ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

DECEMBER 31, 2003

Dated March 2, 2004

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Forward-Looking Disclaimer

Management's discussion and analysis of results of operations and financial condition ("MD&A") should be read in conjunction with the audited financial statements of Allied Properties Real Estate Investment Trust (the "REIT") as at December 31, 2003, and for the 316-day period from the commencement of operations on February 19, 2003, to December 31, 2003. Unless otherwise indicated, dollar amounts in this MD&A are in thousands.

This MD&A contains forward-looking statements relating to the REIT's operations and the environment in which the REIT operates, which are based on expectations, estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. Therefore, actual outcomes and results may differ materially from those expressed in these forward-looking statements. Readers, therefore, should not place undue reliance on any such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made. Management believes that the expectations reflected in forward-looking statements are based on reasonable assumptions but can give no guarantees or assurances that actual results will be consistent with these forward-looking statements.

Many factors could cause actual results to differ from the forward-looking statements in this MD&A. Important factors that could cause actual results to differ include, but are not limited to, the following:

- the results of our efforts to implement our acquisition strategies;
- the effect of economic conditions, including rising interest rates;
- our ability to generate sufficient cash flow from rental properties;
- our ability to maintain occupancy and to lease or release space at favourable rents on a timely basis;
- tenants' financial difficulties;
- changes in operating costs;
- the cost of our capital and debt;
- changes in our capital requirements and availability of financing;
- the actions of our competitors and our ability to respond to those actions; and
- environmental uncertainties and disasters and the ability to obtain adequate insurance coverage at reasonable cost.

These forward-looking statements are made as of March 2, 2004, and the REIT undertakes no obligation to update publicly any such statements to reflect new information or the occurrence of future events or circumstances.

March 2, 2004

Business Overview and Strategy

The REIT is 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 ("Declaration"). The REIT is governed by the laws of Ontario. The units of the REIT are publicly traded on the Toronto Stock Exchange under the symbol AP.UN. Additional information relating to the REIT is available on SEDAR at www.sedar.com.

The objectives of the REIT are to provide stable and growing cash distributions to its unitholders and to maximize unitholder value through the effective management and the accretive growth of the its portfolio.

The REIT completed its Initial Public Offering ("IPO") of five million units on February 20, 2003, for gross proceeds of $50 million and net proceeds of $45.6 million pursuant to a prospectus dated February 6, 2003 ("Prospectus"). A portion of the net proceeds of the IPO was used to acquire a portfolio of 14 predominantly Class I office properties ("Initial Properties") in the downtown Toronto office market with approximately 820,000 square feet of space. In addition, the REIT issued 1,043,902 units to vendors of certain Initial Properties in partial payment of the purchase price for the Initial Properties.

Effective October 1, 2003, the REIT acquired 99 Spadina Avenue, Toronto, for a purchase price of $10.78 million funded through the assumption of a $6.9 million mortgage loan, the issuance of 110,000 units at $10.25 per unit and bank debt. On December 18, 2003, the REIT completed a private placement of 900,000 units at $11.15 per unit for gross proceeds of approximately $10 million. The proceeds were used to reduce bank indebtedness and to fund the cash component of the purchase of 905 King Street West. On December 19, 2003, the REIT acquired 905 King Street West for a purchase price of $15.75 million funded through the assumption of a restructured mortgage loan of $9.6 million and cash. 99 Spadina Avenue and 905 King Street West are collectively referred to as the "Additional Properties".

Class I office properties are created through the adaptive re-use of light industrial structures in urban areas. They typically feature high ceilings, abundant natural light, post and beam structural frames, exposed interior brick and hardwood floors. When restored and retrofitted to the standards of the REIT's portfolio, Class I buildings can satisfy the needs of the most demanding office and retail tenants. When operated in the coordinated manner of REIT's portfolio, these buildings become a vital part of the urban fabric and contribute meaningfully to a sense of community. The REIT has the benefit of an option agreement ("Option Agreement") with Allied Canadian Corporation ("Developer"), a leading developer of Class I office properties in Toronto, pursuant to which the Developer must offer to sell to the REIT at fair market value all developed or redeveloped office properties upon substantial completion.

With over one million square feet of space as at December 31, 2003, the REIT's portfolio of 16 predominantly Class I office properties accommodates a diversified base of business tenants. The REIT enjoys a first-mover advantage in the large-scale provision of Class I space in Toronto and intends to build on this advantage through ongoing consolidation of a large, fragmented and growing target market. Through this consolidation, the REIT will strive to realize ever greater operating efficiencies, to diversify further its tenant mix and to reduce further its exposure to any particular tenant. The REIT believes that there are sufficient acquisition opportunities available to it in its target market through the Option Agreement and from third-party owners.

The key measures by which Management evaluates its success in achieving the REIT's objectives are: (i) the growth in distributable income per unit (a non-GAAP measure which is discussed later in this MD&A); (ii) overall indebtedness level; (iii) same asset net operating income; and (iv) occupancy.

Business Environment and Outlook

During the past three years, the demand for office space in the downtown Toronto office market has weakened, resulting in lower rental rates and occupancy levels. Notwithstanding this, the REIT has experienced relatively strong demand for office space in its target market and more particularly within its

portfolio. Management of the REIT believes that the business climate remains positive for office properties in the REIT's target market. Demand for the REIT's space continues to be solid, with very little new supply of competing space coming into the market.

Summary Annual Information and Performance in 2003

Results for the 316-day period from the commencement of operations on February 19, 2003, to December 31, 2003, are not directly comparable to the 12-month forecast included in the Prospectus for the following reasons:

(i) the REIT commenced operations on February 19, 2003, and not on January 1, 2003, as management assumed for the purposes of preparing the forecast; and

(ii) the REIT completed the acquisitions of the Additional Properties, which management did not assume for the purposes of preparing the forecast.

Set out in Table 1 are the REIT's financial results for the 316-day period compared to the pro-rated forecast. Also set out in Table 1 is the variance resulting from the Additional Properties and the Initial Properties.

Table 1

(In thousands)	February 19 to December 31, 2003	Pro-rated Forecast[1]	Variance to Pro-rated Forecast	Variance to Pro-rated Forecast Due to Additional Properties	Variance to Pro-rated Forecast Due to Initial Properties
Revenue from rental properties	$17,945	$18,139	$(194)	$484	$(678)
Rental property operating cost	5,803	6,592	789	(163)	952
Net rental income	12,142	11,547	595	321	274
Financing expense	3,811	4,125	314	(149)	463
Depreciation and amortization	840	784	(56)	(24)	(32)
Income from operations	7,491	6,638	853	148	705
Trust expenses	1,057	984	(73)	-	(73)
Net income	6,434	5,654	780	148	632
Amortization on rental properties	789	755	34	24	10
Amortization on mortgage premium	(316)	-	(316)	(19)	(297)
Distributable Income[2]	$6,907	$6,409	$498	$153	$345
Distributable Income per unit (basic)	$1.122	$1.060	$0.062		

[1] The forecast included in the Prospectus pro-rated for the period of operations of the REIT from February 19, 2003, to December 31, 2003. These figures have been prepared by management and are unaudited.

[2] Distributable Income, which is not defined within Canadian generally accepted accounting principles, has been calculated in accordance with the terms of the Declaration.

The REIT's financial results for the 316-day period are summarized below in Table 2 and compared to the 12-month forecast included in the Prospectus:

Table 2

(In thousands except for per unit amounts)	February 19 to December 31, 2003	Prospectus Forecast[1]	Variance to Prospectus Forecast
Revenue from rental properties	$17,945	$21,055	$(3,110)
Rental property operating cost	5,803	7,703	1,900
Net rental income	12,142	13,352	(1,210)
Financing expense	3,811	4,795	984
Depreciation and amortization	840	906	66
Income from operations	7,491	7,651	(160)
Trust expenses	1,057	1,140	83
Net income	6,434	6,511	(77)
Amortization on rental properties	789	876	(87)
Amortization on mortgage premium	(316)	-	(316)
Distributable Income[3]	$6,907	$7,387	$(480)
Net income per unit (basic)	$1.046	$1.077	$(0.031)
Distributable Income per unit (basic)	$1.122	$1.222	$(0.100)

[1] The forecast in the Prospectus assumed the completion of the IPO and the acquisition of the Initial Properties by the REIT on January 1, 2003, and that no other acquisitions were completed in the year ended December 31, 2003.
[2] The forecast included in the Prospectus pro-rated for the period of operations of the REIT from February 19, 2003, to December 31, 2003. These figures have been prepared by management and are unaudited.
[3] Distributable Income, which is not defined within Canadian generally accepted accounting principles, has been calculated in accordance with the terms of the Declaration.

Net income of $6,434 was higher than pro-rated forecast by $780 as a result of higher net rental income ($595 higher than pro-rated forecast) and lower financing costs ($314 lower than pro-rated forecast). These favourable variances were partially offset by higher amortization ($56 higher than pro-rated forecast) and higher trust expenses ($73 higher than pro-rated forecast).

Net Rental Income

Revenue from rental properties includes the rents due from tenants with respect to leased premises, recoveries from tenants for certain rental property operating costs and ancillary revenue derived from parking facilities, sign rentals and lease termination income. Net rental income represents the revenue from rental properties less the rental property operating cost.

Rental property operating cost for the 316-day period was lower than pro-rated forecast, resulting in corresponding reductions in recoveries, administration fees and revenue from rental properties. Otherwise, revenue from rental properties was higher than pro-rated forecast.

Net rental income of $12,142 was $595 ahead of pro-rated forecast, as follows:

(i) $274 due to new leasing activity, better than expected lease renewals and better than expected incidental revenues in connection with the Initial Properties;

(ii) $272 due to the acquisition of 99 Spadina Avenue, effective October 1, 2003; and

(iii) $49 due to the acquisition of 905 King Street West on December 19, 2003.

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. The amortization of the premiums and discounts on the assumed mortgages reduced financing expense by $316, of which $297 relates to mortgages assumed on the Initial Properties and $19 relates to mortgages assumed on the Additional Properties.

Financing expense of $3,811 for the 316-day period was $314 lower than the pro-rated forecast of $4,125, as follows:

(i) $297 lower due to the amortization of the premium on the assumed mortgages payable with respect to the Initial Properties;

(ii) $166 lower due to lower than planned utilization of operating credit; and

(iii) $149 higher due to the mortgages assumed and debt utilized with respect to the acquisition of the Additional Properties.

Depreciation and Amortization
The REIT records depreciation on its buildings on a 5%, 40-year sinking fund basis. Under this method, depreciation is charged to income at an amount which increases over time and fully depreciates the cost of the buildings over a 40-year estimated useful life. Depreciation recorded on buildings for the 316-day period was $789, $34 higher than pro-rated forecast. Depreciation recorded on the Additional Properties was $24 and depreciation recorded on the Initial Properties was $10 higher than pro-rated forecast.

Amortization of deferred expenses includes the amortization of leasing costs and the cost of obtaining debt financing. The REIT records amortization of leasing costs, which includes tenant inducements and leasing commissions, on a straight-line basis over the term of the corresponding lease. Deferred financing expense is amortized on a straight-line basis over the term of the corresponding debt. For the 316-day period, amortization of deferred expenses was $51 compared to a pro-rated forecast of $29.

Trust Expenses
Trust expenses for the 316-day period of $1,057 were $73 higher than the pro-rated forecast. Trust expenses includes those costs incurred by the REIT that are not directly attributable to a rental property and include such costs as officers' compensation, directors fees, professional fees for legal and audit services, directors and officers insurance premiums and general administrative expenses.

Leasing Activity
At the time the REIT acquired the Initial Properties, 25,261 square feet of gross leaseable area ("GLA") was vacant, representing a leased level of 96.9% and leases for 41,818 square feet of GLA were scheduled to expire in 2003. During the 316-day period, the REIT leased or renewed leases on 46,015 square feet of that GLA. Leases of 10,586 square feet of GLA expired during the 316-day period and remained un-leased as at December 31, 2003. The Additional Properties were fully leased when acquired and remained fully leased through to December 31, 2003.

The following sets out the GLA and leased area as at December 31, 2003.

Table 3

	Initial Properties	Additional Properties	Total
GLA (square feet)	820,120	164,736	984,856
Leased area (square feet)	795,532	164,736	960,268
Leased area as percentage of GLA	97%	100.0%	97.5%

Capital Expenditures
The REIT's portfolio requires ongoing investments for general capital improvements and tenant installation costs related to new and renewal leasing. These include providing tenant build-out allowances and tenant inducements and paying leasing commissions. For the 316-day period, expenditures for capital improvements were $270 and expenditures for leasing costs were $481. These expenditures were incurred due to leasing activities at the Initial Properties.

Distributable Income

The REIT defines distributable income ("DI") as the net income of the REIT determined in accordance with Canadian generally accepted accounting principles ("GAAP") adjusted by adding back depreciation on rental properties and adding back or deducting the amortization of the premiums or discounts on assumed mortgages. DI 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. The REIT considers DI to be a measure of its overall operating performance and is one of Management's key performance indicators. Set out in Table 1 and Table 2 are the calculations of DI, as defined above.

Pursuant to the Ontario Securities Commission Revised CSA Staff Notice 52-306, the Commission recommends that distributable cash (which is synonymous with DI) be reconciled to cash flows from operating activities as presented in the financial statements. Set out in Table 4 is this reconciliation.

Table 4

(In thousands except for unit and per unit amounts)	**February 19 to December 31, 2003**
Cash from operating activities	$7,001
Amoritization, deferred expenses	(51)
Change in non-cash operating items	(43)
Distributable Income[1]	$6,907
Distributions	5,868
Distributions as a percentage of Distributable Income	85.0%
Weighted average number of units outstanding (basic)	6,153,384
Weighted average number of units outstanding (diluted)	6,155,538
Distributable Income per unit (basic)	$1.122
Distributable Income per unit (diluted)	$1.122
Distributions per unit	$0.946

[1] Distributable Income, which is not defined within Canadian generally accepted accounting principles, has been calculated in accordance with the terms of the Declaration of Trust.

Distributions for the 316-day period were $5,868, which corresponds to a pay-out ratio of 85%, compared to the expected pay-out ratio of 90%. Distributable income was $1.122 per unit, compared to the pro-rated forecast of $1.060 per unit.

Funds From Operations

The REIT defines funds from operations ("FFO") as the net income of the REIT determined in accordance with GAAP adjusted by adding back depreciation on rental properties, deferred leasing costs and adding back or deducting the amortization of the premiums or discounts on assumed mortgages. FFO 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. The REIT considers FFO to be an indicative measure of the operating performance and cash generated from operating activities. Set out in Table 5 is the calculation of FFO as defined.

Table 5

(In thousands)	February 19 to December 31, 2003
Net income	$6,434
Amortization on rental properties	789
Amortization of deferred leasing expenses	20
Amortization on mortgage premium	(316)
Funds from operations	$6,927

Tax Summary

The REIT is not subject to income taxes to the extent that income for tax purposes in a year does not exceed the distributions to its Unitholders. For the taxation year ended December 31, 2003, the REIT's distributions exceeded its income for tax purposes. Distributions for tax purposes are allocated to other income and to a return of capital. For the taxation year ended December 31, 2003, the distributions allocated to return of capital were 49%, which compares favourably to the REIT's estimate of 45% as set out in the Prospectus.

Financial Condition

The REIT finances its operations through three sources of capital: (i) mortgage debt secured by the REIT's rental properties, (ii) secured short-term financing with a Canadian chartered bank and (iii) equity. As at December 31, 2003, the REIT had mortgage debt of $80,891, unitholders' equity of $67,933 and no bank debt.

The REIT's Declaration provides for a maximum debt level of 60% of the REIT's gross book value ("GBV") excluding convertible debentures (or 65% of GBV, including the entire principal pursuant to any convertible debentures outstanding). GBV is defined in the Declaration to mean, at any time, the book value of the assets of the REIT shown on the then most recent balance sheet of the REIT plus accumulated depreciation and amortization included therein or in the notes thereto. As at December 31, 2003, the REIT's debt to GBV was 51.2%.

Unitholders' Equity

As at December 31, 2003, the REIT had a market capitalization of approximately $91,496 based on a closing unit price of $12.85 on the Toronto Stock Exchange. As of the date of this MD&A, the REIT has 7,129,283 units issued and outstanding.

7,120,279 units were issued in the 316-day period for equity contributions of $72,229. Costs incurred to issue the units were $4,862. Units were issued as follows:

(i) on February 20, 2003, five million units were issued at $10.00 per unit for $50 million through the IPO;

(ii) on February 20, 2003, 1,043,902 units were issued at $10.00 per unit as partial consideration for the Initial Properties;

(iii) on October 3, 2003, 110,000 units were issued at $10.25 as partial consideration for the acquisition of 99 Spadina Avenue;

(iv) on December 18, 2003, 900,000 units were issued at $11.15 through the private placement; and

(v) 66,377 units were issued at an average price of $9.45 per unit through the REIT's distribution re-investment plan.

As a long-term incentive to its trustees and officers, the REIT adopted a unit option plan. The maximum number of units reserved for the unit option plan is 604,390 units. During the 316-day period, 45,000 options were granted to the trustees of the REIT and 300,000 options were granted to the officers of the REIT. The options granted expire on February 19, 2008. One-third of the options granted vested on each of February 20, 2003, and February 20, 2004, with the balance vesting on February 20, 2005. The options granted permit the trustees and officers to acquire units at an exercise price of $10.00 per unit.

Mortgages Payable

Mortgages payable as at December 31, 2003, consisted of mortgage debt of $80,891 and premium on mortgages assumed (net of accumulated amortization) of $1,205.

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. Based on these assumptions, the fair value of mortgages payable at the time of acquisition of the Initial Properties, and therefore the amount at which they were recorded at that time, was $66,956. (The face value (legal liability) of the mortgages payable at the time of acquisition was $65,994). The fair value of the mortgages assumed at the time of acquisition of the Additional Properties was $16,839 compared to a face value of $16,280.

The following sets out the maturity schedule of the REIT's mortgage debt, together with the weighted average interest on the mortgages that mature in the respective year.

Table 6

	Periodic Principal Payments ($000)	Balance Due at Maturity ($000)	Total Principal ($000)	% of Total Principal	Weighted Average Interest Rate of Maturing Mortgages (%)
2004	$1,936	$3,682	$5,618	6.9	7.41
2005	1,993	1,850	3,843	4.7	8.00
2006	1,904	9,931	11,835	14.6	7.33
2007	1,758	11,146	12,904	16.0	6.99
2008	1,101	14,404	15,505	19.2	5.95
Thereafter	5,901	25,285	31,186	38.6	7.18
	$14,593	$66,298	$80,891		

Interest rates on mortgage indebtedness are between 5.95% and 8.10% with a weighted average interest rate of 7.09%. Each individual mortgage loan of the REIT is secured by a mortgage registered on title of a rental property and security agreements covering assignment of rents and personal property with respect to each property. The mortgage indebtedness has recourse to the assets of the REIT. The REIT attempts to stagger the maturity of the mortgages and to have mortgages maturing each year to be in a position to upward finance the principal amount of maturing mortgages. Additionally, the REIT attempts to maintain 15 to 20% of its rental properties free from traditional long-term mortgage financing and provides these assets as security to support bank credit facilities.

Bank Credit Facilities

During 2003, the REIT had two credit facilities with a Canadian Chartered Bank as follows:

(i) a $5 million revolving credit facility bearing interest at bank prime plus 0.5%, which matured on February 28, 2004 ("Operating Credit Facility"); and,

(ii) a $5 million revolving credit facility bearing interest at bank prime plus 1.0%, which matures on February 28, 2006 ("Acquisition Credit Facility").

For the 316-day period end December 31, 2003, the average borrowings under the Operating Credit Facility was $1,146. During the period, $3,157 of Acquisition Credit Facility was utilized to finance in part the acquisition of 99 Spadina Avenue. This was fully repaid from the proceeds of the units issued pursuant to the private placement on December 18, 2003. As at December 31, 2003, the REIT had no outstanding borrowings under either the Operating Credit Facility or the Acquisition Credit Facility.

First mortgages on two rental properties and subordinated mortgage charges on three other rental properties secured both the Operating Credit Facility and the Acquisition Credit Facility. However, as noted above, the Operating Credit Facility matured on February 28, 2004, and as a result the first mortgages will be discharged. The Acquisition Facility has recourse against the assets of the REIT.

In February 2004, the REIT received a commitment from another Canadian Chartered Bank to provide a $15 million revolving credit facility ("New Credit Facility") with a two year term. Interest is payable monthly at bank prime plus 1.0%. Security for the New Credit Facility consists of first mortgage charges against three rental properties, subordinate mortgages charges against three other rental properties and security agreements covering assignment of rents and personal property with respect to each property. The New Credit Facility has recourse against the assets of the REIT.

Liquidity and Commitments

Net operating income generated from the rental properties is the primary source of liquidity to fund the REIT's financing expense, trust expenses and distributions to Unitholders. The REIT's Declaration requires it to declare distributions each year not less than the greater of (i) 75% of its DI or (ii) an amount to ensure that the REIT will not be subject to tax on its income and capital gains. The REIT intends to pay distributions of approximately 85% to 90% of DI.

The REIT expects that upward financing on maturing mortgages will provide sufficient cash flow to fund mortgage repayments. The REIT plans to fund anticipated ongoing commitments, obligations, capital expenditures and leasing costs using cash flow from operations retained by the REIT and through available borrowing capacity under the New Credit Facility.

The Acquisition Credit Facility, the New Credit Facility, new mortgage indebtedness and the access to the public equity markets will provide the necessary capital the REIT requires for acquisitions. The REIT's acquisition capacity, meaning the ability of the REIT to acquire rental properties using un-utilized borrowing capacity while not exceeding the 60% debt-to-GBV ratio, is $34.5 million.

As at December 31, 2003, the REIT had future commitments, and the estimated timing of these commitments is as follows:

Table 7

(In thousands)	**2004**	**2005**	**Total**
Leasing commissions	$205	$23	$228
Tenant inducements	656	0	656
Building renovations	377	20	397
	$1,238	$43	$1,281

Summary Quarterly Information and Performance in 2003

Set out in Table 8 is the summary of results for the fiscal quarters ended December 31, September 30, and June 30, 2003, and for the 41 day-period from the commencement of operations on February 19, 2003, to March 31, 2003.

Table 8

(In thousands except for per unit amounts)	October 1, to December 31, 2003	July 1 to September 30, 2003	April 1 to June 30, 2003	February 19 to March 31, 2003
Revenue from rental properties	$5,541	$5,057	$4,989	$2,358
Rental property operating cost	1,776	1,610	1,579	838
Net rental income	3,765	3,447	3,410	1,520
Financing expense	1,200	1,086	1,060	465
Depreciation and amortization	263	241	234	102
Income from operations	2,302	2,120	2,116	1,405
Trust expenses	303	282	339	133
Net income	1,999	1,838	1,777	820
Amortization on rental properties	246	220	224	99
Amortization on mortgage premium	(94)	(74)	(100)	(48)
Distributable Income[1]	$2,151	$1,984	$1,901	$871
Net income per unit (basic)	$0.315	$0.302	$0.293	$0.136
Distributable Income per unit (basic)	$0.338	$0.326	$0.313	$0.144

[1] Distributable Income, which is not defined within Canadian generally accepted accounting principles, has been calculated in accordance with the terms of the Declaration.

The REIT's financial results for the fourth quarter ended December 31, 2003, are summarized below and compared to the forecast. Also set out in Table 9 is the variance resulting from the Additional Properties and the Initial Properties.

Table 9

(In thousands except for per unit amounts)	October 1, to December 31, 2003	Forecast[1]	Variance to Forecast	Variance to Forecast Due to Additional Properties	Variance to Forecast Due to Initial Properties
Revenue from rental properties	$5,541	$5,299	$242	$484	$(242)
Rental property operating cost	1,776	1,919	143	(163)	306
Net rental income	3,765	3,380	385	321	64
Financing expense	1,200	1,187	(13)	(149)	136
Depreciation and amortization	263	233	(30)	(24)	(6)

(In thousands except for per unit amounts)	October 1, to December 31, 2003	Forecast[1]	Variance to Forecast	Variance to Forecast Due to Additional Properties	Variance to Forecast Due to Initial Properties
Income from operations	2,302	1,960	342	148	194
Trust expenses	303	285	(18)	-	(18)
Net income	1,999	1,675	324	148	176
Amortization on rental properties	246	219	27	24	3
Amortization on mortgage premium	(94)	-	(94)	(19)	(75)
Distributable Income[2]	$2,151	$1,894	$257	$153	$104
Net income per unit (basic)	$0.315	$0.277	$0.038		
Distributable Income per unit (basic)	$0.338	$0.313	$0.025		

[1] The forecast in the Prospectus assumed the completion of the IPO and the acquisition of the Initial Properties by the REIT on January 1, 2003, and that no other acquisitions were completed in the year ended December 31, 2003.
[2] Distributable Income, which is not defined within Canadian generally accepted accounting principles, has been calculated in accordance with the terms of the Declaration.

Net income of $1,999 was higher than forecast by $324 as a result of higher net rental income ($385 higher than forecast) offset by higher financing costs ($13 higher than forecast), higher amortization ($30 higher than forecast) and higher trust expenses ($18 higher than forecast).

Net Rental Income
Net rental income of $3,765 for the fourth quarter was $385 ahead of forecast as follows:

(i) $64 due to new leasing activity, better than expected lease renewals and better than expected incidental revenues in connection with the Initial Properties;

(ii) $272 due to the acquisition of 99 Spadina Avenue, effective October 1, 2003; and

(iii) $49 due to the acquisition of 905 King Street West on December 19, 2003.

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. The amortization of the premiums and discounts on the assumed mortgages reduced financing expense by $94, of which $75 relates to mortgages assumed on the Initial Properties and $19 relates to mortgages assumed on the Additional Properties.

Financing expense of $1,200 for the fourth quarter was $13 higher than the forecast of $1,187 as follows:

(i) $75 lower due to the amortization of the premium on the assumed mortgages payable with respect to the Initial Properties;

(ii) $61 lower due to lower than planned utilization of operating credit; and

(iii) $149 higher due to the mortgages assumed and debt utilized with respect to the acquisition of the Additional Properties.

Depreciation and Amortization
Depreciation recorded on buildings for the fourth quarter was $246, $27 higher than forecast. Depreciation recorded on the Additional Properties was $24 and depreciation recorded on the Initial Properties was $3 higher than forecast.

For the fourth quarter, amortization of deferred expense was $17 compared to a forecast of $14.

Trust Expenses
Trust expenses for the fourth quarter of $303 were $18 higher than forecast.

Capital Expenditures
The REIT's portfolio requires ongoing investments for general capital improvements and tenant installation costs related to new and renewal leasing. These include providing tenant build-out allowances and tenant inducements and paying leasing commissions. For the fourth quarter, expenditures for capital improvements were $88 and expenditures for leasing costs were $263. These expenditures were incurred due to leasing activities at the Initial Properties.

Critical Accounting Estimates

The significant accounting policies used in preparing the REIT's audited financial statements are described in Note 3 to those statements. The following is a discussion of Management's estimates that are most important to the presentation of the REIT's 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
Predominately all the mortgage indebtedness of the REIT was assumed in conjunction with rental property acquisitions. GAAP requires that the mortgages payable assumed on acquisition of properties be recorded at fair value. The REIT also disclosed the fair value of mortgages in the notes to its financial statements. 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
The REIT is required to write down to fair value any long-life assets that are determined to have been permanently impaired. The REIT's long-life assets consist of rental properties. The REIT's 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. There were no impairments recorded in the 316-day period. Prior to acquiring a rental property, the REIT commissions an appraisal and conducts due-diligence to satisfy itself that the acquisition price is representative of fair market value.

Depreciation
A significant portion of the purchase price of rental properties is allocated to buildings. The depreciation recorded on buildings is based on a 5%, 40-year sinking fund basis. 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 depreciation will not be appropriately recorded.

Changes to Accounting Policies

The impact of recent pronouncements of the Canadian Institute of Chartered Accountants (the "CICA") on the REIT's accounting policies are set out in this section of the MD&A. As a results of the CICA issuing Section 1100, Generally Accepted Accounting Principals, which describes what constitutes GAAP, the following changes in accounting policies will be required

Amortization of Rental Properties
Effective January 1, 2004, the sinking fund method of amortization will no longer be in compliance with GAAP, with the result that, from the effective date, the REIT will record depreciation on its buildings on a straight-line basis over their expected useful life. In fiscal 2004, with the adoption of this policy, building amortization will increase by $2,125, with corresponding reductions to net income and the carrying value of rental properties and Unitholders' equity. Had the new policy been adopted for the 316-day period ended December 31, 2003, the REIT would have recorded $1,585 of additional depreciation, with corresponding reductions to net income and the carrying value of rental properties and Unitholders' equity. The adoption of this standard has no impact on DI and FFO.

Revenue Recognition
Effective January 1, 2004, the REIT will change its method of recognizing rental revenues from leases with "stepped rent increases", where such increases were designed to account for inflation. In accordance with GAAP, rental revenue will be recognized on a straight-line basis. The REIT will apply this new policy on a prospective basis effective January 1, 2004. In fiscal 2004, with the adoption of this policy, the REIT will report higher revenue, net earnings, other assets and Unitholders' equity of $868. Had the new policy been adopted for the 316-day period ended December 31, 2003, the REIT would have recorded higher revenue, net earnings, other assets and Unitholders' equity of $715. The adoption of this standard has no impact on DI and FFO.

Accounting for Acquisitions of Rental Properties
Effective for transactions entered into after September 12, 2003, where operating leases are acquired in either an asset acquisition or a business combination, the purchase price is to be allocated to tangible assets (land, buildings and equipment) and identifiable intangibles.

The accounting treatment for intangibles is as follows:

(i) the value of an above-market lease (lease that have a average rental rate in excess of the market rate at the time of acquisition) is recorded as an asset and amortized over the remaining term of the lease, which reduces rental revenue;

(ii) the value of a below-market lease is recorded as a liability and amortized over the remaining term of the lease, which increases rental revenue; and

(iii) the fair value of the origination cost associated with an in-place lease and the tenant relationship are recorded as assets and amortized over the remaining term of the lease, which increases amortization expense.

In the event an acquired lease is terminated prior to its contractual expiry date, the carrying amount of the intangibles with respect to that lease will be charged to rental revenue or amortization expense.

Related Party Transactions

The REIT has entered into an agreement (the "Property Management Agreement") with Allied Canadian Corporation ("Property Manager"), a company controlled by the President and CEO of the REIT. The Executive Vice President of the REIT owns a significant interest in the Property Manager.

Pursuant to the Property Management Agreement, the Property Manager is responsible for the overall management and operations of the REIT's rental properties, all aspects of the leasing of the rental properties owned by the REIT and to provide the REIT a fully equipped office and support staff. The initial term of the Property Management Agreement is five years and renewable by the REIT for successive two year terms. Should the REIT decide not to renew the Property Management Agreement after the initial five term it is liable for the severance costs relating to the employees of the Property Manager dedicated to servicing any rental properties owned by the REIT.

Under the Property Management Agreement the REIT pays the following:

(i) a management fee of 4% of rental revenue;

(ii) a leasing fee of 15% of a third-party broker's fees if a broker originates a lease transaction;

(iii) a leasing fee of 50% of the customary market brokerage fees if a third-party broker has not originated the lease transaction;

(iv) a project management fee based on customary market fees for project management services for renovations, construction and reconstruction work on the rental properties;

(v) the costs, plus applicable administrative charges, of staff supplied by the Property Manager to perform day-to-day maintenance and security functions for the rental properties;

(vi) the costs, plus applicable administrative charges, of staff supplied by the Property Manager to perform duties that would typically be performed by on-site personnel;

(vii) disbursements and out-of-pocket expenses related to services provided; and

(viii) the costs incurred by the Property Manager to provide the REIT a fully equipped office and support staff.

Set out below are the fees paid or payable by the REIT to the Property Manager in connection with the provisions of its services for the 316-day period.

Table 10

(in thousands)	Recoverable Operating Expenses	Trust Expenses	Deferred Expenses	Rental Properties	Commit-ments	Total
Management fee	$716					$716
Maintenance and security staff	317					317
On-site personnel	123					123
Disbursements	9					9
Leasing fees			34		80	114
Project management fees				11		11
Office and support staff		52				52
	$1,165	$52	$34	$11	$80	$1,342

TechSpace Canada Inc. ("TechSpace"), a subsidiary of the Property Manager, leases 29,102 square feet of office space from the REIT on commercial terms. The lease expires September 30, 2010. The Property Manager has indemnified the REIT is respect of all of TechSpace's obligations under the lease, and the REIT has the option to purchase all of the shares or the assets of TechSpace for nominal consideration. The indemnity and the option expire six months after TechSpace's operations have stabilized. TechSpace entered into a sub-lease with a third party. The Property Manager's indemnity for TechSpace's obligations remains in place. During the 316-day period, the REIT received rental revenue of $643 from TechSpace.

Risk and Uncertainties

There are certain risk factors inherent in the investment and ownership of real estate. Such investments are capital intensive, and success depends on 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 REIT's portfolio is focused on a particular asset class in the largest metropolitan real estate market in Canada. This concentration enables Management to capitalize on certain economies of scale and competitive advantages that would not otherwise be available and contributes to mitigating the risk associated with the real estate ownership.

The REIT is also 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 the success of the REIT. In order to minimize risk associated with debt financing, the REIT will attempt to re-finance maturing loans with long-term fixed-rate debt and to stagger the maturities over time.

As at December 31, 2003, there were 70 tenants in the REIT's rental property portfolio and no single tenant accounted for more than 11% of the rental revenue. Table 11 is the REIT's tenant mix on the basis of percentage of rental revenue.

Table 11

Category	% of Rental Revenue
Service and professional	43
Retail (head office and storefront)	18
Telecommunications and information technology	17
Media and film	9
Financial services	4
Government	4
Other	5

97.5% of the space in the REIT's rental properties was leased as at December 31, 2003. Table 12 sets out the total leased square footage of the rental properties subject to lease expiry during the period ended December 31, 2008, assuming tenants do not exercise renewal options, and the percentage of leased leaseable area.

Table 12

Year Ended	Square Feet	% of Leased Area
December 31, 2004	89,614	9.3
December 31, 2005	117,594	12.2
December 31, 2006	109,365	11.4
December 31, 2007	142,265	14.8
December 31, 2008	63,555	6.6