



**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST**

**PROVIDING URBAN OFFICE ENVIRONMENTS  
THAT ENRICH EXPERIENCE AND ENHANCE PROFITABILITY**

**QUARTERLY REPORT, SEPTEMBER 30, 2010**

**NOVEMBER 10, 2010**

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## LETTER TO UNITHOLDERS

### Fellow Unitholders of Allied Properties REIT

However you look at it, the third quarter was a good one for Canadian REITs. The S&P/TSX Capped REIT Index posted a total return of 19%, almost doubling the total return of the S&P/TSX Composite Index. Equity and debt were readily available and progressively less expensive as the quarter unfolded. Fundamentals were better than anticipated, particularly in the downtown Toronto and Calgary office markets. The vacancy rate in downtown Toronto declined to 5.7% by the end of the third quarter, and downtown Calgary posted year-to-date positive absorption of 1.2 million square feet, close to an all-time high. Not surprisingly, all this led to steady upward movement in commercial real estate values.

The third quarter was also a good one for Allied Properties REIT. We made progress in all aspects of our business and took advantage of receptive capital markets to accelerate external growth, improve liquidity and secure capital at a very favourable cost. In addition, as part of our preparation for the adoption of IFRS, we completed the external appraisal of our portfolio as at the end of last year, which indicated an increase over book value of \$190 million.

### Results

We finished the quarter with leased area of 95%, having renewed or replaced 64% of the leases that mature in 2010, in most cases at net rental rates equal to or above in-place rents. This will result in a very slight overall increase in net rental income per square foot for the affected space.

We're very close to eliminating the bulge in our lease-maturity schedule that arose from the scheduled expiry of large tenancies in 2010, 2011 and 2012. We took care of the large expiry in 2012 with the early renewal of Desjardins Visa at 425 Viger Avenue West in Montréal. We also took care of the two large expiries in 2011 when we replaced Motorola with Morgan Stanley and finalized the early renewal and expansion of SAP Labs at Cité Multimédia in Montréal. This left us with two large expiries at Cité Multimédia this year, Compuware and CGI. With Compuware's partial renewal and GFI's expansion, we took care of the former expiry. Knowing we could achieve a better long-term outcome for Cité Multimédia with replacement tenants, we decided in the second quarter not to renew CGI's lease when it expires on December 31 of this year.

At the outset of the third quarter, we had five of CGI's office floors to lease. During the quarter, we negotiated a conditional lease transaction with a high-quality tenant for two of the five floors. The transaction is subject to approval later this month by the tenant's board of directors, which will also be considering a competing alternative. If our transaction is approved, the lease will have a term of 20 years commencing November 1, 2011, and will be at net rental rates above in-place rents with escalations every five years. We also responded to a request for proposal from a high-quality tenant for two of the remaining three floors. The tenant has narrowed the alternatives under consideration to three, of which ours is one. Finally, two tenants have expressed interest in expanding within CGI's office space. While the re-leasing is ongoing, we expect the process to be largely complete by year-end.

The success we've had in reconfiguring our tenant-base at Cité Multimédia put downward pressure on our same-asset NOI in the third quarter. Also, because of the long-term leases we're putting in place at the complex, it pushed our leasing costs to a higher than normal level, increasing our AFFO pay-out ratio temporarily. The benefit going forward will be a complex with a higher level of net rent than we anticipated at the time of acquisition, a considerably improved tenant-mix and a better than normal lease-maturity schedule.

Turning to the bottom line, FFO per unit for the quarter was 41 cents and AFFO per unit 29 cents, in-line with our expectations. Our FFO pay-out ratio was a conservative 80%. Our AFFO pay-out ratio was 115%, higher than normal for the reason mentioned above.

### Acquisitions

Our acquisition activity accelerated in the third quarter, bringing our total acquisitions for the year to \$60 million. We completed our first acquisition in downtown Calgary, moving our urban office platform ever closer to a national scale, something we believe will benefit both tenants and unitholders going forward.

We also completed two acquisitions in downtown Toronto. These acquisitions boosted our market share in the Downtown East sub-market to nearly 45%.

Although acquisition activity slowed in the summer months, we've seen a noticeable increase in activity since September. Earlier today, we announced the acquisition of a 50% interest in The Breithaupt Block, a property under redevelopment in the Warehouse District of downtown Kitchener. On completion in 2013, it will compliment our property at 72 Victoria Street. We're also examining acquisition opportunities in Toronto, Winnipeg and Calgary. As a result, we remain committed to our 2010 target of \$100 to \$150 million in acquisitions.

## **Development**

After an intensive effort on the part of the working team for Phase I of QRC West, we met all the requirements for site-plan approval and initiated the preparation of permit drawings with a view to being in a position to complete construction by mid-2013. This will facilitate our pre-leasing efforts, which progressed well in the third quarter. We also initiated the municipal approval process for Phase II of QRC West. The height and density issues are straightforward, but certain shared-use issues will require attention, particularly our wish to acquire one public laneway and our need to secure an aerial easement over another. We're targeting the end of next year for municipal approval of this phase.

905 King Street West in Toronto has also gone very well. We finalized the tenant specifications in the third quarter, which enabled us to initiate the leasing program in earnest. We have 40,000 square feet available for occupancy in early 2011 and another 20,000 square feet available for occupancy in late 2011. We expect annual net rental rates per square foot to be in the range of \$60 to \$100, with smaller spaces commanding rents at the high end of the range, as is the case at 151 Front Street West in Toronto. A number our tenants at 151 Front have expressed interest in the space available for occupancy early next year to meet their expansion needs, and we expect the first 40,000 square feet to be leased by year-end and generating rental revenue by the beginning of the second quarter next year.

## **Liquidity**

The factors affecting our liquidity position were uniformly positive in the third quarter. Debt availability and cost were favourable. We placed a \$6.9 million first mortgage on 645 Wellington Street in Montréal with a 3.25% annual interest rate and arranged a fully open \$13.8 million first mortgage on 375-381 Queen Street West in Toronto with an annual interest rate of approximately 3.8%, in both cases for a three-year term. We arranged an upward refinancing of 358-360 Adelaide Street in Toronto (from \$2.5 million to \$6 million) and a \$21.5 million first mortgage on the Lougheed Building in Calgary, in both cases with an annual interest rate below 5% for a 10-year term.

Equity availability and cost were equally favourable. In late August, we availed ourselves of the opportunity afforded by the equity capital markets and raised nearly \$58 million at \$21.05 per unit to fund announced and prospective acquisitions.

As a result of our debt and equity financings, we finished the quarter in a strong liquidity position with a very conservative Debt Ratio of 46%. We had nearly \$25 million drawn on our \$70 million line of credit at quarter-end. The mortgage financings scheduled for completion in the fourth quarter will enhance our liquidity position considerably.

There's another aspect of liquidity that I haven't addressed before, the trading liquidity of our units. On September 10 of this year, we met the requirements for inclusion in the S&P/TSX Composite Index and the S&P/TSX Capped REIT Index. Actual inclusion followed a week later. Inclusion not only reflects a reasonably high degree of trading liquidity, it tends to boost trading liquidity by expanding the universe of potential unitholders, which accrues to the benefit of all.

## **International Financial Reporting Standards**

As part of our preparation for the adoption of IFRS, we completed the external valuation of our portfolio as at December 31, 2009, which indicated an un-audited value of \$1.27 billion, \$190 million above the value reported at that time. The portfolio was appraised in its entirety by an independent appraiser, Cushman & Wakefield. The appraiser used capitalization rates ranging from 7% to 10.2%, with the high-point being the capitalization rate associated with 151 Front at the time of acquisition. The weighted average

capitalization rate for the portfolio was 8.2%. As required by IFRS, the appraiser did not assign value to the very significant intensification potential in our portfolio.

## **Outlook**

We anticipate a generally stable operating environment for the remainder of the year. We believe that our Class I portfolio will continue to perform well, just as it has in the past. Our efforts to address the bulge in our lease-maturity schedule have met with success. By year-end, we expect to have this process largely complete, moderating our lease-maturity schedule considerably. By year-end, we also expect to have completed between \$100 and \$150 million in acquisitions. As always, we'll keep you apprised of our progress.

\* \* \*

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, 2010**

**PART I--OVERVIEW**

**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, 2010. 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, 2010. 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 continue to 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; and that we have accurately evaluated the impact of the accounting principles to be adopted effective January 1, 2011, under International Financial Reporting Standards ("IFRS"), including their impact on our 2010 comparative financial results. 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, 2010, 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, May 14, 2008 and May 11, 2010 ("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 a leading owner, manager and developer of urban office environments that enrich experience and enhance profitability for business tenants operating from Toronto, Montréal, Winnipeg, Québec City, Kitchener and Calgary. Our objectives are to provide stable and growing cash distributions to unitholders and to maximize unitholder value through effective management and accretive portfolio growth.

We specialize in an office format created through the adaptive re-use of light industrial structures in urban areas that has come to be known as Class I, the “I” stemming from the original industrial nature of the structures. This format typically features 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 2009, we had acquired another 43 office properties in downtown Toronto, 42 of them Class I office properties, bringing our total GLA in that market to 3.3 million square feet. We had also acquired 14 predominantly Class I office properties in downtown Montréal, seven in downtown Winnipeg, five in Québec City and one in Kitchener, bringing our total portfolio at the end of 2009 to 84 properties with almost six million square feet of GLA.

We also announced the following acquisitions in 2009, which are included in our calculation of future commitments, as set out in “Liquidity and Commitments” below:

- (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;
- (ii) an undivided 50% interest in 140 underground commercial parking spaces and 18,360 square feet of retail space to be constructed as part of a condominium project at 560 King West in Toronto, which is adjacent to our 544 King West; and
- (iii) 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 on final condominium registration and is expected to close between 2011 and 2013, subject to normal conditions. We will manage all three underground commercial parking structures on behalf of the co-owners, giving us operating control over 303 parking spaces in addition to the 208 parking spaces at our King-Brant underground commercial parking structure and a large number of surface commercial parking spaces adjacent to our properties in the King & Spadina area.

Thus far in 2010, we have acquired four properties for \$59.5 million, bringing our portfolio to 88 properties with over six million square feet of GLA. The basic details are set out in the table below:

<b>Property</b>	<b>Acquired</b>	<b>Office GLA</b>	<b>Retail GLA</b>	<b>Total GLA</b>	<b>Parking Spaces</b>
645 Wellington Street West, Montréal	May 14, 2010	130,425	4,083	134,508	-
The Lougheed Building, Calgary	September 2, 2010	66,530	21,038	87,568	-
49 Front Street East, Toronto	September 30, 2010	9,275	10,441	19,716	-
252-264 Adelaide Street East, Toronto	September 30, 2010	50,219	-	50,219	20
<b>Total</b>		<b>256,449</b>	<b>35,562</b>	<b>292,011</b>	<b>20</b>

Three Toronto properties (134 Peter Street (or Phase I of QRC West), 544 King Street West and 905 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. 544 King Street West is scheduled for completion on December 1, 2010, at which time it will become a rental property for accounting purposes. 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. Our distribution increases since then are 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

We did not increase distributions in 2009 and do not anticipate doing so in 2010.

##### 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 third quarter, DI per unit (diluted) was \$0.38, the same as the prior quarter and down 9.5% from the comparable quarter in 2009. In the nine-month period ended September 30, 2010, DI was \$1.16 down 6.5% from the comparable period in 2009.

##### 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 third quarter, our DI pay-out ratio was 86.6%, and in the nine-month period ended September 30, 2010, it was 84.9%.

##### 4. Funds From Operations

Unlike DI, Funds From Operations (“FFO”) has a standardized definition. See “Funds From Operations” below. In the third quarter, FFO per unit (diluted) was \$0.41, the same as the prior quarter and down 4.7% from the comparable quarter in 2009. In the nine-month period ended September 30, 2010, FFO was \$1.25, down 5.3% from the comparable period in 2009.

##### 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

third quarter, our FFO pay-out ratio was 80.1%, and in the nine-month period ended September 30, 2010, it was 79.1%.

#### 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 third quarter, AFFO per unit (diluted) was \$0.29, down 3.3% from the prior quarter and down 27.5% from the comparable quarter in 2009. In the nine-month period ended September 30, 2010, AFFO was \$0.96, down 19.3% from the comparable period in 2009. The declines are largely attributable to the costs associated with our leasing success at Cité Multimédia.

#### 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 third quarter our AFFO pay-out ratio was 115.1%, and in the nine-month period ended September 30, 2010, it was 103.0%.

#### 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. On September 30, 2010, our Debt Ratio was 46.1%, down from 49.4% at the same time in 2009.

### **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 1,309,616 square feet of GLA mature in 2010. This amount does not include month-to-month leases for 104,508 square feet of GLA that are routinely renewed at the end of each month by the tenant. By September 30, 2010, we had renewed leases representing 530,497 square feet of this GLA and re-leased another 311,632 square feet of this GLA, representing 64.3% of the GLA covered by the maturing leases.

#### 2. Occupancy

We strive to maintain consistently high levels of occupancy. At September 30, 2010, our leased area was 95.0% (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:

	2003	2004	2005	2006	2007	2008	2009
GLA (square feet)	984,856	1,636,343	2,321,507	3,415,279	4,761,211	5,350,208	5,675,420
% leased	97.5	99.2	97.0*	96.3*	97.9*	97.3*	96.0*

\*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 \$19,285 in the third quarter of 2010, down 9.4% from the comparable quarter in 2009, and \$59,565 in the nine-month period ended September 30, 2010, down 6.0% from the comparable period in 2009. The decreases in same-asset NOI are the result of lower quarter-over-quarter and period-over-period occupancy. For a detailed discussion of same-asset NOI, see “Same-Asset Net Operating Income” under each of Part II and Part IV below.

#### 4. Leasing Expenditures

We monitor leasing expenditures carefully. Leases for 229,799 square feet of GLA commenced in the third quarter. \$3,221 in leasing expenditures related to this space, representing \$14.02 per leased square foot, above our normal range of \$7 to \$10 per leased square foot. Leases for 771,675 square feet of GLA

commenced in the nine-month period ended September 30, 2010. \$7,108 in leasing expenditures related to this space, representing \$9.21 per leased square foot, in line with our normal range of \$7 to \$10 per leased square foot.

#### 5. Capital Expenditures

We strive to maintain our properties in top physical condition. In the third quarter, we incurred \$959 in regular maintenance capital expenditures, representing 16 cents per square foot of our portfolio, in line with the amount per square foot in the third quarter of prior years. In the nine-month period, we incurred \$2,370 in regular maintenance capital expenditures, representing 40 cents per square foot of our portfolio, in line with the amount per square foot in the comparable period of prior years.

#### Summary

The following table summarizes the key financial and operating performance measures for the third quarter and the prior quarter.

	Q3 2010	Q2 2010	Change	% Change
Period-end distribution level per unit annualized	\$1.32	\$1.32	\$0.00	0.00%
DI per unit (diluted)	\$0.38	\$0.38	\$0.00	0.00%
DI pay-out ratio	86.6%	87.4%	(0.8%)	
FFO per unit (diluted)	\$0.41	\$0.41	\$0.00	0.00%
FFO pay-out ratio	80.1%	81.1%	(1.0%)	
AFFO per unit (diluted)	\$0.29	\$0.30	(\$0.01)	(3.3%)
AFFO pay-out ratio	115.1%	110.6%	4.5%	
Debt Ratio	46.1%	48.0%	(1.9%)	
Period-end leased area (not including PUD)	95.0%	95.0%	0.0%	
Same-asset NOI	\$19,285	\$19,044	\$241	1.3%
Leasing expenditures	\$3,221	\$2,320	\$901	38.8%
Leasing expenditures per square foot	\$14.02	\$6.95	\$7.07	101.7%
Maintenance capital expenditures	\$959	\$1,116	(\$157)	(14.1%)
Maintenance capital expenditures per portfolio square foot	\$0.16	\$0.19	(\$0.03)	(15.8%)

The following table summarizes the key financial and operating performance measures for the third quarter and the comparable quarter in 2009.

	Q3 2010	Q3 2009	Change	% Change
Period-end distribution level per unit annualized	\$1.32	\$1.32	\$0.00	0.0%
DI per unit (diluted)	\$0.38	\$0.42	(\$0.04)	(9.5%)
DI pay-out ratio	86.6%	78.8%	7.8%	
FFO per unit (diluted)	\$0.41	\$0.43	(\$0.02)	(4.7%)
FFO pay-out ratio	80.1%	76.6%	3.5%	
AFFO per unit (diluted)	\$0.29	\$0.40	(\$0.11)	(27.5%)
AFFO pay-out ratio	115.1%	83.2%	31.9%	
Debt Ratio	46.1%	49.4%	(3.3%)	
Period-end leased area (not including PUD)	95.0%	96.2%	(1.2%)	
Same-asset NOI	\$19,285	\$21,275	(\$1,990)	(9.4%)
Leasing expenditures	\$3,221	\$721	\$2,500	346.7%
Leasing expenditures per square foot	\$14.02	\$4.29	\$9.73	226.8%
Maintenance capital expenditures	\$959	\$744	\$215	28.9%
Maintenance capital expenditures per portfolio square foot	\$0.16	\$0.14	\$0.02	14.3%

The following table summarizes the key financial and operating performance measures for the nine-month period and the comparable period in 2009.

	9 Months 2010	9 Months 2009	Change	% Change
Period-end distribution level per unit annualized	\$1.32	\$1.32	\$0.00	0.0%
DI per unit (diluted)	\$1.16	\$1.24	(\$0.08)	(6.5%)
DI pay-out ratio	84.9%	79.8%	5.1%	
FFO per unit (diluted)	\$1.25	\$1.32	(\$0.07)	(5.3%)
FFO pay-out ratio	79.1%	74.8%	4.3%	
AFFO per unit (diluted)	\$0.96	\$1.19	(\$0.23)	(19.3%)
AFFO pay-out ratio	103.0%	82.9%	20.1%	
Debt Ratio	46.1%	49.4%	(3.3%)	
Renewal/replacement % of leases maturing in year	64.3%	73.6%	(9.3%)	
Period-end leased area (not including PUD)	95.0%	96.2%	(1.2%)	
Same-asset NOI	\$59,565	\$63,364	(3,799)	(6.0%)
Leasing expenditures	\$7,108	\$2,858	\$4,250	148.7%
Leasing expenditures per square foot	\$9.21	\$5.04	\$4.17	82.7%
Maintenance capital expenditures	\$2,370	\$1,022	\$1,348	131.9%
Maintenance capital expenditures per portfolio square foot	\$0.40	\$0.19	\$0.21	110.5%

## Business Environment and Outlook

We operate in six target markets—downtown Toronto, downtown and midtown Montréal, downtown Winnipeg, downtown Québec City, downtown Kitchener and downtown Calgary. 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, 2010, the overall vacancy rate for the downtown Toronto office market was 5.7%, with the Downtown East, Downtown West and King West sub-markets finishing the quarter at 9.9%, 5.9% and 15.9%, respectively.<sup>1</sup>

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

This target market includes 17.8 million square feet of office inventory in three sub-markets, Downtown East (7.5 million square feet), Old Montréal (7.8 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, 2010, the overall vacancy rate for the downtown Montréal office market was 8.0%, with the Downtown East and Old Montréal sub-markets finishing the quarter at 2.9% and 7.0%, 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. At September 30, 2010, the overall vacancy rate for downtown Winnipeg office market was 7.8%.<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, 2010, the vacancy rate for the downtown Québec City office market was 8.9%.<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, 2010, the overall vacancy rate in the downtown Kitchener office market was 20.5%.<sup>5</sup>

<sup>1</sup> Cushman & Wakefield, *Third Quarter 2010 Statistical Summary, Toronto Office Market*.

<sup>2</sup> Cushman & Wakefield, *Third Quarter 2010 Statistical Summary, Montréal Office Market*.

<sup>3</sup> Cushman & Wakefield, *Third Quarter 2010 Statistical Summary, National Office Market*.

<sup>4</sup> Avison Young, *National Office Market Report, Second Quarter 2010*.

<sup>5</sup> Colliers International, *Waterloo Region Market Report, Third Quarter 2010*.

## Downtown Calgary

This target market includes approximately 1 million square feet of existing office inventory in the heart of the Downtown Core, including along Stephen Avenue (8<sup>th</sup> Avenue), and in the Warehouse District. Most of the office inventory in this target market falls within the Class I office category. At September 30, 2010, the overall vacancy rate in the downtown Calgary office market was 11.4%.<sup>6</sup>

## Outlook

We anticipate a generally stable operating environment for the remainder of the year. We believe that our Class I portfolio will continue to perform well, just as it has in the past. Our efforts to address the bulge in our lease-maturity schedule in 2010, 2011 and 2012 have met with success. By year-end, we expect to have this process largely complete, moderating our lease-maturity schedule considerably. By year-end, we also expect to have completed between \$100 and \$150 million in acquisitions.

## PART II—THIRD QUARTER RESULTS

The following sets out summary information and financial results for the quarter ended September 30, 2010, and the comparable quarter and the change between the two.

(In thousands except for per unit and % amounts)	Q3 2010	Q3 2009	Change	%Change
Revenue from rental properties	45,010	35,851	9,159	25.5%
Rental property operating cost	18,719	14,517	4,202	28.9%
Net rental income	26,291	21,334	4,957	23.2%
Real estate service income	61	70	(9)	(12.9%)
Financing expense				
Interest	8,447	6,898	1,549	22.5%
Amortization - Mortgage premium	(3)	(4)	1	(25.0%)
Amortization – Deferred financing cost	193	152	41	27.0%
Amortization				
Rental properties	5,689	4,462	1,227	27.5%
Deferred leasing cost and tenant improvements	826	844	(18)	(2.1%)
Origination cost and acquired tenant relationships	4,509	4,385	124	2.8%
Acquired contracts and customer relationships	24	24	-	0.0%
Computer and office equipment	82	80	2	2.5%
Income from operations	6,585	4,563	2,022	44.3%
Trust expense	1,123	774	349	45.1%
Net income	5,462	3,789	1,673	44.2%
Amortization				
Rental properties	5,689	4,462	1,227	27.5%
Mortgage premium	(3)	(4)	1	(25.0%)
Acquired leases	1,382	1,539	(157)	(10.2%)
M-T-M acquired leases	(671)	263	(934)	(355.1%)
Acquired tenant relationships	3,127	2,846	281	9.9%
Acquired contracts and customer relationships	24	24	-	0.0%
Step-rent adjustments	(163)	123	(286)	(232.5%)
Unit based compensation expenses	412	56	356	635.7%
DI	15,259	13,098	2,161	16.5%
Weighted average units outstanding (basic)	39,304	30,993	8,311	26.8%
Weighted average units outstanding (diluted)	39,799	31,411	8,388	26.7%
Distributions	13,209	10,320	2,889	28.0%
DI per unit (basic)	\$0.39	\$0.42	(\$0.03)	(7.1%)
DI per unit (diluted)	\$0.38	\$0.42	(\$0.04)	(9.5%)
DI pay-out ratio	86.6%	78.8%	7.8%	
FFO	16,486	13,480	3,006	22.3%
FFO per unit (basic)	\$0.42	\$0.43	(\$0.01)	(2.3%)
FFO per unit (diluted)	\$0.41	\$0.43	(\$0.02)	(4.7%)
FFO pay-out ratio	80.1%	76.6%	3.5%	
AFFO	11,472	12,401	(929)	(7.5%)
AFFO per unit (basic)	\$0.29	\$0.40	(\$0.11)	(27.5%)
AFFO per unit (diluted)	\$0.29	\$0.40	(\$0.11)	(27.5%)
AFFO pay-out ratio	115.1%	83.2%	31.9%	

<sup>6</sup> Cushman & Wakefield, *Third Quarter 2020 Statistical Summary, Calgary Office Market*.

(In thousands except for per unit and % amounts)	Q3 2010	Q3 2009	Change	%Change
NOI	25,457	21,720	3,737	17.2%
Same-asset net operating income	19,285	21,275	(1,990)	(9.4%)
Total assets	1,210,791	937,342	273,449	29.2%
Total debt (excludes premium on assumed debt)	643,475	533,348	110,127	20.6%
Debt Ratio	46.1%	49.4%	(3.3%)	
Total GLA (s.f., excluding PUD)	5,962	5,452	510	9.4%
Leased GLA (s.f., excluding PUD)	5,662	5,247	415	7.9%
Leased GLA (% total GLA)	95.0%	96.2%	(1.2%)	

### Net Income

Net income for the third quarter was \$5,462, as compared to \$3,789 in the comparable quarter. Net income per unit (diluted) for the quarter was \$0.14, as compared to \$0.12 in the comparable quarter.

### Net Rental Income

Net rental income for the third quarter was \$26,291, up 23.2% from the comparable quarter. The quarter-over-quarter change arose from the following: (i) a \$1,985 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) a \$6,942 increase from properties not owned for the entire quarter and the entire comparable quarter. Net rental income per occupied square foot for the third quarter was \$18.57 annualized, as compared to \$16.26 annualized in the comparable quarter. The quarter-over-quarter increase derives largely from the high net rental rates at 151 Front Street West, Toronto, which we acquired late last year.

### Real Estate Service Income

The Property Manager provides real estate services to third-party property owners. Real estate service income for the third quarter was \$61, as compared to \$70 in the comparable quarter.

### Financing Expense

Financing expense includes interest cost on mortgage debt and other credit facilities and the amortization of the premiums and discounts on assumed mortgages. Interest for the third quarter increased by 22.5% from the comparable quarter, due largely to the financing expense associated with additional properties acquired in 2009 and 2010.

### Amortization

We record amortization on our buildings on a straight-line basis over their expected life. Amortization recorded on buildings for the third quarter increased by 27.5% from comparable quarter, due largely to the amortization associated with additional properties acquired in 2009 and 2010. 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 expense 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 third quarter increased by 45.1% from the comparable quarter, due to costs associated with the implementation of IFRS and executive compensation.

### 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 third quarter, we incurred (i) \$959 in regular maintenance capital expenditures (\$0.16 per portfolio square foot) and (ii) \$3,221 in leasing expenditures (\$14.02 per leased square foot) in connection with new leases or lease-renewals that commenced in the quarter. In addition, we incurred \$1,174 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.

\$265 of the salary expense incurred in the third quarter was capitalized in connection with capital improvements to our rental properties and Properties Under Development. This amount was equivalent to approximately 5.61% of the associated development costs.

### 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 for the third quarter, as presented in the consolidated financial statements, to DI.

(In thousands)	Q3 2010	Q3 2009
Cash flow from operations	\$20,777	\$11,248
Amortization of leasing cost, tenant improvements	(826)	(844)
Amortization of financing cost	(193)	(152)
Amortization of computer and office equipment	(82)	(80)
Change in non-cash operating items	(4,417)	2,926
DI	\$15,259	\$13,098

Distributions for the third quarter were \$13,209, which represented a DI pay-out ratio of 86.6%, as compared to distributions for the comparable quarter of \$10,320, which represented a DI pay-out ratio of 78.8%.

## Funds From Operations

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

(In thousands)	Q3 2010	Q3 2009
Net income	5,462	3,789
Amortization on rental properties	5,689	4,462
Amortization of leasing cost and tenant improvements	826	844
Amortization of origination cost and acquired tenant relationships	4,509	4,385
FFO	16,486	13,480

Distributions for the third quarter represented an FFO pay-out ratio of 80.1%, as compared to distributions for the comparable quarter, which represented an FFO pay-out ratio of 76.6%.

## Adjusted Funds From Operations

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

(In thousands)	Q3 2010	Q3 2009
FFO	\$16,486	\$13,480
Step-rent adjustments	(163)	123
M-T-M acquired leases	(671)	263
Leasing expenditures	(3,221)	(721)
Maintenance capital expenditures	(959)	(744)
AFFO	\$11,472	\$12,401

Distributions for the third quarter represented an AFFO pay-out ratio of 115.1%, as compared to distributions for the comparable quarter, which represented an AFFO pay-out ratio of 83.2%.

## 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 for the third quarter, as presented in the consolidated financial statements, to NOI.

(In thousands)	Q3 2010	Q3 2009
Revenue from rental properties	45,010	35,851
Rental property operating cost	18,719	14,517
Net rental income	26,291	21,334
M-T-M acquired leases	(671)	263
Step-rent adjustments	(163)	123
NOI	25,457	21,720

We operate in six urban markets in Canada—Québec City, Montréal, Toronto, Kitchener, Winnipeg and Calgary. For the purposes of analysing NOI, we group Toronto with Kitchener and Winnipeg with Calgary. The following sets out the NOI by region for the third quarter and the comparable quarter.

(In thousands)	Q3 2010	Q3 2009	Change	%Change
Québec City	434	585	(151)	(25.8%)
Montréal	6,950	7,939	(989)	(12.5%)
Toronto and Kitchener	17,368	12,687	4,681	36.9%
Winnipeg and Calgary	705	509	196	38.5%
NOI	25,457	21,720	3,737	17.2%

Our NOI in the third quarter increased by 17.2% over the comparable quarter in 2009. The increase was driven in large measure by the high volume of acquisitions in 2009 and 2010, particularly in our Toronto target market, where NOI increased by nearly 36.9%, and in our Calgary target market, which accounts for most of the increase in the Winnipeg and Calgary segment. The significant NOI increases in our Toronto and Calgary target markets were partially offset by NOI decreases in our Québec City and Montréal target markets, which are discussed in detail below under “Same-Asset Net Operating Income”.

### Same-Asset Net Operating Income

Our same-asset NOI in the quarter decreased by 9.4% from the comparable quarter in 2009. This flows from lower quarter-over-quarter occupancy, which is best understood in the context of our same-asset NOI by region, as set out below:

(In thousands)	Q3 2010	Q3 2009	Change	%Change
Québec City	434	585	(151)	(25.8%)
Montréal	6,727	7,939	(1,212)	(15.3%)
Toronto and Kitchener	11,628	12,242	(614)	(5.0%)
Winnipeg and Calgary	496	509	(13)	(2.6%)
NOI	19,285	21,275	(1,990)	(9.4%)

The largest same-asset NOI decrease was in our Montréal target market. Turnover vacancy at Cité Multimédia accounts for the largest component of the decrease (\$1,046) with a significant portion (\$486) deriving from the space that has been leased to Morgan Stanley starting in part on September 1, 2010, and in part on May 1, 2011. The remainder at Cité Multimédia derives from space that we expect to lease in due course at net rental rates equal to or above prior in-place rents. Turnover vacancy at two Mile-End properties, 4446 Saint-Laurent Boulevard and 6300 Avenue du Parc, accounts for the remainder of the decrease. Mile-End is a transforming area of midtown Montréal. While the turnover vacancy results in a near-term NOI decline, it represents opportunity over time to increase net rental rates from prior in-place rents.

There was a smaller same-asset NOI decrease in our Toronto target market, both in absolute and percentage terms. Turnover vacancy at 179 John Street accounts for the largest component of the decrease (\$190). This space has now been leased at net rental rates equal to prior in-place rents with rent commencing in the latter part of the fourth quarter. Turnover vacancy at 99 Spadina Avenue and tenant failure at 312 Adelaide Street West and 555 College Street West account for most of the remainder of the decrease (\$486). These are Tier 1, Class I properties, and we fully expect to lease the space in due course at rental rates equal to or above prior in-place rents.

The same-asset NOI decrease in Québec City was significant in percentage terms. Turnover vacancy at 390 Charest Boulevard East accounts for the largest component of the decrease (\$88). This is high-quality office space that we expect to lease in due course at net rental rates equal to prior in-place rents. Turnover vacancy at 410 Charest Boulevard East accounts for most of the remainder of the decrease (\$73). This space has now been leased at net rental rates above prior in-place rents with rent commencing in early 2011.

### PART III—QUARTERLY HISTORY

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)	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Revenue from rental properties	45,010	43,780	47,024	43,667	35,851	35,732	36,975	35,202
Rental property operating cost	18,719	18,150	20,300	18,461	14,517	13,912	15,244	14,332
Net rental income	26,291	25,630	26,724	25,206	21,334	21,820	21,731	20,870
Real estate service income	61	59	57	58	70	70	65	73
Financing expense	8,637	8,463	8,370	7,838	7,046	6,884	6,855	7,018
Amortization	11,130	11,377	12,391	11,513	9,795	10,073	10,144	9,723
Income from operations	6,585	5,849	6,020	5,913	4,563	4,782	4,797	4,202
Trust expense	1,123	1,241	1,439	1,229	774	832	921	906
Net income (loss)	5,462	4,608	4,581	4,684	3,789	3,950	3,876	3,296
Amortization								
Rental properties	5,689	5,600	5,546	5,187	4,462	4,417	4,381	4,284
Mortgage premium	(3)	(4)	(3)	(4)	(4)	(6)	(8)	(5)
Acquired leases	1,382	1,412	1,797	1,674	1,539	1,739	1,586	1,644
M-T-M acquired leases	(671)	(663)	(289)	(220)	263	(252)	118	195
Acquired tenant relationships	3,127	3,470	4,124	3,904	2,846	3,067	3,018	3,110
Acquired contracts and customer relationships	24	24	24	24	24	24	24	24
Step-rent adjustments	(163)	(142)	(38)	(312)	123	(191)	(215)	(341)
Unit based compensation expense	412	436	119	261	56	55	56	123
DI	15,259	14,741	15,861	15,198	13,098	12,803	12,836	12,330
Weighted average units (basic)	39,304	38,738	38,681	38,547	30,993	30,966	30,914	30,796
Weighted average units (diluted)	39,799	39,204	39,119	38,975	31,411	31,370	31,302	31,184
Distributions	13,209	12,877	12,858	12,839	10,320	10,308	10,296	10,255
DI per unit (basic)	\$0.39	\$0.38	\$0.41	\$0.39	\$0.42	\$0.41	\$0.42	\$0.40
DI per unit (diluted)	\$0.38	\$0.38	\$0.41	\$0.39	\$0.42	\$0.41	\$0.41	\$0.40
DI pay-out ratio	86.6%	87.4%	81.1%	84.5%	78.8%	80.5%	80.2%	83.2%
FFO	16,486	15,822	16,869	16,092	13,480	13,928	13,929	13,023
FFO per unit (basic)	\$0.42	\$0.41	\$0.44	\$0.42	\$0.43	\$0.45	\$0.45	\$0.42
FFO per unit (diluted)	\$0.41	\$0.41	\$0.43	\$0.41	\$0.43	\$0.44	\$0.44	\$0.42
FFO pay-out ratio	80.1%	81.1%	76.2%	79.8%	76.6%	74.0%	73.9%	78.7%
AFFO	11,472	11,641	14,680	13,261	12,401	12,632	12,270	10,603
AFFO per unit (basic)	\$0.29	\$0.30	\$0.38	\$0.34	\$0.40	\$0.41	\$0.40	\$0.34
AFFO per unit (diluted)	\$0.29	\$0.30	\$0.38	\$0.34	\$0.40	\$0.40	\$0.39	\$0.34
AFFO pay-out ratio	115.1%	110.6%	87.6%	96.8%	83.2%	81.6%	83.9%	96.7%
NOI	25,457	24,825	26,397	24,674	21,720	21,377	21,634	20,724
Net income per unit (basic)	\$0.14	\$0.12	\$0.12	\$0.12	\$0.12	\$0.13	\$0.13	\$0.11
Net income per unit (diluted)	\$0.14	\$0.12	\$0.12	\$0.12	\$0.12	\$0.13	\$0.12	\$0.11
Total assets	1,210,791	1,158,995	1,152,390	1,155,158	937,342	942,806	945,985	949,385
Total debt	643,475	646,273	620,013	614,298	533,348	531,857	527,174	526,478
Debt Ratio	46.1%	48.0%	47.0%	47.0%	49.4%	49.3%	49.3%	49.4%
Total GLA (excluding PUD)	5,962	5,816	5,665	5,675	5,452	5,451	5,335	5,350
Leased GLA (excluding PUD)	5,662	5,524	5,379	5,448	5,247	5,246	5,183	5,204
Leased Area (%GLA)	95.0%	95.0%	95.0%	96.0%	96.2%	96.3%	97.2%	97.3%

Factors that cause variation from quarter to quarter include but are not limited to our Debt Ratio, the extent to which we have cash that has not been deployed, 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 IV—NINE-MONTH RESULTS

The following sets out summary information and financial results for the nine-month period ended September 30, 2010, and the comparable period, as well as the change between the two.

(In thousands except for per unit and % amounts)	9 Months 2010	9 Months 2009	Change	%Change
Revenue from rental properties	135,814	108,558	27,256	25.1%
Rental property operating cost	57,169	43,673	13,496	30.9%
Net rental income	78,645	64,885	13,760	21.2%
Real estate service income	177	205	(28)	(13.7%)
Financing expense				
Interest	24,872	20,481	4,391	21.4%
Amortization - Mortgage premium	(10)	(18)	8	(44.4%)
Amortization – Financing cost	608	473	135	28.5%
Amortization				
Rental properties	16,835	13,260	3,575	27.0%
Leasing cost and tenant improvements	2,439	2,667	(228)	(8.5%)
Origination cost and acquired tenant relationships	15,312	13,795	1,517	11.0%
Acquired contracts and customer relationships	72	72	-	0.0%
Computer and office equipment	240	218	22	10.1%
Income from operations	18,454	14,142	4,312	30.5%
Trust expense	3,803	2,527	1,276	50.5%
Net income	14,651	11,615	3,036	26.1%
Amortization				
Rental properties	16,835	13,260	3,575	27.0%
Mortgage premium	(10)	(18)	8	(44.4%)
Acquired leases	4,591	4,864	(273)	(5.6%)
M-T-M acquired leases	(1,623)	129	(1,752)	(1,358.1%)
Acquired tenant relationships	10,721	8,931	1,790	20.0%
Acquired contracts and customer relationships	72	72	-	0.0%
Step-rent adjustments	(343)	(283)	(60)	21.2%
Unit based compensation expense	967	167	800	479.0%
DI	45,861	38,737	7,124	18.4%
Weighted average units outstanding (basic)	38,910	30,958	7,952	25.7%
Weighted average units outstanding (diluted)	39,370	31,362	8,008	25.5%
Distributions	38,944	30,924	8,020	25.9%
DI per unit (basic)	\$1.18	\$1.25	(\$0.07)	(5.6%)
DI per unit (diluted)	\$1.16	\$1.24	(\$0.08)	(6.5%)
DI pay-out ratio	84.9%	79.8%	5.1%	
FFO	49,237	41,337	7,900	19.1%
FFO per unit (basic)	\$1.27	\$1.34	(\$0.07)	(5.2%)
FFO per unit (diluted)	\$1.25	\$1.32	(\$0.07)	(5.3%)
FFO pay-out ratio	79.1%	74.8%	4.3%	
AFFO	37,793	37,303	490	1.3%
AFFO per unit (basic)	\$0.97	\$1.21	(\$0.24)	(19.8%)
AFFO per unit (diluted)	\$0.96	\$1.19	(\$0.23)	(19.3%)
AFFO pay-out ratio	103.0%	82.9%	20.1%	
NOI	76,679	64,731	11,948	18.5%
Same-asset net operating income	59,565	63,364	(3,799)	(6.0%)
Total assets	1,210,791	937,342	273,449	29.2%
Total debt (excludes premium on assumed debt)	643,475	533,348	110,127	20.6%
Debt Ratio	46.1%	49.4%	(3.3%)	
Total GLA (s.f., excluding PUD)	5,962	5,452	510	9.4%
Leased GLA (s.f., excluding PUD)	5,662	5,247	415	7.9%
Leased GLA (% total GLA)	95.0%	96.2%	(1.2%)	

## **Net Income**

Net income for the nine-month period was \$14,651, as compared to \$11,615 in the comparable period. Net income per unit (diluted) for the period was \$0.37, as compared to \$0.37 in the comparable period.

## **Net Rental Income**

Net rental income for the nine-month period was \$78,645, up 21.2% from the comparable period. The period-over-period change arose from the following: (i) a \$4,086 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) a \$17,846 increase from properties not owned for the entire period and the entire comparable period. Net rental income per occupied square foot for the third period was \$18.52 annualized, as compared to \$16.49 annualized in the comparable period. The quarter-over-quarter increase derives largely from the high net rental rates at 151 Front Street West, Toronto, which we acquired late last 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 was \$177, as compared to \$205 in the comparable period.

## **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. Interest for the nine-month period increased by 21.4% from the comparable period, due largely to the financing expense associated with additional properties acquired in 2009 and 2010.

## **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 increased by 27.0% from comparable period, due largely to the amortization associated with additional properties acquired in 2009 and 2010. We record amortization of 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 expense 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 increased by 50.5% from the comparable period, due to costs associated with the implementation of IFRS and executive compensation.

## **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, we incurred (i) \$2,370 in regular maintenance capital expenditures (\$0.40 per portfolio square foot) and (ii) \$7,108 in leasing expenditures (\$9.21 per leased square foot) in connection with new leases or lease-renewals that commenced in the quarter. In addition, we incurred \$3,087 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.

\$720 of the salary expense incurred in the nine-month period was capitalized in connection with capital improvements to our rental properties and Properties Under Development. This amount was equivalent to approximately 7.18% of the associated development costs.

### Distributable Income

The following reconciles cash flow from operations for the nine-month period, as presented in the consolidated financial statements, to DI.

(In thousands)	Nine-Month Period 2010	Nine-Month Period 2009
Cash flow from operations	\$40,740	\$37,556
Amortization of leasing cost, tenant improvements	(2,439)	(2,667)
Amortization of financing cost	(608)	(473)
Amortization of computer and office equipment	(240)	(218)
Change in non-cash operating items	8,408	4,539
<b>DI</b>	<b>\$45,861</b>	<b>\$38,737</b>

Distributions for the nine-month period were \$38,944, which represented a DI pay-out ratio of 84.9%, as compared to distributions for the comparable period of \$30,924, which represented a DI pay-out ratio of 79.8%.

### Funds From Operations

The following reconciles net income for the nine-month period, as presented in the consolidated financial statements, with FFO, as calculated in accordance with recommendations of the REALpac definition.

(In thousands)	Nine-Month Period 2010	Nine-Month Period 2009
Net income	\$14,651	\$11,615
Amortization on rental properties	16,835	13,260
Amortization of leasing cost and tenant improvements	2,439	2,667
Amortization of origination cost and acquired tenant relationships	15,312	13,795
<b>FFO</b>	<b>\$49,237</b>	<b>\$41,337</b>

Distributions for the nine-month period represented an FFO pay-out ratio of 79.1%, as compared to distributions for the comparable period, which represented an FFO pay-out ratio of 74.8%.

### Adjusted Funds From Operations

The following reconciles net income for the nine-month period, as presented in the consolidated financial statements, with AFFO, calculated in accordance with what Management believes to be industry practice.

(In thousands)	Nine-Month Period 2010	Nine-Month Period 2009
FFO	\$49,237	\$41,337
Step-rent adjustments	(343)	(283)
M-T-M acquired leases	(1,623)	129
Leasing expenditures	(7,108)	(2,858)
Maintenance capital expenditures	(2,370)	(1,022)
<b>AFFO</b>	<b>\$37,793</b>	<b>\$37,303</b>

Distributions for the nine-month represented an AFFO pay-out ratio of 103.0%, as compared to distributions for the comparable period, which represented an AFFO pay-out ratio of 82.9%.

### Net Operating Income

The following reconciles net rental income for the nine-month period, as presented in the consolidated financial statements, to NOI.

(In thousands)	Nine-Month Period 2010	Nine-Month Period 2009
Revenue from rental properties	\$135,814	\$108,558
Rental property operating cost	57,169	43,673
Net rental income	78,645	64,885
M-T-M acquired leases	(1,623)	129
Step-rent adjustments	(343)	(283)
<b>NOI</b>	<b>\$76,679</b>	<b>\$64,731</b>

We operate in six urban markets in Canada—Québec City, Montréal, Toronto, Kitchener, Winnipeg and Calgary. For the purposes of analysing NOI, we group Toronto with Kitchener and Winnipeg with Calgary. The following sets out the NOI by region for the nine-month period and the comparable period.

(In thousands)	Nine-Month Period 2010	Nine-Month Period 2009	Change	%Change
Québec City	1,357	1,844	(487)	(26.4%)
Montréal	23,536	23,920	(384)	(1.6%)
Toronto and Kitchener	50,275	37,596	12,679	34.0%
Winnipeg and Calgary	1,511	1,371	140	10.2%
NOI	76,679	64,731	11,948	18.6%

Our NOI in the nine-month period increased by 18.6% over the comparable period in 2009. The increase was driven in large measure by the high volume of acquisitions in 2009 and 2010, particularly in our Toronto target market, where NOI increased by 34.0%, and in our Calgary target market, which accounts for most of the increase in the Winnipeg and Calgary segment. The significant NOI increases in our Toronto and Calgary target markets were partially offset by NOI decreases in our Québec City and Montréal target markets, which are discussed in detail below under “Same-Asset Net Operating Income”.

### Same-Asset Net Operating Income

Our same-asset NOI in the period decreased by 6% from the comparable period in 2009. This flows from lower period-over-period occupancy, which is best understood in the context of our same-asset NOI by region, as set out below.

(In thousands)	Nine-Month Period 2010	Nine-Month Period 2009	Change	%Change
Québec City	1,357	1,844	(487)	(26.4%)
Montréal	23,164	23,920	(756)	(3.2%)
Toronto and Kitchener	33,742	36,229	(2,487)	(6.9%)
Winnipeg and Calgary	1,302	1,371	(69)	(5.0%)
NOI	59,565	63,364	(3,799)	(6.0%)

The largest same-asset NOI decrease was in our Toronto target market. Turnover vacancy at 179 John Street, 217-225 Richmond Street East, 82 Peter Street, 495 King Street West and 500 King Street West account for a large component of the decrease (\$944). This space has now been leased at net rental rates equal to or above prior in-place rents with rent commencing in the latter part of the fourth quarter or early in 2011. Turnover vacancy at QRC East, 99 Spadina Avenue and 445-455 King Street West and tenant failure at 312 Adelaide Street West and 555 College Street West account for another large portion of the decrease (\$1,186). These are Tier 1, Class I properties, and we fully expect to lease the vacant space in due course at rental rates equal to or above prior in-place rents. Turnover vacancy at 388 King Street West accounts for most of the remainder of the decrease (\$344). This is a Tier 2, Class I building with very significant redevelopment potential. While the space is leasable at net rental rates equal to prior in-place rents, we may elect not to lease the space in the near term as we explore the possibility of initiating a large-scale intensification of the property.

There was a smaller same-asset NOI decrease was in our Montréal target market, both in absolute and percentage terms. Turnover vacancy at Cité Multimédia accounts for the largest component of the decrease (\$432). This is space that we expect to lease in due course at net rental rates equal to or above prior in-place rents. Turnover vacancy at two Mile-End properties, 4446 Saint-Laurent Boulevard and 6300 Avenue du Parc, accounts for the remainder of the decrease. Mile-End is a transforming area of midtown Montréal. While the turnover vacancy results in a near-term NOI decline, it represents opportunity over time to increase net rental rates from prior in-place rents.

The same-asset NOI decrease in Québec City was significant in percentage terms. Turnover vacancy at 390 Charest Boulevard East accounts for the largest component of the decrease (\$228). This is high-quality office space that we expect to lease in due course at net rental rates equal to prior in-place rents. 410 Charest Boulevard East accounts for most of the remainder of the decrease (\$199). This space has now been leased at net rental rates above prior in-place rents with rent commencing in early 2011.

## PART V—LEASING

### Status

Leasing status as at September 30, 2010, is summarized in the following table:

Total GLA*	Occupied	% Occupied	Committed	% Committed	Leased	%Leased
5,962,114	5,434,437	91.2%	227,791	3.8%	5,662,228	95.0%

\*not including Properties Under Development

Of 5,962,114 square feet of total GLA in our rental property portfolio, 5,434,437 square feet were occupied by tenants on September 30, 2010. Another 227,791 square feet were subject to contractual lease commitments with tenants whose leases commence subsequent to September 30, 2010, bringing the leased area to 5,662,228 square feet.

Leasing status during the quarter and nine-month period ended September 30, 2010, is summarized in the following table:

	Occupied GLA on Average	% Occupied GLA on Average
Third Quarter	5,274,172	90.7%
Nine-Month Period	5,245,187	92.2%

During the third quarter, average occupied area was 5,274,172 square feet, representing 90.7% of the total GLA in the portfolio. During the nine-month period, average occupied area was 5,245,187 square feet, representing 92.2% of the total GLA in the portfolio.

We monitor the level of sub-lease space in our portfolio. We are unaware of any space being offered for sub-lease in our Québec and Winnipeg portfolios. We are aware of 39,051 square feet of space being offered for sub-lease in our Toronto portfolio, 31,280 square feet in our Montréal portfolio and 10,067 square feet in our Kitchener 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.

### Activity

Leasing activity as at September 30, 2010, is summarized in the following table:

	GLA	SF Leased by September 30	% Leased by September 30	SF Unleased on September 30*
Vacancy on January 1, 2010*	250,446	118,031	47.1%	132,415
Arranged vacancies for 9-Month Period 2010	20,517	13,270	64.7%	7,247
Acquired vacancies for 9-Month Period 2010	18,898	12,694	67.2%	6,204
Maturities in 9-Month Period 2010	683,491	529,471	77.5%	154,020
Maturities in remainder of 2010	626,125	312,658	49.9%	-
<b>Total</b>	<b>1,599,477</b>	<b>986,124</b>	<b>61.5%</b>	<b>299,886</b>

\*not including Properties Under Development

250,446 square feet of GLA was vacant at the beginning of 2010. By September 30, 2010, we leased 118,031 square feet of this GLA, leaving 132,415 square feet vacant at the end of the period.

Leases for 683,491 square feet of GLA matured in the nine-month period. By the end of the period, we renewed or replaced leases for 529,471 square feet of this GLA, leaving 154,020 square feet vacant at the end of the period. Of the 626,125 square feet of GLA maturing in the fourth quarter of 2010, we renewed or replaced 312,658 square feet by the end of the period.

With respect to the maturing leases renewed or replaced in the nine-month period (842,129 square feet of GLA), we achieved rental rates (i) above in-place rental rates with respect to 55% of this GLA, (ii) equal to in-place rental rates with respect to 18% of this GLA and below in-place rates with respect to 27% of this

GLA. This will result in an overall increase of approximately 0.2% in net rental income per square foot from the GLA covered by the maturing leases.

In the third quarter, we modified the lease transaction at 645 Wellington Street in Montréal with Milgram and Company Limited, increasing the leased area from 22,209 square feet to 31,775 square feet and extending the commencement date from March 1, 2011, to November 1, 2011. The lease will have a term of 10 years with an escalation after five years and represents significant and rapid progress toward our objective of upgrading and adding value to 645 Wellington.

We decided in the second quarter not to renew CGI's lease at Cité Multimédia, which expires at the end of this year. During the third quarter, we negotiated a conditional lease transaction with a high-quality tenant for two of the five office floors occupied by CGI. The transaction is subject to approval later this month by the tenant's board of directors, which will also be considering a competing alternative. If our transaction is approved, the lease will have a term of 20 years commencing November 1, 2011, and will be at net rental rates above in-place rents with escalations every five years. We also responded to a request for proposal from a high-quality tenant for two of the remaining three floors. The tenant has narrowed the alternatives under consideration to three, of which ours is one. Finally, two existing tenants at Cité Multimédia have expressed interest in expanding within CGI's office space. While the re-leasing is ongoing, we expect the process to be largely complete by year-end.

## PART VI—DEVELOPMENT

### Properties Under Development

Our Properties Under Development are identified in the following table and described briefly below:

PUDs in Progress	Estimated GLA
4450 Saint-Laurent, Montréal*	22,000
544 King West, Toronto	17,000
134 Peter, Toronto, Phase I of QRC West*	300,000
905 King West, Toronto	112,096
<b>Total</b>	<b>451,096</b>

\*Conditional on satisfactory pre-leasing

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 a renovated brick-and-beam building with 17,000 square feet of GLA and 28 surface parking spaces. The property is now fully leased and will become a rental property for accounting purposes on December 1, 2010.

Phase I of QRC West received municipal approval in 2009. The requirements for site-plan approval have now been met, and we expect this to be formalized by year-end. We have initiated the permit drawings with a view to being in a position to complete construction by mid-2013. This will facilitate our pre-leasing efforts, which progressed well in the third quarter. We also initiated the municipal approval process for Phase II of QRC West. The height and density issues are straightforward, but certain shared-use issues will require attention, particularly our wish to acquire one public laneway and our need to secure an aerial easement over another. We're targeting the end of next year for municipal approval of this phase.

In November of 2009, we put 905 King Street West, Toronto, into development after identifying it as an optimal building for expanding the capacity of 151 Front Street West, Toronto. We finalized the tenant specifications in the third quarter, which enabled us to initiate the leasing program in earnest. We have 40,000 square feet available for occupancy in early 2011 and another 20,000 square feet available for occupancy in late 2011. We expect annual net rental rates per square foot to be in the range of \$60 to \$100, with smaller spaces commanding rents at the high end of the range, as is the case at 151 Front. A number our tenants at 151 Front have expressed interest in the space available for occupancy early next year, and we expect the first 40,000 square feet to be leased by year-end and generating rental revenue by the beginning of the second quarter next year.

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, 2010, the cost of our Properties Under Development was \$51,881, which was equivalent to 3.7% of our GBV.

### **Intensification**

The buildings on most of our 59 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 1,075,000 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 1.2 million and 1.8 square feet of additional GLA in the near term, market conditions permitting. Phase I of QRC West is a very good example of the intensification that is possible within our existing portfolio.

## **PART VII—BALANCE SHEET**

### **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, 2010, we had mortgage debt of \$618,898 bank indebtedness of \$24,577 and unitholders' equity of \$516,241. As at December 31, 2009, we had mortgage debt of \$597,375, bank indebtedness of \$16,923 and unitholders' equity of \$481,526. The increase in mortgage debt is due to new mortgage financing of \$24,790, the assumption of mortgage financing on acquisitions, net of reductions due to regular principal repayments. The increase in unitholders' equity is due to units issued as described below and net income for the period of \$14,651, offset by distributions to unitholders' of \$38,944. Mortgage financing increased due to new financings closed, the assumption of a mortgage loan on an acquisition of a rental property, offset by regular monthly principal repayments.

#### ***Unitholders' Equity***

As at September 30, 2010, we had a market capitalization of approximately \$953,096 based on a closing unit price of \$22.70 on the Toronto Stock Exchange. 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.

In the nine-month period ended September 30, 2010, we issued a total of 2,945,269 units for an equity contribution of \$61,588. Costs incurred to issue the units were \$2,758. Units were issued as follows: 2,732,400 units at \$21.05 for gross proceeds of \$57,517 pursuant to a bought deal that closed on September 15, 2010; and 212,869 units under our distribution re-investment plan at an average price of \$19.13 per unit for \$4,071. As at November 10, 2010, we had 42,030,228 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 2010, 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 8.1% of the issued and outstanding units from time to time. As of

November 9, 2010, we had options to purchase 1,620,177 units outstanding, of which 402,495 had vested, and 378,043 units issued under the LTIP.

In March of 2010, we adopted a restricted unit plan (the Restricted Unit Plan”), whereby restricted units (“Restricted Units”) are granted to certain key employees of the Trust, at the discretion of the trustees. The Restricted Units are purchased in the open market. Employees who are granted Restricted Units have the right to vote and to receive distributions from the date of the grant. The Restricted Units vest (in the sense that such Units are not subject to forfeiture) as to one-third on each of the three anniversaries following the date of the grant. Whether vested or not, without the specific authority of the Governance and Compensation Committee, the Restricted Units may not be sold, mortgaged or otherwise disposed of for a period of six years following the date of the grant. The Restricted Unit Plan contains provisions providing for the forfeiture within specified time periods of unvested Restricted Units in the event the employee’s employment is terminated. As of September 30, 2010, we had 55,659 Restricted Units granted under the Restricted Unit Plan.

### **Mortgages Payable**

Mortgages payable as at September 30, 2010, consisted of mortgage debt of \$618,898. 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
2010	4,211	-	4,211	0.7%	0.0%
2011	16,927	29,805	46,732	7.6%	5.0%
2012	16,897	36,805	53,702	8.7%	5.9%
2013	17,537	28,322	45,859	7.4%	5.4%
2014	13,457	161,663	175,120	28.3%	5.5%
Thereafter	29,692	263,582	293,274	47.3%	6.0%
Total	98,721	520,177	618,898	100.0%	

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

(In thousands)	Direct Mortgage Lender	Conduit Mortgage Lender
2010	-	-
2011	24,650	5,155
2012	24,488	12,317
2013	28,322	-
2014	142,780	18,883
Thereafter	197,368	66,214
Total	417,608	102,569

Interest rates on the mortgage debt are between 2.39% and 8.10% with a weighted average interest rate of 5.8%. The weighted average term of the mortgage debt is 5.0 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, 2010, we had a \$70,000 revolving credit facility (“Facility”) with a Canadian chartered bank bearing interest at bank prime plus 175 basis points or bankers’ acceptance plus 275 basis points and maturing on August 31, 2011. 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, the average borrowings under the Facility were \$24,561. As at September 30, 2010, the borrowings under the Facility were \$24,577.

## 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.

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 approximately \$500,000.

As at September 30, 2010, we had future commitments as set out below.

(In thousands)	September 30, 2010
Leasing commissions	1,036
Tenant improvements	5,039
Building renovations and maintenance capital expenditures	3,503
Revenue-enhancing capital and leasing expenditure	638
Expenses	546
Conditional acquisitions	14,500
<b>Total</b>	<b>25,262</b>

## PART VIII--ACCOUNTING

### 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, 2010, and for the year ended December 31, 2009. 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***

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, 2010, recognize a \$2,220 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--Adoption of International Financial Reporting Standards ("IFRS")**

The Canadian Accounting Standards Board has confirmed that the transition date to IFRS from current 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. 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.

#### ***Training and Education***

Several of our key employees involved in the IFRS conversion have completed training in 2009 and specific training for all affected staff was substantially completed in the third quarter of 2010. Internal accounting policy and procedures manuals will be updated in the fourth quarter of 2010.

#### ***Assessment of Impact***

We have completed an assessment and have identified differences between current GAAP and IFRS that will impact on our financial statements. We continue to assess the implications of these differences and evaluate the accounting policy alternatives and the impact on our financial statements. The development of a real estate valuations strategy and process is almost complete. We have engaged a third-party appraiser to assist in determining the fair value of investment properties as at January 1, 2010, the results of which have not been finalized. The appraiser is retained to assist with determining fair value for subsequent reporting periods. Required changes to information technology data systems are being identified as the conversion plan progresses, and we expect changes will be impacted by accounting policies related to investment properties and the need for capturing information under a dual reporting requirements. We continue to assess existing disclosure and control procedures and internal control processes and will design and implements any necessary changes throughout 2010 to address the changes to existing accounting policies and the implementation of our real estate valuations process.

#### ***Design and Implementation***

The conclusions and recommendations derived from the assessment of the impact of IFRS will be integrated into the design and implementation of systems and process changes in order for us to compile IFRS compliant financial statements. The necessary changes to our business processes and training programs will be developed concurrently, with post-implementation review to assess and test systems, processes, financial statements, notes, policies, and internal controls for IFRS conversion.

#### ***Summary of Key Difference***

We have progressed through the conversion project as planned, and implementation continues to adapt due to changes in IFRS and from the completion of more detailed analysis. The comparison of current GAAP and IFRS and any conclusions discussed below are preliminary and are subject to changes based on further analysis and interpretations by Management. IFRS is based on a conceptual framework similar to current GAAP, however significant differences exist with respect to recognition, measurement and disclosure.

The significant differences that are expected to have an impact on our consolidated financial statements include the following:

##### **1. Investment Property**

IFRS defines investment property as a property (land or a building) held to earn rental income, capital appreciation, or both. A key characteristic of an investment property is that it generates cash flows largely

independent of the other assets held by an entity. All of our income properties and Properties Under Development will qualify as investment property under IFRS.

## 2. Properties Under Development

Properties Under Development are considered investment properties. Under IFRS, operating revenues and expenses cannot be capitalized and subject to meeting certain tests, capitalization of interest costs directly attributable to a property under development is required.

## 3. Impairment

Under current GAAP, impairment is recognized if the future cash flows of the investment property are lower than its carrying value. Under the cost model for IFRS, an entity is required to recognize an impairment charge if the recoverable amount, determined as the higher of the estimated fair value less cost to sell or value-in-use, is less than its carrying value. Under IFRS, recognition of impairments would likely be more frequent. IFRS allows impairment losses to be reversed if there is an increase in value. The reversal of impairment is not permitted under Canadian GAAP. Impairment is not applicable to the fair value model.

## 4. Leases

Current GAAP and IFRS both require that tenant allowances be capitalized and amortized as a reduction to rental revenue over the term of the leases. Currently, we capitalized and amortize tenant improvements and certain other leasing costs through amortization expense. Under IFRS, portions of such costs are likely to be considered leasing incentives and will be amortized as a reduction of the rental revenue over the term of the lease.

## 5. Business Combinations

Both IFRS and current GAAP require the acquisition method of accounting for all business combinations, however significant differences exist between the two standards. Current GAAP allows the capitalization of transaction costs, whereas IFRS does for an asset purchase but not for a business combination, in which case the transaction costs are expensed as incurred. Transaction cost typically includes land transfer taxes, appraisal fees and due-diligence expenditures.

## 6. Equity – Trust Units

Under current GAAP trust units are presented as equity on our Consolidated Balance Sheet. Based on our understanding of IFRS, our trust units met the definition of a liability as under our Declaration of Trust we had a mandatory requirement to distribute taxable income. Many Canadian REITs have modified their Declaration of Trust to eliminate the mandatory distribution and leave distributions to the discretion of the Trustees so that trust units can be presented as equity. At our Annual and Special Meeting on May 11, 2010, unitholders approved the elimination of mandatory distributions.

## 7. Income Taxes

Under the current IFRS income tax standard we may be required to recognize deferred income taxes, notwithstanding we meet the REIT Exception under the SIFT rules.

### ***Fair Value***

We have completed the external valuation of our portfolio as at December 31, 2009. Fair valuing the portfolio using external appraisers will underpin the most substantive change to our consolidated financial statements upon our adoption of IFRS.

We have chosen the “Fair Value” approach to investment properties for our going-forward IFRS financial statements. This accounting policy choice means that, starting in 2011, investment properties will be recorded at fair value on the Statement of Financial Position. Periodic changes in fair value will be recorded in the Statement of Operations. This could lead to increased volatility in reported net income and net income per unit but should not impact FFO or AFFO.

Our portfolio was appraised in its entirety by an independent, external appraiser, Cushman & Wakefield. The appraiser used a range of capitalization rates ranging from 7% to 10.2%, the high-point being the capitalization rate associated with our property at 151 Front Street West in Toronto at the time of acquisition. The portfolio weighted average cap rate was 8.2%. In accordance with the requirements of IFRS, the appraiser did not assign value to the very significant intensification potential in our portfolio.

The external appraisals indicate an un-audited value for our investment properties of \$1.27 billion, which is \$190 million above the value reported on December 31, 2009. The appraisal increment represents an 18% increase in the value of total assets at that time.

Our Debt Ratio as at December 31, 2009, was 47%. As a percentage of the un-audited appraised value for our investment properties at that time, our Debt Ratio would have been 41%.

### **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 2010 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—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 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. As at September 30, 2010, the original indemnity of ACDC was satisfied in full, bringing an end to this related-party transaction.

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 XI—RISKS 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 continue to be unstable in the past year. While this instability 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 2.39% and 8.10% with a weighted average interest rate of 5.8%. The weighted average term of our mortgage debt is 5.0 years.

### 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, 2010:

Category	% of Rental Revenue Nine-Month Period Ended September 30, 2010
Business service and professional	22.6%
Telecommunications and information technology	37.4%
Retail (head office and storefront)	12.3%
Media and entertainment	13.4%
Financial services	4.8%
Government	1.1%
Other	8.4%

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, 2010.

Tenant	% of Rental Revenue Nine-Month Period Ended September 30, 2010
Switch and Data Toronto	5.0%
C.G.I.	4.3%
Ubisoft Divertissement	3.4%
MTS Allstream	2.9%
Visa Desjardins	2.9%
Peer 1 Network Enterprises	1.9%
Telehouse Centre Canada	1.9%
Cossette	1.9%
Autodesk Canada	1.8%
Telus	1.8%

### 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.

95% of the GLA in our portfolio was leased as at September 30, 2010 (not including Properties Under Development). The weighted average term to maturity of our leases at that time was 3.9 years. The following sets out, as of today's date, the total GLA of the leases that mature to the end of 2014, 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 square footage

maturing by December 31, 2010, does not include month-to-month leases for 104,508 square feet of GLA that are routinely renewed at the end of each month by the tenant. The weighted average market net rental rate is based on Management's current estimates and is supported in part by independent appraisals of certain of the relevant properties. There can be no assurance that Management's current estimates are accurate or that they will not change with the passage of time.

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2010	313,467	5.3%	\$18.36	\$17.97
December 31, 2011	902,445	15.1%	\$19.08	\$19.98
December 31, 2012	912,821	15.3%	\$18.25	\$17.11
December 31, 2013	967,597	16.2%	\$19.00	\$19.37
December 31, 2014	283,515	4.8%	\$21.18	\$19.32

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

#### 1. Toronto and Kitchener

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2010	92,689	1.6%	\$17.94	\$20.36
December 31, 2011	484,845	8.1%	\$23.97	\$26.10
December 31, 2012	487,883	8.2%	\$20.31	\$20.03
December 31, 2013	505,750	8.5%	\$24.51	\$24.49
December 31, 2014	200,381	3.4%	\$25.46	\$24.22

#### 2. Montréal

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2010	196,040	3.3%	\$19.72	\$18.02
December 31, 2011	333,684	5.6%	\$14.19	\$13.99
December 31, 2012	369,881	6.2%	\$16.56	\$14.53
December 31, 2013	396,584	6.7%	\$13.11	\$14.67
December 31, 2014	49,121	0.8%	\$9.27	\$7.20

#### 3. Winnipeg and Calgary

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2010	20,538	0.3%	\$8.99	\$7.12
December 31, 2011	67,295	1.1%	\$9.69	\$7.80
December 31, 2012	28,616	0.5%	\$9.56	\$7.44
December 31, 2013	46,078	0.8%	\$11.42	\$7.83
December 31, 2014	20,395	0.3%	\$8.75	\$5.73

#### 4. Québec City

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2010	4,200	0.1%	\$10.20	\$10.73
December 31, 2011	16,621	0.3%	\$12.54	\$9.58
December 31, 2012	26,441	0.4%	\$13.33	\$9.57
December 31, 2013	19,185	0.3%	\$13.88	\$8.75
December 31, 2014	13,618	0.2%	\$19.75	\$11.12

In evaluating our lease roll-over risk, it is informative to determine our sensitivity to a decline in occupancy. For every full-year decline of 100 basis points in occupancy at our average rental rate per square foot, our annual AFFO would decline by approximately \$1,900 (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.

### 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, 2010, the cost of Properties Under Development was equivalent to 3.7% 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 2010 and beyond.

## **PART XII—SUBSEQUENT EVENTS**

On October 1, 2010, we repaid the \$2,500 balance on expiry of the first mortgage on 358-360 Adelaide Street West, Toronto. On October 25, 2010, we received a commitment from a Canadian chartered bank to provide a first mortgage on 358-360 Adelaide Street West in the principal amount of \$6,000 for a term of 10 years, bearing interest at approximately 4.7% per year and payable in blended instalments of principal and interest based on a 25-year amortization. We expect this upward refinancing to close before year-end.

On October 25, 2010, we received a proposal from a Canadian chartered bank to provide a first mortgage on the Lougheed Building, 604 – 1st Street SW, Calgary, in the principal amount of \$21.5 million for a term of 10 years, bearing interest at approximately 4.8% per year and payable in blended instalments of principal and interest based on a 25-year amortization. We expect this financing to close before year-end.

On October 27, 2010, we received a proposal from a US based financial institution to provide a first mortgage on 375-381 Queen Street West, Toronto, in the principal amount of \$13,000 for a term of three years, bearing interest at approximately 3.8%, payable as to interest only during the term and repayable in full at any time during the term without penalty. We expect this financing to close before year-end.

On November 10, 2010, we announced an agreement to acquire a 50% undivided interest in The Breithaupt Block, 20-24 & 51 Breithaupt Street, Kitchener, for \$4,000. Located in the Warehouse District of Kitchener and in close proximity to our property at 72 Victoria Street, The Breithaupt Block is comprised of (i) six former industrial buildings with approximately 176,000 square feet of GLA and (ii) approximately two acres of surplus land with long-term development potential. The former industrial buildings will be redeveloped as a Class I office complex, with completion scheduled for mid-2013.

**PART XIII—PROPERTY TABLE**

<b>September 30, 2010</b>	<b>OFFICE</b>	<b>Retail</b>	<b>Total</b>	<b>% Total</b>	<b>Office</b>	<b>Retail</b>	<b>Total</b>	<b>Leased %</b>
<b>Properties</b>	<b>GLA</b>	<b>GLA</b>	<b>GLA</b>	<b>GLA</b>	<b>Vacant</b>	<b>Vacant</b>	<b>Leased</b>	
555 College	40,952	19,145	60,097		-	-	60,097	100.0%
860 Richmond W	24,199	-	24,199		1,792	-	22,407	92.6%
The Castle	106,393	34,323	140,716		-	-	140,716	100.0%
<b>King West</b>	<b>171,544</b>	<b>53,468</b>	<b>225,012</b>	<b>3.8%</b>	<b>1,792</b>	<b>-</b>	<b>223,220</b>	<b>99.2%</b>
141 Bathurst (+ land)	10,558	-	10,558		5,105	-	5,453	51.6%
183 Bathurst	24,879	-	24,879		5,100	-	19,779	79.5%
420 Wellington W	33,813	3,137	36,950		-	-	36,950	100.0%
425 Adelaide W	74,966	4,104	79,070		1,669	-	77,401	97.9%
425-439 King W	75,333	17,297	92,630		-	-	92,630	100.0%
441-443 King W	6,820	6,065	12,885		-	-	12,885	100.0%
445-455 King W	27,640	23,048	50,688		5,250	-	45,438	89.6%
468 King W	65,027	-	65,027		-	-	65,027	100.0%
469 King W	64,334	11,250	75,584		-	-	75,584	100.0%
489 King W	15,621	10,650	26,271		-	-	26,271	100.0%
495 King W	10,698	-	10,698		-	-	10,698	100.0%
499 King W	-	8,400	8,400		-	-	8,400	100.0%
500-522 King W	94,892	34,238	129,130		-	-	129,130	100.0%
579 Richmond W	29,043	-	29,043		5,811	-	23,232	80.0%
602-606 King W	39,727	24,320	64,047		-	-	64,047	100.0%
662 King W	30,774	2,126	32,900		-	-	32,900	100.0%
96 Spadina	78,758	9,361	88,119		16,693	-	71,426	81.1%
King-Brant Parking	-	-	-		-	-	-	0.0%
<b>King West Central</b>	<b>682,883</b>	<b>153,996</b>	<b>836,879</b>	<b>14.0%</b>	<b>39,628</b>	<b>-</b>	<b>797,251</b>	<b>95.3%</b>
116 Simcoe	15,289	-	15,289		3,475	-	11,814	77.3%
151-20 York	278,039	35,824	313,863		6,889	-	306,974	97.8%
179 John	67,331	-	67,331		1,771	-	65,560	97.4%
185 Spadina	55,814	-	55,814		-	-	55,814	100.0%
200 Adelaide W	28,024	-	28,024		-	-	28,024	100.0%
208-210 Adelaide W	12,422	-	12,422		2,313	-	10,109	81.4%
217-225 Richmond W	35,393	21,200	56,593		1,537	-	55,056	97.3%
257 Adelaide W	46,914	-	46,914		6,761	-	40,153	85.6%
312 Adelaide W	66,043	5,665	71,708		-	-	71,708	100.0%
331-333 Adelaide W	20,503	3,210	23,713		-	-	23,713	100.0%
358-360 Adelaide W	54,250	-	54,250		-	-	54,250	100.0%
364 Richmond W	22,956	17,300	40,256		-	-	40,256	100.0%
388 King W	32,603	11,765	44,368		10,182	-	34,186	77.1%
375-381 Queen W	21,541	11,088	32,629		-	-	32,629	100.0%
82 Peter	38,811	8,287	47,098		-	-	47,098	100.0%
99 Spadina	39,327	11,392	50,719		3,637	-	47,082	92.8%
<b>Entertainment District</b>	<b>835,260</b>	<b>125,731</b>	<b>960,991</b>	<b>16.1%</b>	<b>36,565</b>	<b>-</b>	<b>924,426</b>	<b>96.2%</b>
67 Richmond W	44,702	5,804	50,506		-	-	50,506	100.0%
193 Yonge	34,836	16,318	51,154		-	-	51,154	100.0%
<b>Downtown</b>	<b>79,538</b>	<b>22,122</b>	<b>101,660</b>	<b>1.7%</b>	<b>-</b>	<b>-</b>	<b>101,660</b>	<b>100.0%</b>
106 Front E	24,386	10,109	34,495		-	-	34,495	100.0%
35-39 Front E	30,812	17,850	48,662		-	-	48,662	100.0%
36-40 Wellington E	12,630	11,550	24,180		12,630	-	11,550	47.8%
41-45 Front E	20,024	19,811	39,835		-	-	39,835	100.0%
45-55 Colborne	28,204	12,526	40,730		-	-	40,730	100.0%
49 Front E	9,275	10,441	19,716		-	-	19,716	100.0%
50 Wellington E	21,937	11,049	32,986		-	-	32,986	100.0%
<b>St. Lawrence Market</b>	<b>147,268</b>	<b>93,336</b>	<b>240,604</b>	<b>4.0%</b>	<b>12,630</b>	<b>-</b>	<b>227,974</b>	<b>94.8%</b>
145 Berkeley	8,124	2,687	10,811		-	-	10,811	100.0%
204-214 King E	128,970	5,460	134,430		-	-	134,430	100.0%
230 Richmond E	73,667	-	73,667		-	-	73,667	100.0%
252-264 Adelaide E	50,219	-	50,219		-	-	50,219	100.0%
489 Queen E	25,242	-	25,242		7,679	-	17,563	69.6%
70 Richmond E	34,414	-	34,414		-	-	34,414	100.0%
Dominion Square	60,839	45,622	106,461		11,427	700	94,334	88.6%
Queen Richmond Centre	155,968	64,593	220,561		8,586	5,255	206,720	93.7%
QRC South	36,783	-	36,783		6,911	-	29,872	81.2%
<b>Queen Richmond</b>	<b>574,226</b>	<b>118,362</b>	<b>692,588</b>	<b>11.6%</b>	<b>34,603</b>	<b>5,955</b>	<b>652,030</b>	<b>94.1%</b>
<b>Total Toronto</b>	<b>2,490,719</b>	<b>567,015</b>	<b>3,057,734</b>	<b>51.3%</b>	<b>125,218</b>	<b>5,955</b>	<b>2,926,561</b>	<b>95.7%</b>

<b>Properties</b>	<b>Office GLA</b>	<b>Retail GLA</b>	<b>Total GLA</b>	<b>% Total GLA</b>	<b>Office Vacant</b>	<b>Retail Vacant</b>	<b>Total Leased % Leased</b>
3575 Saint-Laurent	168,250	17,314	185,564		12,638	-	94.4%
400 Atlantic	86,284	-	86,284		13,294	-	88.0%
425 Viger W (+ land)	205,193	820	206,013		-	-	100.0%
4446 Saint-Laurent	74,622	7,667	82,289		9,650	-	78.1%
5505 Saint-Laurent	252,452	2,524	254,976		-	-	100.0%
451-481 Saint Catherine	22,222	8,434	30,656		-	-	100.0%
6300 Avenue du Parc	215,687	950	216,637		55,144	-	75.0%
645 Wellington	130,425	4,083	134,508		6,204	-	93.4%
111 Duke: Phase IV	374,817	-	374,817		-	-	100.0%
50 Queen: Phase I	28,799	-	28,799		3,370	-	90.3%
700 Wellington: Phase V	128,229	1,925	130,154		-	-	100.0%
75 Queen: Phase VI & VII	249,450	2,128	251,578		10,058	-	95.6%
80 Queen: Phase II	70,256	-	70,256		6,563	-	78.4%
87 Prince: Phase III	106,617	1,065	107,682		-	-	100.0%
<b>Total Montréal</b>	<b>2,113,303</b>	<b>46,910</b>	<b>2,160,213</b>	<b>36.2%</b>	<b>116,921</b>	<b>-</b>	<b>94.6%</b>
115 Bannatyne	34,587	4,029	38,616		-	-	100.0%
138 Portage E	36,400	-	36,400		7,596	-	75.9%
165 Garry	9,000	5,800	14,800		1,800	-	87.8%
250 McDermot	34,946	10,040	44,986		6,447	-	94.1%
309 Hargrave	21,468	1,400	22,868		7,171	-	72.8%
50-70 Arthur	103,892	15,100	118,992		13,382	-	91.2%
1500 Notre Dame	109,518	-	109,518		-	-	100.0%
<b>Total Winnipeg</b>	<b>349,811</b>	<b>36,369</b>	<b>386,180</b>	<b>6.5%</b>	<b>36,396</b>	<b>-</b>	<b>90.6%</b>
390 Charest	68,413	4,686	73,099		9,536	-	87.0%
410 Charest	23,637	1,300	24,937		2,400	1,300	85.2%
420 Charest	43,551	13,285	56,836		500	500	98.2%
622 Saint Joseph	3,620	3,300	6,920		1,160	-	83.2%
633 Saint Joseph	15,570	6,000	21,570		-	-	100.0%
<b>Total Québec City</b>	<b>154,791</b>	<b>28,571</b>	<b>183,362</b>	<b>3.1%</b>	<b>13,596</b>	<b>1,800</b>	<b>91.6%</b>
72 Victoria	87,057	-	87,057		-	-	100.0%
<b>Total Kitchener</b>	<b>87,057</b>	<b>-</b>	<b>87,057</b>	<b>1.5%</b>	<b>-</b>	<b>-</b>	<b>100.0%</b>
604-1st Street SW	66,530	21,038	87,568		-	-	100.0%
<b>Total Calgary</b>	<b>66,530</b>	<b>21,038</b>	<b>87,568</b>	<b>1.5%</b>	<b>-</b>	<b>-</b>	<b>100.0%</b>
<b>Total Rental Portfolio</b>	<b>5,262,211</b>	<b>699,903</b>	<b>5,962,114</b>	<b>100.0%</b>	<b>292,131</b>	<b>7,755</b>	<b>95.0%</b>
47& 47-A Fraser, Toronto	31,772	-	31,772				
134 Peter, Toronto	30,151	19,518	49,669				
544 King W, Toronto	20,000		20,000				
905 King W-removed	103,105	8,991	112,096				
4450 Saint-Laurent, Montréal	-	-	-				
<b>Total PUD</b>	<b>185,028</b>	<b>28,509</b>	<b>213,537</b>				

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST**  
**CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

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

(in thousands)	Note	September 30, 2010	December 31, 2009
<b>Assets</b>			
Rental properties	4	\$1,063,310	\$1,017,883
Properties under development		51,881	41,928
Intangibles	5	35,069	43,751
Other assets	6	58,991	50,326
Cash		1,540	1,270
		<b>\$1,210,791</b>	<b>\$1,155,158</b>
<b>Liabilities</b>			
Mortgages payable	7	\$615,016	\$593,619
Bank indebtedness	7	24,577	16,923
Accounts payable and other liabilities	8	50,338	58,795
Distributions payable		4,619	4,295
		<b>694,550</b>	<b>673,632</b>
<b>Unitholders' Equity</b>	<b>9</b>	<b>516,241</b>	<b>481,526</b>
		<b>\$1,210,791</b>	<b>\$1,155,158</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, 2008		\$489,538	(\$24,122)	\$41,732	(\$122,022)	\$525	\$385,651
Year ended December 31, 2009							
Net income		-	-	16,299	-	-	16,299
Distributions		-	-	-	(43,763)	-	(43,763)
Public offering		125,400	(5,643)	-	-	-	119,757
Distribution reinvestment plan		2,793	-	-	-	-	2,793
Unit option plan – options exercised	11	5	-	-	-	-	5
Contributed surplus unit option plan	11	-	-	-	-	428	428
Long-Term incentive plan	12	356	-	-	-	-	356
Unitholders' equity, December 31, 2009		\$618,092	(\$29,765)	\$58,031	(\$165,785)	\$953	\$481,526
<b>Nine Months Ended September 30, 2010</b>							
Net income		-	-	\$14,651	-	-	\$14,651
Distributions		-	-	-	(38,944)	-	(38,944)
Public Offering		57,517	(2,758)	-	-	-	54,759
Distribution reinvestment plan		4,071	-	-	-	-	4,071
Restricted unit plan		(1,142)	-	-	-	294	(848)
Contributed surplus, unit option plan		-	-	-	-	673	673
Long-Term Incentive plan	12	353	-	-	-	-	353
Unitholders' equity, September 30, 2010		\$678,891	(\$32,523)	\$72,682	(\$204,729)	\$1,920	\$516,241

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)

	<b>Three Months Ended September 30, 2010</b>	Three Months Ended September 30, 2009	<b>Nine Months Ended September 30, 2010</b>	Nine Months Ended September 30, 2009
<b>Revenues</b>				
Rental properties	<b>\$45,010</b>	\$35,851	<b>\$135,814</b>	\$108,558
Real estate services	<b>153</b>	155	<b>449</b>	440
	<b>45,163</b>	36,006	<b>136,263</b>	108,998
<b>Expenses</b>				
Rental property operating	<b>18,719</b>	14,517	<b>57,169</b>	43,673
Real estate services	<b>92</b>	85	<b>272</b>	235
Financing	<b>8,637</b>	7,046	<b>25,470</b>	20,936
Trust	<b>1,123</b>	774	<b>3,803</b>	2,527
Amortization of rental properties	<b>5,689</b>	4,462	<b>16,835</b>	13,260
Amortization of intangibles	<b>4,533</b>	4,408	<b>15,384</b>	13,866
Amortization of leasing cost	<b>464</b>	394	<b>1,340</b>	1,227
Amortization of other assets	<b>444</b>	531	<b>1,339</b>	1,659
	<b>39,701</b>	32,217	<b>121,612</b>	97,383
<b>Net income and comprehensive income for the period</b>	<b>\$5,462</b>	\$3,789	<b>\$14,651</b>	\$11,615
<b>Net income per unit</b>				
Basic	<b>\$0.14</b>	\$0.12	<b>\$0.38</b>	\$0.38
Fully diluted	<b>\$0.14</b>	\$0.12	<b>\$0.37</b>	\$0.37
Weighted average number of units (Note 10)				
Basic	<b>39,303,820</b>	30,992,525	<b>38,909,646</b>	30,957,828
Fully diluted	<b>39,799,201</b>	31,411,280	<b>39,370,051</b>	31,361,792

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

## Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	Notes	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
<b>CASH PROVIDED BY (USED IN):</b>					
<b>Operating activities</b>					
Net income		\$5,462	\$3,789	\$14,651	\$11,615
Items not affecting cash					
Amortization of rental properties		5,689	4,462	16,835	13,260
Amortization of office equipment		82	80	240	218
Amortization of intangibles		4,533	4,408	15,384	13,866
Amortization of leasing cost		464	394	1,340	1,227
Amortization of tenant improvements		362	451	1,099	1,441
Step rent adjustments (revenue)		(214)	52	(604)	(504)
Step rent adjustments (expenses)		51	71	261	221
Mark to market rent adjustments		(671)	263	(1,623)	129
Amortization, premium on assumed mortgages		(3)	(4)	(10)	(18)
Changes in other non-cash financing expenses		193	152	608	473
Compensation expense		412	56	967	167
		16,360	14,174	49,148	42,095
Change in other non-cash operating items		4,417	(2,926)	(8,408)	(4,539)
<b>Cash from operating activities</b>		<b>20,777</b>	<b>11,248</b>	<b>40,740</b>	<b>37,556</b>
<b>Investing activities</b>					
Rental properties acquired, net of non-cash consideration	2	(41,020)	(10)	(52,873)	(4,375)
Capital expenditures, rental properties and other assets		(2,549)	(2,219)	(6,889)	(3,734)
Capital expenditures, properties under development		(3,069)	(512)	(9,953)	(4,040)
Tenant improvements and leasing cost		(3,579)	(699)	(7,908)	(3,832)
Tenant inducements		(265)	(26)	(474)	(241)
<b>Cash used in investing activities</b>		<b>(50,482)</b>	<b>(3,466)</b>	<b>(78,097)</b>	<b>(16,222)</b>
<b>Financing Activities</b>					
Repayment of mortgages payable		(4,296)	(3,317)	(14,238)	(24,766)
Proceeds from new mortgages payable		6,728	5,221	24,790	6,132
Distributions		(10,983)	(9,867)	(34,549)	(28,854)
Proceeds from public offering (net of issue costs)		54,759	-	54,759	-
Restricted unit plan	13	-	-	(1,142)	-
Proceeds from units issued under the LTIP (net of issue costs)	12	89	91	353	258
Net increase (decrease) in bank indebtedness		(15,763)	(441)	7,654	25,472
<b>Cash provided by (used in) financing activities</b>		<b>30,534</b>	<b>(8,313)</b>	<b>37,627</b>	<b>(21,758)</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>829</b>	<b>(531)</b>	<b>270</b>	<b>(424)</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>711</b>	<b>891</b>	<b>1,270</b>	<b>784</b>
<b>Cash and cash equivalents, end of period</b>		<b>\$1,540</b>	<b>\$360</b>	<b>\$1,540</b>	<b>\$360</b>
<b>Other cash flow information</b>					
Interest paid		\$9,161	\$7,098	\$26,986	\$21,468
<b>Supplemental cash flow information</b>					
Units issued		\$1,914	\$449	\$4,071	\$2,052

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, 2010 and September 30, 2009**

**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, on May 14, 2008 and on May 11, 2010. 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):

	For the Nine Months Ended September 30, 2010	For the Three Months Ended September 30, 2010	For the Year Ended December 31, 2009
Rental properties	\$55,373	\$44,664	\$214,718
Other assets	405	77	83
Fair value of in-place leases and tenant relationships	6,702	5,201	14,000
Fair value of above-market leases	3,412	3,406	3,301
Fair value of below-market leases	(2,240)	(1,575)	(9,125)
Mortgages payable	(10,246)	(10,246)	-
Accounts payable and accrued liabilities	(533)	(507)	(13,930)
Cash consideration paid for the net assets acquired	\$52,873	\$41,020	\$209,047

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, 2009, 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.

(b) Unit-Based Compensation Plan

The REIT uses the fair value based method of accounting for its Restricted Unit Plan whereby compensation expense is recognized over the vesting period.

(c) Comparative Amounts

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

**4. Rental Properties and Properties Under Development**

As at September 30, 2010	Cost	Accumulated Amortization	Net Carrying Amount
Buildings, improvements and other costs	\$928,816	\$83,142	\$845,674
Land	217,636	-	217,636
	\$1,146,452	\$83,142	\$1,063,310

As at December 31, 2009	Cost	Accumulated Amortization	Net Carrying Amount
Buildings, improvements and other costs	\$891,059	\$66,306	\$824,753
Land	193,130	-	193,130
	<b>\$1,084,189</b>	<b>\$66,306</b>	<b>\$1,017,883</b>

Included in Properties Under Development is interest capitalized during the nine months ended September 30, 2010 of \$2,003 and during the year ended December 31, 2009 of \$1,235.

### 5. Intangibles

Intangibles consist of costs incurred by the REIT, net of accumulated amortization of \$56,180 (December 31, 2009 - \$51,565)

As at September 30, 2010	Cost	Accumulated Amortization	Net Carrying Amount
Leasing costs and tenant relationships on rental properties acquired	\$90,290	\$55,676	\$34,614
Amounts recorded on the acquisition of the property manager – contracts and customer relationships	959	504	455
	<b>\$91,249</b>	<b>\$56,180</b>	<b>\$35,069</b>

As at December 31, 2009	Cost	Accumulated Amortization	Net Carrying Amount
Leasing costs and tenant relationships on rental properties acquired	\$94,357	\$51,134	\$43,223
Amounts recorded on the acquisition of the property manager – contracts and customer relationships	959	431	528
	<b>\$95,316</b>	<b>\$51,565</b>	<b>\$43,751</b>

### 6. Other Assets

Other assets consist of:

	September 30, 2010	December 31, 2009
Leasing costs, net of accumulated amortization of \$3,643 (December 31, 2009 - \$2,763)	\$11,241	\$7,814
Above-market rents of leases acquired through rental property acquisitions net of accumulated amortization of \$12,698 (December 31, 2009 - \$13,786)	10,803	10,901
Accounts receivable	15,960	15,835
Tenant inducements, net of accumulated amortization of \$414 (December 31, 2009 - \$317)	1,361	1,001
Tenant improvements, net of accumulated amortization of \$3,805 (December 31, 2009 - \$3,280)	8,526	6,484
Prepaid expenses	5,519	1,585
Escrow accounts held by mortgagees	5,048	6,072
Computer and office equipment, net of accumulated amortization of \$789 (December 31, 2009 - \$548)	533	634
	<b>\$58,991</b>	<b>\$50,326</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 2.39% and 8.1% (contractual 2.39% and 8.10%).

Mortgages payable at September 30, 2010 are due as follows:

	Principal Repayments	Balance due at Maturity	Total
Year ended December 31, 2010	\$4,211	\$ -	\$4,211
Year ended December 31, 2011	16,927	29,805	46,732
Year ended December 31, 2012	16,897	36,805	53,702
Year ended December 31, 2013	17,537	28,322	45,859
Year ended December 31, 2014	13,457	161,663	175,120
Thereafter	29,692	263,582	293,274
	<b>\$98,721</b>	<b>\$520,177</b>	<b>\$618,898</b>
Net discount on assumed mortgages (net of accumulated amortization of \$1,337)			(351)
Deferred financing costs (net of accumulated amortization of \$2,401)			(3,531)
			<b>\$615,016</b>

Mortgages payable at December 31, 2009 are due as follows:

	Principal Repayments	Balance due at Maturity	Total
Year ended December 31, 2010	15,904	7,039	22,943
Year ended December 31, 2011	16,588	14,868	31,456
Year ended December 31, 2012	16,595	36,805	53,400
Year ended December 31, 2013	17,019	21,997	39,016
Year ended December 31, 2014	13,042	161,663	174,705
Thereafter	29,635	246,220	275,855
	<b>\$108,783</b>	<b>\$488,592</b>	<b>\$597,375</b>
Net premium on assumed mortgages (net of accumulated amortization of \$1,327)			(216)
Deferred financing costs (net of accumulated amortization of \$1,805)			(3,540)
			<b>\$593,619</b>

The REIT has a \$70,000 revolving credit facility with a Canadian chartered bank, which matures August 31, 2011 bears interest at bank prime plus 175 basis points or bankers' acceptance plus 275 basis points. 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, 2010.

At September 30, 2010 the amount outstanding under the credit facility was \$24,577 (December 31, 2009 \$16,923).

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

Accounts payable and other liabilities consist of:

	September 30, 2010	December 31, 2009
General operating payables and tenant deposits	<b>\$33,049</b>	\$38,578
Below market rents of leases acquired through rental property acquisition – net of accumulated amortization of \$10,376 (December 31, 2009 - \$7,295)	<b>14,538</b>	17,433
Accrued interest	<b>2,751</b>	2,784
	<b>\$50,338</b>	\$58,795

#### **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:

	<b>Units</b>
Units outstanding, December 31, 2008	31,235,670
Units issued pursuant to offering on October 2, 2009	7,600,000
Units issued under the Distribution Reinvestment Plan	205,273
Units issued under the Unit Option Plan (Note 11)	416
<hr/>	
Units outstanding, December 31, 2009	<b>39,041,359</b>
<hr/>	
<b>Units issued pursuant to offering on September 15, 2010</b>	<b>2,732,400</b>
<b>Units issued under the Distribution Reinvestment Plan</b>	<b>212,869</b>
<hr/>	
<b>Units outstanding, September 30, 2010</b>	<b>41,986,628</b>

### **10. Weighted Average Units**

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

	<b>Three Months Period Ended September 30, 2010</b>	Three Months Period Ended September 30, 2009	<b>Nine Months Period Ended September 30, 2010</b>	Nine Months Period Ended September 30, 2009
<b>Basic</b>	<b>39,303,820</b>	30,992,525	<b>38,909,646</b>	30,957,828
<b>Unit option plan</b>	<b>117,338</b>	31,462	<b>78,161</b>	16,671
<b>Long-term incentive plan</b>	<b>378,043</b>	387,293	<b>382,244</b>	387,293
<hr/>				
<b>Fully diluted</b>	<b>39,799,201</b>	31,411,280	<b>39,370,051</b>	31,361,792

### **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 236,664 options vested on December 17, 2009. 125,003 options will vest on December 17, 2010 and an additional 108,333 options will vest on December 17, 2010, provided that certain performance achievements are met. 118,333 options have expired.

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. 1,249 options vested on December 15, 2009, and 1,250 and 1,251 options will vest on December 15, 2010 and December 15, 2011, respectively, provided that certain performance achievements are met. 416 options have been exercised.

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 options vested on January 15, 2010 and 43,333 and 43,334 options will vest on January 15, 2011 and January 15, 2012, respectively, provided that certain performance achievements are met.

On March 9, 2010, 895,176 options were granted to trustees, officers and employees with an exercise price of \$19.39 and expiring on March 9, 2015. 298,391, 298,392, and 298,393 options will vest on March 9, 2011, March 9, 2012 and March 9, 2013, respectively.

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, 2010 and 2009 were \$413 and \$56, respectively. The Unit Option Plan and assumptions utilized in the calculation thereof using the Black-Scholes Model for option valuation are as follows:

	March 2010	January 2009	December 2008	December 2007
Unit options granted	895,176	130,000	3,750	710,000
Unit option holding period (years)	5	5	5	5
Volatility rate	24.1%	24.0%	24.1%	19.8%
Distribution yield	6.8%	10.6%	11.1%	6.0%
Risk free interest rate	2.8%	1.6%	2.1%	3.9%
Value of options granted	\$1,726	\$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, 2008	605,417	\$21.06
Options granted in the year ended December 31, 2009	130,000	\$12.34
Options exercised in the year ended December 31, 2009	(416)	\$10.87
Options outstanding as at December 31, 2009	735,001	\$19.52
Options granted in the period ended September 30, 2010	895,176	\$19.39
Options expired	(10,000)	\$21.13
Options outstanding as at September 30, 2010	1,620,177	\$19.44
Options exercisable as at September 30, 2010	402,495	\$20.16

## 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, 2010 and December 31, 2009 were \$8,582 and \$7,490, 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, 2010	Nine Months Ended September 30, 2010	Cumulative as at December 31, 2009
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	(815)	(108)	(707)
Distributions applied against installment loans receivable	2,527	379	2,148
Repayments of installment loans	227	82	145
	(3,913)	353	(4,266)
	\$2,843	\$353	\$2,490

Units issued under the LTIP	Cumulative as at December 31, 2009	Year Ended December 31, 2009	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 loan receivable	(707)	(155)	(552)
Distributions applied against installment loan receivable	2,148	511	1,637
Repayments of installment loans	145	-	145
	(4,266)	356	(4,622)
	\$2,490	\$356	\$2,134

### **13. Restricted Unit Plan**

Certain officers and employees of the REIT may be granted Restricted Units pursuant to the terms of the 2010 Restricted Unit Plan, which are subject to vesting conditions and disposition restrictions, in order to provide a long-term compensation incentive. The Restricted Units remain subject to forfeiture until the participant has held his or her position with the REIT for specific period of time. Full vesting of Restricted Units will not occur until the participant has remained employed by the REIT for three years from the date of grant. Units required under the Restricted Unit Plan are acquired in the secondary market through a custodian and then distributed to the individual participant accounts. During the first quarter of 2010, 55,659 Units of the REIT were acquired in the secondary market for the 2010 Restricted Unit Plan and are included in the units outstanding. Compensation expense for the quarter ended September 30, 2010 was \$131.

### **14. Segmented Disclosure**

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

### **15. 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, 2010 and December 31, 2009 were \$10,762 and \$4,604, 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.

The REIT has entered into a conditional purchase and sale agreement for the acquisition of approximately \$14.5 million of managing co-ownership interests in 303 underground commercial parking spaces and 18,360 square feet of retail space to be constructed as part of three separate condominium projects. Each condominium project is adjacent to one or more of our Class I office properties in the King & Spadina area of Toronto. Each acquisition is conditional upon condominium registration being obtained and is scheduled to close between 2011 and 2013.

### **16. 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, 2010 and 2009 real estate service revenue earned from these properties was \$62 and \$71, respectively. For the nine months ended September 30, 2010 and 2009 real estate service revenue earned from these properties was \$174 and \$169, 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 include amounts received from related parties for the guarantee of income. 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 September 30, 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 Loblaw's 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. The related party revenue for the quarter ended September 30, 2010 and September 30, 2009 were \$24 and \$24, respectively. For the nine months ended September 30, 2010 and 2009, related party revenue was \$71 and \$71, respectively.

### **17. Subsequent Events**

On October 1, 2010, we repaid the \$2,500 balance on expiry of the first mortgage on 358-360 Adelaide Street West, Toronto. On October 25, 2010, we received a commitment from a Canadian chartered bank to provide a first mortgage on 358-360 Adelaide Street West in the principal amount of \$6,000 for a term of 10 years, bearing interest at approximately 4.7% per year and payable in blended instalments of principal and interest based on a 25-year amortization. We expect this upward refinancing to close before year-end.

On October 25, 2010, we received a proposal from a Canadian chartered bank to provide a first mortgage on the Lougheed Building, 604 – 1st Street SW, Calgary, in the principal amount of \$21.5 million for a term of 10 years, bearing interest at approximately 4.8% per year and payable in blended instalments of principal and interest based on a 25-year amortization. We expect this financing to close before year-end.

On October 27, 2010, we received a proposal from a US based financial institution to provide a first mortgage on 375-381 Queen Street West, Toronto, in the principal amount of \$13,000 for a term of three years, bearing interest at approximately 3.8%, payable as to interest only during the term and repayable in full at any time during the term without penalty. We expect this financing to close before year-end.

On November 10, 2010, we announced an agreement to acquire a 50% undivided interest in The Breithaupt Block, 20-24 & 51 Breithaupt Street, Kitchener, for \$4,000. Located in the Warehouse District of Kitchener and in close proximity to our property at 72 Victoria Street, The Breithaupt Block is comprised of (i) six former industrial buildings with approximately 176,000 square feet of GLA and (ii) approximately two acres of surplus land with long-term development potential. The former industrial buildings will be redeveloped as a Class I office complex, with completion scheduled for mid-2013.