

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
(the “REIT”)

AUDIT COMMITTEE

TERMS OF REFERENCE

1. PURPOSE

1.1 The overall purpose of the Audit Committee (the “Committee”) of the REIT is to monitor the REIT’s system of internal financial controls, to evaluate and report on the integrity of the financial statements including the MD&A and related Press Releases of the REIT, to enhance the independence of the REIT’s external auditor and to oversee the accounting and financial reporting processes and audits of financial statements of the REIT.

2. COMPOSITION, PROCEDURES AND ORGANIZATION

2.1 The Committee shall consist of at least three members of the board of trustees of the REIT (the “Board”), each of whom shall be, in the determination of the Board, “independent” as that term is defined by Multilateral Instrument 52-110 Audit Committees, as amended from time to time, and the majority of whom shall be resident Canadians. The definition of “independent” is set out in Exhibit A hereto.

2.2 All members of the Committee shall be, in the determination of the Board, “financially literate”, as that term is defined by Multilateral Instrument 52-110 Audit Committees, as amended from time to time. The definition of “financially literate” is set out in Exhibit A hereto.

2.3 The Board, at its organizational meeting held in conjunction with each annual meeting of unit holders, shall appoint the members of the Committee for the ensuing year. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee. Any member of the Committee ceasing to be a trustee shall cease to be a member of the Committee.

2.4 Unless the Board shall have appointed a chair of the Committee, the members of the Committee shall elect a chair from amongst their number.

2.5 The Committee shall have access to such officers and employees of the REIT and to the REIT’s external auditor and its legal counsel, and to such information respecting the REIT as it considers to be necessary or advisable in order to perform its duties.

2.6 Notice of every meeting shall be given to the external auditor, who shall, at the expense of the REIT, be entitled to attend and to be heard thereat.

- 2.7 Meetings of the Committee shall be conducted as follows:
- (a) the Committee shall meet on a regular basis, at such times and at such locations as the chair of the Committee shall determine;
 - (b) the external auditor or any member of the Committee may call a meeting of the Committee;
 - (c) any trustee of the REIT may request the chair of the Committee to call a meeting of the Committee and may attend such meeting to inform the Committee of a specific matter of concern to such trustee, and may participate in such meeting to the extent permitted by the chair of the Committee; and
 - (d) the external auditor and management employees shall, when required by the Committee, attend any meeting of the Committee.
- 2.8 The external auditor shall be entitled to communicate directly with the chair of the Committee and may meet separately with the Committee. The Committee, through its chair, may contact directly any employee of the REIT as it deems necessary, and any employee may bring before the Committee any matter involving questionable, illegal or improper practices or transactions.
- 2.9 Compensation to members of the Committee shall be limited to trustee's fees, either in the form of cash or equity, and members shall not accept consulting, advisory or other compensatory fees from the REIT (other than as members of the Board and Board committee members).
- 2.10 The Committee is authorized, at the REIT's expense, to retain independent counsel and other advisors as it determines necessary to carry out its duties and to set their compensation.

3. DUTIES

General

- 3.1 The overall duties of the Committee shall be to:
- (a) assist the Board in the discharge of its duties relating to the REIT's accounting policies and practices, reporting practices and internal controls;
 - (b) establish and maintain a direct line of communication with the REIT's external auditor and assess its performance;
 - (c) oversee the co-ordination of the activities of the external auditor;

- (d) ensure that the management of the REIT has designed, implemented and is maintaining an effective system of internal controls;
- (e) monitor the credibility and objectivity of the REIT's financial reports;
- (f) report regularly to the Board on the fulfilment of the Committee's duties;
- (g) assist the Board in the discharge of its duties relating to the REIT's compliance with legal and regulatory requirements; and
- (h) assist the Board in the discharge of its duties relating to risk assessment and risk management.

Oversight of External Auditor

3.2 The Committee shall be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the REIT, including the resolution of disagreements between management and the external auditor regarding financial reporting, and in carrying out such oversight the Committee's duties shall include:

- (a) recommending to the Board a firm of external auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the REIT and recommending the compensation of the external auditor;
- (b) reviewing, where there is to be a change of external auditor, all issues related to the change, including the information to be included in the notice of change of auditor called for under National Instrument 51-102 Continuous Disclosure Obligations, as amended from time to time, and the planned steps for an orderly transition;
- (c) reviewing all reportable events, including disagreements, unresolved issues and consultations, as defined in National Instrument 51-102 Continuous Disclosure Obligations, as amended from time to time, on a routine basis, whether or not there is to be a change of external auditor;
- (d) reviewing the engagement letters of the external auditor, both for audit and non-audit services;
- (e) reviewing the performance, including the fee, scope and timing of the audit and other related services and any non-audit services provided by the external auditor; and
- (f) reviewing and approving the nature of and fees for any non-audit services performed for the REIT by the external auditor and consider whether the

nature and extent of such services could detract from the firm's independence in carrying out the audit function.

Audits and Financial Reporting

- 3.3 The duties of the Committee as they relate to audits and financial reporting shall be to:
- (a) review the audit plan with the external auditor and management;
 - (b) review with the external auditor and management any proposed changes in accounting policies, the presentation of the impact of significant risks and uncertainties, and key estimates and judgments of management that may in any such case be material to financial reporting;
 - (c) review the contents of the audit report;
 - (d) question the external auditor and management regarding significant financial reporting issues discussed during the fiscal period and the method of resolution;
 - (e) review the scope and quality of the audit work performed;
 - (f) review the adequacy of the REIT's financial and auditing personnel;
 - (g) review the co-operation received by the external auditor from the REIT's personnel during the audit, any problems encountered by the external auditor and any restrictions on the external auditor's work;
 - (h) review the internal resources used;
 - (i) review the appointments of the chief financial officer, internal auditor (or persons performing the internal audit function) and any key financial executives involved in the financial reporting process;
 - (j) review and approve the REIT's annual audited financial statements and those of its subsidiaries in conjunction with the report of the external auditor thereon including related MD&A and Press Release, and obtain an explanation from management of all significant variances between comparative reporting periods before release to the public;
 - (k) review and approve the REIT's interim unaudited financial statements including related MD&A and Press Release and auditors' review thereof, and obtain an explanation from management of all significant variances between comparative reporting periods before release to the public;
 - (l) establish a procedure for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and

employees' confidential anonymous submission of concerns regarding accounting and auditing matters;

- (m) satisfy itself that adequate procedures are in place for the review of the REIT's public disclosure of financial information extracted or derived from the REIT's financial statements, and periodically re-assess the adequacy of those controls; and
- (n) review the terms of reference, if any, for an internal auditor or internal audit function.

Internal Controls

3.4 The duties of the Committee as they relate to the review of internal controls over financial reporting shall be to, on an annual basis:

- (a) review the processes that support the CEO's and CFO's certification regarding internal controls over financial reporting ("ICFR") and be satisfied that they constitute a reasonable approach and are diligently performed;
- (b) review all design or operational weaknesses in ICFR identified in these processes that could have a material impact on the issuer's financial reporting;
- (c) review how management assessed each weakness, and decided on whether it should be disclosed in the MD&A or not, and should review the "close call" decisions;
- (d) review the completeness and accuracy of the disclosures provided in the MD&A;
- (e) review, with advice from legal counsel as necessary, the proposed course of action for CEO and CFO signing of the certificates and consultation with the appropriate securities regulators when unremedied ICFR design weaknesses are disclosed in the MD&A; and
- (f) review and approve disclosed remediation plans.

Accounting Policies and Disclosure of Financial Information

3.5 The duties of the Committee as they relate to accounting and disclosure policies and practices shall be to:

- (a) review changes to IFRS which would have a significant impact on the REIT's financial reporting as reported to the Committee by management and the external auditor;

- (b) review the appropriateness of the accounting policies used in the preparation of the REIT's financial statements and consider recommendations for any material change to such policies;
- (c) review the status of material contingent liabilities as reported to the Committee by management;
- (d) review the status of potentially significant tax problems as reported to the Committee by management;
- (e) review any errors or omissions in the current or prior year's financial statements;
- (f) review and approve before their release all public disclosure documents containing audited or unaudited financial information, including all annual and interim earnings press releases, annual information forms and management's discussion and analyses; and
- (g) oversee and review all financial information and earnings and distributable cash flow guidance provided to analysts and rating agencies.

Other

3.6 The other duties of the Committee shall include:

- (a) reviewing any inquires, investigations or audits of a financial nature by governmental, regulatory or taxing authorities;
- (b) reviewing annual operating and capital budgets;
- (c) reviewing the funding and administration of the REIT's compensation and pension plans, if any;
- (d) reviewing and reporting to the Board on difficulties and problems with regulatory agencies which are likely to have a significant financial impact;
- (e) inquiring of management and the external auditor as to any activities that may be or may appear to be illegal or unethical; and
- (f) any other questions or matters referred to it by the Board.

EXHIBIT A

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST

AUDIT COMMITTEE

TERMS OF REFERENCE

Meaning of “**Financially Literate**”

1. “**Financially Literate**” means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the REIT’s financial statements.

Meaning of “**Independence**”

1. A member of the Committee is independent if he or she has no direct or indirect material relationship with the REIT.
2. For the purposes of paragraph (1), a “material relationship” is a relationship which could, in the view of the REIT’s board of trustees, be reasonably expected to interfere with the exercise of a member’s independent judgement.
3. Despite paragraph (2), the following individuals are considered to have a material relationship with the REIT:
 - (a) an individual who is, or has been within the last three years, an employee or executive officer of REIT;
 - (b) an individual whose immediate family member is, or has been within the last three years, an executive officer of the REIT;
 - (c) an individual who:
 - (i) is a partner of a firm that is the REIT’s internal or external auditor,
 - (ii) is an employee of that firm, or
 - (iii) was within the last three years a partner or employee of that firm and personally worked on the REIT’s audit within that time;
 - (d) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:

- (i) is a partner of a firm that is the REIT's internal or external auditor,
 - (ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or
 - (iii) was within the last three years a partner or employee of that firm and personally worked on the REIT's audit within that time;
- (e) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the REIT's current executive officers serves or served at that same time on the entity's compensation committee; and
- (f) an individual who received, or whose immediate family member who is employed as an executive officer of the REIT received, more than \$75,000 in direct compensation from the REIT during any 12 month period within the last three years.
4. Despite paragraph (3), an individual will not be considered to have a material relationship with the REIT solely because he or she had a relationship identified in paragraph (3)(c) if that relationship ended before March 30, 2004.
5. For the purposes of paragraphs (3)(c) and (3)(d), a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.
6. For the purposes of paragraph (3)(f), direct compensation does not include:
- (a) remuneration for acting as a member of the board of trustees or of any board committee of the REIT, and
 - (b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the REIT if the compensation is not contingent in any way on continued service.
7. Despite paragraph (3), an individual will not be considered to have a material relationship with the REIT solely because the individual or his or her immediate family member
- (a) has previously acted as an interim chief executive officer of the REIT, or
 - (b) acts, or has previously acted, as a chair or vice-chair of the board of trustees or of any board committee of the REIT on a part-time basis.

8. For the purpose of paragraphs 1 through 7, the REIT includes a subsidiary entity of the REIT and a parent of the REIT.
9. Despite any determination made under paragraphs 1 through 7, an individual who
 - (a) has a relationship with the REIT pursuant to which the individual may accept, directly or indirectly, any consulting, advisory or other compensatory fee from the REIT or any subsidiary entity of the REIT, other than as remuneration for acting in his or her capacity as a member of the board of trustees or any board committee, or as a part-time chair or vice-chair of the board or any board committee; or
 - (b) is an affiliated entity of the REIT or any of its subsidiary entities,is considered to have a material relationship with the REIT.
10. For the purposes of paragraph 9, the indirect acceptance by an individual of any consulting, advisory or other compensatory fee includes acceptance of a fee by
 - (a) an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or
 - (b) an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the REIT or any subsidiary entity of the REIT.
11. For the purposes of paragraph 9, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the REIT if the compensation is not contingent in any way on continued service."