ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST

PROVIDING URBAN OFFICE ENVIRONMENTS THAT ENRICH EXPERIENCE AND ENHANCE PROFITABILITY

2009 ANNUAL REPORT

MARCH 9, 2010

TABLE OF CONTENTS

LETTER TO UNITHOLDERS	**3**
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION AS AT DECEMBER 31, 2009	**6**
PART I	
Forward-Looking Disclaimer	6
Business Overview and Strategy	6
Performance Measures	8
Business Environment and Outlook	10
PART II	
Summary Information and Performance for the Year Ended December 31, 2009	11
Distributable Income	17
Funds From Operations	17
Adjusted Funds From Operations	18
Net Operating Income	18
PART III	
Financial Condition	18
Liquidity and Commitments	20
PART IV	
Summary Information and Performance for the Quarter Ended December 31, 2009	20
PART V	
Summary Quarterly Information and Performance	22
Part VI	
Critical Accounting Estimates	23
Part VII	
Future Changes in Accounting Policies--Adoption of International Financial Reporting Standards ("IFRS")	24
PART VIII	
Related Party Transactions	26
PART IX	
Risk and Uncertainties	26
PART X	
Disclosure Controls and Internal Controls	28
PART XI	
Subsequent Event	29
PART XII	
Property Table	30
CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER AND YEAR ENDED DECEMBER 31, 2009	**32**
Consolidated Balance Sheets	34
Consolidated Statements of Unitholder's Equity	35
Consolidated Statements of Earnings and Comprehensive Income	36
Consolidated Statements of Cash Flows	37
Notes to Consolidated Financial Statements	38

LETTER TO UNITHOLDERS

Fellow Unitholders of Allied Properties REIT

2009 started with widespread fear as the shockwaves of late 2008 continued to reverberate through the global economy. The prophets of doom had the time of their lives in the early months of the year, gleefully heralding the collapse of just about everything. Not surprisingly, capital markets remained shuttered, and real estate investment activity slowed to a trickle. Even the strongest owner-operators were unsure of their ability to fund acquisitions, so they stayed on the sidelines.

To the dismay of the so-called “Super Bears”, fear gave way to nascent confidence as the year unfolded, resulting initially in the re-opening of the capital markets and ultimately in a year-end surge in real estate investment activity. Canadian REITs responded decisively to this change. Many raised capital to shore up their balance sheets and a few, like us, raised capital to fund specific acquisitions. By year-end, mainstream Canadian REITs had delivered stable operating results and had seen their unit prices approach pre-recession levels. They were also liquid and on the lookout for acquisitions. Interestingly and somewhat ironically, the challenge as 2010 got underway was not funding acquisitions but finding them. But, before we get to 2010, let’s look at our final results for 2009.

Operations

With strong operating and financial results throughout the year, we demonstrated convincingly that Class I office space holds up well in a downturn. FFO and AFFO per unit were up year-over-year by 3% and 1%. This was particularly encouraging in light of our lower overall debt ratio in 2009 and the temporary dilution in the fourth quarter from our $125 million equity raise. Our FFO and AFFO pay-out ratios for the year were 76% and 87%.

We maintained a high level of leased area in 2009, finishing the year at just over 96%. We renewed or replaced 87% of the leases that matured in the year, in most cases at rental rates equal to or above in-place rents. We also made progress in negotiations involving several large-scale renewals or replacements in 2010 and beyond.

We finalized one of these negotiations in the fourth quarter when Desjardins agreed to the early renewal of 192,157 square feet at 425 Viger Avenue West in Montréal. Following the year-end, we finalized two others when Morgan Stanley agreed to replace Motorola for 73,532 square feet at Cité Multimédia in Montréal and Loblaw Properties agreed to a renewal and expansion for a total of 60,748 square feet at 425-439 King Street West in Toronto. These lease transactions reduced the amount of square footage maturing in the next three years by 20% and reduced the average annual amount of square footage maturing in the next five years to 12.5%.

Acquisitions

We used our strong liquidity position in 2009 to propel the business forward by completing $218 million in acquisitions, all of them in Toronto, on more favourable than normal terms. Our first was 860 Richmond Street West for $4.2 million. It was the final component of a portfolio acquisition announced and otherwise completed in the second quarter of 2008. Our largest was 151 Front Street West for $192 million. It was accretive to FFO and AFFO per unit, it strengthened our portfolio attributes in terms of diversification, credit quality and single-tenant exposure and it will enable us to bolster the competitive positioning of the other properties in our Toronto portfolio. Our most fortuitous in terms of near-term value creation was 375-381 Queen Street West for $21.8 million. It’s just north of 134 Peter Street, where we received municipal approval for a large-scale intensification project earlier in the year. We plan to incorporate the property into the project by using the surplus land component for parking and by expanding and integrating the building component.

The acquisitions we completed in 2009 brought our total assets to nearly $1.2 billion, a ten-fold increase from the time of our IPO in 2003. We now have the portfolio base to begin creating value on a large scale and the operational scope to deepen our human resources. I consider both to be important in our ongoing evolution, as we remain steadfast in our desire to build a great Canadian real estate business.

We also announced the acquisition for 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 condominium projects at 478, 560 and 650 King Street West. 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. On closing, the acquisitions will significantly augment our ability to provide parking to our tenants in the King & Spadina area.

Development

We made progress on our Toronto development properties in 2009. We brought 96 Spadina Avenue to substantial completion in May and 47 & 47A Fraser Avenue to a point at year-end where substantial completion can reasonably be anticipated this year. We also completed the renovation and initiated the lease-up of 544 King Street West.

At the large end of our development spectrum, we obtained municipal approval for our intensification project at 134 Peter Street and significantly expanded the scope of the project with the acquisition in December of 375-381 Queen Street West. It's now a two-phase project known as QRC West and is described in detail for pre-leasing purposes at www.qrcwest.com.

We also put 905 King Street West into development in late 2009 after identifying it as an optimal building for expanding the capacity of 151 Front Street West. The building already has four diverse fibre-entry points, internal point-of-presence with Allstream, Bell, Cogeco and Rogers, significant electrical power with two feeder lines, a 600 kilowatt diesel generator on the roof, diesel fuel storage in the lower parking levels and room for expansion of both electrical power and cooling. We plan to upgrade approximately 60,000 square feet in the building to a standard equivalent to 151 Front Street West and expect to achieve a substantial increase in annual net rental revenue from the current level of $12 to $14 per square foot.

Despite putting 905 King Street West into development, our development and acquisition activity reduced the cost of our Properties Under Development from 4% of Gross Book Value at the beginning of the year to 3.2% at the end of the year. This leaves us with considerable capacity to pursue QRC West and other intensification projects going forward

Liquidity

We funded our acquisitions in 2009 with the issuance of equity, leaving us in a strong liquidity position at the end of the year with a conservative debt ratio of 47%. Aside from $17 million drawn on our $70 million line of credit, we had no variable rate debt at the end of the year. Going forward, we have a very moderate mortgage maturity schedule, with $7 million in mortgages maturing this year, $15 million next year and $37 million in 2012, and are well positioned to take advantage of acquisition opportunities.

Outlook

It's impossible to say whether confidence has been (or should be) fully re-established in Canada, but a basic level of stability does appear to have returned to the Canadian real estate sector. Fundamentals are generally sound, capital markets are open, mainstream owner-operators are liquid, trading activity is accelerating and net-asset-values are rising, at least from the point where they were thought (perhaps erroneously, in retrospect) to have fallen.

All of this is encouraging, but I think it's prudent to anticipate an operating environment in 2010 that will continue to be challenging. I also think it's reasonable to expect that Class I space will perform well in this environment, just as it did last year. Our job is to make sure that it does, and we'll be assisted by the competitive advantages that flow from our market-leading position, low operating costs and highly sought-after building attributes, as well as the stability that flows from our low pay-out ratios, strong balance sheet and limited mortgage maturities.

Finding growth opportunities in 2010 will not be easy. But, frankly, it never is. And while we might have hoped that the recession would bring a lot of distressed sellers to our doorstep, it hasn't and it doesn't appear that it will. However, there are motivated sellers out there. We've seen some evidence of this already in 2010, and we'll be striving to secure between $100 and $150 million in growth opportunities before the year is done.

Thanks

2009 was a good year for Allied Properties REIT. It was a good year because our employees worked very hard and very effectively, because our trustees remained as supportive and demanding as ever and because our core unitholders remained steadfast in a very uncertain environment. To my fellow employees and fellow trustees, I express deep thanks. And to you, my fellow unitholders, I express an equal measure of gratitude for continuing to believe in our business.

* * *

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**.

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 DECEMBER 31, 2009

PART I

Forward-Looking Disclaimer

The terms "Allied Properties", "the REIT", "we", "us" and "our" in the following Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") refer to Allied Properties Real Estate Investment Trust and its consolidated financial position and results of operations for the year ended December 31, 2009. This MD&A is based on financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This MD&A should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 31, 2009. Historical results and percentage relationships contained in our consolidated financial statements and MD&A, including trends that might appear, should not be taken as indicative of our future results, operations or performance. Unless otherwise indicated, all amounts in this MD&A are in thousands of Canadian dollars.

Certain information included in this Annual 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 Annual 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 Annual 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 Annual Report include the following: that our current target markets remain stable, with moderating demand for office space and no material increase in supply of directly-competitive office space; that acquisition capitalization rates stabilize; that the trend toward intensification within our target markets continues; and that the equity and debt markets continue to provide us with access to capital at a reasonable cost to fund our future growth and to refinance our mortgage debt as it matures. Although the forward-looking statements contained in this Annual 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 Annual Report are qualified by this forward-looking disclaimer. These statements are made as of March 9, 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 and May 14, 2008 ("Declaration"). We are governed by the laws of Ontario. Our units are publicly traded on the Toronto Stock Exchange under the symbol AP.UN. Additional information on us, including our annual information form, is available on SEDAR at www.sedar.com.

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 and

Kitchener-Waterloo. Our objectives are to provide stable and growing cash distributions to unitholders and to maximize unitholder value through effective management and accretive portfolio growth.

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 2008, we had acquired another 40 office properties in downtown Toronto, 39 of them Class I office properties, bringing our total GLA in that market to nearly three million square feet. We had also acquired 16 predominantly Class I office properties in downtown Montréal, seven in downtown Winnipeg, five in Québec City and one in Kitchener-Waterloo, bringing our total portfolio at the end of 2008 to 82 properties with over 5.5 million square feet of GLA.

We made the following acquisitions in 2009, bringing our portfolio to 85 properties with over six million square feet of GLA:

Property	Acquired	Office GLA	Retail GLA	Total GLA	Parking Spaces
860 Richmond Street West, Toronto	May 31, 2009	24,199	-	24,199	-
151 Front Street West, Toronto	October 28, 2009	285,402	29,843	315,245	56
375-381 Queen Street West, Toronto	December 17, 2009	23,641	11,088	34,729	24
Total		332,242	40,931	374,173	80

We also announced the following acquisitions in 2009:

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

(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 upon final condominium registration 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 the large number of surface commercial parking spaces adjacent to our many properties in the King & Spadina area.

Four Toronto properties (47 & 47A Fraser Avenue, 134 Peter Street, 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. 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 2009, DI per unit (diluted) was $1.62, down 1.8% from 2008.

3. DI Pay-Out Ratio

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate DI pay-out ratio, the ratio of actual distributions to DI in a given period. In 2009, our DI pay-out ratio was 81.1%.

4. Funds From Operations

Unlike DI, Funds From Operations ("FFO") has a standardized definition. See "Funds From Operations" below. In 2009, FFO per unit (diluted) was $1.73, up 3.0% from 2008.

5. FFO Pay-Out Ratio

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate FFO pay-out ratio, the ratio of actual distributions to FFO in a given period. In 2009, our FFO pay-out ratio was 76.2%.

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 2009, AFFO per unit (diluted) was $1.52, up 0.7% from 2008.

7. AFFO Pay-Out Ratio
To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate AFFO pay-out ratio, the ratio of actual distributions to AFFO in a given period. In 2009, our AFFO pay-out ratio was 86.5%.

8. Debt Ratio
Gross Book Value ("GBV") is defined as the book value of the assets shown on our most recent balance sheet plus accumulated depreciation and amortization and an amount equal to the property management internalization expense that we have recorded. A conservative ratio of debt to GBV ("Debt Ratio") mitigates unitholder risk. At the end of 2009, our Debt Ratio was 47.0%, down from 49.4% at the end of 2008.

Operating Measures

1. Tenant Retention and Replacement
We place a high value on tenant retention, as the cost of retention is typically lower than the cost of securing new tenancies. If retention is neither possible nor desirable, we strive for high-quality replacement tenants. Leases representing 673,209 square feet of GLA matured in 2009. By the end of the year, we had renewed leases representing 430,499 square feet of this GLA and re-leased another 158,844 square feet of this GLA, representing 87.4% of the GLA covered by the maturing leases.

2. Occupancy
We strive to maintain consistently high levels of occupancy. At the end of 2009, our leased area was 96.1% (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	5,804,550
% leased	97.5	99.2	97.0*	96.3*	97.9*	97.3*	96.1*

*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 $73,209 in 2009, up 0.2% from 2008.

4. Leasing Expenditures
We monitor leasing expenditures carefully. Leases for 673,859 square feet of GLA commenced in 2009. $3,769 in leasing expenditures related to this space, representing $5.59 per leased square foot, below 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 2009, we incurred $2,410 in regular maintenance capital expenditures, representing 42 cents per square foot of our portfolio, below our normal range of 50 to 60 cents per portfolio square foot.

Summary
The following table summarizes the key financial and operating performance measures for 2009 and 2008, as well as the change between the two.

	2009	2008	Change	% Change
Period-end distribution level per unit annualized	$1.32	$1.32	$0.00	0.0%
DI per unit (diluted)	$1.62	$1.65	($0.03)	(1.8%)
DI pay-out ratio	81.1%	79.1%	2.0%	
FFO per unit (diluted)	$1.73	$1.68	$0.05	3.0%
FFO pay-out ratio	76.2%	77.6%	(1.4%)	
AFFO per unit (diluted)	$1.52	$1.51	$0.01	0.7%
AFFO pay-out ratio	86.5%	86.6%	(0.1%)	
Debt Ratio	47.0%	49.4%	(2.4%)	
Renewal/replacement % of leases maturing in year	87.4%	88.4%	(1.0%)	
Period-end leased area (not including PUD)	96.1%	97.3%	(1.2%)	
Same-asset NOI	$73,209	$73,030	$179	0.2%
Leasing expenditures	$3,769	$4,275	($506)	(11.8%)
Leasing expenditures per square foot	$5.59	$7.28	($1.69)	(23.2%)
Maintenance capital expenditures	$2,410	$1,951	$459	23.5%
Maintenance capital expenditures per portfolio square foot	$0.42	$0.36	$0.06	16.7%

Business Environment and Outlook

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

Downtown Toronto

This target market includes 13.3 million square feet of office inventory in three sub-markets, Downtown East (2.1 million square feet), Downtown West (9.2 million square feet) and King West (2.0 million square feet). Approximately half of the office inventory in this target market falls within the Class I category. At December 31, 2009, the overall vacancy rate for the downtown Toronto office market was 6.6%, with the Downtown East, Downtown West and King West sub-markets finishing the quarter at 5.8%, 8.0% and 12.1%, respectively.[1]

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 December 31, 2009, 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 8.7%, respectively.[2]

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 December 31, 2009, the overall vacancy rate for downtown Winnipeg office market was 6.9%.[3]

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[1] Cushman & Wakefield, *Fourth Quarter 2009 Statistical Summary, Toronto Office Market.*
[2] Cushman & Wakefield, *Fourth Quarter 2009 Statistical Summary, Montréal Office Market.*
[3] Cushman & Wakefield, *Fourth Quarter 2009 Statistical Summary, National Office Market.*

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 December 31, 2009, the vacancy rate for the downtown Québec City office market was 4.6%.[4]

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 December 31, 2009, the overall vacancy rate in the downtown Kitchener office market was 16.4%.[5]

Outlook
A basic level of stability appears to have returned to the Canadian real estate sector. Nevertheless, it is prudent to anticipate an operating environment in 2010 that will continue to be challenging. It is also reasonable to expect that Class I space will perform well in this environment because of the competitive advantages that flow from our market-leading position, low operating costs and highly sought-after building attributes, as well as the stability that flows from our low pay-out ratios, strong balance sheet and limited mortgage maturities.

Finding growth opportunities in 2010 will not be easy. However, while there are no signs of distressed selling in the market, there is evidence of motivated selling. We will strive to achieve between $100 and $150 million in acquisitions in 2010.

PART II

Summary Information and Performance for the Year Ended December 31, 2009

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

(In thousands except for per unit and % amounts)	2009	2008	Change	%Change
Revenue from rental properties	152,225	131,808	20,417	15.5%
Rental property operating cost	62,134	52,387	9,747	18.6%
Net rental income	90,091	79,421	10,670	13.4%
Real estate service income	263	327	(64)	(19.6%)
Financing expense				
Interest	28,155	25,783	2,372	9.2%
Amortization - Mortgage premium	(22)	(164)	142	(86.6%)
Amortization – Financing cost	641	547	94	17.2%
Amortization				
Rental properties	18,447	16,135	2,312	14.3%
Leasing cost and tenant improvements	3,310	2,319	991	42.7%
Origination cost and acquired tenant relationships	19,373	18,757	616	3.3%
Acquired contracts and customer relationships	96	96	-	0.0%
Computer and office equipment	299	257	42	16.3%
Income from operations	20,055	16,018	4,037	25.2%
Trust expense	3,756	3,506	250	7.1%
Net income	16,299	12,512	3,787	30.3%
Amortization				
Rental properties	18,447	16,135	2,312	14.3%
Mortgage premium	(22)	(164)	142	(86.6%)
Acquired leases	6,538	6,392	146	2.3%
M-T-M acquired leases	(91)	2,060	(2,151)	(104.4%)
Acquired tenant relationships	12,835	12,365	470	3.8%
Acquired contracts and customer relationships	96	96	-	0.0%
Step-rent adjustments	(595)	(992)	397	(40.0%)
Compensation expenses, LTIP and stock options	428	489	(61)	(12.5%)
DI	53,935	48,893	5,042	10.3%
Weighted average units outstanding (basic)	32,871	29,214	3,657	12.5%

[4] Avison Young, *National Office Market Report*, *Fourth Quarter 2009.*
[5] Colliers International, *Fourth Quarter 2009.*

(In thousands except for per unit and % amounts)	2009	2008	Change	%Change
Weighted average units outstanding (diluted)	33,281	29,603	3,678	12.4%
Distributions	43,763	38,667	5,096	13.2%
DI per unit (basic)	$1.64	$1.67	($0.03)	(1.8%)
DI per unit (diluted)	$1.62	$1.65	($0.03)	(1.8%)
DI pay-out ratio	81.1%	79.1%	2.0%	
FFO	57,429	49,818	7,611	15.3%
FFO per unit (basic)	$1.75	$1.71	$0.04	2.3%
FFO per unit (diluted)	$1.73	$1.68	$0.05	3.0%
FFO pay-out ratio	76.2%	77.6%	(1.4%)	
AFFO	50,564	44,660	5,904	13.2%
AFFO per unit (basic)	$1.54	$1.53	$0.01	0.7%
AFFO per unit (diluted)	$1.52	$1.51	$0.01	0.7%
AFFO pay-out ratio	86.5%	86.6%	(0.1%)	
NOI	89,405	80,489	8,916	11.1%
Same-asset net operating income	73,209	73,030	179	0.2%
Total assets	1,155,158	949,385	205,581	21.7%
Total debt (excludes premium on assumed debt)	614,298	526,478	87,820	16.7%
Debt Ratio	47.0%	49.4%	(2.4%)	
Total GLA (s.f., excluding PUD)	5,805	5,350	455	8.5%
Leased GLA (s.f., excluding PUD)	5,577	5,204	373	7.2%
Leased GLA (% total GLA)	96.1%	97.3%	(1.2%)	

Net Income

Net income for the year ended December 31, 2009, was $16,299, as compared to $12,512 in the year ended December 31, 2008. Net income per unit (diluted) for the year was $0.49, as compared to $0.42 in the comparable year.

DI for the year ended December 31, 2009, increased by 10.3% to $53,935 from $48,893 for the year ended December 31, 2008. DI per unit (diluted) for the year was $1.62, as compared to $1.65 in the comparable year.

Net Rental Income

Net rental income for the year ended December 31, 2009, increased by 13.4% to $90,091 from $79,421 in the year ended December 31, 2008, as follows: (i) $298 increase in same-asset net rental income from properties owned for year and the entire comparable year (which includes the period-over-period change in step-rent adjustments and mark-to-market rent adjustments); and (ii) $10,372 due to net rental income from properties not owned for the entire year and the entire comparable year.

Net rental income per occupied square foot for the year ended December 31, 2009, was $16.16, as compared to $15.26 in the comparable year.

Real Estate Service Income

The Property Manager provides real estate services to third-party property owners. Real estate service income for the year ended December 31, 2009, was $263, as compared to $327 in the year ended December 31, 2008.

Financing Expense

Financing expense includes interest cost on mortgage debt and other credit facilities and the amortization of the premiums and discounts on assumed mortgages. For the year ended December 31, 2009, interest increased by 9.2% to $28,155 from $25,783 in the year ended December 31, 2008, due to the increase in financing expense associated with additional properties acquired in 2008 and 2009.

Amortization

We record amortization on our buildings on a straight-line basis over their expected life. Amortization recorded on buildings for the year ended December 31, 2009, increased by 14.3% to $18,447 from $16,135 in the year ended December 31, 2008.

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 cost not directly attributable to rental property, such as officers' compensation, trustees' fees, professional fees for legal and audit services, trustees' and officers' insurance premiums and general administrative expenses. Trust expense for the year ended December 31, 2009, increased by 7.1% to $3,756 from $3,506 in the year ended December 31, 2008.

Leasing Activity
Leasing activity as at December 31, 2009, is summarized in the following table:

	GLA	Leased by December 31	% Leased by December 31	Unleased on December 31*
Vacancy on January 1, 2009*	151,432	67,338	44.5%	84,094
Maturities in 2009	673,209	588,633	87.4%	84,576
Acquired Vacancies in 2009	16,248	-	-	16,248
Arranged Vacancies in 2009	38,354	14,093	36.7%	24,261
Vacancies from PUD in 2009	22,446	3,795	16.9%	18,651
Total	901,689	673,859	74.7%	227,830

*not including Properties Under Development

151,432 square feet of GLA was vacant at the beginning of 2009. By December 31, 2009, we leased 67,338 square feet of this GLA, leaving 84,094 square feet vacant at the end of the year.

Leases for 673,209 square feet of GLA matured in 2009. By the end of the year, we renewed or replaced leases for 586,633 square feet of this GLA, leaving 84,576 square feet vacant at the end of the year.

With respect to the maturing leases renewed or replaced in 2009 (588,633 square feet of GLA), we achieved rental rates (i) above in-place rental rates with respect to 57.6% of this GLA, (ii) equal to in-place rental rates with respect to 31.5% of this GLA and below in-place rates with respect to 10.9% of this GLA.

We added 22,446 square feet of vacancy in 2009 by transitioning 96 Spadina in Toronto from a property under development to a rental property for accounting purposes. We also gained access in 2009, to 38,354 square feet of GLA for repositioning and leased 14,093 square feet of this space, leaving 24,261 square feet vacant by the end of the period. We acquired 16,248 square feet of vacant space in late 2009, none of which was leased at year-end.

We monitor the level of sub-lease space in our portfolio. We are unaware of any space being offered for sub-lease in our Toronto, Winnipeg or Québec City portfolios. We are aware of 67,970 square feet being offered for sub-lease in our Montréal portfolio and 29,734 square feet in our Kitchener-Waterloo 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.

The leasing highlights in 2009 are set out on a quarterly basis below. They attest to the durability of demand for Class I space in an economic a downturn.

In the first quarter, we

(i) leased 24,176 square feet at 96 Spadina Avenue in Toronto to Omnicom for a term of ten years commencing May 1, 2009, on favourable financial terms,

(ii) initiated the lease-up program at 47 Fraser Avenue in Toronto, a property under development, and the reconfiguration and lease-up of the second floor at 425 Adelaide Street West in Toronto, in each case with a solid lease transaction appropriate to the property commencing April 1, 2009, and

(iii) completed the early renewal of a lease of 35,790 square feet at Cité Multimédia in Montréal with Sid Lee, a leading Montréal-based ad agency, for a term of 7 years commencing August 1, 2011, at rental rates equal to in-place rents.

In the second quarter, we

(i) leased 14,102 square feet of storefront retail space at 522 King West in Toronto to Alimento, a high-end food store, for a term of 15 years commencing December 1, 2009, at rental rates equal to and rising above prior in-place rents over the term,

(ii) renewed a lease of 25,051 square feet at Cité Multimédia with Telus for a term of three years commencing February 1, 2010, at rental rates equal to in-place rents and

(iii) completed the early replacement of a lease of 29,246 square feet at 469 King Street West in Toronto for a term commencing in part on January 1, 2010, and in part on April 1, 2010, and expiring on February 28, 2018, at rental rates above in-place rents.

In the third quarter, we

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

(ii) leased 18,929 square feet at 905 King Street West in Toronto to Intelex Technologies, a software developer, for a term of seven years commencing April 1, 2010, at rental rates below in-place rents for the first five years of the term and above in-place rents for the last two years of the term and

(iii) leased 7,415 square feet at Dominion Square in Toronto to an existing tenant, Vistek, at rental rates above in-place rents.

In the fourth quarter, we finalized an early renewal at 425 Viger Avenue West in Montréal with Desjardins for 192,157 square feet for a term of five years from December 31, 2012, at net rental rates above in-place rents. At the option of Desjardins, which is exercisable prior to the end of the renewal term, we will construct approximately 50,000 square feet of additional space at the property, taking advantage of surplus land we acquired in 2006 and 2007. Upon occupancy of the additional space, Desjardins will lease approximately 242,157 square feet for a term of 20 years at net rental rates above in-place rents and with escalations every five years. This is a good start in dealing with our large-scale renewals.

Following the year-end, we finalized a large-scale replacement at Cité Multimédia in Montréal. Motorola currently leases 73,532 square feet pursuant to a lease that expires on May 31, 2011. Morgan Stanley has now agreed to lease a portion of this space from October 1, 2010, to September 30, 2020, and the balance of the space from May 1, 2011, to September 30 2020, in both cases at net rental rates above in-place rents. We also finalized a large-scale renewal and expansion at 425-439 King Street West in Toronto. Loblaw Properties currently leases 45,561 square feet pursuant to a lease that expires on October 31, 2010. Loblaw has now agreed to renew its lease of for a term of three and one-half years at net rental rates above in-place rents. Loblaw has also agreed to lease on the same terms another 15,187 square feet in the building. These and previous lease transactions reduced the amount of square footage maturing in the next three years by 20% and have reduced the average annual amount of square footage maturing in the next five years to 12.5%.

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 2009, we incurred (i) $2,410 in regular maintenance capital expenditures ($0.42 per portfolio square foot) and (ii) $3,769 in leasing expenditures ($5.59 per leased square foot) in connection with new leases or lease-renewals that commenced in the year. In addition, we incurred $4,101 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.

$781 of the salary expense incurred in the period was capitalized in connection with capital improvements to our rental properties and Properties Under Development. This amount was equivalent to approximately 7.9% of the associated development costs.

Properties Under Development

1. Completed

Our completed developments are summarized in the following table:

Completed PUDs	GLA	Complete	Total Cost	FMV	Value Add	Debt	Equity	ROE
Completed and Financed*								
145 Berkeley, Toronto	10,625	1-Nov-06	1,725	2,170	445	1,630	95	77%
257 Adelaide West, Toronto	45,893	1-Jul-07	8,345	11,970	3,625	7,200	1,145	36%
1500 Notre Dame, Winnipeg	111,400	1-Oct-08	3,920	5,920	2,000	3,500	420	71%
96 Spadina, Toronto	91,092	1-May-09	23,000	26,500	3,500	15,000	8,000	11%
Completed**								
QRC South, Toronto	44,600	1-Apr-07	6,750	10,000	3,250	6,000	750	60%
Completed PUDs	303,610		43,740	56,560	12,820	33,330	10,410	

*Debt financing is in place. 145 Berkeley was appraised in February of 2007, 257 Adelaide West in June of 2008 and 1500 Notre Dame in October of 2009. 96 Spadina was appraised at $24 million in December of 2009 with a 75% occupancy level. Management estimates FMV of $26.5 million once a stabilized level of NOI is achieved.
**Estimated debt financing. FMV is Management's estimate based on projected NOI.

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

2. In Progress

Our developments in progress are summarized in the following table:

PUDs in Progress	Estimated GLA
47 & 47A Fraser, Toronto	30,000
4450 Saint-Laurent, Montréal*	22,000
544 King West, Toronto*	20,000
134 Peter, Toronto*	300,000
905 King West, Toronto	112,096
Total	484,096

*Conditional on satisfactory pre-leasing

47 & 47A Fraser Avenue, Toronto, include two un-renovated, satellite buildings at The Castle in Liberty Village with approximately 30,000 square feet of GLA. We leased 3,625 square feet in 47 Fraser Avenue in the third quarter, bringing the leased area to 67%, and initiated the lease-up of 47A Fraser Avenue with the lease of 3,394 square feet following the end of the third quarter, bringing the leased area to 18%. Substantial lease-up for these two properties is targeted for mid-year 2010, at which time they'll become rental properties for accounting purposes.

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

544 King Street West, Toronto, includes approximately 19,400 square feet of land with frontage on King and Morrison Streets. Our initial plan was to construct a LEED-certified, office building with Class I attributes, approximately 135,000 square feet of GLA and approximately 60 on-site parking spaces. Although we obtained the necessary zoning variances for our initial plan early in 2009, we decided to defer full-scale development for a period of time and to redevelop the existing building fronting on King for

office and ancillary retail use. Because 495 and 499 King West will be available to us for large-scale intensification as early as 2012, we will lease the redeveloped building for a term of five or more years, which we believe will afford us a respectable holding return. We have now completed the renovation and initiated the leasing program with a view to achieving lease-up by mid-year 2010, at which time it'll become a rental property for accounting purposes.

134 Peter Street, Toronto, includes approximately 14,500 square feet of surplus land with frontage on Peter and Richmond Streets. Our plan is to restore the existing historic building and to construct a new, LEED-certified, office building with Class I attributes and approximately 250,000 square feet of GLA. The execution of this project is contingent upon achieving a level of pre-leasing satisfactory to Management and the Trustees. Having obtained the necessary zoning variances and preliminary confirmation that the project will be well received by prospective tenants with large requirements, we've decided to initiate the site-plan approval process and formally launch the pre-leasing effort.

On December 17 2009, we acquired of 375-381 Queen Street West. Located on the southwest corner of the intersection of Queen and Peter Streets, just north of 134 Peter Street, this Class I property is comprised of 32,557 square feet of gross leasable area and 4,381 square feet of surplus land. We plan to incorporate the surplus land into the project by creating dedicated parking spaces for 134 Peter Street using parking-stacker technology. We also plan to incorporate the building into the project and to create additional office space by building onto and out from the building. Although it will be incorporated into the intensification project, 375-381 Queen Street West provides a going-in yield of 7.4% and will be a rental property for accounting purposes for the time being.

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

In November of 2009, we put 905 King Street West into development after identifying it as an optimal building for expanding the capacity of 151 Front Street West. The building already has four diverse fibre-entry points, internal point-of-presence with Allstream, Bell, Cogeco and Rogers, significant electrical power with two feeder lines, a 600 kilowatt diesel generator on the roof, diesel fuel storage in the lower parking levels and room for expansion of both electrical power and cooling. We plan to upgrade approximately 60,000 square feet in the building to a standard equivalent to 151 Front Street West and expect to achieve a substantial increase in annual net rental revenue from the current level of $12 to $14 per square foot.

Properties Under Development are stated at the lower of cost and net recoverable value. Cost includes the cost of acquisition, other direct cost, realty tax, other operating expense and applicable financing expense during the development period, less the amount of operating revenue during the development period. The principal factors in determining when the development-period ends are (i) the achievement of positive cash flow after applicable interest expense and (ii) the passage of a predetermined period of time. Other criteria may be considered in determining when a development-period ends if warranted by circumstances relating to the relevant Property Under Development.

As at December 31, 2009, the cost of our Properties Under Development was $41,928, which was equivalent to 3.2% of our GBV.

Intensification

The buildings on most of our 57 Toronto properties have considerably less GLA than is permissible under the current zoning. This affords us the opportunity to create additional GLA without land cost and with correspondingly higher returns on equity. The combined land area of our Toronto properties is approximately 1,050,000 square feet or 24 acres. We have evaluated the Toronto portfolio on a property-by-property basis and have estimated that it is practically possible to create between 1.25 million and 1.75 square feet of additional GLA in the near term, market conditions permitting. 134 Peter Street is a very good example of the intensification that is possible within our existing portfolio.

Distributable Income

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

(i) amortization on rental properties;

(ii) amortization of the premiums or discounts on assumed mortgages;

(iii) non-cash rental revenue recorded to recognize rental income rateably over the life of each lease;

(iv) non-cash compensation expense with respect to the LTIP and Unit Option Plan;

(v) amortization of values ascribed in a building acquisition to in-place leases and tenant relationships;

(vi) amortization of values ascribed in a building acquisition to above-market and below-market leases;

(vii) amortization of values ascribed in the property management internalization to acquired contracts and customer relationships; and

(viii) property management internalization expense.

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

(In thousands)	Year ended December 31, 2009	Year ended December 31, 2008
Cash flow from operations	63,013	52,391
Amortization of leasing cost, tenant improvements	(3,310)	(2,319)
Amortization of financing cost	(641)	(547)
Amortization of computer and office equipment	(299)	(257)
Change in non-cash operating items	(4,828)	(375)
DI	53,935	48,893

Distributions for the year ended December 31, 2009, were $43,763, representing a DI pay-out ratio of 81.1%, as compared to distributions for the year ended December 31, 2008, of $38,667, representing a DI pay-out ratio of 79.1%.

Funds From Operations

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

(In thousands)	Year ended December 31, 2009	Year ended December 31, 2008
Net income	16,299	12,512
Amortization on rental properties	18,447	16,135
Amortization of leasing cost and tenant improvements	3,310	2,414
Amortization of origination cost and acquired tenant relationships	19,373	18,757
FFO	57,429	49,818

Distributions for the year ended December 31, 2009, represented an FFO pay-out ratio of 76.2%, as compared to distributions for the year ended December 31, 2008, which represented an FFO pay-out ratio of 77.6%.

Adjusted Funds From Operations

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

(In thousands)	Year ended December 31, 2009	Year ended December 31, 2008
FFO	57,429	49,818
Step-rent adjustments	(595)	(992)
M-T-M acquired leases	(91)	2,060
Leasing expenditures	(3,769)	(4,275)
Maintenance capital expenditures	(2,410)	(1,951)
AFFO	50,564	44,660

Distributions for the nine-month period ended December 31, 2009, represented an AFFO pay-out ratio of 86.5%, as compared to distributions for the year ended December 31, 2008, which represented an AFFO pay-out ratio of 86.6%.

Net Operating Income

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

(In thousands)	Year ended December 31, 2009	Year ended December 31, 2008
Revenue from rental properties	152,225	131,808
Rental property operating cost	62,134	52,387
Net rental income	90,091	79,421
M-T-M acquired leases	(91)	2,060
Step-rent adjustments	(595)	(992)
NOI	89,405	80,489

PART III

Financial Condition

We finance our operations through three sources of capital: (i) mortgage debt secured by our rental properties, (ii) secured short-term debt financing with a Canadian chartered bank and (iii) equity. As at December 31, 2009, we had mortgage debt of $597,375, bank indebtedness of $16,923 and unitholders' equity of $481,526.

Unitholders' Equity

As at December 31, 2009, we had a market capitalization of approximately $755,060 based on a closing unit price of $19.34 on the Toronto Stock Exchange. As at December 31, 2008, we had a market capitalization of approximately $388,884 based on a closing unit price of $12.45 on the Toronto Stock Exchange.

In the year ended December 31, 2009, we issued a total of 7,805,689 units for equity contributions of $128,198. Costs incurred to issue the units were $5,643. Units were issued as follows: 7,600,000 units at $16.50 per unit for gross proceeds of $125,400 pursuant to a bought deal that closed on October 2, 2009; and 205,273 units under our distribution re-investment plan at an average price of $13.61 per unit for $2,793 and 416 unit as a result of exercised options with a strike price of $10.87 per unit for $5. As at March 9, 2010, we had 39,076,282 units issued and outstanding.

We adopted a Unit Option Plan at the time of our IPO. In May of 2004, we adopted a long-term incentive plan ("LTIP") whereby our trustees and officers ("Participants") may from time to time, at the discretion of the trustees and subject to regulatory approval, subscribe for units at a market price established in accordance with the provisions of the LTIP. The price for the units is payable as to 5% upon issuance and as to the balance ("LTIP Loan") over 10 years with interest on the LTIP Loan at an annual rate established in accordance with the provisions of the LTIP. The units issued pursuant to the LTIP are registered in the name of a Custodian on behalf of the Participants who are the beneficial owners. The units are pledged to us as security for payment of the LTIP Loan, and all distributions paid on the units are forwarded by the Custodian to us and applied first on account of interest on the LTIP Loan and then to reduce the outstanding balance of the LTIP Loan. In May of 2007, we amended the Unit Option Plan and the LTIP to limit the number of units authorized for issuance under the Unit Option Plan, the LTIP or any other equity compensation plan to 5% of the issued and outstanding units from time to time. As of March 9, 2010, we had options to purchase 735,001 units outstanding, of which 409,161 had vested, and 387,293 units issued under the LTIP.

Mortgages Payable

Mortgages payable as at December 31, 2009, consisted of mortgage debt of $597,375. 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	15,904	7,039	22,943	4.0%	4.9%
2011	16,588	14,868	31,456	5.0%	6.2%
2012	16,595	36,805	53,400	9.0%	5.9%
2013	17,019	21,997	39,016	7.0%	6.0%
2014	13,042	161,663	174,705	29.0%	5.5%
Thereafter	29,635	246,220	275,855	46.0%	6.0%
Total	108,783	488,592	597,375	100.00%	

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

(In thousands)	Direct Mortgage Lender	Conduit Mortgage Lender
2010	7,039	-
2011	9,714	5,154
2012	24,489	12,316
2013	21,997	-
2014	142,780	18,883
Thereafter	180,005	66,215
Total	386,024	102,568

Interest rates on the mortgage debt are between 2.42% and 8.10% with a weighted average interest rate of 5.86%. The weighted average term of the mortgage debt is 5.8 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 December 31 2009, we had a $70,000 revolving credit facility ("Facility") with a Canadian chartered bank bearing interest at bank prime and maturing on August 31, 2010. The credit facility is secured by a combination of mortgage charges and security agreements on certain of our rental properties. In the year ended December 31, 2009, the average borrowings under the Facility were $14,511. As at December 31, 2009, the borrowings under the Facility were $16,923.

Liquidity and Commitments

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

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

The Facility, new mortgage financing and the access to the public equity markets will provide the necessary capital we require for acquisitions. Our acquisition capacity, meaning our ability to use un-utilized borrowing capacity while not exceeding the 60% Debt Ratio, is $420,000.

As at December 31, 2009, we had future commitments as set out below.

(In thousands)	**December 31, 2009**
Leasing commissions	1,623
Tenant improvements	953
Building renovations and maintenance capital expenditures	1,520
Revenue-enhancing capital and leasing expenditure	469
Expenses	39
Conditional acquisitions	14,500
Total	19,104

PART IV

Summary Information and Performance for the Quarter Ended December 31, 2009

The following sets out summary information and financial results for the quarter ended December 31, 2009, and the comparable quarter and the change between the two.

(In thousands except for per unit and % amounts)	**Q4 2009**	**Q4 2008**	**Change**	**%Change**
Revenue from rental properties	43,667	35,202	8,465	24.0%
Rental property operating cost	18,461	14,332	4,129	28.8%
Net rental income	25,206	20,870	4,336	20.8%
Real estate service income	58	73	(15)	(20.5%)
Financing expense				
Interest	7,674	6,859	815	11.9%
Amortization - Mortgage premium	(4)	(5)	1	(20.0%)
Amortization – Financing cost	168	164	4	2.4%
Amortization				
Rental properties	5,187	4,284	903	21.1%
Leasing cost and tenant improvements	643	594	49	8.2%
Origination cost and acquired tenant relationships	5,578	4,754	824	17.3%
Acquired contracts and customer relationships	24	24	-	0.0%
Computer and office equipment	81	67	14	20.9%
Income from operations	5,913	4,202	1,711	40.7%
Trust expense	1,229	906	323	35.7%
Net income	4,684	3,296	1,388	42.1%

(In thousands except for per unit and % amounts)	Q4 2009	Q4 2008	Change	%Change
Amortization				
Rental properties	5,187	4,284	903	21.1%
Mortgage premium	(4)	(5)	1	(20.0%)
Acquired leases	1,674	1,644	30	1.8%
M-T-M acquired leases	(220)	195	(415)	(212.8%)
Acquired tenant relationships	3,904	3,110	794	25.5%
Acquired contracts and customer relationships	24	24	-	0.0%
Step-rent adjustments	(312)	(341)	29	(8.5%)
Compensation expenses, LTIP and stock options	261	123	138	112.2%
DI	15,198	12,330	2,868	23.3%
Weighted average units outstanding (basic)	38,547	30,796	7,751	25.2%
Weighted average units outstanding (diluted)	38,975	31,184	7,791	25.0%
Distributions	12,839	10,255	2,584	25.2%
DI per unit (basic)	$0.39	$0.40	($0.01)	(2.5%)
DI per unit (diluted)	$0.39	$0.40	($0.01)	(2.5%)
DI pay-out ratio	84.5%	83.2%	1.3%	
FFO	16,092	13,023	3,069	23.6%
FFO per unit (basic)	$0.42	$0.42	$0.00	0.0%
FFO per unit (diluted)	$0.41	$0.42	($0.01)	(2.4%)
FFO pay-out ratio	79.8%	78.7%	1.1%	
AFFO	13,261	10,603	2,658	25.1%
AFFO per unit (basic)	$0.34	$0.35	($0.01)	(2.9%)
AFFO per unit (diluted)	$0.34	$0.34	$0.00	0.0%
AFFO pay-out ratio	96.8%	96.7%	0.1%	
NOI	24,674	20,724	3,950	19.1%
Same-asset net operating income	20,806	20,272	534	2.6%
Total assets	1,155,158	949,385	205,773	21.7%
Total debt (excludes premium on assumed debt)	614,298	526,478	87,820	16.7%
Debt Ratio	47.0%	49.4%	(2.4%)	
Total GLA (s.f., excluding PUD)	5,805	5,350	455	8.5%
Leased GLA (s.f., excluding PUD)	5,577	5,204	373	7.2%
Leased GLA (% total GLA)	96.1%	97.3%		23.3%

Net Income

Net income for the quarter ended December 31, 2009, was $4,684, as compared to $3,296 in the quarter ended December 31, 2008. Net income per unit (diluted) for the quarter was $0.12, as compared to $0.11 in the comparable quarter.

DI for the quarter ended December 31, 2009, increased by 23.3% to $15,198 from $12,330 for the quarter ended December 31, 2008. DI per unit (diluted) for the quarter was $0.41, as compared to $0.42 in the comparable quarter.

Net Rental Income

Net rental income for the quarter ended December 31, 2009, increased by 20.8% to $25,206 from $20,870 in the quarter ended December 31, 2008 as follows: (i) $253 increase 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) $281 due to net rental income from properties not owned for the entire quarter and the entire comparable quarter.

Net rental income per occupied square foot for the quarter ended December 31, 2009, was $18.09, as compared to $16.04 in the comparable year.

Real Estate Service Income

The Property Manager provides real estate services to third-party property owners. Real estate service income for the quarter ended December 31, 2009, was $58, as compared to $73 in the quarter ended December 31, 2008.

Financing Expense
Financing expense includes interest cost on mortgage debt and other credit facilities and the amortization of the premiums and discounts on assumed mortgages. For the quarter ended December 31, 2009, interest increased by 11.9% to $7,674 from $6,859 in the quarter ended December 31, 2008, due to the increase in financing expense associated with additional properties acquired in 2008 and 2009.

Amortization
We record amortization on our buildings on a straight-line basis over their expected life. Amortization recorded on buildings for the quarter ended December 31, 2009, increased by 21.1% to $5,187 from $4,284 in the quarter ended December 31, 2008.

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 cost not directly attributable to rental property, such as officers' compensation, trustees' fees, professional fees for legal and audit services, trustees' and officers' insurance premiums and general administrative expenses. Trust expense for the quarter ended December 31, 2009, increased by 35.7% to $1,229 from $906 in the quarter ended December 31, 2008.

PART V

Summary Quarterly Information and Performance

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

(In thousands except for per unit and % amounts)	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Revenue from rental properties	43,667	35,851	35,732	36,975	35,202	33,795	30,961	31,850
Rental property operating cost	18,461	14,517	13,912	15,244	14,332	12,776	12,169	13,110
Net rental income	25,206	21,334	21,820	21,731	20,870	21,019	18,792	18,740
Real estate service income	58	70	70	65	73	95	88	71
Financing expense	7,838	7,046	6,884	6,855	7,018	6,745	6,422	5,981
Amortization	11,513	9,795	10,073	10,144	9,723	9,831	9,041	8,969
Income from operations	5,913	4,563	4,782	4,797	4,202	4,538	3,417	3,861
Trust expense	1,229	774	832	921	906	828	856	916
Net income (loss)	4,684	3,789	3,950	3,876	3,296	3,710	2,561	2,945
Amortization								
Rental properties	5,187	4,462	4,417	4,381	4,284	4,221	3,853	3,777
Mortgage premium	(4)	(4)	(6)	(8)	(5)	(76)	(23)	(60)
Acquired leases	1,674	1,539	1,739	1,586	1,644	1,647	1,565	1,536
M-T-M acquired leases	(220)	263	(252)	118	195	265	817	783
Acquired tenant relationships	3,904	2,846	3,067	3,018	3,110	3,282	2,929	3,044
Acquired contracts and customer relationships	24	24	24	24	24	24	24	24
Step-rent adjustments	(312)	123	(191)	(215)	(341)	(244)	(155)	(252)
LTIP and Unit Option Plan expense	261	56	55	56	123	122	122	122
DI	15,198	13,098	12,803	12,836	12,330	12,951	11,693	11,919
Weighted average units (basic)	38,547	30,993	30,966	30,914	30,796	30,654	27,757	27,616
Weighted average units (diluted)	38,975	31,411	31,370	31,302	31,184	31,042	28,145	28,007
Distributions	12,839	10,320	10,308	10,296	10,255	10,218	9,249	8,945
DI per unit (basic)	$0.39	$0.42	$0.41	$0.42	$0.40	$0.42	$0.42	$0.43
DI per unit (diluted)	$0.39	$0.42	$0.41	$0.41	$0.40	$0.42	$0.42	$0.43
DI pay-out ratio	84.5%	78.8%	80.5%	80.2%	83.2%	78.9%	79.1%	75.0%
FFO	16,092	13,480	13,928	13,929	13,023	13,449	11,512	11,834
FFO per unit (basic)	$0.42	$0.43	$0.45	$0.45	$0.42	$0.44	$0.42	$0.43
FFO per unit (diluted)	$0.41	$0.43	$0.44	$0.44	$0.42	$0.43	$0.41	$0.42
FFO pay-out ratio	79.8%	76.6%	74.0%	73.9%	78.7%	76.0%	80.3%	75.6%

(In thousands except for per unit and % amounts)	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
AFFO	13,261	12,401	12,632	12,270	10,603	11,600	10,759	11,698
AFFO per unit (basic)	$0.34	$0.40	$0.41	$0.40	$0.34	$0.38	$0.39	$0.42
AFFO per unit (diluted)	$0.34	$0.40	$0.40	$0.39	$0.34	$0.37	$0.38	$0.42
AFFO pay-out ratio	96.8%	83.2%	81.6%	83.9%	96.7%	88.1%	86.0%	76.5%
NOI	24,674	21,720	21,377	21,634	20,724	21,040	19,454	19,271
Net income per unit (basic)	$0.12	$0.12	$0.13	$0.13	$0.11	$0.12	$0.09	$0.11
Net income per unit (diluted)	$0.12	$0.12	$0.13	$0.12	$0.11	$0.12	$0.09	$0.11
Total assets	1,155,158	937,342	942,806	945,985	949,385	956,344	884,321	857,166
Total debt	614,298	533,348	531,857	527,174	526,478	527,879	517,997	485,371
Debt Ratio	47.0%	49.4%	49.3%	49.3%	49.4%	49.7%	52.7%	51.3%
Total GLA (excluding PUD)	5,805	5,452	5,451	5,335	5,350	5,236	4,812	4,742
Leased GLA (excluding PUD)	5,577	5,247	5,246	5,183	5,204	5,095	4,684	4,625
Leased Area (%GLA)	96.1%	96.2%	96.3%	97.2%	97.3%	97.3%	97.3%	97.6%

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 VI

Critical Accounting Estimates

The significant accounting policies used in preparing our consolidated financial statements are described in Note 3 to our consolidated financial statements for the year ended December 31, 2009, and for the year ended December 31, 2008. The following is a discussion of Management's estimates that are most important to the presentation of our results of operations and financial condition and are most subjective as a result of matters that are inherently uncertain.

Fair Value of Assumed Mortgages Payable and Fair Value of Mortgages Payable

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 year ended December 31, 2009, recognize a $3,541 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.

PART VII

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 attended training courses in 2009 and specific training for all affected staff continues and will be 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 a preliminary assessment and have identified differences between current GAAP and IFRS that may 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 expected to be completed in second quarter of 2010. 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 exiting disclosure and control procedures and internal control processes and will design and implement 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 throughout 2010 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 throughout 2010 for conversion on January 1, 2011.

Summary of Key Difference
We have progressed through the conversion project 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 in the 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 rentals, 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. Substantially all of our income properties and Properties Under Development will qualify as investment property under IRFS. Under current GAAP investment property is measured using a historical cost model. Under IFRS we would initially measure our investment property at cost but subsequently we need to choose either the cost model or the fair value model to account of our investment properties. Under the fair value model, investment properties will be carried on the consolidated balance sheet at their fair values and changes in fair value during each period will be recorded in the consolidated statement of income. Under the fair value model, acquired intangible assets and liabilities will be recognized as an integral part of the value of investment properties. Amortization related to investment properties is not recognized under the fair value model. The cost model is generally consistent with current GAAP, whereby investment properties are carried on the consolidated balance sheet at its cost less any accumulated amortization and any accumulated impairment losses. Under the cost model for amortization purposes, investment property is segregated into significant components including land, building structures, significant improvements and facilities of the building, amount relating to in-place leases, and other components. Under the cost model, the fair value of investment properties is required to be disclosed in the notes to the financial statements for each reporting period. IRFS allows for the initially measurement of investment property upon transitions to IFRS as fair value as deemed cost as opposed to full retroactive application of the cost model.

2. Properties Under Development
Properties Under Development are considered investment properties. Under IFRS administrative and other general overheads cannot be capitalized and any incidental operating income cannot be recognized. Capitalization of interest costs directly attributable to and an allocation of borrowing costs on general debt that relate to an asset under construction is required under IFRS.

3. Impairment
Under current GAAP, impairment is recognized if the undisclosed future cash flows of the investment property are lower than its carrying value. Under 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. Value-in-use is defined as the discounted present value of estimated future cash flows expected to arise from the planned use of an asset and from its disposal at the end of its useful life. Under IFRS, recognition of impairments would likely before frequent. IRFS allows impairment losses to be reversed if there is an increase in value, however the increase cannot exceed cost less accumulated amortization. The reversal of impairment is not permitted under Canadian GAAP.

4. Leases
Current GAAP and IFRS both require that tenant allowances be capitalized and amortize 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. Leasing commissions will continue to be deferred on the consolidated balance sheet, but under IFRS they form a component of investment property.

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 not and therefore 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. Under IFRS our trust units meet the definition of a liability as under our Declaration of Trust we have 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. We intend to present this modification to Unitholders at the upcoming Annual and Special Meeting on May 11, 2010.

7. Income Taxes
Under the current IFRS income tax standard, it would initially appear that we will be required to recognize deferred income taxes, notwithstanding we meet the REIT Exception under the SIFT rules.

PART VIII

Related Party Transactions

Allied Canadian Development Corporation ("ACDC") is a company controlled by the President and Chief Executive Officer of the REIT and in which the Executive Vice President of the REIT has an interest. At the time of our IPO, a subsidiary of ACDC leased 29,102 square feet of office space from us pursuant to a lease expiring on September 30, 2010. Effective July 1, 2005, we entered into a direct lease of this space with Loblaws Properties Limited for a term ending October 31, 2010, on the condition that the original indemnity of ACDC protecting us from any revenue shortfall (on a cash basis) from the original lease remain in full force and effect.

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

PART IX

Risk and Uncertainties

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

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

Financing and Interest Rate Risk

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

Interest rates on our mortgage debt are between 2.42% and 8.10% with a weighted average interest rate of 5.86%. The weighted average term of our mortgage debt is 5.8 years. As at December 31, 2009, the borrowings under the Facility were $16,923.

Credit Risk

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

The following sets out our tenant-mix on the basis of percentage of rental revenue for the year ended December 31, 2009:

Category	% of Rental Revenue Period Ended December 31, 2009
Business service and professional	28.3%
Telecommunications and information technology	26.1%
Retail (head office and storefront)	14.6%
Media and entertainment	16.1%
Financial services	4.9%
Government	1.4%
Other	8.6%

The following sets out the percentage of rental revenue from our top-10 tenants by rental revenue for the year ended December 31, 2009.

Tenant	% of Rental Revenue Period Ended December 31, 2009
C.G.I. Inc.	5.2%
Ubisoft Divertissement Inc.	3.4%
Visa Desjardins	3.4%
Cossette Inc.	2.2%
Autodesk Canada	2.2%
SAP Labs Inc.	1.8%
St. Michael's Hospital	1.6%
MTS Allstream Inc.	1.6%
Indigo Books & Music Inc.	1.6%
Cardinia Real Estate Canada Inc.	1.5%

Lease Roll-Over Risk

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

96.1% of the GLA in our portfolio was leased as at December 31, 2009 (not including Properties Under Development). The weighted average term to maturity of our leases at that time was 3.8 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 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	922,668	15.9%	$16.87	$16.71
December 31, 2011	847,211	14.6%	$17.41	$20.03
December 31, 2012	686,874	11.8%	$18.18	$17.21
December 31, 2013	958,261	16.5%	$17.90	$19.19
December 31, 2014	250,691	4.3%	$22.61	$18.04

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	247,424	4.3%	$19.19	$20.74
December 31, 2011	469,627	8.1%	$21.10	$25.34
December 31, 2012	469,535	8.1%	$19.84	$18.95
December 31, 2013	513,216	8.8%	$23.48	$23.30
December 31, 2014	187,788	3.2%	$26.23	$21.53

2. Montréal

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2010	598,486	10.3%	$16.95	$16.11
December 31, 2011	312,673	5.4%	$13.65	$14.53
December 31, 2012	163,591	2.8%	$16.14	$15.13
December 31, 2013	386,977	6.7%	$11.64	$15.37
December 31, 2014	28,400	0.5%	$8.56	$7.87

3. Winnipeg

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2010	51,661	0.9%	$7.51	$7.63
December 31, 2011	53,740	0.9%	$7.26	$7.73
December 31, 2012	34,084	0.6%	$8.26	$7.77
December 31, 2013	39,628	0.7%	$8.06	$8.06
December 31, 2014	19,785	0.3%	$6.43	$5.66

4. Québec City

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2010	25,097	0.4%	$11.43	$10.02
December 31, 2011	11,171	0.2%	$15.94	$9.87
December 31, 2012	19,664	0.3%	$12.69	$9.28
December 31, 2013	18,440	0.3%	$14.87	$8.74
December 31, 2014	14,718	0.3%	$25.38	$9.81

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 $1,820 (approximately five cents per unit). The decline in AFFO per unit would be more pronounced if the decline in occupancy involved space leased above our average rental rate per square foot and less pronounced if the decline in occupancy involved space leased below our average rental rate per square foot. Management is committed to staying within our normal range of leased area of 96% to 99% in 2010.

Environmental Risk

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

Development Risk

As an owner of Properties Under Development, we are subject to development risks, such as construction delays, cost over-runs and the failure of tenants to take occupancy and pay rent in accordance with lease arrangements. In connection with all Properties Under Development, we incur development costs prior to (and in anticipation of) achieving a stabilized level of rental revenue. In the case of the development of ancillary or surplus land, these risks are managed by not commencing construction until a satisfactory level of pre-leasing is achieved. Overall, these risks are managed by ensuring that Properties Under Development do not represent a large component of our GBV. As at December 31, 2009, the cost of Properties Under Development was equivalent to 3.2% of our GBV.

Taxation Risk

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

PART X

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 2009 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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

PART XI

Subsequent Events

On January 28, 2010, we placed a first mortgage on 96 Spadina Avenue in Toronto in the principal amount of $15,000 for a term of five years at annual interest rate of 5.85% and payable in instalments of interest only for a period of three years and thereafter in blended instalments of principal and interest based on a 25 year amortization.

On February 26, 2010, we placed a first mortgage on 1500 Notre Dame Avenue in Winnipeg in the principal amount of $3,500 for a term of five years at annual interest rate of 5.24% and payable in blended instalments of principal and interest based on a 20 year amortization.

Property Table

December 31, 2009 Properties	Office GLA	Retail GLA	Total GLA	% Total GLA	Office Vacant	Retail Vacant	Total Leased	Leased %
555 College	41,023	19,145	60,168		-	-	60,168	100.0%
860 Richmond W	24,199	-	24,199		-	-	24,199	100.0%
The Castle	106,393	34,323	140,716		-	-	140,716	100.0%
King West	171,615	53,468	225,083	3.9%	-	-	225,083	100.0%
141 Bathurst (+ land)	10,521	-	10,521		5,105	-	5,416	51.5%
183 Bathurst	24,879	-	24,879		-	-	24,879	100.0%
420 Wellington W	33,813	3,137	36,950		-	-	36,950	100.0%
425 Adelaide W	74,434	4,104	78,538		6,232	-	72,306	92.1%
425-439 King W	75,333	17,297	92,630		-	3,397	89,233	96.3%
441-443 King W	6,820	3,065	9,885		-	3,065	6,820	69.0%
445-455 King W	27,640	23,048	50,688		-	-	50,688	100.0%
468 King W	65,027	-	65,027		-	-	65,027	100.0%
469 King W	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	11,183	-	11,183		1,733	-	9,450	84.5%
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	123,935	34,238	158,173		-	-	158,173	100.0%
602-606 King W	39,727	24,320	64,047		-	-	64,047	100.0%
662 King W	30,774	2,126	32,900		-	-	32,900	100.0%
96 Spadina	80,451	9,361	89,812		18,651	-	71,161	79.2%
King-Brant Parking	-	-	-		-	-	-	0.0%
King West Central	779,384	185,234	964,618	16.6%	31,721	6,462	926,435	96.0%
116 Simcoe	15,389	-	15,389		-	-	15,389	100.0%
151 Front W	285,402	29,843	315,245		12,081	395	302,769	96.0%
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		4,880	-	7,542	60.7%
217-225 Richmond W	35,453	21,200	56,653		-	-	56,653	100.0%
257 Adelaide W	46,914	-	46,914		-	-	46,914	100.0%
312 Adelaide W	66,043	5,752	71,795		-	-	71,795	100.0%
331-333 Adelaide W	20,503	3,210	23,713		-	-	23,713	100.0%
358-360 Adelaide W	54,250	-	54,250		8,948	-	45,302	83.5%
364 Richmond W	22,018	17,300	39,318		-	-	39,318	100.0%
375-381 Queen w	23,641	11,088	34,729		3,772	-	30,957	89.1%
388 King W	32,603	11,765	44,368		-	-	44,368	100.0%
82 Peter	38,811	8,287	47,098		-	-	47,098	100.0%
99 Spadina	39,327	11,392	50,719		4,061	-	46,658	92.0%
Entertainment District	843,945	119,837	963,782	16.6%	35,513	395	927,874	96.3%
67 Richmond W	44,702	5,804	50,506		2,094	-	48,412	95.9%
193 Yonge	34,836	16,318	51,154		-	-	51,154	100.0%
Downtown	79,538	22,122	101,660	1.8%	2,094	-	99,566	97.9%
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		-	-	24,180	100.0%
41-45 Front E	20,024	19,811	39,835		-	-	39,835	100.0%
45-55 Colborne	27,815	12,526	40,341		1,000	-	39,341	97.5%
50 Wellington E	21,937	11,049	32,986		-	-	32,986	100.0%
St. Lawrence Market	137,604	82,895	220,499	3.8%	1,000	-	219,499	99.5%
145 Berkeley	8,124	2,687	10,811		-	-	10,811	100.0%
230 Richmond E	73,667	-	73,667		-	-	73,667	100.0%
489 Queen E	25,242	-	25,242		15,468	-	9,774	38.7%
Dominion Square	65,339	45,622	110,961		4,766	700	105,495	95.1%
QRC South	36,104	-	36,104		9,800	-	26,304	72.9%
Queen Richmond Centre	155,481	64,593	220,074		15,302	5,255	199,517	90.7%
70 Richmond St E	34,414	-	34,414				34,414	100.0%
204-214 King St E	128,970	5,460	134,430		-	-	134,430	100.0%
Queen Richmond	527,341	118,362	645,703	11.1%	45,336	5,955	594,412	92.1%
Total Toronto	**2,539,427**	**581,918**	**3,121,345**	53.8%	**115,664**	**12,812**	**2,992,869**	**95.9%**

Properties	Office GLA	Retail GLA	Total GLA	% Total GLA	Office Vacant	Retail Vacant	Total Leased	Leased %
3575 Saint-Laurent	166,157	17,464	183,621		8,583	-	175,038	95.3%
400 Atlantic	86,034	-	86,034		12,612	-	73,422	85.3%
425 Viger W (+ land)	205,193	820	206,013		-	-	206,013	100.0%
4446 Saint-Laurent	74,961	7,667	82,628		8,843	-	73,785	89.3%
5505 Saint-Laurent	252,452	2,524	254,976		-	-	254,976	100.0%
451-481 Saint Catherine W	22,222	8,434	30,656		-	-	30,656	100.0%
6300 Avenue du Parc	217,826	950	218,776		29,352	-	189,424	86.6%
111 Duke St: Phase IV	374,817	-	374,817		-	-	374,817	100.0%
50 Queen St: Phase I	31,541	-	31,541		-	-	31,541	100.0%
700 Wellington St: Phased V	128,229	1,925	130,154		-	-	130,154	100.0%
75 Queen St: Phase VI & VII	249,450	2,128	251,578		4,180	-	247,398	98.3%
80 Queen St: Phase II	70,263	-	70,263		-	-	70,263	100.0%
87 Prince St: Phase III	106,628	1,065	107,693		-	-	107,693	100.0%
Total Montreal	**1,985,773**	**42,977**	**2,028,750**	35.0%	**63,570**	**-**	**1,965,180**	**96.9%**
115 Bannatyne	34,587	4,029	38,616		-	-	38,616	100.0%
138 Portage East	39,400	-	39,400		9,796	-	29,604	75.1%
165 Garry	9,000	5,800	14,800		1,800	-	13,000	87.8%
250 McDermot	34,946	10,040	44,986		2,159	-	42,827	95.2%
309 Hargrave	18,268	1,400	19,668		4,771	-	14,897	75.7%
50-70 Arthur	99,052	15,380	114,432		13,934	-	100,498	87.8%
1500 Notre Dame	109,518	-	109,518		-	-	109,518	100.0%
Total Winnipeg	**344,771**	**36,649**	**381,420**	6.6%	**32,460**	**-**	**348,960**	**91.5%**
390 Charest E	68,413	4,686	73,099		-	-	73,099	100.0%
410 Charest E	23,637	1,300	24,937		-	1,300	23,637	94.8%
420 Charest E	43,551	13,285	56,836		500	-	56,336	99.1%
622 Saint Joseph	3,620	3,300	6,920		-	-	6,920	100.0%
633 Saint Joseph	15,655	6,000	21,655		-	-	21,655	100.0%
Total Quebec City	**154,876**	**28,571**	**183,447**	3.2%	**500**	**1,300**	**181,647**	**99.0%**
72 Victoria	89,588	-	89,588		1,524	-	88,064	98.3%
Total Kitchener-Waterloo	**89,588**	**-**	**89,588**	1.5%	**1,524**	**-**	**88,064**	**98.3%**
			0					
Total Rental Portfolio	**5,114,435**	**690,115**	**5,804,550**	100.0%	**213,718**	**14,112**	**5,576,720**	**96.1%**
47 Fraser, Toronto	11,772	-	11,772					
47A Fraser, Toronto	20,000	-	20,000					
134 Peter, Toronto	30,151	19,518	49,669					
544 King, Toronto	20,000		20,000					
905 King W	103,105	8,991	112,096					
Adjacent Land, Montreal	-	-	-					
Total PUD	**185,028**	**28,509**	**213,537**					

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements, management's discussion and analysis of results of operations and financial condition and the annual report are the responsibility of the Management of Allied Properties Real Estate Investment Trust (the "REIT"). The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and where appropriate, include amounts, which are based on best estimates and judgment of Management.

Management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized.

The Board of Trustees (the "Board") is responsible for ensuring that Management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee (the "Committee"), which is comprised entirely of outside trustees. The Committee reviews the consolidated financial statements with both management and the independent auditors. The Committee reports its findings to the Board, which approves the consolidated financial statements before they are submitted to the Unitholders of the REIT.

BDO Canada LLP (the "Auditors"), the independent auditors of the REIT, have audited the consolidated financial statements of the REIT in accordance with Canadian generally accepted auditing standards to enable them to express to the Unitholders their opinion on the consolidated financial statements. The Auditors had direct and full access to, and meet periodically with the Committee, both with and without Management present.

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

(signed) "Tom Wenner"
Tom Wenner, CA
Chief Financial Officer

Auditors’ Report

To the Unitholders of
Allied Properties Real Estate Investment Trust

We have audited the consolidated balance sheets of Allied Properties Real Estate Investment Trust as at December 31, 2009 and 2008 and the consolidated statements of unitholders' equity, earnings and comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario
March 9, 2010

Consolidated Balance Sheets

(in thousands) For the Years Ended December 31	Note	2009	2008
Assets			
Rental properties	4	**$1,017,883**	$807,270
Properties under development		**41,928**	42,463
Intangibles	5	**43,751**	49,048
Other assets	6	**50,326**	49,820
Cash		**1,270**	784
		$1,155,158	$949,385
Liabilities			
Mortgages payable	7	**$593,619**	$520,308
Bank indebtedness	7	**16,923**	2,922
Accounts payable and other liabilities	8	**58,795**	37,068
Distributions payable		**4,295**	3,436
		673,632	563,734
Unitholders' Equity	9	**481,526**	385,651
		$1,155,158	$949,385

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

(in thousands)

For the Years Ended December 31, 2008 and 2009

	Notes	**Cumulative Capital**	**Cumulative Issue Costs**	**Cumulative Net Income**	**Cumulative Distributions**	**Contributed Surplus**	**Total**
Unitholders' equity, December 31, 2007		$362,524	($18,560)	$29,220	($83,355)	$36	$289,865
Net income		-	-	12,512	-	-	12,512
Distributions		-	-	-	(38,667)	-	(38,667)
Public offering		120,738	(5,562)	-	-	-	115,176
Distribution reinvestment plan		5,512	-	-	-	-	5,512
Unit option plan – options exercised	11	425	-	-	-	-	425
Contributed surplus, unit option plan	11	-	-	-	-	489	489
Long-Term incentive plan	12	339	-	-	-	-	339
Unitholders' equity, December 31, 2008		$489,538	($24,122)	$41,732	($122,022)	$525	$385,651
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**

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

Consolidated Statements of Earnings and Comprehensive Income

(in thousands, except unit and per unit amounts) For the Years Ended December 31	2009	2008
Revenues		
Rental properties	**$152,225**	$131,808
Real estate services	**579**	663
	152,804	132,471
Expenses		
Rental property operating	**62,134**	52,387
Real estate services	**316**	336
Financing	**28,774**	26,166
Trust	**3,756**	3,506
Amortization of rental properties	**18,447**	16,135
Amortization of intangibles	**19,469**	18,854
Amortization of leasing costs	**1,539**	1,169
Amortization of other assets	**2,070**	1,406
	136,505	119,959
Net income and comprehensive income for the year	**$16,299**	$12,512
Net income per unit		
Basic	**$0.50**	$0.43
Fully diluted	**$0.49**	$0.42
Weighted average number of units (Note 10)		
Basic	**32,870,878**	29,214,389
Fully diluted	**33,281,351**	29,602,531

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

Consolidated Statements of Cash Flows

(in thousands) For the Years Ended December 31	Notes	2009	2008
CASH PROVIDED BY (USED IN):			
Operating activities			
Net income		**$16,299**	$ 12,512
Items not affecting cash			
Amortization of rental properties		**18,447**	16,135
Amortization of office equipment		**299**	257
Amortization of intangibles		**19,469**	18,854
Amortization of leasing costs		**1,539**	1,169
Amortization of tenant improvements		**1,771**	1,149
Step rent adjustments (revenue)		**(850)**	(1,224)
Step rent adjustments (expenses)		**255**	232
Mark to market rent adjustments		**(91)**	2,060
Amortization, premium on assumed mortgages		**(22)**	(164)
Changes in other non-cash financing expenses		**641**	547
Compensation expense, unit option plan		**428**	489
		58,185	52,016
Change in other non-cash operating items		**4,828**	375
Cash from operating activities		**63,013**	52,391
Investing activities			
Rental properties acquired, net of non-cash consideration	**2**	**(209,047)**	(103,394)
Properties under development acquired	**2**	**-**	(24,153)
Capital expenditures, rental properties and other assets		**(7,173)**	(9,422)
Capital expenditures, properties under development		**(6,092)**	(6,196)
Tenant improvements and leasing cost		**(6,224)**	(4,181)
Tenant inducements		**(691)**	(501)
Recoverable expenses		**-**	(109)
Cash used in investing activities		**(229,227)**	(147,956)
Financing Activities			
Repayment of mortgages payable		**(28,345)**	(17,666)
Proceeds from new mortgages payable		**101,037**	58,522
Distributions		**(40,111)**	(32,356)
Proceeds of public offering (net of issue costs)		**119,757**	115,176
Proceeds from exercise of unit options		**5**	425
Proceeds from units issued under the LTIP (net of issue costs)	**12**	**356**	339
Net increase (decrease) in bank indebtedness		**14,001**	(29,270)
Cash provided by financing activities		**166,700**	95,170
Increase (decrease) in cash and cash equivalents		**486**	(395)
Cash and cash equivalents, beginning of year		**784**	1,179
Cash and cash equivalents, end of year		**1,270**	784
Other cash flow information			
Interest paid		**$29,047**	$27,587

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

1. The Trust

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

2. Acquisitions

Rental Properties and Properties Under Development

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

For the Years Ended December 31	**2009**	2008
Rental properties	**$214,718**	$116,323
Properties under development	**-**	24,153
Other assets	**83**	86
Fair value of in-place leases and tenant relationships	**14,000**	20,877
Fair value of above-market leases	**3,301**	771
Fair value of below-market leases	**(9,125)**	(10,224)
Mortgages payable	**-**	(22,741)
Accounts payable and accrued liabilities	**(13,930)**	(1,698)
Cash consideration paid for the net assets acquired	**$209,047**	$127,547

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

3. Summary of Significant Accounting Policies

(a) Basis of Presentation

The REIT's consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

(b) Basis of Consolidation

The REIT's consolidated financial statements include the accounts of the REIT and its wholly owned subsidiaries.

(c) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates and assumptions include those related allocation of purchase price on property acquisitions, useful lives of assets used to calculate amortization and allowances for doubtful accounts.

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less.

(e) Rental Properties

Rental properties include land, buildings, improvements and acquisition costs that are capitalized as part of the cost of rental properties.

Rental properties are stated at cost less accumulated amortization. Amortization on buildings is recorded on the straight-line basis over the useful life of the buildings, estimated at 40 years.

Upon the acquisition of rental properties, the REIT evaluates all in-place tenant lease agreements to determine if the leases are at, below or above market rates. If a lease is determined to be above or below market rates, a corresponding asset or liability is recorded and amortized into income over the life of the lease. Also at the time of acquisition, an asset representing the fair value of the costs of the leasing commissions and tenant inducements that the REIT would have otherwise incurred if it had originated each lease agreement acquired is recorded and amortized over the lease's remaining life. Furthermore, an asset representing the fair value, if any, of the relationship with a tenant is created upon the acquisition of the property, and amortized over the remaining term of the tenant's lease.

(f) Properties Under Development

Properties under development are stated at cost. Cost includes the cost of acquisition, including asset of liabilities for above and below market rent, fair value of leasing commissions and tenant inducements and the fair value of relationship with tenants, 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 redevelopment-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 redevelopment-period ends if warranted by circumstances relating to the relevant property under development.

(g) Computer and Office Equipment

Amortization on computer and office equipment is recorded on a straight-line basis over estimated useful lives of three to five years.

(h) Impairment of Long-Lived Assets

The impairment of an asset is recognized if the carrying amount of the asset exceeds the aggregated undiscounted future cash flows expected from use of the asset and the eventual disposal of the asset. The impairment recognized is measured as the amount by which the carrying amount of the asset exceeds its fair value.

(i) Mortgages Payable

Mortgages payable consists of the legal liabilities owing pursuant to loans secured by mortgages and premiums and discounts recognized on loans assumed on acquisition of properties, netted against the transaction cost, and the effective interest method of amortization is applied to the premiums, discounts and transaction costs.

(j) Distribution Reinvestment Plan (DRIP)

The REIT has instituted a DRIP whereby Canadian unitholders may elect to have their distributions automatically reinvested in additional units. Unitholders who so elect will receive a further distribution of units equal in value to 5% of each distribution that was reinvested. No commissions, service charges or brokerage fees are payable by participants in connection with the DRIP.

(k) Revenue Recognition

Rental revenue includes rents from tenants under leases, property tax and operating cost recoveries, parking income and incidental income. Rental revenue with respect to rents from tenants under lease is recognized ratably over the term of the lease. Real estate services revenue is recorded on an accrual basis as services are provided.

(l) Unit-based Compensation Plan

The REIT accounts for employee unit-based options by measuring the compensation cost for options granted on or after January 1, 2002 under the fair value-based method using a Black-Scholes option pricing model. The REIT accounts for loans granted under the long-term incentive plan that do not meet the conditions for recognition as an asset, as a reduction of equity.

(m) Per Unit Calculations

Basic net income per unit is calculated by dividing net income by the weighted average number of units outstanding for the year, excluding those units issued under the Long Term Incentive Plan, which are not fully paid up. The calculations of net income per unit on a diluted basis consider the potential exercise of outstanding unit purchase options, if dilutive, and are calculated using the treasury stock method. The calculation of net income per unit on a diluted basis includes those units issued under the Long Term Incentive Plan, which are not fully paid up.

(n) Intangibles

Leasing costs and tenant relationships on rental properties acquired included in intangibles consists of the fair value attributed to in-place leases and tenant relations recorded and assigned upon acquisition of rental properties and are amortized over the remaining term of the respective leases to which the fair value relate.

Contracts and customer relationships included in intangibles consists of the values assigned to property management clients upon initial acquisition and are amortized on a straight-line basis over their estimated useful lives of 10 years.

(o) Leasing Costs and Tenant Improvements

Leasing costs include costs associated with leasing activities such as commissions. These costs are amortized on a straight-line basis over the terms of the leases to which they relate.

The REIT may provide funding to tenants through allowances. In accounting for a tenant allowance, the REIT determines whether the allowance is for funding the construction of improvements and determines the ownership of such improvements. In those circumstances where the REIT is considered the owner of the improvements, the REIT capitalizes the amount of the allowance as a tenant improvement and amortizes it over the shorter of the useful life of the improvement and the lease term. If the REIT provides an allowance that does not represent a payment for funding improvements, or in the event the REIT is not considered the owner of the improvement, the allowance would be considered a lease incentive and would be deferred and amortized over the lease term as a reduction of revenue. Determination of the accounting treatment of a tenant allowance is made on a case-by-case basis.

(p) Financial Instruments

Financial assets and liabilities are classified into one of the following five categories: held-for-trading; held-to-maturity; loans and receivables; available-for-sale financial assets; and other financial liabilities. Financial instruments are initially measured at fair value. Subsequent measurement and recognition of the changes in fair value of financial instruments depends upon their initial classifications, as follows:

> Held-for-trading financial assets: measured at fair value with subsequent changes in fair value recognized in current period net income;
>
> Held-to-maturity assets, loans and receivables and other financial liabilities: initially measured at fair value and subsequently measured at amortized cost with changes recognized in current period net income;
>
> Available-for-sale financial assets: measured at fair value with subsequent gains and losses included in other comprehensive income until the asset is removed from the balance sheets or when there is an unrealized loss that is considered other than temporary; and

Derivative financial instruments: classified as held-for-trading financial instruments and measured at fair value, with subsequent changes in fair value recognized in current period income.

The REIT designated its cash as held-for-trading, its accounts receivable as loans and receivables, and its bank indebtedness, accounts payable and other liabilities, distributions payable and mortgages payable as other financial liabilities. The REIT had no held-to-maturity or available-for-sale financial assets during the years ended December 31, 2009 and December 31, 2008.

(q) Allowance for Doubtful Accounts

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of tenants to meet obligations under lease agreements. The REIT actively reviews receivables and determines the potentially uncollectible accounts on a per-tenant basis. An accounts receivable is written down to its estimated realizable value when the REIT has reason to believe that the tenant will not be able to fulfill their obligations under the lease agreement.

(r) Change in Accounting Policies

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

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

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

(s) Comparative Amounts

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

(t) Future Changes to Accounting Policies

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

4. Rental Properties and Properties Under Development

As at 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**
	$1,084,189	**$66,306**	**$1,017,883**

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

Included in Properties Under Development is interest capitalized in the year of $1,235 (2008 - $1,858).

5. *Intangibles*

Intangibles consist of costs incurred by the REIT, net of accumulated amortization of $51,565 (December 31, 2008 - $38,077).

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**
	$95,316	**$51,565**	**$43,751**

As at December 31, 2008	Cost	Accumulated Amortization	Net Carrying Amount
Leasing costs and tenant relationships on rental properties acquired	$86,166	$37,741	$48,425
Amounts recorded on the acquisition of the property manager – contracts and customer relationships	959	336	623
	$87,125	$38,077	$49,048

6. *Other Assets*

Other assets consist of:

December 31	**2009**	2008
Leasing costs, net of accumulated amortization of $2,763 (December 31, 2008 - $2,083)	**$7,814**	$6,101
Above-market rents of leases acquired through rental property acquisitions net of accumulated amortization of $13,786 (December 31, 2008 - $10,763)	**10,901**	12,604
Accounts receivable	**15,835**	16,376
Tenant inducements, net of accumulated amortization of $317 (December 31, 2008 - $246)	**1,001**	496
Tenant improvements, net of accumulated amortization of $3,280 (December 31, 2008 - $2,439)	**6,484**	5,854
Prepaid expenses	**1,585**	605
Escrow accounts held by mortgagees	**6,072**	7,051
Computer and office equipment, net of accumulated amortization of $548 (December 31, 2008 - $248)	**634**	733
	$50,326	$49,820

Accounts Receivable:

December 31	**2009**	2008
Tenant receivable, net of allowances	**$4,658**	$5,617
Straight-line rent receivable	**6,857**	6,184
Accrued recovery income	**2,434**	2,527
Other accounts receivable	**1,886**	2,048
	$15,835	$16,376

December 31	**2009**	2008
Tenant receivable	**$5,841**	$6,267
Less: Allowance for impairment of rent receivables	**(1,183)**	(650)
Rents receivable, net of allowances	**$4,658**	$5,617

The movement in the provision for impairment of tenant receivables during the years ended December 31, was as follows:

	2009	2008
As at January 1	**$650**	$393
Provision for impairment of trade receivables	**1,458**	588
Receivables written off during the year as uncollectable	**(925)**	(331)
As at December 31	**$1,183**	$650

The following is an aging analyses of tenant receivable, net of the allowances:

	2009	2008
Less than 30 days	**$2,333**	$2,453
Between 30 to 60 days	**550**	162
More than 60 days	**1,775**	3,002
As at December 31	**$4,658**	$5,617

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 5.1% and 8.1% (contractual 4.37% and 8.10%).

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**
	$108,783	**$488,592**	**$597,375**
Net discount on assumed mortgages (net of accumulated amortization of $1,327)			**(216)**
Financing costs (net of accumulated amortization of $1,805)			**(3,540)**
			$593,619

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

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

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

At December 31, 2009 the amount outstanding under the credit facility was $16,923 (December 31, 2008 $2,922).

8. Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist of:

December 31	**2009**	2008
General operating payables and tenant deposits	**$38,578**	$21,314
Below market rents of leases acquired through rental property acquisition – net of amortization of $7,295 (December 31,2008 - $4,764)	**17,433**	13,363
Accrued interest	**2,784**	2,391
	$58,795	$37,068

9. Unitholders' Equity

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

The number of units issued and outstanding are as follows:

	Units
Units outstanding, December 31, 2007	25,109,708
Units issued pursuant to offering on January 3, 2008	2,900,000
Units issued pursuant to offering on July 2, 2008	2,850,000
Units issued under the Distribution Reinvestment Plan	333,462
Units issued under the Unit Option Plan (Note 11)	42,500
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**
Units outstanding, December 31, 2009	**39,041,359**

10. Weighted Average Units

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

For the Years Ended December 31	**2009**	2008
Basic	**32,870,878**	29,214,389
Unit option plan	**23,180**	849
Long-term incentive plan	**387,293**	387,293
Fully diluted	**33,281,351**	29,602,531

11. Unit Option Plan

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

On December 17, 2007, 710,000 options were granted to trustees and officers with an exercise price of $21.13 and expiring on December 17, 2012. 128,331 options vested on December 17, 2008 and 128,338 options vested on December 17, 2009 and 128,338 options will vest on December 17, 2010. 108,333 options will vest on December 17, 2010, provided that certain performance achievements are met. 108,334 options expired in 2008 as certain performance achievements were not met. 108,333 options vested on December 17, 2009 as certain performance achievements were met.

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

options will vest on each of December 15, 2010 and December 15, 2011 provided that certain performance achievements are met.

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

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

Compensation expense for the years ended December 31, 2009 and December 31, 2008 were $428 and $489, respectively. The Unit Option Plan and assumptions utilized in the calculation thereof using the Black-Scholes Model for option valuation are as follows:

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

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

	Units/ Options	**Weighted Average Exercise Price**
Options outstanding as at December 31, 2007	752,500	$20.50
Options exercised in the year ended December 31, 2008	(42,500)	$10.00
Options granted in the year ended December 31, 2008	3,750	$10.87
Options expired in the year ended December 31, 2008	(108,333)	$21.13
Options outstanding as at December 31, 2008	605,417	$21.06
Options granted in the 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 exercisable as at December 31, 2009	365,828	$21.13

12. Long-Term Incentive Plan

Officers and trustees of the REIT have been granted the right to participate in a LTIP, whereby the participants may subscribe for units for a purchase price equal to the weighted average trading price of the units for five trading days preceding the date of the grant. The purchase price is payable as to 5% upon issuance and as to the balance ("installment loan receivable") over a term not exceeding 10 years. The installment loan receivable bears interest at rates of 3% or 5% per annum on any outstanding balance and is a direct, personal obligation of the participant. The units issued under the LTIP are held by a custodian for the benefit of the participants until the installment loan receivable has been paid in full. The value of these units held by the Custodian as at December 31, 2009 and 2008 were $7,490 and $4,822, respectively. Cash distributions paid in respect of the units issued under the LTIP are applied first to the interest and then to reduce the balance of the installment loan receivable.

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

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

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

13. Income Taxes

The REIT is taxed as a "Mutual Fund Trust" for income tax purposes. The REIT is required by its Declaration of Trust to distribute or designate all of its taxable income to unitholders and to deduct such distributions or designation for income tax purposes. Accordingly, no provision for income taxes has been made. Income tax obligations relating to distributions of the REIT are the obligations of the unitholders.

14. Capital Management

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

Various debt, equity and earnings distributions ratios are used to monitor capital adequacy and requirements. For debt management, debt to gross book value, debt average term to maturity, variable debt as a percentage of total debt are the primary ratios used in capital management. The Declaration of Trust requires the REIT to maintain debt to gross book value, as defined by the Declaration of Trust, of less than 60% (65% of gross book value, including the principal amount of indebtedness outstanding pursuant to convertible debentures) and the variable rate debt and debt having maturities of less than one year to not exceed 15% of gross book value. As at December 31, 2009 and 2008, the REIT debt to gross book value is 47.0% and 49.4%, respectively, with the decrease primarily arising as a result of the issuance of 7,600,000 units by the REIT on October 2, 2009. As at December 31, 2009 and 2008, variable rate debt and debt having maturities of less than one year aggregated 3.0% and 2.9% of gross book value, respectively.

15. Financial Instrument Risk and Management

The fair value of the REIT's financial assets and liabilities with current maturities approximate their recorded values as at December 31, 2009 and December 31, 2008. The fair value of the mortgages payable is $592,304 (December 31, 2008 - $520,919).

The carrying value of the REIT's equity is impacted by earnings and distributions. The REIT is required to distribute at least 70% of its distributable income, as defined by the Declaration of Trust. For the years ended December 31, 2009 and 2008, the REIT distributed 81.1% and 79.1%, respectively of its distributable income.

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

(a) Interest Rate Risk and Liquidity Risks

The REIT is exposed to interest rate risk on its borrowings. All of the REIT's mortgages payable at December 31, 2009 are at fixed interest rates and are not exposed to changes in interest rates, during the term of the debt. However, there is interest rate risk associated with the REIT's fixed interest rate, term debt due to the expected requirement to refinance such debts upon maturity. Bank indebtedness is at floating rate interest rates and is exposed to changes in interest rates. As fixed rate debt matures and as the REIT utilizes additional floating rate debt under the revolving credit facilities, the REIT will be further exposed to changes in interest rates. There is a risk that interest rates will fluctuate from the date the REIT commits to a debt to the date the interest rate is set with the lender. Liquidity risk arises from the possibility of not having sufficient capital available to the REIT. Mitigation of liquidity risk is discussed in Note 14.

As part of its risk management program, the REIT endeavors to maintain an appropriate mix of fixed rate and floating rate debt, to stagger the maturities of its debt and to minimize the time between committing to a debt and the date the interest rate is set with the lender.

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

For the Year Ended December 31, 2009		-1%	-1%	+1%	-1%
	Carrying Amount	**Income**	**Equity**	**Income**	**Equity**
Bank indebtedness	$16,921	$169	$169	($169)	($169)
Mortgages payable maturing within one year	$22,943	$229	$229	($229)	($229)

(b) Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments, resulting in the REIT incurring a financial loss. The REIT manages credit risk to mitigate exposure to financial loss by staggering lease maturities, diversifying revenue sources over a large tenant base, ensuring no individual tenant contributes a significant portion of the REIT's revenues and conducting credit review of new tenants. Management reviews tenant receivables on a regular basis and reduces carrying amounts through the use of allowance for doubtful accounts and the amount of any loss is recognized in the Consolidated Statement of Earnings and Comprehensive Income within rental property operating cost. As at December 31, 2009 and December 31, 2008, allowance for doubtful accounts were $1,183 and $650, respectively.

The following sets out our tenant-mix on the basis of percentage of rental revenue for the years ended December 31, 2009 and 2008:

Category	Year Ended December 31, 2009	Year Ended December 31, 2008
Business service and professional	28.3%	31.4%
Telecommunications and information technology	26.1%	25.7%
Retail (head office and storefront)	14.6%	14.7%
Media and entertainment	16.1%	12.4%
Financial services	4.9%	6.4%
Government	1.4%	1.7%
Other	8.6%	7.7%

16. Segmented Disclosure

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

17. 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 December 31, 2009 and December 31, 2008 were $4,604 and $2,500, respectively.

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

The REIT has entered into conditional purchase and sale agreement for the acquisition for 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.

18. 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 year ended December 31, 2009 real estate service revenue earned from these properties was $228 (December 31, 2008 - $224), which was fully paid in the year. 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 Loblaws Properties Limited for a term ending October 31, 2010, on the condition that the original indemnity of the Developer remain in place to protect the REIT from any revenue shortfall (on a cash basis) from the original TechSpace lease. The related party revenue for the year ended December 31, 2009 and December 31, 2008 were $95 and $80, respectively.

19. Subsequent Events

On January 28, 2010, we placed a first mortgage on 96 Spadina Avenue in Toronto in the principal amount of $15,000 for a term of five years at annual interest rate of 5.85% and payable in instalments of interest only for a period of three years and thereafter in blended instalments of principal and interest based on a 25 year amortization.

On February 26, 2010, we placed a first mortgage on 1500 Notre Dame Avenue in Winnipeg in the principal amount of $3,500 for a term of five years at annual interest rate of 5.24% and payable in blended instalments of principal and interest based on a 20 year amortization.

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