132
Repayments of installment loans	145	-	145
	(4,622)	339	(4,961)
	\$2,134	\$339	\$1,795

### 13. Segmented Disclosure

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

### 14. Commitments and Contingencies

The REIT has entered into commitments for acquisitions, building renovations, leasing commissions and tenant inducements with respect to leasing activities and for repairs and operating costs. The commitments as at September 30, 2009 and December 31, 2008 were \$4,435 and \$2,500, respectively.

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

### 15. Related Party Transactions

#### (a) Real Estate Services

The REIT engages in third-party property management business, including the provision of services for properties in which certain trustees of the REIT have an ownership interest. For the three months ended September 30, 2009 and 2008 real estate service revenue earned from these properties was \$71 and \$55, respectively. For the nine months ended September 30, 2009 and 2008 real estate service revenue earned from these properties was \$169 and \$164, respectively. These revenues were fully paid in the respective period. These transactions are in the normal course of operations and were measured at the exchange amount set out in agreement between the respective property owners.

#### (b) Rental Revenues

Rental revenues included amounts received from related parties as follows:

Related Party	Nature of Revenue	Three Months Period Ended September 30, 2009	Nine Months Period Ended September 30, 2008	Nine Months Period Ended September 30, 2009	Nine Months Period Ended September 30, 2008
Vendors of properties	Head Lease	\$-	\$79	\$-	\$28
TechSpaceCanada Inc.	Guarantee	24	3	71	-
		\$24	\$82	\$71	\$28

**Head Lease:**

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

**Guarantee:**

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

**16. Subsequent Event**

On October 2, 2009, we closed the previously announced offering of 7,600,000 units at a price of \$16.50 per unit for gross proceeds of \$125,400.

On October 28, 2009, we closed the previously announced acquisition of 151 Front Street West in Toronto, for \$190,000 and completed first mortgage financing on the property in the amount of \$96,000 for a term of 10 years bearing interest at 7.5% and payable in blended monthly installments of principal and interest based on a 20 year amortization.

On November 10, 2009, we entered into a purchase and sale agreement for the acquisition for approximately \$8,900 of an undivided 50% interest in (i) 18,360 square feet of Class I commercial space that will form part of Fashion House, a commercial condominium project at 560 King Street West in Toronto, and (ii) 140 underground commercial parking spaces to be constructed as part of Fashion House, directly beneath the commercial space referred to above. The acquisition is conditional upon final condominium registration and is expected to close in 2013.

On November 10, 2009, we entered into a purchase and sale agreement for the acquisition of 375-381 Queen Street West for \$21,750. Located on the southwest corner of the intersection of Queen and Peter Streets, adjacent to 134 Peter Street, this Class I property is comprised of 32,557 square feet of gross leasable area and 4,381 square feet of surplus land. The acquisition is scheduled to close on December 17, 2009.