



ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST

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

ANNUAL REPORT, DECEMBER 31, 2010

MARCH 31, 2011

TABLE OF CONTENTS

LETTER TO UNITHOLDERS	4
MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION AS AT DECEMBER 31, 2010	7
PART I—OVERVIEW	7
Forward-Looking Disclaimer	7
Business Overview and Strategy	7
Performance Measures	9
Business Environment and Outlook	12
PART II—2010 RESULTS	13
Net Income	14
Net Rental Income	14
Real Estate Service Income	15
Financing Expense	15
Amortization	15
Capital Expenditures	15
Funds From Operations	16
Adjusted Funds From Operations	16
Net Operating Income	16
Same-Asset Net Operating Income	17
PART III—FOURTH QUARTER RESULTS	17
Net Income	18
Net Rental Income	18
Real Estate Service Income	19
Financing Expense	19
Amortization	19
Capital Expenditures	19
Funds From Operations	19
Adjusted Funds From Operations	20
Net Operating Income	20
Same-Asset Net Operating Income	20
PART IV—QUARTERLY HISTORY	21
PART V—LEASING	22
Status	22
Activity	22
PART VI—DEVELOPMENT	23
Properties Under Development	23
Intensification	24
PART VII—BALANCE SHEET	25
Financial Condition	25
Liquidity and Commitments	26
PART VIII—ACCOUNTING	27
Critical Estimates	27
Future Changes in Accounting Policies--Adoption of International Financial Reporting Standards (“IFRS”)	28
PART IX—DISCLOSURE CONTROLS AND INTERNAL CONTROLS	30
PART X—RELATED PARTY TRANSACTIONS	30
PART XI—RISKS AND UNCERTAINTIES	30
Financing and Interest Rate Risk	31
Credit Risk	31
Lease Roll-Over Risk	31
Environmental Risk	32
Development Risk	33
Taxation Risk	33
PART XII—SUBSEQUENT EVENTS	33
PART XII—PROPERTY TABLE	34

CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED DECEMBER 31, 2010	38
Consolidated Balance Sheets	38
Consolidated Statements of Unitholders' Equity	39
Consolidated Statements of Earnings and Comprehensive Income	40
Consolidated Statements of Cash Flows	41
Notes to Consolidated Financial Statements	42

LETTER TO UNITHOLDERS

Fellow Unitholders

Starting with a small, local portfolio of specialized office assets in 2003, Allied Properties REIT has evolved into a leading owner, manager and developer of downtown office properties in Canada. Our asset base has grown from \$120 million to \$1.6 billion in just over eight years, a compound annual growth rate of 45%. In the process, we've adhered to a very specific investment and operating focus. This has enabled us to develop the competitive advantages necessary to deliver high annual returns on equity to our unitholders.

2010 was a pivotal year for us. At the operations level, we moderated our lease-maturity schedule and continued to demonstrate publicly the durability of our asset class. At the asset level, we accelerated our value-creation activities and propelled our urban office platform to a national scale. At the management level, we bolstered and realigned our leadership team with a view to facilitating our next phase of evolution and growth.

As a public real estate entity, we've now reached critical mass. In 2010, our units were added to the S&P/TSX Composite Index and the S&P/TSX Capped REIT Index. Earlier this year, our market capitalization passed the \$1 billion mark. We've come a long way, and what was so pivotal about 2010 was that it bolstered our ability to move forward. We're determined to maintain a high rate of growth, we're determined to broaden and deepen our platform and we're determined to accelerate our value-creation activities to the point where we've built a development pipeline that will make a recurring, annual contribution to the growth of our business.

Reducing the Bulge and Demonstrating Durability

Operations and leasing were encouraging, with two overarching achievements. First, we reduced the bulge in our lease-maturity schedule that arose from the scheduled expiry of large tenancies. Second, we continued to demonstrate the durability of Class I office space. Interestingly, this was reinforced by the investment market, which assigned progressively greater value to Class I properties over the course of the year. While ours was by no means the only asset class that appreciated, it appears to have kept pace with the best of them.

We leased over 1.1 million square feet of space in 2010, a full 18% of our entire rental portfolio. With that and subsequent leasing, we reduced lease-maturities in the next three years by 12% and reduced the average annual amount of lease-maturity in the next five years to 9.8% of our portfolio. We finished the year with leased area of 91%, having renewed or replaced 72% of the leases that matured over the course of the year, in most cases at net rental rates equal to or above in-place rents. This resulted in a slight overall increase in net rental income per square foot for the affected space.

Class I office space continued to demonstrate operating durability in 2010. Although we projected a slight decrease in net rental rates going into the year, we actually achieved a slight increase. Our leased area and occupancy levels declined year-over-year, but that's a temporary situation having more to do with the abnormally high level of lease expiry in 2010 than the core durability of Class I office space.

As part of our preparation for the adoption of IFRS, we completed an external valuation of our portfolio as at December 31, 2009, indicating an un-audited value of \$1.3 billion, and another as at December 31, 2010, indicating an un-audited value of \$1.55 billion. \$104 million of the year-over-year increase resulted from acquisitions, with the remaining \$146 million resulting from appreciation in value. In establishing the un-audited value at the end of 2010, the appraiser used capitalization rates ranging from 6% to 9.3%, with the high-point being the capitalization rate associated with 151 Front Street West in Toronto. The weighted average capitalization rate for the portfolio was 7.9%. I believe the significant increase in value over the course of 2010 corroborates our belief in the durability of Class I office space.

Turning to the bottom line, before restructuring costs incurred in connection with reconfiguring our leadership team, FFO per unit for 2010 was \$1.67, giving rise to an FFO pay-out ratio of 79%. Before restructuring costs, AFFO per unit for the year was \$1.25, giving rise to an AFFO payout ratio of 105%. The higher than normal AFFO pay-out ratio stemmed directly from our leasing success in 2010 and the corresponding abnormal level of leasing expenditures.

Accelerating Value-Creation

We create value by upgrading rental properties, by putting properties to a higher and better use (redevelopment) or by expanding properties to utilize more fully the density permitted on the underlying land (intensification). In 2010, we accelerated our value-creation activity.

Early in 2010, we acquired 645 Wellington Street in Montréal. An excellent brick-and-beam property near Cité Multimédia, it had been minimally renovated and was poorly leased when we acquired it. Our goal was to upgrade the building to its full potential and to replace the myriad of short-term tenants with strong, long-term office users. By the third quarter, we'd launched the physical upgrade and leased over 30,000 square feet to a strong office user for a term of 10 years. We expect to complete this upgrade project by early in 2012, boosting NOI and increasing the value of the property considerably. The really interesting thing about an upgrade like this one is that it can be completed while the property is generating a respectable return as a rental property.

Over the course of 2010, we completed the retrofit necessary to put 60,000 square feet of space at 905 King Street West in Toronto to a higher and better use, increasing its income generating potential dramatically. 40,000 square feet is ready for occupancy, and we're close on lease-up of the first 30,000 square feet at higher than anticipated net rental rates. Another 20,000 square feet will be ready for occupancy in the fourth quarter when the current tenant's lease expires. On completion of the lease-up, this will be the most successful redevelopment project in our history.

905 King was unusual in terms of the sheer magnitude of value-creation possible through redevelopment. We achieved solid but more conventional results with the completion of 47 and 47A Fraser Avenue and 544 King Street West in Toronto. In both cases, we transformed brick-and-beam buildings from light-industrial use to more economically productive office use and created value for our unitholders in the process.

Phase I of QRC West is the largest intensification project we've ever undertaken. It involves the restoration of an existing Class I building and the addition of a new, LEED-certified component for combined leasable area of approximately 300,000 square feet. In 2010, we initiated the pre-leasing process, met the requirements for site-plan approval and moved steadily toward the completion of building-permit drawings. We expect to be in a position to commence construction as early as the second quarter of this year. The market response to Phase I of QRC West has been very encouraging. We are well advanced in discussions with a number of prospective tenants, including a prospective lead-tenant well suited to the project.

Looking forward, we have three intensification opportunities in Toronto that we plan to initiate in 2011. QRC West, Phase II, has the potential for 74,000 of GLA, with a significant component being high-value retail space on Queen West. 388 King West and 82 Peter Street, which comprise a site on the northwest corner of King & Peter, have the potential for up to 800,000 square feet of space. 489, 495 and 499 King West, which constitute the best remaining development site at King & Spadina, have the potential for as much as 500,000 square feet of space. We've initiated the municipal approval for two of these intensification projects and expect to do so for the third shortly. In each case, at least a year will be required to obtain municipal approval.

Propelling Portfolio Growth

We completed just over \$100 million in acquisitions in 2010. Late in the year, we completed our first acquisition in each of downtown Calgary and downtown Vancouver, establishing solid footholds and effectively propelling our urban office platform to a national scale.

Expanding nationally enables us to serve our tenants better. Many of them operate in the major urban centres across Canada and, where possible, would prefer to deal with a known landlord. A good example is Ubisoft, a valued and long-standing tenant in Montréal and Québec City. Our relationship enabled us to secure an immediate renewal of Ubisoft's lease upon acquiring 840 Cambie Street in Vancouver, without which the acquisition wouldn't have been possible.

Expanding nationally also expands our universe of acquisition opportunity. For over eight years now, we've stayed true to our investment and operating focus in an effort to build a coherent portfolio with distinct competitive advantages. It's not as easy to grow this way, but we're convinced it's a better way to grow. Our ability to stick to the better way is enhanced with a national platform.

Bolstering and Realigning the Leadership Team

There's a lot of talk about "platform" when it comes to real estate organizations. While platform means different things to different people, just about everyone agrees that a good platform includes an internal management team with proven capabilities.

From inception, our management team has been an integral part of our platform. In slightly over eight years, it helped propel our business from a small, local portfolio of specialized office assets to one of the leading downtown office platforms in Canada. In anticipation of our next phase of evolution and growth, we systematically bolstered and realigned our leadership team in 2010.

Peter Sweeney joined us as Vice President and Chief Financial Officer, and Tom Burns joined us as Executive Vice President, Operations and Leasing, each bringing an exceptional range of capabilities and highly developed leadership skills to our business. Wayne Jacobs, a long-standing member of the leadership team, was appointed Executive Vice President, Acquisitions. In addition to remaining involved with leasing on a transitional basis, Wayne will allocate progressively more of his time to acquisitions. Jennifer Irwin also joined our leadership team as Vice President, Human Resources and Communications.

Outlook

We anticipate a stable and improving operating environment in 2011. We believe that our Class I portfolio will continue to perform well, as it has in the past. Turnover vacancy at Cité Multimédia will depress our FFO and AFFO per unit this year, but we expect this to be reversed before the beginning of 2012. Once the turnover vacancy is eliminated, Cité Multimédia will have a higher level of net rent than we anticipated at the time of acquisition in 2007, a considerably improved tenant-mix and a better than normal lease-maturity schedule.

We expect our value-creation and acquisition activity to accelerate this year. Our target range for acquisitions is between \$250 and \$300 million. We expect them to fall squarely within our investment and operating focus, as they've done in the past. A more specific acquisition target is to achieve early-stage critical mass in Calgary and Vancouver, enabling us to establish a regional office to oversee the Western Canadian component of our portfolio.

We expect the availability and cost of debt and equity to remain generally favourable in 2011, though the cost of debt could rise as the year progresses and the cost of equity is subject to the vagaries of the equity capital markets. Coupled with our strong balance sheet, the anticipated cost of capital will facilitate the achievement of our value-creation and acquisition targets.

* * *

If you have any questions or comments, 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, 2010**

PART I--OVERVIEW

Forward-Looking Disclaimer

The terms "Allied Properties", "the REIT", "we", "us" and "our" in the following Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") refer to Allied Properties Real Estate Investment Trust and its consolidated financial position and results of operations for the year ended December 31, 2010. This MD&A is based on financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This MD&A should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 31, 2010. Historical results and percentage relationships contained in our consolidated financial statements and MD&A, including trends that might appear, should not be taken as indicative of our future results, operations or performance. Unless otherwise indicated, all amounts in this MD&A are in thousands of Canadian dollars.

Certain information included in this 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 Quarterly Report. Those risks and uncertainties include risks associated with property ownership, property development, geographic focus, asset-class focus, competition for real property investments, financing and interest rates, government regulations, environmental matters, construction liability, unitholder liability and taxation. Material assumptions that were made in formulating the forward-looking statements in this Annual Report include the following: that our current target markets remain stable, with no material increase in supply of directly-competitive office space; that acquisition capitalization rates remain reasonably constant; that the trend toward intensification within our target markets continues; that the equity and debt markets continue to provide us with access to capital at a reasonable cost to fund our future growth and to refinance our mortgage debt as it matures; and that we have accurately evaluated the impact of the accounting principles adopted effective January 1, 2011, under International Financial Reporting Standards ("IFRS"), including their impact on our 2010 comparative financial results, which we continue to evaluate. 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 31, 2011, and, except as required by applicable law, we undertake no obligation to update publicly or revise any such statements to reflect new information or the occurrence of future events or circumstances.

Business Overview and Strategy

We are an unincorporated closed-end real estate investment trust created pursuant to the Declaration of Trust dated October 25, 2002, as amended and restated on February 6, 2003, May 14, 2008 and May 11, 2010 ("Declaration"). We are governed by the laws of Ontario. Our units are publicly traded on the Toronto Stock Exchange under the symbol AP.UN. Additional information on us, including our annual information form, is available on SEDAR at www.sedar.com.

We are a leading owner, manager and developer of urban office environments that enrich experience and enhance profitability for business tenants operating in Canada's major cities. 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 and (iii) significantly lower overall occupancy costs than those that prevail in the central business districts. The value proposition has proven appeal to a diverse base of business tenants, including the full range of service and professional firms, telecommunications and information technology providers, media and film groups and storefront retailers.

Property Portfolio

We completed our Initial Public Offering ("IPO") on February 20, 2003. We used the net proceeds of the IPO to acquire a portfolio of 14 predominantly Class I office properties in downtown Toronto with 820,000 square feet of gross leasable area ("GLA"). By the end of 2009, we had acquired another 43 office properties in downtown Toronto, 42 of them Class I office properties, bringing our total GLA in that market to 3.3 million square feet. We had also acquired 14 predominantly Class I office properties in downtown Montréal, seven in downtown Winnipeg, five in Québec City and one in Kitchener, bringing our total portfolio at the end of 2009 to 84 properties with almost six million square feet of GLA.

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

- (i) an undivided 50% interest in 92 underground commercial parking spaces to be constructed as part of the condominium project at 478 King Street West in Toronto, which is adjacent to three of our properties, 468 King Street West, 500-522 King Street West and the King-Brant underground commercial parking structure;
- (ii) an undivided 50% interest in 172 underground commercial parking spaces and 18,360 square feet of retail space to be constructed as part of a condominium project at 560 King West in Toronto, which is adjacent to our 544 King West; and
- (iii) an undivided 75% interest in 71 underground commercial parking spaces to be constructed as part of the condominium project at 650 King Street West in Toronto, which is adjacent to our 662 King Street West and in close proximity to our 602-606 King Street West.

Each acquisition is conditional on final condominium registration and is expected to close between 2011 and 2013, subject to normal conditions. We will manage all three underground commercial parking structures on behalf of the co-owners, giving us operating control over 335 parking spaces in addition to the 208 parking spaces at our King-Brant underground commercial parking structure and a large number of surface commercial parking spaces adjacent to our properties in the King & Spadina area.

In 2010, we acquired seven properties for \$104 million, bringing our portfolio to 91 properties with over 6.2 million square feet of GLA. The basic details are set out in the table below:

Property	Acquired	Office GLA	Retail GLA	Total GLA	Parking Spaces
645 Wellington Street West, Montréal	May 14, 2010	130,425	4,083	134,508	0
The Lougheed Building, Calgary	September 2, 2010	66,530	21,038	87,568	0
49 Front Street East, Toronto	September 30, 2010	9,275	10,441	19,716	0
252-264 Adelaide Street East, Toronto	September 30, 2010	50,219	0	50,219	20
The Breithaupt Block, Kitchener (50% Interest)*	December 8, 2010	156,000	20,000	88,000	320
123 Bannatyne Avenue, Winnipeg	December 23, 2010	20,511	0	20,511	0
840 Cambie Street, Vancouver	December 23, 2010	91,746	0	91,746	20
Total		524,706	55,562	492,268	360

*Total GLA is 176,000 square feet.

On March 15, 2011, we sold the Norlyn Building (305-309 and 325 Hargrave Street) in Winnipeg for \$2.8 million. An incidental part of a portfolio acquisition completed in late 2006, the Norlyn Building is not a Class I office property and is not located near our core Class I office properties in the Exchange District. Early in 2011, we received an unsolicited offer to purchase the property. After negotiation, we accepted the offer, seeing it as a good opportunity to dispose of a non-core asset profitably for our unitholders.

Two Toronto properties (134 Peter Street, also known as Phase I of QRC West, and 905 King Street West), one Kitchener property (The Breithaupt Block) 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 (the “Property Manager”), 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 2010 and do not anticipate doing so in 2011.

2. Funds From Operations

Funds From Operations (“FFO”) has a standardized definition, as described under “Funds From Operations” below. In the fourth quarter, before restructuring costs incurred in connection with reconfiguring our leadership team (“Management Restructuring Costs”), FFO per unit (diluted) was \$0.42,

up 2.4% from the prior quarter and the comparable quarter in 2009. In 2010, before Management Restructuring Costs, FFO was \$1.67, down 3.5% from 2009.

3. FFO Pay-Out Ratio

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate FFO pay-out ratio, the ratio of actual distributions to FFO in a given period. In the fourth quarter, before Management Restructuring Costs, our FFO pay-out ratio was 78.3%. In 2010, before Management Restructuring Costs, it was 78.9%.

4. Adjusted Funds From Operations

Increasing distributions cannot be achieved prudently without reference to adjusted funds from operations ("AFFO"). This financial measure takes account of regular maintenance capital expenditures and regular leasing expenditures while ignoring the impact of non-cash revenue, as described under "Adjusted Funds from Operations" below. In the fourth quarter, before Management Restructuring Costs, AFFO per unit (diluted) was \$0.29, in-line with the prior quarter and down 14.7% from the comparable quarter in 2009. In 2010, before Management Restructuring Costs, AFFO was \$1.25, down 17.8% from 2009. The quarter-over-quarter and year-over-year declines in AFFO per unit stem directly from our leasing success in 2010. In reducing the bulge in our lease-maturity schedule, we leased an extraordinary amount of space in 2010. Leases for 1,165,315 square feet of GLA commenced over the course of the year. Although the leasing cost per square foot was \$9.00, within our normal range of \$7 to \$10 per square foot, the sheer magnitude of the space leased was abnormal. In addition, the leasing cost of \$14.31 per square foot for 290,393 square feet of space at Cité Multimédia was much higher than normal, due to the fact that this space had longer than normal lease terms. See "Leasing Expenditures" below.

5. AFFO Pay-Out Ratio

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate AFFO pay-out ratio, the ratio of actual distributions to AFFO in a given period. In the fourth quarter, before Management Restructuring Costs, our AFFO pay-out ratio was 112.7%. In 2010, before Management Restructuring Costs, it was 105.4%.

6. Debt Ratio

Gross Book Value ("GBV") is defined as the book value of the assets shown on our most recent balance sheet plus accumulated depreciation and amortization and an amount equal to the property management internalization expense that we have recorded. A conservative ratio of debt to GBV ("Debt Ratio") mitigates unitholder risk. On December 31, 2010, our Debt Ratio was 47.9%, up very slightly from 47% at the end of 2009.

Operating Measures

1. Tenant Retention and Replacement

We place a high value on tenant retention, as the cost of retention is typically lower than the cost of securing new tenancies. If retention is neither possible nor desirable, we strive for high-quality replacement tenants. Leases representing 1,315,416 square feet of GLA matured in 2010. This amount does not include month-to-month leases for 66,788 square feet of GLA that are routinely renewed at the end of each month by the tenant. By December 31, 2010, we had renewed leases representing 573,079 square feet of this GLA and re-leased another 375,495 square feet of this GLA, representing 72.1% of the GLA covered by the maturing leases.

2. Leased Area

We strive to maintain consistently high levels of occupancy and leased area. At December 31, 2010, our leased area was 91.4% (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	2010
GLA (sf)	984,856	1,636,343	2,321,507	3,415,279	4,761,211	5,350,208	5,804,550	6,082,586
% leased	97.5	99.2	97.0*	96.3*	97.9*	97.3*	96.1*	91.4*

*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 \$18,944 in the fourth quarter of 2010, down 1.8% from the prior quarter and down 10.6% from the comparable quarter. Same-asset NOI in 2010 was \$77,618, down 7.2% from 2009. The decreases in same-asset NOI are the result of lower quarter-over-quarter and year-over-year occupancy. For a detailed discussion of same-asset NOI, see “Same-Asset Net Operating Income” under each of Part II and Part IV below.

4. Leasing Expenditures

We monitor leasing expenditures carefully. Leases for 393,640 square feet of GLA commenced in the fourth quarter. \$3,377 in leasing expenditures related to this space, representing \$8.58 per leased square foot, within our normal range of \$7 to \$10 per leased square foot. Leases for 1,165,315 square feet of GLA commenced in 2010. \$10,485 in leasing expenditures related to this space, representing \$9.00 per leased square foot, again within our normal range. Of the leases that commenced in 2010, leases for 290,393 square feet of space involved space at Cité Multimédia. Because these leases had longer than normal lease-terms, the leasing cost per square foot for this space was \$14.31, well above our normal range. The leasing cost per square foot for the remaining 874,922 square feet was at the very low end of the range, \$7.23. If we use this as a normal level of leasing expenditure in 2010, then at least \$2,056 of leasing expenditure at Cité Multimédia (the amount above \$7.23 per square foot) can be characterized as abnormal.

5. Capital Expenditures

We strive to maintain our properties in top physical condition. In the fourth quarter, we incurred \$839 in regular maintenance capital expenditures, representing 14 cents per square foot of our portfolio, in line with the amount per square foot in the fourth quarter of prior years. In 2010, we incurred \$3,209 in regular maintenance capital expenditures, representing 53 cents per square foot of our portfolio, in line with the amount per square foot in the comparable period of prior years.

Summary

The following table summarizes the key financial and operating performance measures for 2010 and 2009.

	2010	2009	Change	%
Period-end distribution level per unit annualized	\$1.32	\$1.32	\$0.00	0.0%
FFO	65,529	57,429	8,100	14.1%
FFO per unit (diluted)	\$1.63	\$1.73	(\$0.10)	(5.8%)
FFO pay-out ratio	80.6%	76.2%	4.4%	
Management Restructuring Costs	\$1,407	-	\$1,407	
Normalized FFO	66,936	57,429	9,507	16.6%
Normalized FFO per unit (diluted)	\$1.67	\$1.73	(\$0.06)	(3.5%)
Normalized FFO pay-out ratio	78.9%	76.2%	2.7%	
AFFO	48,674	50,564	(1,890)	(3.7%)
AFFO per unit (diluted)	\$1.21	\$1.52	(\$0.31)	(20.4%)
AFFO pay-out ratio	108.5%	86.5%	22.0%	
Normalized AFFO	50,081	50,564	(483)	(1.0%)
Normalized AFFO (diluted)	\$1.25	\$1.52	(\$0.27)	(17.8%)
Normalized AFFO pay-out ratio	105.4%	86.5%	18.9%	
Debt Ratio	47.9%	47.0%	0.9%	
Period-end leased area (not including PUD)	91.4%	96.1%	(4.7%)	
Renewal-replacement percentage of leases maturing	72.1%	87.4%	(15.3%)	
Same-asset NOI	\$77,618	\$83,679	(\$6,061)	(7.2%)
Leasing expenditures	\$10,485	\$3,769	\$6,716	178.2%
Leasing expenditures per square foot	\$9.00	\$5.59	\$3.41	61.0%
Maintenance capital expenditures	\$3,209	\$2,410	\$799	33.2%
Maintenance capital expenditures per portfolio square foot	\$0.53	\$0.42	\$0.11	26.2%

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

	Q4 2010	Q3 2010	Change	%
Period-end distribution level per unit annualized	\$1.32	\$1.32	\$0.00	0.0%
FFO per unit (diluted)	\$0.39	\$0.41	(\$0.02)	(4.9%)
FFO pay-out ratio	85.0%	80.1%	4.9%	
Management Restructuring Costs	\$1,407	-	\$1,407	
Normalized FFO per unit (diluted)	\$0.42	\$0.41	\$0.01	2.4%
Normalized FFO pay-out ratio	78.3%	80.1%	(1.8%)	
AFFO per unit (diluted)	\$0.26	\$0.29	(\$0.03)	(10.3%)
AFFO pay-out ratio	127.3%	115.1%	12.2%	
Normalized AFFO (diluted)	\$0.29	\$0.29	(\$0.00)	(0.0%)
Normalized AFFO pay-out ratio	112.7%	115.1%	(2.4%)	
Debt Ratio	47.9%	46.1%	1.8%	
Period-end leased area (not including PUD)	91.4%	95.0%	(3.6%)	
Same-asset NOI	\$18,944	\$19,285	(\$341)	(1.8%)
Leasing expenditures	\$3,377	\$3,221	\$156	4.8%
Leasing expenditures per square foot	\$8.58	\$14.02	(\$5.44)	(38.8%)
Maintenance capital expenditures	\$839	\$959	(\$120)	(12.5%)
Maintenance capital expenditures per portfolio square foot	\$0.14	\$0.16	(\$0.02)	(12.5%)

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

	Q4 2010	Q4 2009	Change	%
Period-end distribution level per unit annualized	\$1.32	\$1.32	\$0.00	0.00%
FFO per unit (diluted)	\$0.39	\$0.41	(\$0.02)	(4.9%)
FFO pay-out ratio	85.0%	79.8%	5.2%	
Management Restructuring Costs	\$1,407	-	\$1,407	
Normalized FFO per unit (diluted)	\$0.42	\$0.41	\$0.01	2.4%
Normalized FFO pay-out ratio	78.3%	79.8%	(1.5%)	
AFFO per unit (diluted)	\$0.26	\$0.34	(\$0.08)	(23.5%)
AFFO pay-out ratio	127.3%	96.8%	30.5%	
Normalized AFFO (diluted)	\$0.29	\$0.34	(\$0.05)	(14.7%)
Normalized AFFO pay-out ratio	112.7%	96.8%	15.9%	
Debt Ratio	47.9%	47.0%	0.9%	
Period-end leased area (not including PUD)	91.4%	96.1%	(4.7%)	
Same-asset NOI	\$18,944	\$21,182	(\$2,238)	(10.6%)
Leasing expenditures	\$3,377	\$911	\$2,466	270.7%
Leasing expenditures per square foot	\$8.58	\$8.40	\$0.18	2.1%
Maintenance capital expenditures	\$839	\$1,388	(\$549)	(39.6%)
Maintenance capital expenditures per portfolio square foot	\$0.14	\$0.24	(\$0.10)	(41.7%)

Business Environment and Outlook

We operate in seven target markets—downtown Toronto, downtown and midtown Montréal, downtown Winnipeg, downtown Québec City, downtown Kitchener, downtown Calgary and downtown Vancouver. 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 2010, the overall vacancy rate for the downtown Toronto office market was 6.0%, with the Downtown East, Downtown West and King West sub-markets finishing the quarter at 5.4%, 5.6% and 13.7%, 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, 2010, the overall vacancy rate for the downtown Montréal office market was 8.0%, with the Downtown East and Old Montréal sub-markets finishing the quarter at 2.7% and 7.3%, respectively.²

¹ Cushman & Wakefield, *Fourth Quarter 2010 Statistical Summary, Toronto Office Market*.

² Cushman & Wakefield, *Fourth Quarter 2010 Statistical Summary, Montréal Office Market*.

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, 2010, the overall vacancy rate for downtown Winnipeg office market was 8.0%.³

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, 2010, the vacancy rate for the downtown Québec City office market was 6.9%.⁴

Downtown Kitchener

This target market includes approximately one 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 2010, the overall vacancy rate in the downtown Kitchener office market was 21.6%.⁵

Downtown Calgary

This target market includes approximately one million square feet of existing office inventory in the heart of the Downtown Core, including along Stephen Avenue (8th Avenue), and in the Warehouse District. Most of the office inventory in this target market falls within the Class I office category. At December 31, 2010, the overall vacancy rate in the downtown Calgary office market was 11.8%.⁶

Downtown Vancouver

This target market includes approximately four million square feet of existing office inventory in the Downtown Core, including Yaletown and Gastown. Most of the office inventory in this target market falls within the Class I office category. As at December 31, 2010, the overall vacancy rate in the downtown Vancouver office market was 4.1%.⁷

Outlook

We anticipate a stable and improving operating environment in 2011. We believe that our Class I portfolio will continue to perform well, as it has in the past. Turnover vacancy at Cité Multimédia will depress our FFO and AFFO per unit this year, but we expect this to be reversed before the beginning of 2012. Once the turnover vacancy is eliminated, Cité Multimédia will have a higher level of net rent than we anticipated at the time of acquisition in 2007, a considerably improved tenant-mix and a better than normal lease-maturity schedule.

We expect our value-creation and acquisition activity to accelerate this year. Our target range for acquisitions is between \$250 and \$300 million. We expect them to fall squarely within our investment and operating focus, as they've done in the past. A more specific acquisition target is to achieve early-stage critical mass in Calgary and Vancouver, enabling us to establish a regional office to oversee the Western Canadian component of our portfolio.

We expect the cost of debt and equity to remain generally favourable in 2011, though the cost of debt could rise as the year progresses and the cost of equity is subject to the vagaries of the Canadian equity capital markets. Coupled with our strong balance sheet, the anticipated cost of capital will facilitate the achievement of our value-creation and acquisition targets.

PART II—2010 RESULTS

The following sets out summary information and financial results for year ended December 31, 2010, and the comparable year, as well as the change between the two.

³ Cushman & Wakefield, *Fourth Quarter 2010 Statistical Summary, National Office Market*.

⁴ Avison Young, *National Office Market Report, Fourth Quarter 2010*.

⁵ Colliers International, *Waterloo Region Market Report, Fourth Quarter 2010*.

⁶ Cushman & Wakefield, *Fourth Quarter 2010 Statistical Summary, Calgary Office Market*.

⁷ Cushman & Wakefield, *Fourth Quarter 2010 Statistical Summary, Vancouver Office Market*.

(In thousands except for per unit and % amounts)	2010	2009	Change	%Change
Revenue from rental properties	183,854	152,225	31,629	20.8%
Rental property operating cost	77,646	62,134	15,512	25.0%
Net rental income	106,208	90,091	16,117	17.9%
Real estate service income	263	263	-	0.0%
Financing expense				
Interest	33,588	28,155	5,433	19.3%
Amortization - Mortgage premium	17	(22)	39	(177.3%)
Amortization – Financing cost	834	641	193	30.1%
Amortization				
Rental properties	22,725	18,447	4,278	23.2%
Leasing cost and tenant improvements	3,588	3,310	278	8.4%
Origination cost and acquired tenant relationships	20,676	19,373	1,303	6.7%
Acquired contracts and customer relationships	96	96	-	0.0%
Computer and office equipment	327	299	28	9.4%
Income from operations	24,620	20,055	4,565	22.8%
Trust expense	6,080	3,756	2,324	61.9%
Net income	18,540	16,299	2,241	13.7%
Management Restructuring Costs	1,407	-	1,407	-
Normalized net income	19,947	16,299	3,648	22.4%
Weighted average units outstanding (diluted)	40,087	33,281	6,806	20.4%
Net income per unit (diluted)	\$0.46	\$0.49	(\$0.03)	(6.1%)
Normalized net income per unit (diluted)	\$0.50	\$0.49	\$0.01	2.0%
Distributions	52,796	43,763	9,033	20.6%
FFO	65,529	57,429	8,100	14.1%
FFO per unit (diluted)	\$1.63	\$1.73	(\$0.10)	(5.8%)
FFO pay-out ratio	80.6%	76.2%	4.4%	
Normalized FFO	66,936	57,429	9,507	16.6%
Normalized FFO per unit (diluted)	\$1.67	\$1.73	(\$0.06)	(3.5%)
Normalized FFO pay-out ratio	78.9%	76.2%	2.7%	
AFFO	48,674	50,564	(1,890)	(3.7%)
AFFO per unit (diluted)	\$1.21	\$1.52	(\$0.31)	(20.4%)
AFFO pay-out ratio	108.5%	86.5%	22.0%	
Normalized AFFO	50,081	50,564	(483)	(1.0%)
Normalized AFFO per unit (diluted)	\$1.25	\$1.52	(\$0.27)	(17.8%)
Normalized AFFO pay-out ratio	105.4%	86.5%	18.9%	
NOI	103,047	89,405	13,642	15.3%
Same-asset net operating income	77,618	83,679	(6,061)	(7.2%)
Total assets	1,258,511	1,155,158	103,353	8.9%
Total debt (excludes premium on assumed debt)	695,501	614,298	81,203	13.2%
Debt Ratio	47.9%	47.0%	0.9%	
Total GLA (s.f., excluding PUD)	6,083	5,805	278	4.8%
Leased GLA (s.f., excluding PUD)	5,558	5,577	(19)	(0.3%)
Leased GLA (% total GLA)	91.4%	96.1%	(4.7%)	

Net Income

Net income for the year was \$18,540, as compared to \$16,299 in the comparable year. Net income per unit (diluted) for the year was \$0.46, as compared to \$0.49, in the comparable year. Before Management Restructuring Costs, net income was \$19,947 and net income per unit (diluted) was \$0.50.

Net Rental Income

Net rental income for the year was \$106,208, up 17.9% from the comparable year. The year-over-year change arose from the following: (i) a \$7,633 decrease in same-asset net rental income from properties owned for the entire period and the entire comparable period (which includes the period-over-period change in step-rent adjustments and mark-to-market rent adjustments); and (ii) a \$23,750 increase from

properties not owned for the entire period and the entire comparable period. Net rental income per occupied square foot for the year was \$19.11 annualized, as compared to \$16.16 annualized in the comparable period. The year-over-year increase derives largely from the high net rental rates at 151 Front Street West, Toronto, which we acquired late in 2009.

Real Estate Service Income

The Property Manager provides real estate services to third-party property owners. Real estate service income for the year was \$263, as compared to \$263 in the comparable period.

Financing Expense

Financing expense includes interest cost on mortgage debt and other credit facilities and the amortization of the premiums and discounts on assumed mortgages. Interest for the year increased by 19.3% from the comparable period, due largely to the financing expense associated with additional properties acquired in 2009 and 2010.

Amortization

We record amortization on our buildings on a straight-line basis over their expected life. Amortization recorded on buildings for the year increased by 23.2% from comparable period, due largely to the amortization associated with additional properties acquired in 2009 and 2010. We record amortization of leasing cost, tenant improvements and the assigned fair value of the origination cost and tenant relationships for in-place leases acquired on acquisition of a rental property on a straight-line basis over the term of the corresponding lease.

Trust Expense

Trust expense includes expense not directly attributable to rental property, such as officers' compensation, trustees' fees, professional fees for legal and audit services, trustees' and officers' insurance premiums and general administrative expenses. Trust expense for the year increased by 61.9% from the comparable year, due to costs associated with the implementation of IFRS, an increase in executive compensation and Management Restructuring Costs of \$1,407. Before Management Restructuring Costs, trust expense was \$4,673, representing an increase of 24.4% from the comparable period.

Capital Expenditures

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

In the year, we incurred (i) \$3,209 in regular maintenance capital expenditures (\$0.53 per portfolio square foot) and (ii) \$10,485 in leasing expenditures (\$9.00 per leased square foot) in connection with new leases or lease-renewals for 1,165,315 square feet of GLA that commenced in the year. Of the leases that commenced in the year, leases for 290,393 square feet of space involved space at Cité Multimédia. Because of the fact that these leases had longer than normal lease terms, the leasing cost per square foot for 874,922 square feet was at the low end of the range, \$7.23. If we use this as a normal level of leasing expenditure in 2010, then \$2,056 of leasing expenditure at Cité Multimédia (the amount above \$7.23 per square foot) can be characterized as abnormal.

We incurred \$6,462 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.

\$1,729 of the salaries paid in the year were capitalized in connection with capital improvements to our rental properties and Properties Under Development. This amount was equivalent to approximately 4.8% of the associated development costs.

Funds From Operations

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

(In thousands)	2010	2009
Net income	18,540	16,299
Amortization on rental properties	22,725	18,447
Amortization of leasing cost and tenant improvements	3,588	3,310
Amortization of origination cost and acquired tenant relationships	20,676	19,373
FFO	65,529	57,429

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, together with the preceding table, reconciles net income for the year, as presented in the consolidated financial statements, with AFFO.

(In thousands)	2010	2009
FFO	65,529	57,429
Step-rent adjustments	(264)	(595)
M-T-M acquired leases	(2,897)	(91)
Leasing expenditures	(10,485)	(3,769)
Maintenance capital expenditures	(3,209)	(2,410)
AFFO	48,674	50,564

Net Operating Income

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

(In thousands)	2010	2009
Revenue from rental properties	183,854	152,225
Rental property operating cost	77,646	62,134
Net rental income	106,208	90,091
M-T-M acquired leases	(2,897)	(91)
Step-rent adjustments	(264)	(595)
NOI	103,047	89,405

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

(In thousands)	2010	2009	Change	%Change
Québec City	1,863	2,319	(456)	(19.7%)
Montréal	30,253	31,825	(1,572)	(4.9%)
Toronto and Kitchener	68,391	53,411	14,980	28.0%
Winnipeg, Calgary and Vancouver	2,540	1,850	690	37.3%
NOI	103,047	89,405	13,642	15.3%

Our NOI in the year increased by 15.3% over the comparable year. The increase was driven in large measure by the high volume of acquisitions in 2009 and 2010, particularly in our Toronto target market, where NOI increased by nearly 28.0%, and in our Calgary target market, which accounts for most of the increase in the Winnipeg, Calgary and Vancouver segment. The significant NOI increases in our Toronto and Calgary target markets were partially offset by NOI decreases in our Québec City and Montréal target markets, which are discussed in detail below under “Same-Asset Net Operating Income”.

Same-Asset Net Operating Income

Our same-asset NOI in the year decreased by 7.2% from the comparable year. This flows from lower year-over-year occupancy, which is best understood in the context of our same-asset NOI by region, as set out below:

(In thousands)	2010	2009	Change	%Change
Québec City	1,863	2,319	(456)	(19.7%)
Montréal	29,796	31,824	(2,028)	(6.4%)
Toronto and Kitchener	44,180	47,686	(3,506)	(7.4%)
Winnipeg, Calgary and Vancouver	1,779	1,850	(71)	(3.8%)
NOI	77,618	83,679	(6,061)	(7.2%)

The largest same-asset NOI decrease was in our Toronto target market. Turnover vacancy at 179 John Street, 82 Peter Street, 495 King Street West and 500 King Street West account for a large component of the decrease (\$1,141). This space has now been leased at net rental rates equal to or above prior in-place rents with rent commencing early in 2011. Turnover vacancy at QRC East, 217-225 Richmond Street East, 445-455 King Street West, 489 King Street West and tenant failure at 312 Adelaide Street West and 555 College Street West account for another large portion of the decrease (\$2,174). These are Tier 1, Class I properties, and we fully expect to lease the vacant space in due course at rental rates equal to or above prior in-place rents. Turnover vacancy at 388 King Street West accounts for most of the remainder of the decrease (\$447). This is a Tier 2, Class I building with very significant redevelopment potential. While the space is leasable at net rental rates equal to prior in-place rents, we may elect not to lease the space in the near term as we explore the possibility of initiating a large-scale intensification of the property.

There was a smaller same-asset NOI decrease in our Montréal target market, both in absolute and percentage terms. Turnover vacancy at Cité Multimédia accounts for the largest component of the decrease (\$1,178). This is space that we expect to lease in due course at net rental rates equal to or above prior in-place rents. Turnover vacancy at two Mile-End properties, 4446 Saint-Laurent Boulevard and 6300 Avenue du Parc, accounts for the remainder of the decrease. Mile-End is a transforming area of midtown Montréal. While the turnover vacancy results in a near-term NOI decline, it represents opportunity over time to increase net rental rates from prior in-place rents.

The same-asset NOI decrease in Québec City was significant in percentage terms. Turnover vacancy at 390 Charest Boulevard East accounts for the largest component of the decrease (\$234). This is high-quality office space that we expect to lease in due course at net rental rates equal to prior in-place rents. 410 Charest Boulevard East accounts for most of the remainder of the decrease (\$175). This space has now been leased at net rental rates above prior in-place rents with rent commencing in early 2011.

PART III—FOURTH QUARTER RESULTS

The following sets out summary information and financial results for the quarter ended December 31, 2010, and the comparable quarter and the change between the two.

(In thousands except for per unit and % amounts)	Q4 2010	Q4 2009	Change	%Change
Revenue from rental properties	48,040	43,667	4,373	10.0%
Rental property operating cost	20,477	18,461	2,016	10.9%

(In thousands except for per unit and % amounts)	Q4 2010	Q4 2009	Change	%Change
Net rental income	27,563	25,206	2,357	9.4%
Real estate service income	86	58	28	48.3%
Financing expense				
Interest	8,716	7,674	1,042	13.6%
Amortization - Mortgage premium	27	(4)	31	(775.0%)
Amortization – Deferred financing cost	226	168	58	34.5%
Amortization				
Rental properties	5,890	5,187	703	13.6%
Leasing cost and tenant improvements	1,149	643	506	78.7%
Origination cost and acquired tenant relationships	5,364	5,578	(214)	(3.8%)
Acquired contracts and customer relationships	24	24	-	0.0%
Computer and office equipment	87	81	6	7.4%
Income from operations	6,166	5,913	253	4.3%
Trust expense	2,277	1,229	1,048	85.3%
Net income	3,889	4,684	(795)	(17.0%)
Management Restructuring Costs	1,407	-	1,407	-
Normalized net income	5,296	4,684	612	13.1%
Weighted average units outstanding (diluted)	42,251	38,975	3,276	8.4%
Distributions	13,852	12,839	1,013	7.9%
FFO	16,292	16,092	200	1.2%
FFO per unit (diluted)	\$0.39	\$0.41	(\$0.02)	(4.9%)
FFO pay-out ratio	85.0%	79.8%	5.2%	
Normalized FFO	17,699	16,092	1,607	10.0%
Normalized FFO per unit (diluted)	\$0.42	\$0.41	\$0.01	2.4%
Normalized FFO pay-out ratio	78.3%	79.8%	(1.5%)	
AFFO	10,881	13,261	(2,380)	(17.9%)
AFFO per unit (diluted)	\$0.26	\$0.34	(\$0.08)	(23.5%)
AFFO pay-out ratio	127.3%	96.8%	30.5%	
Normalized AFFO	12,288	13,261	(973)	(7.3%)
Normalized AFFO per unit (diluted)	\$0.29	\$0.34	(\$0.05)	(14.7%)
Normalized AFFO pay-out ratio	112.7%	96.8%	15.9%	
NOI	26,368	24,674	1,694	6.9%
Same-asset net operating income	18,944	21,182	(2,238)	(10.6%)
Total assets	1,258,511	1,155,158	103,353	8.9%
Total debt (excludes premium on assumed debt)	695,501	614,298	81,203	13.2%
Debt Ratio	47.9%	47.0%	0.9%	
Total GLA (s.f., excluding PUD)	6,083	5,805	278	4.8%
Leased GLA (s.f., excluding PUD)	5,558	5,577	(19)	(0.3%)
Leased GLA (% total GLA)	91.4%	96.1%	(4.7%)	

Net Income

Net income for the fourth quarter was \$3,889, as compared to \$4,684 in the comparable quarter. Net income per unit (diluted) for the quarter was \$0.09, as compared to \$0.12 in the comparable quarter. Before Management Restructuring Costs, net income was \$5,296 and net income per unit (diluted) was \$0.13.

Net Rental Income

Net rental income for the fourth quarter was \$27,563, up 9.4% from the comparable quarter. The quarter-over-quarter change arose from the following: (i) a \$2,431 decrease in same-asset net rental income from properties owned for the entire quarter and the entire comparable quarter (which includes the quarter-over-quarter change in step-rent adjustments and mark-to-market rent adjustments); and (ii) a \$4,788 increase from properties not owned for the entire quarter and the entire comparable quarter. Net rental income per occupied square foot for the fourth quarter was \$19.84 annualized, as compared to \$18.08

annualized in the comparable quarter. The quarter-over-quarter increase derives largely from the high net rental rates at 151 Front Street West, Toronto, which we acquired late in 2009.

Real Estate Service Income

The Property Manager provides real estate services to third-party property owners. Real estate service income for the fourth quarter was \$86, as compared to \$58 in the comparable quarter.

Financing Expense

Financing expense includes interest cost on mortgage debt and other credit facilities and the amortization of the premiums and discounts on assumed mortgages. Interest for the fourth quarter increased by 13.6% from the comparable quarter, due largely to the financing expense associated with additional properties acquired in 2009 and 2010.

Amortization

We record amortization on our buildings on a straight-line basis over their expected life. Amortization recorded on buildings for the fourth quarter increased by 13.6% from comparable quarter, due largely to the amortization associated with additional properties acquired in 2009 and 2010. We record amortization of deferred leasing cost, tenant improvements and the assigned fair value of the origination cost and tenant relationships for in-place leases acquired on acquisition of a rental property on a straight-line basis over the term of the corresponding lease.

Trust Expense

Trust expense includes expense not directly attributable to rental property, such as officers' compensation, trustees' fees, professional fees for legal and audit services, trustees' and officers' insurance premiums and general administrative expenses. Trust expense for the fourth quarter increased by 85.3% from the comparable quarter, due to Management Restructuring Costs of \$1,407. Before Management Restructuring Costs, trust expense was \$870, representing a decrease of 29.2% from the comparable period.

Capital Expenditures

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

In the fourth quarter, we incurred (i) \$839 in regular maintenance capital expenditures (\$0.14 per portfolio square foot) and (ii) \$3,377 in leasing expenditures (\$8.58 per leased square foot) in connection with new leases or lease-renewals that commenced in the quarter. In addition, we incurred \$3,375 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.

\$1,009 of the salaries paid in the fourth quarter were capitalized in connection with capital improvements to our rental properties and Properties Under Development. This amount was equivalent to approximately 5.56% of the associated development costs.

Funds From Operations

The following reconciles net income for the fourth quarter, as presented in the consolidated financial statements, with FFO, as calculated in accordance with recommendations of the REALpac definition.

(In thousands)	Q4 2010	Q4 2009
Net income	3,889	4,684
Amortization on rental properties	5,890	5,187
Amortization of leasing cost and tenant improvements	1,149	643
Amortization of origination cost and acquired tenant relationships	5,364	5,578
FFO	16,292	16,092

Adjusted Funds From Operations

The following, together with the preceding table, reconciles net income for the fourth quarter, as presented in the consolidated financial statements, with AFFO, calculated in accordance with what Management believes to be industry practice.

(In thousands)	Q4 2010	Q4 2009
FFO	16,292	16,092
Step-rent adjustments	79	(312)
M-T-M acquired leases	(1,274)	(220)
Leasing expenditures	(3,377)	(911)
Maintenance capital expenditures	(839)	(1,388)
AFFO	10,881	13,261

Net Operating Income

The following reconciles net rental income for the fourth quarter, as presented in the consolidated financial statements, to NOI.

(In thousands)	Q4 2010	Q4 2009
Revenue from rental properties	48,040	43,667
Rental property operating cost	20,477	18,461
Net rental income	27,563	25,206
M-T-M acquired leases	(1,274)	(220)
Step-rent adjustments	79	(312)
NOI	26,368	24,674

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

(In thousands)	Q4 2010	Q4 2009	Change	% Change
Québec City	501	477	24	5.0%
Montréal	6,588	7,950	(1,362)	(17.1%)
Toronto and Kitchener	18,263	15,764	2,499	15.9%
Winnipeg, Calgary and Vancouver	1,016	483	533	110.4%
NOI	26,368	24,674	1,694	6.9%

Our NOI in the quarter increased by 6.9% over the comparable quarter. The increase was driven in large measure by the high volume of acquisitions in 2009 and 2010, particularly in our Toronto target market, where NOI increased by 15.9%, and in our Calgary target market, which accounts for most of the increase in the Winnipeg, Calgary and Vancouver segment. The NOI increases in our Toronto, Calgary and Québec City target markets were partially offset by an NOI decrease in our Montréal target market, which are discussed in detail below under “Same-Asset Net Operating Income”.

Same-Asset Net Operating Income

Our same-asset NOI in the fourth quarter decreased by 10.6% from the comparable quarter. This flows from lower period-over-period occupancy, which is best understood in the context of our same-asset NOI by region, as set out below.

(In thousands)	Q4 2010	Q4 2009	Change	% Change
Québec City	501	477	24	5.0%
Montréal	6,507	7,950	(1,443)	(18.2%)
Toronto and Kitchener	11,473	12,272	(799)	(6.5%)
Winnipeg, Calgary and Vancouver	463	483	(20)	(4.1%)
NOI	18,944	21,182	(2,238)	(10.6%)

The largest same-asset NOI decrease was in our Montréal target market. Turnover vacancy at Cité Multimédia accounts for the largest component of the decrease (\$845) with a portion (\$247) deriving from the space that has been leased to Morgan Stanley starting in part on May 1, 2011. The remainder at Cité Multimédia derives from space that we expect to lease in due course at net rental rates equal to or above prior in-place rents. Turnover vacancy at two Mile-End properties, 4446 Saint-Laurent Boulevard and 6300 Avenue du Parc, accounts for the remainder of the decrease. Mile-End is a transforming area of midtown Montréal. While the turnover vacancy results in a near-term NOI decline, it represents opportunity over time to increase net rental rates from prior in-place rents.

There was a smaller same-asset NOI decrease in our Toronto target market, both in absolute and percentage terms. Tenant failure at 312 Adelaide Street West and 555 College Street West account for most of the decrease (\$497). These are Tier 1, Class I properties, and we fully expect to lease the space in due course at rental rates equal to or above prior in-place rents. Turnover vacancy at 179 John Street accounts another portion of the decrease (\$162). This space has now been leased at net rental rates equal to prior in-place rents with rent commencing in the latter part of the fourth quarter. Turnover vacancy at 388 King Street West accounts for most of the remainder of the decrease (\$107). This is a Tier 2, Class I building with very significant redevelopment potential. While the space is leasable at net rental rates equal to prior in-place rents, we may elect not to lease the space in the near term as we explore the possibility of initiating a large-scale intensification of the property.

PART IV—QUARTERLY HISTORY

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

(In thousands except for per unit and % amounts)	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Revenue from rental properties	48,040	45,010	43,780	47,024	43,667	35,851	35,732	36,975
Rental property operating cost	20,477	18,719	18,150	20,300	18,461	14,517	13,912	15,244
Net rental income	27,563	26,291	25,630	26,724	25,206	21,334	21,820	21,731
Real estate service income	86	61	59	57	58	70	70	65
Financing expense	8,969	8,637	8,463	8,370	7,838	7,046	7,035	6,855
Amortization	12,514	11,130	11,377	12,391	11,513	9,795	10,073	10,144
Income from operations	6,166	6,585	5,849	6,020	5,913	4,563	4,782	4,797
Trust expense	2,277	1,123	1,241	1,439	1,229	774	832	921
Net income	3,889	5,462	4,608	4,581	4,684	3,789	3,950	3,876
Management Restructuring Costs	1,407	-	-	-	-	-	-	-
Net income before Management Restructuring Costs	5,296	5,462	4,608	4,581	4,684	3,789	3,950	3,876
Weighted average units (diluted)	42,251	39,799	39,204	39,119	38,975	31,411	31,370	31,302
Net income per unit (diluted)	\$0.09	\$0.14	\$0.12	\$0.12	\$0.12	\$0.12	\$0.13	\$0.12
Normalized net income per unit (diluted)	\$0.13	\$0.14	\$0.12	\$0.12	\$0.12	\$0.12	\$0.13	\$0.12
Distributions	13,852	13,209	12,877	12,858	12,839	10,320	10,308	10,296
FFO	16,292	16,486	15,822	16,869	16,092	13,480	13,928	13,929
FFO per unit (diluted)	\$0.39	\$0.41	\$0.41	\$0.43	\$0.41	\$0.43	\$0.44	\$0.44
FFO pay-out ratio	85.0%	80.1%	81.1%	76.2%	79.8%	76.6%	74.0%	73.9%
Normalized FFO	17,699	16,486	15,822	16,869	16,092	13,480	13,928	13,929
Normalized FFO per unit (diluted)	\$0.42	\$0.41	\$0.41	\$0.43	\$0.41	\$0.43	\$0.44	\$0.44
Normalized FFO pay-out ratio	78.3%	80.1%	81.1%	76.2%	79.8%	76.6%	74.0%	73.9%
AFFO	10,881	11,472	11,641	14,680	13,261	12,401	12,632	12,270
AFFO per unit (diluted)	\$0.26	\$0.29	\$0.30	\$0.38	\$0.34	\$0.40	\$0.40	\$0.39

(In thousands except for per unit and % amounts)	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
AFFO pay-out ratio	127.3%	115.1%	110.6%	87.6%	96.8%	83.2%	81.6%	83.9%
Normalized AFFO	12,288	11,472	11,641	14,680	13,261	12,401	12,632	12,270
Normalized AFFO per unit (diluted)	\$0.29	\$0.29	\$0.30	\$0.38	\$0.34	\$0.40	\$0.40	\$0.39
Normalized AFFO pay-out ratio	112.7%	115.1%	110.6%	87.6%	96.8%	83.2%	81.6%	83.9%
NOI	26,368	25,457	24,825	26,397	24,674	21,720	21,377	21,634
Total assets	1,258,511	1,210,791	1,158,995	1,152,390	1,155,158	937,342	942,806	945,985
Total debt	695,501	643,475	646,273	620,013	614,298	533,348	531,857	527,174
Debt Ratio	47.9%	46.1%	48.0%	47.0%	47.0%	49.4%	49.3%	49.3%
Total GLA (ex. PUD)	6,083	5,962	5,816	5,665	5,675	5,452	5,451	5,335
Leased GLA (ex. PUD)	5,558	5,662	5,524	5,379	5,448	5,247	5,246	5,183
Leased Area (%GLA)	91.4%	95.0%	95.0%	95.0%	96.0%	96.2%	96.3%	97.2%

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 V—LEASING

Status

Leasing status as at December 31, 2010, is summarized in the following table:

Total GLA*	Occupied	% Occupied	Committed	% Committed	Leased	%Leased
6,082,586	5,439,533	89.4%	118,918	2.0%	5,558,451	91.4%

*not including Properties Under Development

Of 6,082,586 square feet of total GLA in our rental property portfolio, 5,439,533 square feet were occupied by tenants on December 31, 2010. Another 118,918 square feet were subject to contractual lease commitments with tenants whose leases commence subsequent to December 31, 2010, bringing the leased area to 5,558,451 square feet.

Leasing status during the quarter and year ended December 31, 2010, is summarized in the following table:

	Occupied GLA on Average	% Occupied GLA on Average
Fourth Quarter	5,480,952	91.0%
Year	5,287,646	91.6%

During the fourth quarter, average occupied area was 5,480,952 square feet, representing 91.0% of the total GLA in the portfolio. During the year, average occupied area was 5,287,646 square feet, representing 91.6% of the total GLA in the portfolio.

We monitor the level of sub-lease space in our portfolio. We are unaware of any space being offered for sub-lease in our Québec City, Calgary and Vancouver portfolios. We are aware of 50,409 square feet of space being offered for sub-lease in our Toronto portfolio, 32,263 square feet in our Montréal portfolio, 11,029 square feet in our Kitchener portfolio and 3,000 square feet in our Winnipeg portfolio. This level of sub-lease space is consistent with past experience and does not represent an operating or leasing challenge to us, especially in light of the fact that almost all of the sub-lease space in question has limited remaining term. In our experience, prospective sub-tenants of such space will strive to enter into a direct leasing relationship with us and thereby obtain extended term. This tends to put us in a very good bargaining position opposite both the head-tenant and the sub-tenant.

Activity

Leasing activity as at December 31, 2010, is summarized in the following table:

	GLA	SF Leased by December 31	% Leased by December 31	SF Unleased on December 31 *
Vacancy on January 1, 2010*	250,446	144,923	57.9%	105,523
Maturities in 2010	1,315,416	948,574	72.1%	366,842
Arranged Vacancies in 2010	39,317	13,930	35.4%	25,387
Acquired Vacancies in 2010	39,077	12,694	32.5%	26,383
Total	1,644,256	1,120,121	68.1%	524,135

*not including Properties Under Development

250,446 square feet of GLA was vacant at the beginning of 2010. By December 31 2010, we leased 144,923 square feet of this GLA, leaving 105,523 square feet unleased at the end of the year.

Leases for 1,315,416 square feet of GLA matured in the year. By the end of the year, we renewed or replaced leases for 948,574 square feet of this GLA, leaving 366,842 square feet unleased at the end of the year.

With respect to the maturing leases renewed or replaced in the year (948,574 square feet of GLA), we achieved rental rates (i) above in-place rental rates with respect to 53.6% of this GLA, (ii) equal to in-place rental rates with respect to 11.6% of this GLA and below in-place rates with respect to 34.8% of this GLA. This will result in an overall increase of 0.3% in net rental income per square foot from the GLA covered by the maturing leases, which compares favourably to the 1% decrease anticipated at the beginning of the year.

We leased over 1.1 million square feet of space in 2010, a full 18% of our entire rental portfolio. With that and subsequent leasing, we reduced lease-maturities in the next three years by 12% and reduced the average annual amount of lease-maturity in the next five years to 9.8% of our portfolio. We finished the year with leased area of 91%, having renewed or replaced 72% of the leases that matured over the course of the year, in most cases at net rental rates equal to or above in-place rents. This resulted in a slight overall increase in net rental income per square foot for the affected space.

We decided mid-year not to renew a large lease at Cité Multimédia, which resulted in the temporary decline in our leased area at year-end. We re-leased one and one-half of the six office floors affected to an existing tenant, SAP Labs, for a term of 10 years commencing September 1, 2010. This left us with four and one-half floors to fill as 2011 got underway. We have since leased two floors to a high-profile new tenant for a term of 10 years commencing on January 1, 2012, leaving us with two and one-half floors to fill. We are well advanced in negotiations with another new tenant with a two-floor requirement and another existing tenant with a one-floor expansion requirement. We will only be able to accommodate one of these requirements, which will leave us with a small amount of residual space to re-lease. The annual net rental rates achieved or under negotiation fully validate our decision last year not to renew the large lease.

PART VI—DEVELOPMENT

Properties Under Development

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

PUDs in Progress	Estimated GLA
4450 Saint-Laurent, Montréal*	22,000
134 Peter, Toronto, Phase I of QRC West*	300,000
905 King West, Toronto	112,096
The Breithaupt Block, Kitchener (50% Interest)**	88,000
Total	522,096

*Conditional on satisfactory pre-leasing

**Total estimated GLA is 176,000 square feet

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.

Phase I of QRC West is the largest intensification project we've ever undertaken. It involves the restoration of an existing Class I building and the addition of a new, LEED-certified component for combined leasable area of approximately 300,000 square feet. In 2010, we initiated the pre-leasing process, met the requirements for site-plan approval and moved steadily toward the completion of building-permit drawings. We expect to be in a position to commence construction as early as the second quarter of this year. The market response to Phase I of QRC West has been very encouraging. We are well advanced in discussions with a number of prospective tenants, including a prospective lead-tenant well suited to the project.

In 2010, we completed the retrofit necessary to put 60,000 square feet of space at 905 King Street West in Toronto to a higher and better use, increasing its income generating potential dramatically. 40,000 square feet is ready for occupancy, and we're close on lease-up of the first 30,000 square feet at higher than anticipated net rental rates. Another 20,000 square feet will be ready for occupancy in the fourth quarter when the current tenant's lease expires. On completion of the lease-up, this will be the most successful redevelopment project in our history.

The Breithaupt Block in Kitchener's Warehouse District is comprised of six former industrial buildings with approximately 176,000 square feet of space and two acres of surplus land. With Perimeter Development Corporation, we'll redevelop the property as a Class I office complex. On completion, scheduled for mid-2013, the property will add depth to our Kitchener portfolio, with the surplus land affording us additional value-creation potential down the road.

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, 2010, the cost of our Properties Under Development was \$49,624, which was equivalent to 3.4% of our GBV.

Intensification

The buildings on most of our 59 Toronto properties have considerably less GLA than is permissible under the current zoning. This affords us the opportunity to create additional GLA without land cost and with correspondingly higher returns on equity. The combined land area of our Toronto properties is approximately 1,075,000 square feet or 24 acres. We have evaluated the Toronto portfolio on a property-by-property basis and have estimated that it is practically possible to create between 1.2 million and 1.8 square feet of additional GLA in the near term, market conditions permitting. Phase I of QRC West is a very good example of the intensification that is possible within our existing portfolio.

Looking forward, we have a number of intensification opportunities that we plan to initiate in 2011.

QRC West, Phase II

This project was made possible by our acquisition of 375-381 Queen Street West in late 2009. As currently conceived, it will be comprised of 46,000 square feet of office space over four storeys, with floor plates of around 12,000 square feet, and 28,000 square feet of retail space on two levels, with exceptional ceiling height (18 feet) at the grade level. Now that the site-plan approval has been finalized for QRC West, Phase I, we can proceed with the municipal approval process for Phase II. The height and density issues are straightforward, but certain shared-use issues will require more attention, particularly our wish to acquire one public laneway and our need to secure an aerial easement over another. We expect to have the municipal approval process complete by the end of 2011. 375-381 Queen West is

currently generating a solid levered return on our equity, especially now that we've placed a fully open, three-year mortgage on the property at an annual interest rate below 3.2%.

Northwest Corner King & Peter

388 King West and 82 Peter Street are also rental properties generating a respectable levered return. These properties represent a large-scale intensification opportunity. Preliminary work suggests that close to 800,000 square feet of useable area can be created on the land component of the two properties. The former property is subject to a long-term lease that will have to be renegotiated. We intend to initiate the municipal approval process for this site and to find an acceptable alternative for the long-term tenant. This alone will take over a year.

King & Spadina

Although currently rental properties, 489, 495 and 499 King West constitute the best remaining development site at King & Spadina. 489 King West is a potential Tier 1, Class I office property on the northeast corner of the site. 495 King West is a small building with no historic value occupied by tenants on short-term leases. 499 King West is a former car dealership currently operating as a restaurant/nightclub. We have a running right of early termination with the sole tenant starting in March of 2012. 495 and 499 King West comprise close to 35,000 square feet of land. Preliminary work suggests that the site could support as much as 500,000 square feet of useable area. We have initiated the municipal approval process for this property, which is also expected to take over a year.

PART VII—BALANCE SHEET

Financial Condition

We finance our operations through three sources of capital: (i) mortgage debt secured by our rental properties, (ii) secured short-term debt financing with a Canadian chartered bank and (iii) equity. As at December 31, 2010, we had mortgage debt of \$673,734, bank indebtedness of \$21,766 and unitholders' equity of \$509,991. As at December 31, 2009, we had mortgage debt of \$597,375, bank indebtedness of \$16,923 and unitholders' equity of \$481,526. The increase in mortgage debt is due to new mortgage financing of \$60,690, the assumption of mortgage financing on acquisitions, net of reductions due to regular principal repayments. The increase in unitholders' equity is due to units issued as described below and net income for the period of \$18,540, offset by distributions to unitholders of \$52,796.

Unitholders' Equity

As at December 31, 2010, we had a market capitalization of approximately \$907,465 based on a closing unit price of \$21.54 on the Toronto Stock Exchange. 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.

In the year ended December 31, 2010, we issued a total of 3,087,930 units for an equity contribution of \$64,531. Costs incurred to issue the units were \$2,737. Units were issued as follows: 2,732,400 units at \$21.05 for gross proceeds of \$57,517 pursuant to a bought deal that closed on September 15, 2010; and 355,530 units under our distribution re-investment plan at an average price of \$19.73 per unit for \$7,014. As at March 31, 2011, we had 46,249,629 units issued and outstanding, which includes 3,921,500 units issued pursuant to a bought deal that closed on March 14, 2011.

We adopted a Unit Option Plan at the time of our IPO. In May of 2004, we adopted a long-term incentive plan ("LTIP") whereby our trustees and officers ("Participants") may from time to time, at the discretion of the trustees and subject to regulatory approval, subscribe for units at a market price established in accordance with the provisions of the LTIP. The price for the units is payable as to 5% upon issuance and as to the balance ("LTIP Loan") over 10 years with interest on the LTIP Loan at an annual rate established in accordance with the provisions of the LTIP. The units issued pursuant to the LTIP are registered in the name of a Custodian on behalf of the Participants who are the beneficial owners. The units are pledged to us as security for payment of the LTIP Loan, and all distributions paid on the units are forwarded by the Custodian to us and applied first on account of interest on the LTIP Loan and then to reduce the outstanding balance of the LTIP Loan. In May of 2010, we amended the Unit Option Plan and the LTIP to limit the number of units authorized for issuance under the Unit Option Plan, the LTIP or any other equity compensation plan to 8.1% of the issued and outstanding units from time to time. As of

March 31, 2011, we had options to purchase 1,571,477 units outstanding, of which 1,000,283 had vested, and 352,611 units issued under the LTIP.

In March of 2010, we adopted a restricted unit plan (the Restricted Unit Plan”), whereby restricted units (“Restricted Units”) are granted to certain key employees of the Trust, at the discretion of the trustees. The Restricted Units are purchased in the open market. Employees who are granted Restricted Units have the right to vote and to receive distributions from the date of the grant. The Restricted Units vest (in the sense that such Units are not subject to forfeiture) as to one-third on each of the three anniversaries following the date of the grant. Whether vested or not, without the specific authority of the Governance and Compensation Committee, the Restricted Units may not be sold, mortgaged or otherwise disposed of for a period of six years following the date of the grant. The Restricted Unit Plan contains provisions providing for the forfeiture within specified time periods of unvested Restricted Units in the event the employee’s employment is terminated. As of March 31, 2011, we had 55,659 Restricted Units granted under the Restricted Unit Plan.

Mortgages Payable

Mortgages payable as at December 31, 2010, consisted of mortgage debt of \$673,734. 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
2011	17,432	27,549	44,981	6.7%	4.7%
2012	17,461	36,805	54,266	8.1%	5.9%
2013	18,132	62,122	80,254	11.9%	5.1%
2014	14,085	161,664	175,749	26.1%	5.5%
2015	10,427	68,665	79,092	11.7%	5.3%
Thereafter	23,891	215,501	239,392	35.5%	6.1%
Total	101,428	572,306	673,734	100.0%	5.7%

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

(In thousands)	Direct Mortgage Lender	Conduit Mortgage Lender
2011	24,650	2,899
2012	24,488	12,317
2013	62,122	-
2014	142,780	18,884
2015	40,312	28,353
Thereafter	177,640	37,861
Total	471,992	100,314

Interest rates on the mortgage debt are between 2.39% and 8.10% with a weighted average interest rate of 5.7%. The weighted average term of the mortgage debt is 4.8 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, 2010, we had a \$70,000 revolving credit facility (“Facility”) with a Canadian chartered bank bearing interest at bank prime plus 175 basis points or bankers’ acceptance plus 275 basis points and maturing on August 31, 2011. The credit facility is secured by a combination of mortgage charges and security agreements on certain of our rental properties. In the year, the average borrowings under the Facility were \$25,263. As at December 31, 2010, the borrowings under the Facility were \$21,576.

Liquidity and Commitments

Net operating income generated from our rental properties is the primary source of liquidity to fund our financing expense, trust expense and distributions to unitholders.

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

The Facility, new mortgage financing and the access to the public equity markets will provide the necessary capital we require for acquisitions. Our acquisition capacity, meaning our ability to use un-utilized borrowing capacity while not exceeding the 60% Debt Ratio, is approximately \$425,000. As at December 31, 2010, we had future commitments as set out below.

(In thousands)	December 31, 2010
Leasing commissions	2,567
Tenant improvements	4,981
Building renovations and maintenance capital expenditures	2,056
Revenue-enhancing capital and leasing expenditure	5,596
Expenses	515
Conditional acquisitions	15,200
Total	30,915

PART VIII--ACCOUNTING

Critical Accounting Estimates

The significant accounting policies used in preparing our consolidated financial statements are described in Note 3 to our consolidated financial statements for the year and quarter ended December 31, 2010, and for the year ended December 31, 2009. The following is a discussion of Management's estimates that are most important to the presentation of our results of operations and financial condition and are most subjective as a result of matters that are inherently uncertain.

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

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

Impairment of Assets

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

Amortization

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

Mark-to-Market Rent Adjustment, Cité Multimédia

We completed the acquisition of Cité Multimédia on April 18, 2007, with an effective date of April 1, 2007. At the time of acquisition, based on data compiled by an independent real estate appraiser, Management estimated that the average in-place rental rates for the tenants at Cité Multimédia exceeded current market rental rates by approximately 9%. Accordingly, our financial statements for the year ended December 31, 2010, recognize a \$2,797 net mark-to-market rent adjustment in respect of Cité Multimédia. Our net income was affected by this mark-to-market rent adjustment. Our AFFO was not

affected, as we add non-cash items back in calculating AFFO. Our FFO was affected, as we do not add mark-to-market rent adjustments back in calculating FFO.

Future Changes in Accounting Policies--Adoption of International Financial Reporting Standards ("IFRS")

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

Training and Education

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

Assessment of Impact

We have completed an assessment and have identified differences between current GAAP and IFRS that will impact on our financial statements. We continue to assess the completeness of our assessment and the implications of these differences and evaluate the accounting policy alternatives and the impact on our financial statements. The development of a real estate valuations strategy and process is almost complete. We have engaged a third-party appraiser to assist in determining the fair value of investment properties as at January 1, 2010, the results of which have now been finalized. The appraiser is retained to assist with determining fair value for subsequent reporting periods. Required changes to information technology data systems have been 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 dual reporting requirements. We have modified existing disclosure and control procedures and internal control processes and have designed and implemented 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 have now been integrated into the design and implementation of systems and process changes in order for us to compile IFRS compliant financial statements commencing in the first quarter ending March 31, 2011. The necessary changes to our business processes and training programs were developed concurrently, with post-implementation reviews to assess and test systems, processes, financial statements, notes, policies, and internal controls for IFRS conversion.

Summary of Key Difference

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

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

1. Investment Property

IFRS defines investment property as a property (land or a building) held to earn rental income, capital appreciation, or both. A key characteristic of an investment property is that it generates cash flows largely independent of the other assets held by an entity. All of our income properties and Properties Under Development will qualify as investment property under IFRS. We have chosen the "Fair Value" approach to investment properties for our going forward IFRS financial statements.

2. Properties Under Development

Properties Under Development are considered investment properties. Under IFRS, operating revenues and expenses cannot be capitalized and subject to meeting certain tests, capitalization of interest costs directly attributable to a property under development is required. We have chosen the “Fair Value” approach to Properties Under Development for our going forward IFRS financial statements.

3. Impairment

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

4. Leases

Current GAAP and IFRS both require that tenant allowances be capitalized and amortized as a reduction to rental revenue over the term of the leases. Under GAAP, we capitalized and amortized 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 to rental revenue over the term of the leases.

5. Business Combinations

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

6. Equity – Trust Units

Under current GAAP trust units are presented as equity on our Consolidated Balance Sheet. Based on our understanding of IFRS, our trust units met the definition of a liability as under our Declaration of Trust we had a mandatory requirement to distribute taxable income. Many Canadian REITs have modified their Declaration of Trust to eliminate the mandatory distribution and leave distributions to the discretion of the Trustees. At our Annual Special Meeting on May 11, 2010, unitholders approved the elimination of mandatory distributions. As a result, our Units will be presented as liabilities as at the date of transition to IFRS and up until the second quarter of 2010 when the Declaration of Trust was amended. We are currently reviewing the impact of this issue on accounting for options.

7. Income Taxes

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

Fair Value

We have completed the external valuation of our portfolio as at December 31, 2009, and December 31, 2010. Fair valuing the portfolio using external appraisers will underpin the most substantive change to our consolidated financial statements upon our adoption of IFRS.

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

Our portfolio was appraised in its entirety by an independent, external appraiser, Cushman & Wakefield. In valuing our portfolio as at December 31, 2009, the appraiser used a range of capitalization rates ranging from 7% to 10.2%, the high-point being the capitalization rate associated with 151 Front Street West in Toronto at the time of acquisition. The portfolio weighted average cap rate was 8.2%. In valuing our portfolio as at December 31, 2010, the appraiser used a range of capitalization rates ranging from 6%

to 9.3%, the high-point being the capitalization rate associated with our property at 151 Front Street West. The portfolio weighted average cap rate was 7.9%.

The external valuation indicates an un-audited value for our investment properties of \$1,300,000 at the end of 2009, \$190,000 above the value reported under GAAP at that time, and \$1,550,000 at the end of 2010, \$250,000 above the un-audited value indicated by the external valuation at the end of 2009. \$104,000 of the year-over-year increase in un-audited value resulted from acquisitions in 2010, with the remaining \$146,000 resulting from appreciation in un-audited value in 2010.

PART IX—DISCLOSURE CONTROLS AND INTERNAL CONTROLS

Management maintains appropriate information systems, procedures and controls to ensure that information that is publicly disclosed is complete, reliable and timely. The Chief Executive Officer and Chief Financial Officer evaluated the design and operating effectiveness of our disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual 25 and Interim Filings) as at December 31, 2010 and have concluded that such disclosure controls and procedures were appropriately designed and were operating effectively.

Management is responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Chief Executive Officer and Chief Financial Officer assessed, or caused an assessment under their direct supervision of the design and operating effectiveness of our internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2010, using the Committee of Sponsoring Organizations Internal Control – Integrated Framework. Based on that assessment, the Chief Executive Officer and the Chief Financial Officer determined that our internal controls over financial reporting were appropriately designed and were operating effectively.

There was no change in the design of internal controls over financial reporting in 2010 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting. However, our conversion from Canadian GAAP to IFRS will have significant impact on internal control over financial reporting. We have identified areas that may have an impact on our internal control over financial reporting as they relate to our initial reporting of IFRS financial statements, including related note disclosures, as well as on-going financial reporting.

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

PART X—RELATED PARTY TRANSACTIONS

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

PART XI—RISKS AND UNCERTAINTIES

There are certain risk factors inherent in the investment and ownership of real estate. Real estate investments are capital intensive, and success from real estate investments depends upon maintaining occupancy levels and rental income flows to generate acceptable returns. These success factors are dependent on general economic conditions and local real estate markets, demand for leased premises and competition from other available properties. The general economic conditions continued to be unstable in the past year. While this instability has not yet had a commensurate impact on the demand for leased premises in our target markets, it is reasonable to expect that it will go 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 seven metropolitan real estate markets in Canada. This focus enables Management to capitalize on certain economies of scale and competitive advantages that would not otherwise be available.

Financing and Interest Rate Risk

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

Interest rates on our mortgage debt are between 2.39% and 8.10% with a weighted average interest rate of 5.7%. The weighted average term of our mortgage debt is 4.8 years.

Credit Risk

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

The following sets out our tenant-mix on the basis of percentage of rental revenue for the year ended December 31, 2010:

Category	% of Rental Revenue Year Ended December 31, 2010
Business service and professional	21.7%
Telecommunications and information technology	36.9%
Retail (head office and storefront)	13.5%
Media and entertainment	13.4%
Financial services	4.0%
Educational and institutional	1.8%
Government	0.9%
Other	7.8%

The following sets out the percentage of rental revenue from our top-10 tenants by rental revenue for the year ended December 31, 2010.

Tenant	% of Rental Revenue Year Ended December 31, 2010
Switch and Data Toronto	5.1%
C.G.I.	4.3%
Ubisoft Divertissement	3.3%
Visa Desjardins	2.9%
MTS Allstream	2.9%
Peer 1 Network Enterprises	1.9%
Telehouse Centre Canada	1.9%
Cossette	1.9%
TELUS	1.8%
Autodesk Canada	1.8%

Lease Roll-Over Risk

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

91.4% of the GLA in our portfolio was leased as at December 31, 2010 (not including Properties Under Development). The weighted average term to maturity of our leases at that time was 5.47 years. The following sets out, as of today's date, the total GLA of the leases that mature to the end of 2015, assuming tenants do not exercise renewal options, the percentage of total GLA represented by the maturing leases, the weighted average in-place net rental rate on the maturing leases and the weighted average market net rental rate on the space covered by the maturing leases. The square footage maturing by December 31, 2011, does not include month-to-month leases for 66,788 square feet of GLA that are routinely renewed at the end of each month by the tenant. The weighted average market net rental rate is based on Management's current estimates and is supported in part by independent appraisals of certain of the relevant properties. There can be no assurance that Management's current estimates are accurate or that they will not change with the passage of time.

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2011	748,445	12.3%	\$15.89	\$19.84
December 31, 2012	683,208	11.2%	\$17.97	\$19.73
December 31, 2013	771,150	12.7%	\$21.99	\$23.99
December 31, 2014	261,865	4.3%	\$19.28	\$23.43
December 31, 2015	520,645	8.6%	\$14.01	\$16.59

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

1. Toronto and Kitchener

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2011	277,630	5.0%	\$20.04	\$25.53
December 31, 2012	426,399	7.0%	\$20.40	\$22.75
December 31, 2013	557,564	9.0%	\$24.02	\$27.71
December 31, 2014	178,022	3.0%	\$23.29	\$27.52
December 31, 2015	293,503	5.0%	\$14.86	\$18.38

2. Montréal

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2011	368,309	6.0%	\$13.95	\$17.64
December 31, 2012	193,025	3.0%	\$14.77	\$15.77
December 31, 2013	145,433	2.4%	\$14.20	\$15.45
December 31, 2014	49,830	1.0%	\$9.14	\$15.51
December 31, 2015	91,422	2.0%	\$11.05	\$12.99

3. Winnipeg, Calgary and Vancouver

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2011	83,841	1.4%	\$11.55	\$11.97
December 31, 2012	36,323	0.6%	\$10.55	\$10.59
December 31, 2013	49,713	0.8%	\$11.93	\$12.16
December 31, 2014	20,395	0.3%	\$8.75	\$9.24
December 31, 2015	90,827	1.5%	\$15.95	\$17.39

4. Québec City

Year Ended	Square Feet	% of Total GLA	WA Rental Rate	WA Market Rate
December 31, 2011	18,665	0.3%	\$12.01	\$13.72
December 31, 2012	27,461	0.5%	\$12.52	\$12.95
December 31, 2013	18,440	0.3%	\$14.44	\$15.22
December 31, 2014	13,618	0.2%	\$19.75	\$20.16
December 31, 2015	44,893	0.7%	\$10.54	\$10.62

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 \$2,000 (approximately five cents per unit). The decline in AFFO per unit would be more pronounced if the decline in occupancy involved space

leased above our average rental rate per square foot and less pronounced if the decline in occupancy involved space leased below our average rental rate per square foot.

Environmental Risk

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

Development Risk

As an owner of Properties Under Development, we are subject to development risks, such as construction delays, cost over-runs and the failure of tenants to take occupancy and pay rent in accordance with lease arrangements. In connection with all Properties Under Development, we incur development costs prior to (and in anticipation of) achieving a stabilized level of rental revenue. In the case of the development of ancillary or surplus land, these risks are managed by not commencing construction until a satisfactory level of pre-leasing is achieved. Overall, these risks are managed by ensuring that Properties Under Development do not represent a large component of our GBV. As at December 31, 2010, the cost of Properties Under Development was equivalent to 3.4% 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 2011 and beyond.

PART XII—SUBSEQUENT EVENTS

On February 22, 2011, we launched a public equity offering, on a bought-deal basis, 3,410,000 units from treasury at a price of \$22.00 per unit for gross proceeds of \$75,020 (the "Offering"). In doing so, we granted to the underwriters an option to purchase up to an additional 511,500 units on the same terms and conditions.

On March 14, 2011, we closed the Offering. The underwriters exercised their overallotment option in full, with the result that we issued 3,921,500 units for gross proceeds of \$86,273.

On March 15, 2011, we sold the Norlyn Building (305-309 and 325 Hargrave Street) in Winnipeg for \$2.8 million.

On March 31, 2011, we announced agreements to acquire properties in Victoria, Vancouver and Calgary for a combined purchase price of \$51,000. Subject to customary conditions, the acquisitions are scheduled for completion in April and May of 2011.

PART XIII—PROPERTY TABLE

December 31, 2010	OFFICE	Retail	Total	% Total	Office	Retail	Total	Leased %
Properties	GLA	GLA	GLA	GLA	Vacant	Vacant	Leased	
555 College	40,952	19,145	60,097		-	-	60,097	100.0%
860 Richmond W	24,199	-	24,199		1,792	-	22,407	92.6%
The Castle	131,605	34,323	165,928		-	-	165,928	100.0%
King West	196,756	53,468	250,224	4.1%	1,792	-	248,432	99.3%
141 Bathurst (+ land)	10,558	-	10,558		5,105	-	5,453	51.6%
183 Bathurst	24,879	-	24,879		5,100	-	19,779	79.5%
420 Wellington W	33,813	3,137	36,950		-	-	36,950	100.0%
425 Adelaide W	74,966	4,104	79,070		9,462	-	69,608	88.0%
425-439 King W	75,299	17,297	92,596		-	-	92,596	100.0%
441-443 King W	9,820	3,065	12,885		-	-	12,885	100.0%
445-455 King W	27,640	23,048	50,688		-	-	50,688	100.0%
468 King W	65,027	-	65,027		-	-	65,027	100.0%
469 King W	64,334	11,250	75,584		-	-	75,584	100.0%
489 King W	15,621	10,650	26,271		-	5,800	20,471	77.9%
495 King W	10,698	-	10,698		-	-	10,698	100.0%
499 King W	-	8,400	8,400		-	-	8,400	100.0%
500-522 King W	94,892	34,238	129,130		-	-	129,130	100.0%
544 King W	17,006	-	17,006		-	-	17,006	100.0%
579 Richmond W	29,043	-	29,043		11,811	-	17,232	59.3%
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	80,926	9,361	90,287		6,001	-	84,286	93.4%
King-Brant Parking	-	-	0		-	-	-	0.0%
King West Central	705,023	150,996	856,019	14.1%	37,479	5,800	812,740	94.9%
116 Simcoe	15,289	-	15,289		-	-	15,289	100.0%
151 Front & 20 York	269,098	35,824	304,922		2,960	-	301,962	99.0%
179 John	66,844	-	66,844		3,752	-	63,092	94.4%
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	10,109	-	10,109		-	-	10,109	100.0%
217-225 Richmond W	35,393	21,200	56,593		-	-	56,593	100.0%
257 Adelaide W	46,914	-	46,914		6,761	-	40,153	85.6%
312 Adelaide W	66,043	5,665	71,708		-	-	71,708	100.0%
331-333 Adelaide W	20,503	3,210	23,713		-	-	23,713	100.0%
358-360 Adelaide W	54,250	-	54,250		-	-	54,250	100.0%
364 Richmond W	22,956	17,300	40,256		-	-	40,256	100.0%
375-381 Queen W	21,541	11,088	32,629		-	-	32,629	100.0%
388 King W	32,201	11,765	43,966		10,182	-	33,784	76.8%
82 Peter	38,811	8,287	47,098		7,885	-	39,213	83.3%
99 Spadina	38,690	11,392	50,082		3,000	-	47,082	94.0%
Entertainment District	822,480	125,731	948,211	15.6%	34,540	-	913,671	96.4%
67 Richmond W	44,702	5,804	50,506		-	-	50,506	100.0%
193 Yonge	34,836	16,318	51,154		-	-	51,154	100.0%
Downtown	79,538	22,122	101,660	1.7%	-	-	101,660	100.0%
106 Front E	24,386	10,109	34,495		-	-	34,495	100.0%
35-39 Front E	30,812	17,850	48,662		-	-	48,662	100.0%
36-40 Wellington E	12,630	11,550	24,180		12,630	-	11,550	47.8%
41-45 Front E	20,024	19,811	39,835		-	-	39,835	100.0%
45-55 Colborne	28,204	12,526	40,730		-	-	40,730	100.0%
49 Front E	9,275	10,441	19,716		-	-	19,716	100.0%
50 Wellington E	21,937	11,049	32,986		-	-	32,986	100.0%
St. Lawrence Market	147,268	93,336	240,604	4.0%	12,630	-	227,974	94.8%
145 Berkeley	8,124	2,687	10,811		-	-	10,811	100.0%
204-214 King E	128,970	5,460	134,430		-	-	134,430	100.0%
230 Richmond E	73,667	-	73,667		-	-	73,667	100.0%
252-264 Adelaide E	50,219	-	50,219		2,559	-	47,660	94.9%
489 Queen E	25,242	-	25,242		2,663	-	22,579	89.5%
70 Richmond E	34,414	-	34,414		-	-	34,414	100.0%
Dominion Square	62,273	45,622	107,895		13,203	700	93,992	87.1%
Queen Richmond Centre	155,968	64,593	220,561		8,586	5,255	206,720	93.7%
QRC South	33,635	-	33,635		8,999	-	24,636	73.2%
Queen Richmond	572,512	118,362	690,874	11.4%	36,010	5,955	648,909	93.9%
Total Toronto	2,523,577	564,015	3,087,592	50.8%	122,451	11,755	2,953,386	95.7%

Properties	Office GLA	Retail GLA	Total GLA	% Total GLA	Office Vacant	Retail Vacant	Total Leased	Leased %
3575 Saint-Laurent	167,580	17,464	185,044		10,340	150	174,554	94.3%
400 Atlantic	86,284	-	86,284		9,128	-	77,156	89.4%
425 Viger W (+ land)	205,193	820	206,013		-	-	206,013	100.0%
4446 Saint-Laurent	69,889	7,667	77,556		9,651	-	67,905	87.6%
5505 Saint-Laurent	252,452	2,524	254,976		-	-	254,976	100.0%
451-481 Saint Catherine	22,222	8,434	30,656		-	-	30,656	100.0%
6300 Avenue du Parc	212,931	950	213,881		54,880	-	159,001	74.3%
645 Wellington	133,711	-	133,711		21,640	-	112,071	83.8%
111 Duke: Phase IV	373,972	-	373,972		195,580	-	178,392	47.7%
50 Queen: Phase I	27,552	-	27,552		3,810	-	23,742	86.2%
700 Wellington: Phase V	128,229	1,925	130,154		-	-	130,154	100.0%
75 Queen: Phase VI & VII	249,107	2,128	251,235		10,810	-	240,425	95.7%
80 Queen: Phase II	70,256	-	70,256		8,435	-	61,821	88.0%
87 Prince: Phase III	106,617	1,065	107,682		3,201	-	104,481	97.0%
Total Montréal	2,105,995	42,977	2,148,972	35.3%	327,475	150	1,821,347	84.8%
115 Bannatyne	34,587	4,029	38,616		-	-	38,616	100.0%
123 Bannatyne	15,780	-	15,780		-	-	15,780	100.0%
138 Portage	39,400	-	39,400		8,226	-	31,174	79.1%
165 Garry	9,000	5,800	14,800		1,800	-	13,000	87.8%
250 McDermot	34,947	10,040	44,987		7,652	-	37,335	83.0%
309 Hargrave	18,268	1,400	19,668		4,371	-	15,297	77.8%
50-70 Arthur	100,966	15,100	116,066		19,964	1,200	94,902	81.8%
1500 Notre Dame	109,518	-	109,518		-	-	109,518	100.0%
Total Winnipeg	362,466	36,369	398,835	6.6%	42,013	1,200	355,622	89.2%
390 Charest	68,413	4,686	73,099		9,536	-	63,563	87.0%
410 Charest	23,637	1,300	24,937		2,400	1,300	21,237	85.2%
420 Charest	45,473	11,535	57,008		1,245	-	55,763	97.8%
622 Saint-Joseph	3,620	3,300	6,920		1,160	-	5,760	83.2%
633 Saint-Joseph	15,388	6,000	21,388		-	-	21,388	100.0%
Total Québec City	156,531	26,821	183,352	3.0%	14,341	1,300	167,711	91.5%
72 Victoria	87,103	-	87,103		1,266	-	85,837	98.5%
Total Kitchener-Waterloo	87,103	-	87,103	1.4%	1,266	-	85,837	98.5%
604-1st SW	65,472	21,265	86,737		2,184	-	84,553	97.5%
Total Calgary	65,472	21,265	86,737	1.4%	2,184	-	84,553	97.5%
840 Cambie	89,995	-	89,995		-	-	89,995	100.0%
Total Vancouver	89,995	-	89,995	1.5%	-	-	89,995	100.0%
Total Rental Portfolio	5,391,139	691,447	6,082,586	100.0%	509,730	14,405	5,558,451	91.38%

134 Peter, Toronto	30,151	19,518	49,669
905 King W, Toronto	103,105	8,991	112,096
4450 Saint-Laurent, Montréal	-	-	-
The Breithaupt Block, Kitchener	88,000	-	88,000
Total PUD	221,256	28,509	249,765

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) "Peter E. Sweeney"
Peter E. Sweeney, CA
Vice President and Chief Financial Officer

Independent Auditors' Report

To the Unitholders of Allied Properties Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Allied Properties Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of unitholders' equity, earnings and comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Allied Properties Real Estate Investment Trust as at December 31, 2010 and 2009 and the results of operations and its cash flows for the years ended in accordance with Canadian generally accepted accounting principles.

(signed) BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario
March 31, 2011

Consolidated Balance Sheets

(in thousands) As at December 31	Note	2010	2009
Assets			
Rental properties	4	\$1,114,920	\$1,017,883
Properties under development		49,624	41,928
Intangibles	5	32,485	43,751
Other assets	6	59,595	50,326
Cash		1,887	1,270
		\$1,258,511	\$1,155,158
Liabilities			
Mortgages payable	7	\$670,017	\$593,619
Bank indebtedness	7	21,766	16,923
Accounts payable and other liabilities	8	52,103	58,795
Distributions payable		4,634	4,295
		748,520	673,632
Unitholders' Equity	9	509,991	481,526
		\$1,258,511	\$1,155,158

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, 2009 and 2010

	Notes	Cumulative Capital	Cumulative Issue Costs	Cumulative Net Income	Cumulative Distributions	Contributed Surplus	Total
Unitholders' equity, December 31, 2008		\$489,538	(\$24,122)	\$41,732	(\$122,022)	\$525	\$385,651
Year ended December 31, 2009							
Net income		-	-	16,299	-	-	16,299
Distributions		-	-	-	(43,763)	-	(43,763)
Public offering		125,400	(5,643)	-	-	-	119,757
Distribution reinvestment plan		2,793	-	-	-	-	2,793
Unit option plan – options exercised	11	5	-	-	-	-	5
Contributed surplus unit option plan	11	-	-	-	-	428	428
Long-Term incentive plan	12	356	-	-	-	-	356
Unitholders' equity, December 31, 2009		\$618,092	(\$29,765)	\$58,031	(\$165,785)	\$953	\$481,526
Year Ended December 31, 2010							
Net income		-	-	\$18,540	-	-	\$18,540
Distributions		-	-	-	(52,796)	-	(52,796)
Public Offering		57,517	(2,737)	-	-	-	54,780
Distribution reinvestment plan		7,014	-	-	-	-	7,014
Restricted unit plan		(1,142)	-	-	-	425	(717)
Contributed surplus, unit option plan		-	-	-	-	1,201	1,201
Long-Term incentive plan	12	443	-	-	-	-	443
Unitholders' equity, December 31, 2010		\$681,924	(\$32,502)	\$76,571	(\$218,581)	\$2,579	\$509,991

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	2010	2009
Revenues		
Rental properties	\$183,854	\$152,225
Real estate services	613	579
	184,467	152,804
Expenses		
Rental property operating	77,646	62,134
Real estate services	350	316
Financing	34,439	28,774
Trust (Note 18)	6,080	3,756
Amortization of rental properties	22,725	18,447
Amortization of intangibles	20,772	19,469
Amortization of leasing costs	2,096	1,539
Amortization of other assets	1,819	2,070
	165,927	136,505
Net income and comprehensive income for the year	\$18,540	\$16,299
Net income per unit		
Basic	\$0.47	\$0.50
Fully diluted	\$0.46	\$0.49
Weighted average number of units (Note 10)		
Basic	39,607,858	32,870,878
Fully diluted	40,087,351	33,281,351

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	2010	2009
CASH PROVIDED BY (USED IN):			
Operating activities			
Net income		\$18,540	\$16,299
Items not affecting cash			
Amortization of rental properties		22,725	18,447
Amortization of office equipment		327	299
Amortization of intangibles		20,772	19,469
Amortization of leasing costs		2,096	1,539
Amortization of tenant improvements		1,492	1,771
Step rent adjustments (revenue)		(647)	(850)
Step rent adjustments (expenses)		383	255
Mark to market rent adjustments		(2,897)	(91)
Amortization, premium on assumed mortgages		17	(22)
Changes in other non-cash financing expenses		834	641
Compensation expense		1,626	428
		65,268	58,185
Change in other non-cash operating items		(3,877)	4,828
Cash from operating activities		61,391	63,013
Investing activities			
Rental properties acquired, net of non-cash consideration	2	(71,674)	(209,047)
Properties under development acquired	2	(4,176)	-
Capital expenditures, rental properties and other assets		(11,567)	(7,173)
Capital expenditures, properties under development		(18,847)	(6,092)
Tenant improvements and leasing cost		(12,218)	(6,224)
Tenant inducements		(1,350)	(691)
Cash used in investing activities		(119,832)	(229,227)
Financing Activities			
Repayment of mortgages payable		(20,078)	(28,345)
Proceeds from new mortgages payable		65,655	101,037
Distributions		(45,443)	(40,111)
Proceeds of public offering (net of issue costs)		54,780	119,757
Proceeds from exercise of options		-	5
Restricted unit plan	13	(1,142)	0
Proceeds from units issued under the LTIP (net of issue costs)	12	443	356
Net increase in bank indebtedness		4,843	14,001
Cash provided by financing activities		59,058	166,700
Increase in cash and cash equivalents		617	486
Cash and cash equivalents, beginning of year		1,270	784
Cash and cash equivalents, end of year		1,887	1,270
Other cash flow information			
Interest paid		\$36,224	\$29,047
Supplemental cash flow information			
Units issued under DRIP		\$7,014	\$2,793

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

Notes To Consolidated Financial Statements
(In thousands of dollars except per unit and unit amounts)
December 31, 2010 and December 31, 2009

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, May 14, 2008, and May 11, 2010. The REIT is governed by the laws of the Province of Ontario and began operations on February 19, 2003. The units of the Trust are traded on the Toronto Stock Exchange.

2. Acquisitions

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	2010	2009
Rental properties	\$92,867	\$214,718
Properties under development	4,176	-
Other assets	864	83
Fair value of in-place leases and tenant relationships	9,507	14,000
Fair value of above-market leases	3,800	3,301
Fair value of below-market leases	(2,647)	(9,125)
Mortgages payable	(29,970)	-
Accounts payable and accrued liabilities	(2,747)	(13,930)
Cash consideration paid for the net assets acquired	\$75,850	\$209,047

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

3. Summary of Significant Accounting Policies

(a) Basis of Presentation

The REIT's 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 assets or 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 Plans

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. The REIT uses the fair-value based method of accounting for its restricted unit plan whereby compensation expense is recognized over the vesting period.

(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, 2010 and December 31, 2009.

(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.

(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 January 2006, the CICA Accounting Standards Board (“ASB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies are required to comply with International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011, with comparative figures presented on the same basis. In February 2008, the CICA ASB confirmed that January 1, 2011, would be the effective date for the initial adoption of IFRS.

IFRS are premised on a conceptual framework similar to GAAP; however, significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not have a material impact on the reported cash flows of the REIT, it will have a material impact on the REIT's consolidated balance sheets and statements of earnings and comprehensive income. The REIT has identified significant accounting policy changes that it expects to apply upon adoption of IFRS which are significantly different than its GAAP policies. The REIT continues to evaluate the impact of these IFRS accounting policy changes, and is executing its convergence plan with the intent to prepare its first consolidated financial statements in accordance with IFRS for the three month period ending March 31, 2011. These consolidated financial statements will include comparative results for the periods commencing January 1, 2010.

4. Rental Properties

As at December 31, 2010	Cost	Accumulated Amortization	Net Carrying Amount
Buildings, improvements and other costs	\$971,221	\$89,031	\$882,190
Land	232,730	-	232,730
	\$1,203,951	\$89,031	\$1,114,920

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

Included in properties under development is interest capitalized in the year of \$2,615 (2009 - \$1,235).

5. Intangibles

Intangibles consist of:

As at December 31, 2010	Cost	Accumulated Amortization	Net Carrying Amount
Leasing costs and tenant relationships on rental properties acquired	\$78,620	\$46,566	\$32,054
Amounts recorded on the acquisition of the property manager – contracts and customer relationships	959	528	431
	\$79,579	\$47,094	\$32,485

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

6. Other Assets

Other assets consist of:

December 31	2010	2009
Leasing costs, net of accumulated amortization of \$3,716 (December 31, 2009 - \$2,763)	\$13,631	\$7,814
Above-market rents of leases acquired through rental property acquisitions net of accumulated amortization of \$9,454 (December 31, 2009 - \$13,786)	10,037	10,901
Accounts receivable	15,902	15,835
Tenant inducements, net of accumulated amortization of \$589 (December 31, 2009 - \$317)	2,061	1,001
Tenant improvements, net of accumulated amortization of \$4,069 (December 31, 2009 - \$3,280)	9,296	6,484
Prepaid expenses	1,517	1,585
Escrow accounts held by mortgagees	6,688	6,072
Computer and office equipment, net of accumulated amortization of \$877 (December 31, 2009 - \$548)	463	634
	\$59,595	\$50,326

Accounts Receivable:

December 31	2010	2009
Tenant receivable, net of allowances	\$3,155	\$4,658
Straight-line rent receivable	7,348	6,857
Accrued recovery income	2,400	2,434
Other accounts receivable	2,999	1,886
	\$15,902	\$15,835

December 31	2010	2009
Tenant receivable	\$4,284	\$5,841
Less: Allowance for impairment of rent receivables	(1,129)	(1,183)
Tenant receivable, net of allowances	\$3,155	\$4,658

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

	2010	2009
As at January 1	\$1,183	\$650
Provision for impairment of trade receivables	1,159	1,458
Receivables written off during the year as uncollectable	(1,213)	(925)
As at December 31	\$1,129	\$1,183

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

	2010	2009
Less than 30 days	\$1,028	\$2,333
Between 30 to 60 days	243	550
More than 60 days	1,884	1,775
As at December 31	\$3,155	\$4,658

7. Mortgages Payable and Bank Indebtedness

Substantially all of the REIT's assets have been pledged as security under the related mortgages and other security agreements. Effective interest rates on the mortgages payable are between 2.39% and 8.1% (contractual 2.39% and 8.10%).

Mortgages payable at December 31, 2010 are due as follows:

	Principal Repayments	Balance due at Maturity	Total
Year ended December 31, 2011	\$17,432	\$27,549	\$44,981
Year ended December 31, 2012	17,461	36,805	54,266
Year ended December 31, 2013	18,132	62,122	80,254
Year ended December 31, 2014	14,085	161,664	175,749
Year ended December 31, 2015	10,427	68,665	79,092
Thereafter	23,891	215,501	239,392
	\$101,428	\$572,306	\$673,734
Net discount on assumed mortgages (net of accumulated amortization of \$1,309)			24
Financing costs (net of accumulated amortization of \$2,626)			(3,741)
			\$670,017

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

The REIT has a \$70,000 revolving credit facility with a Canadian chartered bank, which matures August 31, 2011 and bears interest at bank prime plus 175 basis points or bankers' acceptance plus 275 basis points. Security for the facility consists of first and second mortgage charges on seven rental properties and security agreements covering assignment of rents and personal property with respect to the seven properties. The credit facility has a number of covenants which were met as at December 31, 2010.

At December 31, 2010 the amount outstanding under the credit facility was \$21,766 (December 31, 2009 \$16,923).

8. Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist of:

December 31	2010	2009
General operating payables and tenant deposits	\$36,765	\$38,578
Below market rents of leases acquired through rental property acquisition – net of amortization of \$11,535 (December 31, 2009 - \$7,295)	12,519	17,433
Accrued interest	2,819	2,784
	\$52,103	\$58,795

9. Unitholders' Equity

The REIT is authorized to issue an unlimited number of trust units, each of which represents a unitholder's proportionate undivided beneficial interest in the REIT. No unitholder has or is deemed to have any right of ownership in any of the assets of the REIT. As determined by the REIT's trustees, the REIT distributes its distributable income, as defined by the Declaration of Trust. For the years ended December 31, 2010 and 2009, the REIT distributed 87.2% and 81.1%, respectively of its distributable income.

The number of units issued and outstanding are as follows:

	Units
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
	39,041,359
Units outstanding, December 31, 2009	39,041,359
Units issued pursuant to offering on September 15, 2010	2,732,400
Units issued under the Distribution Reinvestment Plan	355,530
	42,129,289
Units outstanding, December 31, 2010	42,129,289

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	2010	2009
Basic	39,607,858	32,870,878
Unit option plan	98,308	23,180
Long-term incentive plan	381,185	387,293
Fully diluted	40,087,351	33,281,351

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, 236,664 options vested on December 17, 2009 and 233,336 options vested on December 17, 2010. 118,333 options have expired.

On December 15, 2008, 3,750 options were granted to trustees and employees with an exercise price of \$10.87 and expiring on December 15, 2013. 1,249 options vested on December 15, 2009, 1,250 options vested on December 15, 2010, and 1,251 options will vest on December 15, 2011, provided that certain performance achievements are met. 416 options have been exercised.

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

On March 9, 2010, 895,176 options were granted to trustees, officers and employees with an exercise price of \$19.39 and expiring on March 9, 2015. 105,264 options had vested at December 31, 2010. 263,303, 263,304, and 263,305 options will vest on March 9, 2011, March 9, 2012 and March 9, 2013, respectively.

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

Compensation expense for the years ended December 31, 2010 and 2009 were \$1,201 and \$428, respectively. The Unit Option Plan and assumptions utilized in the calculation thereof using the Black-Scholes Model for option valuation are as follows:

	March 2010	January 2009	December 2008	December 2007
Unit options granted	895,176	130,000	3,750	710,000
Unit option holding period (years)	5	5	5	5
Volatility rate	24.1%	24.0%	24.1%	19.8%
Distribution yield	6.8%	10.6%	11.1%	6.0%
Risk free interest rate	2.8%	1.6%	2.1%	3.9%
Value of options granted	\$1,726	\$70	\$3	\$1,504

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

	Units/ Options	Weighted Average Exercise Price
Options outstanding as at December 31, 2008	605,417	\$21.06

Options granted in the year ended December 31, 2009	130,000	\$12.34
Options exercised in the year ended December 31, 2009	(416)	\$10.87
Options outstanding as at December 31, 2009	735,001	\$19.52
Options granted in the year ended December 31, 2010	895,176	\$19.39
Options expired	(10,000)	\$21.13
Options outstanding as at December 31, 2010	1,620,177	\$19.44
Options exercisable as at December 31, 2010	742,347	\$20.34

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, 2010 and December 31, 2009 were \$8,143 and \$7,490, respectively. Cash distributions paid in respect of the units issued under the LTIP are applied first to the interest and then to reduce the balance of the installment loan receivable.

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

Units issued under the LTIP	Cumulative as at December 31, 2010	Year Ended December 31, 2010	Cumulative as at December 31, 2009
Number of units issued	412,293	-	412,293
Units issued	\$6,282	-	\$6,282
Compensation cost	474	-	474
	6,756	-	6,756
LTIP installment loans receivable	(5,852)	-	(5,852)
Interest on installment loans receivable	(850)	(143)	(707)
Distributions applied against installment loans receivable	2,652	504	2,148
Repayments of installment loans	227	82	145
	(3,823)	443	(4,266)
	\$2,933	\$443	\$2,490

Units issued under the LTIP	Cumulative as at December 31, 2009	Year Ended December 31, 2009	Cumulative as at December 31, 2008
Number of units issued	412,293	-	412,293
Units issued	\$6,282	-	\$6,282
Compensation cost	474	-	474
	6,756	-	6,756
LTIP installment loans receivable	(5,852)	-	(5,852)
Interest on installment loan receivable	(707)	(155)	(552)
Distributions applied against installment loan receivable	2,148	511	1,637
Repayments of installment loans	145	-	145
	(4,266)	356	(4,622)
	\$2,490	\$356	\$2,134

13. Restricted Unit Plan

Certain officers and employees of the REIT may be granted Restricted Units pursuant to the terms of the 2010 Restricted Unit Plan, which are subject to vesting conditions and disposition restrictions, in order to provide a long-term compensation incentive. The Restricted Units remain subject to forfeiture until the participant has held his or her position with the REIT for a specific period of time. Full vesting of Restricted Units will not occur until the participant has remained employed by the REIT for three years from the date of grant. Units required under the Restricted Unit Plan are acquired in the secondary market through a custodian and then distributed to the individual participant accounts. During the first quarter of 2010, 55,659 Units of the REIT were acquired in the secondary market for the 2010 Restricted Unit Plan and are included in the units outstanding. Compensation expense for the year ended December 31, 2010 was \$425.7,296 units had vested at December 31, 2010.

14. 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.

15. Capital Management

The REIT defines capital as the aggregate of unitholders' 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, 2010 and 2009, the REIT's debt to gross book value is 47.9% and 47.0%, respectively. As at December 31, 2010 and 2009, variable rate debt and debt having maturities of less than one year aggregated 4.6% and 3.0% of gross book value, respectively.

16. 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, 2010 and December 31, 2009. The fair value of the mortgages payable is \$698,183 (December 31, 2009 - \$592,304).

The REIT does not require, hold or issue derivative financial instruments for hedging or trading purposes. The REIT is subject to the following risks related to its financial instruments;

(a) Market Risk

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 is exposed to interest rate risk on its borrowings. Substantively all of the REIT's mortgages payable at December 31, 2010 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.

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, 2010		-1%	-1%	+1%	-1%
	Carrying Amount	Income	Equity	Income	Equity
Bank indebtedness	\$21,766	\$218	\$218	(\$218)	(\$218)
Mortgages payable maturing within one year	\$44,981	\$450	\$450	(\$450)	(\$450)

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 from tenant receivables 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 reviews 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, 2010 and December 31, 2009, allowance for doubtful accounts were \$1,129 and \$1,183, respectively.

The following sets out our tenant-mix on the basis of percentage of rental revenue for the years ended December 31, 2010 and 2009:

Category	Year Ended December 31, 2010	Year Ended December 31, 2009
Business service and professional	21.7%	28.3%
Telecommunications and information technology	36.9%	26.1%
Retail (head office and storefront)	13.5%	14.6%
Media and entertainment	13.4%	16.1%
Financial services	4.0%	4.9%
Educational and institutional	1.8%	-
Government	0.9%	1.4%
Other	7.8%	8.6%

(c) Liquidity Risk

Liquidity risk arises from the possibility of not having sufficient capital available to the REIT. Mitigation of liquidity risk is discussed in note 15.

17. Segmented Disclosure

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

18. Management Restructuring Costs

The REIT considers the disclosure of the following item necessary to give a fair picture of the underlying results of the REIT for the year. Included in trust expenses are staff related restructuring costs that represent the costs of staff changes and realignment paid or announced during 2010. Total staff restructuring costs for 2010 represented \$1,407 (2009 - \$nil)

19. 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, 2010 and December 31, 2009 were \$15,715 and \$4,604, respectively.

The REIT is subject to legal and other claims in the normal course of business. Management and the REIT's legal counsel evaluate all claims. In the opinion of management these claims are generally covered by the REIT's insurance policies and 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 \$15.2 million of managing co-ownership interests in 334 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 the REIT's 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.

20. Related Party Transactions

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, 2010 real estate service revenue earned from these properties was \$240 (December 31, 2009 - \$228), 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.

21. Subsequent Events

On February 22, 2011, the REIT launched a public equity offering, on a bought-deal basis, 3,410,000 units from treasury at a price of \$22.00 per unit for gross proceeds of \$75,020 (the "Offering"). In doing so, the REIT granted to the underwriters an option to purchase up to an additional 511,500 units on the same terms and conditions.

On March 14, 2011, the REIT closed the Offering. The underwriters exercised their overallotment option in full, with the result that the REIT issued 3,921,500 units for gross proceeds of \$86,273.

On March 15, 2011, the REIT sold the Norlyn Building (305-309 and 325 Hargrave Street) in Winnipeg for \$2.8 million.

On March 31, 2011, the REIT announced agreements to acquire properties in Victoria, Vancouver and Calgary for a combined purchase price of \$51,000. Subject to customary conditions, the acquisitions are scheduled for completion in April and May of 2011.