

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST

Financial Statements

For the Period Ended March 31, 2004

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
BALANCE SHEET**

At March 31, 2004

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**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
BALANCE SHEET**

(in thousands)	March 31, 2004 (Unaudited)	December 31, 2003 (Audited)
ASSETS		
Rental properties (Note 4)	\$ 161,367	\$ 153,744
Deferred expenses (Note 5)	2,378	1,749
Other assets (Note 6)	2,064	1,271
Cash	-	305
	\$ 165,809	\$ 157,069
LIABILITIES		
Mortgages payable (Note 7)	\$ 84,365	\$ 82,096
Bank indebtedness (Note 7)	4,069	-
Accounts payable and other liabilities (Note 8)	7,440	6,387
Distributions payable	690	653
	96,564	89,136
UNITHOLDERS' EQUITY (Note 9)	69,245	67,933
	\$ 165,809	\$ 157,069

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

Approved by the Board of Trustees

"Gordon Cunningham"

Gordon Cunningham
Trustee

"Michael R. Emory"

Michael R. Emory
Trustee

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
STATEMENT OF UNITHOLDERS' EQUITY**

(in thousands, except for unit amounts)

	Three Months Ended March 31, 2004 (Unaudited)	From February 19, 2003 to December 31, 2003 (Audited)
Balance, beginning of period	\$ 67,933	\$ -
Net earnings	1,843	6,434
Distributions to unitholders	(1,996)	(5,868)
Units issued	1,468	72,229
Issue costs	(3)	(4,862)
Balance, end of period	\$ 69,245	\$ 67,933
Units issued and outstanding (Note 9)	7,263,829	7,120,279

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

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
STATEMENT OF EARNINGS**

(in thousands, except per unit amounts)

	Three Months Ended March 31, 2004 (Unaudited)	From February 19, 2003 to March 31, 2003 (Unaudited)
Rental revenue	\$ 6,779	\$ 2,358
Operating costs	2,339	838
Amortization of rental properties	839	99
Amortization of deferred expenses	102	3
Operating income from rental properties	3,499	1,418
Financing expense	1,305	465
Trust expenses	351	133
Net earnings	\$ 1,843	\$ 820
Net earnings per unit		
Basic	\$ 0.258	\$ 0.136
Fully diluted	\$ 0.257	\$ 0.136
Weighted average number of units		
Basic	7,138,165	6,043,902
Fully diluted	7,173,918	6,043,902

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

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
STATEMENT OF CASH FLOWS**

(in thousands)

	Three Months Ended March 31, 2004 (Unaudited)	From February 19, 2003 to March 31, 2003 (Unaudited)
CASH PROVIDED BY (USED IN):		
Operating activities		
Net earnings	\$ 1,843	\$ 820
Items not affecting cash		
Amortization, rental properties	839	99
Amortization, deferred expenses	102	3
Step rent adjustments	(313)	-
Mark to market rent adjustments	(53)	-
Amortization, premium on assumed mortgages payable	(108)	(48)
	2,310	874
Change in other non-cash operating items	79	912
Cash from operating activities	2,389	1,786
Investing activities		
Net assets acquired (Note 2)	(4,818)	(46,538)
Capital expenditures, rental properties	(530)	(19)
Deferred leasing costs	(286)	-
Cash used in investing activities	(5,634)	(46,557)
Financing Activities		
Repayment of mortgages payable	(483)	(147)
Deferred financing costs	(152)	(110)
Distributions	(1,791)	-
Proceeds of initial public offering of units (net of issue cost)	-	45,593
Proceeds from exercise of unit options (net of issue costs)	1,297	-
Cash provided (used in) by financing activities	(1,129)	45,336
Increase (decrease) in cash and cash equivalents	(4,374)	565
Cash and cash equivalents, beginning of period	305	-
Cash and cash equivalents (bank indebtedness), end of period	\$ (4,069)	\$ 565
Other cash flow information		
Interest paid	\$ 1,456	\$ 384
Supplemental disclosure of non-cash activities		
Units issued pursuant to the distribution reinvestment plan	\$ 168	\$ -

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

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
NOTES TO FINANCIAL STATEMENTS
(In thousands of dollars except per unit and unit amounts)
March 31, 2004
(Unaudited)

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. 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.

These financial statements present the financial position of the REIT as at March 31, 2004 and the results of operations and cash flow for the quarter ended March 31, 2004.

2. Acquisition

On March 1, 2004 the REIT acquired a rental property. Net assets acquired were as follows (using the purchase method of accounting):

Rental properties	\$7,747
Acquisition costs, including land transfer taxes	185
Fair value of in-place leases	294
Fair value of above and below-market leases	(411)
Secured debt	(2,860)
Accounts payable and accrued liabilities	(137)
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Cash consideration paid for the net assets acquired	<u>\$4,818</u>

3. Summary of Significant Accounting Policies

(a) Basis of presentation

The REIT's financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are also in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies, of which the REIT is a member. These unaudited interim financial statements have been prepared by management using policies and practices consistent with those presented in the 2003 audited financial statements, except for amortization of rental properties and revenue recognition as more fully described in Notes 3 (d) and 3 (f), respectively. These interim financial statements should be read in conjunction with the REIT's audited financial statements together with notes for the period ended December 31, 2003.

(b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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.

(c) 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.

(d) 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 the lower of cost less accumulated amortization and net recoverable amounts. The net recoverable amount represents the undiscounted estimated future cash flow expected to be received from the ongoing use of the properties together with the residual value of the properties.

Effective January 1, 2004, amortization on buildings is recorded on the straight-line basis over the useful life of the buildings. The REIT adopted prospective application of this policy. Prior to January 1, 2004, amortization on buildings was recorded on the sinking fund method to fully amortize the cost of the buildings over 40 years. The impact of this change in accounting policy was an increase to amortization on buildings of \$544.

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 customer or tenant is created upon the acquisition of the property. The REIT adopted prospective application of this policy with respect to acquisitions of rental properties that were initiated after September 12, 2003.

(e) 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.

(f) Revenue recognition

Rental revenue includes rents from tenants under leases, property tax and operating cost recoveries, parking income and incidental income. Effective January 1, 2004, rental revenue with respect to rents from tenants under leases is recognized ratably over the term of the lease. The REIT adopted prospective application of this policy. Prior to January 1, 2004, rental revenue with respect to rents from tenants under leases was recognized based on contractual rents for the period. The impact of this change in accounting policy was an increase in rental revenue of \$313.

(g) Unit-based compensation plan

Effective January 1, 2004, pursuant to amendments made to Handbook section 3870, the REIT commenced accounting 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 amended recommendations were adopted on a retroactive basis, and the impact to earnings was not material.

(h) Per unit calculations

Basic net income per unit is calculated by dividing net income by the weighted average number of units outstanding for the period. 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.

4. Rental Properties

	Cost	Accumulated Amortization	Net Carrying Amount March 31, 2004 (Unaudited)	Net Carrying Amount December 31, 2003 (Audited)
Land	\$ 26,137	\$ -	\$ 26,137	\$ 24,187
Building, improvements and other costs	136,859	(1,629)	135,230	129,557
	\$ 162,996	\$ (1,629)	\$ 161,367	\$ 153,744

5. Deferred expenses

Deferred expenses consist of costs incurred by the REIT, net of amortization of \$153, with respect to obtaining debt financing, leasing costs incurred and the fair value attributed to in-place leases acquired in a rental property acquisition. Amortization is recorded on a straight-line basis over the term of the respective credit facility and over the remaining term of the respective leases to which the costs or fair value relate.

6. Other Assets

Other assets of \$2,064 consist of accounts receivable of \$390, cash deposits of \$350 on account for a pending property acquisitions, prepaid expenses of \$396 and escrow accounts held by mortgagees of \$928.

7. Mortgages Payable and Bank Indebtedness

Substantially all of the REIT's assets have been pledged as security under the mortgages and other security agreements. Interest rates on the mortgages payable are between 5.95% and 8.10% with a weighted average of 6.96%.

Mortgages payable at March 31, 2004 are due as follows:

	Principal Repayments	Balance due at Maturity	Total
Year ended December 31, 2004	\$1,512	\$3,682	\$5,194
Year ended December 31, 2005	2,068	1,850	3,918
Year ended December 31, 2006	1,984	9,931	11,914
Year ended December 31, 2007	1,835	13,585	15,421
Year ended December 31, 2008	1,101	14,404	15,505
Thereafter	5,901	25,285	31,186
	\$14,401	\$66,298	\$83,138
Premium on assumed mortgages (net of amortization)			1,227
			\$84,365

The REIT has a \$5,000 revolving credit facility (the "Acquisition Credit Facility") with a Canadian chartered bank, which matures February 28, 2006 and bears interest at bank prime rate plus 1.0%, which is secured by second and third mortgage charges on three rental properties. At March 31, 2004 the amount outstanding under the credit facility was \$3,688.

The REIT has a \$15,000 revolving credit facility with another Canadian chartered bank, which matures May 31, 2006 and bears interest at bank prime rate plus 1.0%. Security for the facility consists of first and second mortgage charges on six rental properties and security agreements covering assignment of rents and personal property with respect to the six properties. At March 31, 2004 the amount outstanding under the credit facility was \$379.

8. Accounts payable and other liabilities

Accounts payables and other liabilities consist of:

General operating payables and tenant deposits	\$5,734
Below market rents of leases acquired through rental property acquisition (net of above market rents)	1,240
Accrued interest on mortgages payable	466
	\$7,440

9. Unitholders' Equity

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

The number of units issued and outstanding is as follows:

	Units
Units outstanding, December 31, 2003	7,120,279
Units issued pursuant to Unit Option Plan	130,000
Units issued under the Dividend Reinvestment Plan	13,550
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Units outstanding, March 31, 2004	7,263,829

10. 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. The maximum number of Units reserved for issuance pursuant to the Unit Option Plan is 604,390 units.

On February 20, 2003, 345,000 options were granted to trustees and officers with an exercise price of \$10.00 and expiring on February 19, 2008. 115,000 options vested on each of February 20, 2003 and February 20, 2004 and 115,000 options vest on February 20, 2005.

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

Options	Units	Weighted Average Exercise Price
Granted and outstanding as at December 31, 2003	345,000	\$10.00
Exercised during the period ended March 31, 2004	130,000	\$10.00
Granted and outstanding as at March 31, 2004	215,000	\$10.00
Options exercisable as at March 31, 2004	100,000	\$10.00

11. 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.

12. Financial instruments

The fair value of the REIT's financial assets and liabilities with current maturities approximate their recorded values as at March 31, 2004.

In the normal course of its business, the REIT is exposed to a number of financial risks that can affect its operating performance. These risks and the actions taken to manage them are noted below. The REIT does not have foreign exchange risks as it holds only Canadian dollar denominated assets and liabilities.

(a) Interest Rate Risk

All of the REIT's mortgages payable at March 31, 2004 are at fixed interest rates and are not exposed to changes in interest rates. 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. As part of its risk management program, The REIT endeavors to maintain an appropriate mix of fixed rate and floating rate debt and to stagger the maturities of its debt.

(b) Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT's credit risk is limited to the recorded amount of tenant receivables.

The REIT does not acquire, hold or issue derivative financial instruments for hedging or trading purposes.

13. Segmented disclosure

Substantially all of the REIT's assets are in, and its revenue is derived from, the downtown Toronto office market.

14. Commitments and Contingencies

The REIT has entered into commitments for building renovations, leasing commissions and tenant inducements with respect to leasing activities. The commitments as at March 31, 2004 were \$1,718.

15. Related Party Transactions

(a) Property Management Agreement

Pursuant to the Property Management Agreement entered into by the REIT, Allied Canadian Corporation ("Allied Properties") has been appointed as the property manager for the rental properties owned by the REIT. For its services as property manager, it is paid an annual fee equal to 4% of the gross revenues, is entitled to recover the cost incurred by it in substituting on-site managers at rental properties, the costs of its maintenance staff to perform regular maintenance at the rental properties and its out-of pocket expenses related to services provided. Amounts paid and included in rental operating cost for the period ended March 31, 2004 was \$438.

Pursuant to the Property Management Agreement, Allied Properties is entitled to a leasing fee. The fee is payable upon tenants having executed and delivered signed leases. Amounts paid and included in deferred expenses during the period ended March 31, 2004 was \$36.

Pursuant to the Property Management Agreement, Allied Properties is entitled to a project management fee based on customary market fees for project management services in connection with renovations, construction and reconstruction work on the rental properties. Amounts paid and included in rental properties during the period ended March 31, 2004 was \$24.

Pursuant to the Property Management Agreement, Allied Properties is to provide the REIT a fully equipped office and support staff and is entitled to recover its cost from the REIT. Amounts paid and included in trust expenses for the period ended March 31, 2004 was \$17.

Included in accounts payable and other liabilities is an amount of \$20 related to the above noted services. Included in commitments and contingencies is an amount of \$132 related to the above noted services.

These transactions are in the normal course of operations and were measured at the exchange amount agreed upon by the parties.

(b) Rental revenues

Rental revenues included amounts received from related parties for the period ended March 31, 2004:

Related Party	Nature of Revenue	For the Period Ended March 31, 2004
Vendors of properties	Bridge Covenants	\$34
Vendors of properties	Head Lease	83
		\$117

Bridge Covenants:

Certain vendors of the rental properties provided bridge covenants (collectively the "Bridge Covenants") to the REIT in respect of certain office space leased to third party, non related tenants. These Bridge Covenants provide the REIT with an income stream to coincide with rent-free periods that the vendors provided to the tenants, prior to the REIT acquiring the rental properties. These vendors are under common control of certain trustees of the REIT.

Head Lease:

Certain vendors entered into a lease dated February 20, 2003 for 16,686 square feet of office space for a five year term, expiring on February 19, 2008, (the "Head Lease"). The Head Lease has been amended such that the term with respect to 2,747 square feet and 5,596 square feet will expire on May 31, 2004 and July 31, 2004, respectively. The REIT has entered into lease agreements with new tenants for the 2,747 square feet and the 5,596 square feet for terms, which expire subsequent to February 20, 2008. The obligations of the vendors under the Head Lease are secured by cash of \$835, which is held in an escrow account by Allied Properties. These vendors are under common control of certain trustees of the REIT.

16. Subsequent Event

On April 1, 2004 the REIT acquired 185 Spadina Avenue, a rental property in Toronto, Ontario for \$10,500. The acquisition was financed with an assumed first mortgage of \$2,486, due December 10, 2011, bearing interest at 7.2%, proceeds from a second mortgage of \$4,500, due December 10, 2011 bearing interest at 5.8%, the assumption of certain liabilities and the balance with cash.

Effective April 30, 2004 the REIT acquired 44-50 Wellington Street East, a rental property in Toronto, Ontario for \$5,250. The acquisition was financed with an assumed first mortgage of \$1,911, due May 1, 2007, bearing interest at 5.5%, the assumption of certain liabilities and the balance with cash.

On April 30, 2004 the REIT accepted a conditional offer from a Canadian Chartered Bank to provide the REIT with a loan of \$1,740, due May 1, 2007, bearing interest at 4.95%, and secured by a second mortgage on 44-50 Wellington Street East.

On May 3, 2004 the REIT entered into an agreement with a Canadian Chartered Bank to provide the REIT with a loan of \$2,894, due November 1, 2007 and bearing interest at 5.2%, secured by a second mortgage charge on 217-225 Richmond Street West.