

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST

Financial Statements

Period Ended March 31, 2005

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

(in thousands)	March 31, 2005 (Unaudited)	December 31, 2004 (Audited)
ASSETS		
Rental properties (Note 4)	\$ 252,439	\$ 239,852
Deferred expenses (Note 5)	19,546	17,960
Other assets (Note 6)	10,593	9,023
Cash	2,163	-
	\$ 284,741	\$ 266,835
LIABILITIES		
Mortgages payable (Note 7)	\$ 148,363	\$ 144,350
Bank indebtedness (Note 7)	-	10,971
Accounts payable and other liabilities (Note 8)	12,997	12,351
Distributions payable	1,229	987
	162,589	168,659
UNITHOLDERS' EQUITY (Note 9)	122,152	98,176
	\$ 284,741	\$ 266,835

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)

	Cumulative Capital	Cumulative Issue Costs	Cumulative Net Income	Cumulative Distributions	Total
					(Audited)
Unitholders' equity, December 31, 2003	72,229	(4,862)	6,434	(5,868)	67,933
Year Ended December 31, 2004					
Net earnings	-	-	7,867	-	7,867
Distributions	-	-	-	(10,506)	(10,506)
Public offering	32,190	(1,841)	-	-	30,349
Distribution reinvestment plan	932	-	-	-	932
Unit options plan - options exercised	1,405	-	-	-	1,405
Long-term incentive plan	221	(25)	-	-	196
Unitholders' equity, December 31, 2004	\$ 106,977	\$ (6,728)	\$ 14,301	\$ (16,374)	\$ 98,176
Three Months Ended March 31, 2005 (Unaudited)					
Net earnings	-	-	2,498	-	2,498
Distributions	-	-	-	(3,557)	(3,557)
Public offering	24,700	(1,260)	-	-	23,440
Distribution reinvestment plan	329	-	-	-	329
Unit options plan - options exercised	1,080	-	-	-	1,080
Long-term incentive plan (Note 12)	186	-	-	-	186
Unitholders' equity, March 31, 2005	\$ 133,272	\$ (7,988)	\$ 16,799	\$ (19,931)	\$ 122,152

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

(in thousands, except per unit and unit amounts)	Three Months Ended March 31, 2005 (Unaudited)	Three Months Ended March 31, 2004 (Unaudited)
Rental revenue	\$ 11,797	\$ 6,779
Operating costs	4,197	2,339
Amortization of rental properties	1,369	839
Amortization of deferred expenses	967	102
	6,533	3,280
Operating income from rental properties	5,264	3,499
Financing expense	2,269	1,305
Trust expenses	497	351
Net earnings	\$ 2,498	\$ 1,843
Net earnings per unit		
Basic	\$ 0.206	\$ 0.258
Fully diluted	\$ 0.203	\$ 0.257
Weighted average number of units		
Basic	12,117,625	7,138,165
Fully diluted	12,328,485	7,173,918

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

(in thousands)	Three Months Ended March 31, 2005 (Unaudited)	Three Months Ended March 31, 2004 (Unaudited)
CASH PROVIDED BY (USED IN):		
Operating activities		
Net earnings	\$ 2,498	\$ 1,843
Items not affecting cash		
Amortization, rental properties	1,369	839
Amortization, deferred expenses	967	102
Step rent adjustments	(405)	(313)
Mark to market rent adjustments	24	(53)
Amortization, premium on assumed mortgages payable	(104)	(108)
Interest benefit granted under long-term incentive plan	109	-
	4,458	2,310
Change in other non-cash operating items	(1,209)	79
Cash from operating activities	3,249	2,389
Investing activities		
Net assets acquired (Note 2)	(10,366)	(4,818)
Capital expenditures, rental properties	(23)	(530)
Deferred leasing costs	(485)	(286)
Cash used in investing activities	(10,874)	(5,634)
Financing activities		
Repayment of mortgages payable	(943)	(483)
Deferred financing costs	(18)	(152)
Distributions	(2,986)	(1,791)
Proceeds of public offering (net of issue costs)	23,440	-
Proceeds from exercise of unit options	1,080	1,297
Proceeds from units issued under the LTIP (net of issue costs)	186	-
Net decrease in short-term revolving debt	(10,971)	-
Cash provided by financing activities	9,788	(1,129)
Increase (decrease) in cash and cash equivalents	2,163	(4,374)
Cash and cash equivalents, beginning of period	-	305
Cash and cash equivalents, end of period	\$ 2,163	\$ (4,069)
Other cash flow information		
Interest paid	\$ 2,382	\$ 1,456
Supplemental disclosure of non-cash activities		
Units issued pursuant to the distribution reinvestment plan	\$ 329	\$ 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)
(Unaudited)
March 31, 2005 and March 31, 2004

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, 2005 and the results of operations and cash flow for the three month period ended March 31, 2005.

2. Acquisitions

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

	Three Month Period Ended March 31, 2005 (Unaudited)	Year Ended December 31, 2004 (Audited)
Rental properties	\$ 13,933	\$ 88,339
Other assets	-	553
Fair value of in-place leases	1,119	8,398
Fair value of above-market leases	643	4,463
Fair value of below-market leases	(372)	(1,379)
Fair value of tenant relationships	931	6,307
Mortgages payable	(5,060)	(7,425)
Accounts payable and accrued liabilities	(828)	(1,703)
Cash consideration paid for the net assets acquired	\$ 10,366	\$ 97,553

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.

(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 fair value. If conditions indicate the carrying amount may not be recoverable, the REIT determines if an impairment exists and a write-down to fair value is needed by comparing the carrying amount to the net recoverable amount. 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.

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 customer or tenant is created upon the acquisition of the property.

(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. Rental revenue with respect to rents from tenants under leases is recognized ratably over the term of the lease.

(g) Unit-based Compensation Plan

The REIT accounts for employee unit-based options by measuring the compensation cost for options granted on or after January 1, 2002 under the fair value-based method using a Black-Scholes option pricing model.

(h) Per Unit Calculations

Basic earnings per unit is calculated by dividing net earnings by the weighted average number of units outstanding for the period, excluding those units issued under the Long Term Incentive Plan. The calculations of earnings 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 earnings per unit on a diluted basis includes those units issued under the Long Term Incentive Plan, which are not fully paid up.

4. Rental Properties

	Cost	Accumulated Amortization	Net Carrying Amount March 31, 2005 (Unaudited)	Net Carrying Amount December 31, 2004 (Audited)
Land	\$ 41,975	\$ -	\$ 41,975	\$ 37,245
Building, improvements and other costs	216,831	(6,367)	210,464	202,607
	\$ 258,806	\$ (6,367)	\$ 252,439	\$ 239,852

5. Deferred Expenses

Deferred expenses consist of costs incurred by the REIT, net of amortization of \$2,917 (December 31, 2004 - \$1,950), with respect to obtaining debt financing, leasing costs incurred, the fair value attributed to in-place leases acquired and the fair value attributed to customer relationships with respect to rental property acquisitions. 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 consist of:

	March 31, 2005 (Unaudited)	December 31, 2004 (Audited)
Above-market rents of leases acquired through rental property acquisitions	\$4,661	\$4,190
Accounts receivable	\$2,595	\$2,116
Prepaid expenses	509	377
Cash deposits on account for a pending property acquisition	188	-
Escrow accounts held by mortgagees	2,640	2,340
	\$10,593	\$9,023

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 5.20% and 8.10 % with a weighted average of 6.51% (December 31, 2004 – 6.53%).

Mortgages payable at March 31, 2005 are due as follows:

	Principal Repayments	Balance due at Maturity	Total (Unaudited)
Year ended December 31, 2005	\$ 2,971	\$ 1,850	\$ 4,821
Year ended December 31, 2006	3,977	9,931	13,908
Year ended December 31, 2007	3,876	19,408	23,284
Year ended December 31, 2008	3,091	14,404	17,495
Year ended December 31, 2009	3,040	8,735	11,775
Thereafter	16,068	60,067	76,135
	\$33,023	\$ 114,395	\$ 147,418
Premium on assumed mortgages (net of amortization)			945
			\$ 148,363

The REIT has a \$5,000 revolving 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.

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 five rental properties and security agreements covering assignment of rents and personal property with respect to the six properties.

At March 31, 2005 the amount outstanding under the credit facilities was nil (December 31, 2004 \$10,971, net of cash of \$1,302).

8. Accounts Payable and Other Liabilities

Accounts payables and other liabilities consist of:

	March 31, 2005 (Unaudited)	December 31, 2004 (Audited)
General operating payables and tenant deposits	\$ 10,027	\$ 9,629
Below market rents of leases acquired through rental property acquisition (net of above market rents)	2,196	1,972
Accrued interest on mortgages payable	774	750
	\$12,997	\$12,351

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.

On January 4, 2005, the REIT issued 1.9 million voting units at \$13.00 per unit pursuant to a public offering (the "Offering"), resulting in gross proceeds of \$24,700. Costs relating to the Offering, including underwriters' fees, were \$1,260.

The number of units issued and outstanding is as follows:

	Units
Units outstanding, December 31, 2004	10,386,060
Units issued pursuant to Unit Option Plan (Note 11)	108,000
Units issued under the Dividend Reinvestment Plan	23,768
Units issued pursuant to the Offering	1,900,000
Units issued pursuant to the Long Term Incentive Plan (Note 12)	76,224
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Units outstanding, March 31, 2005	12,494,052

10. Net Earnings Per Unit

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

	Three Month Period Ended March 31, 2005 (Unaudited)	Year Ended December 31, 2004 (Audited)
Basic	12,117,625	8,996,471
Dilutive – unit option plan	54,891	47,765
Dilutive – long-term incentive plan	155,969	56,927
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Fully dilutive	12,328,485	9,101,163

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. The maximum number of Units reserved for issuance pursuant to the Unit Option Plan is 345,000 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,, February 20, 2004 and 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, 2004	204,500	\$10.00
Exercised during the period ended March 31, 2005	108,000	\$10.00
Granted and outstanding as at March 31, 2005	96,500	\$10.00
Options exercisable as at March 31, 2005	96,500	\$10.00

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 ("installment loan receivable"), over a term not exceeding 10 years, bears 3% interest on any outstanding balance and has full recourse to the participant. The units issued under the LTIP are held by a custodian for the benefit of the Participants, until the purchase price has been paid in full. Cash distributions paid in respect of the units issued under the LTIP are applied to the installment loan receivable.

An aggregate of 259,390 units are reserved for issuance, pursuant to the LTIP and, during the period ended March 31, 2005, 76,224 Units were issued at a purchase price of \$13.46 per unit.

The fair value of the LTIP is the estimated present value of the 1.5% imputed interest benefit and an assumed market rate of return of 4.5%, over an estimated expected term of ten years. For the three month period ended March 31, 2005, compensation cost of \$109, attributable to the LTIP, was charged against earnings with a corresponding amount included in unitholders' equity as units issued. 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 March 31, 2005 (Unaudited)	Three Month Period Ended March 31, 2005 (Unaudited)	Year Ended December 31, 2004 (Audited)
Number of units issued	223,724	76,224	147,500
Units issued	\$2,763	\$1,026	\$ 1,737
Compensation cost	198	109	89
	2,961	1,135	1,826
LTIP installment loans receivable	(2,624)	(974)	(1,650)
Interest on installment loan receivable	(30)	(12)	(18)
Distributions applied against installment loan receivable	100	37	63
	\$407	\$186	\$221

13. Income Taxes

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

14. Financial Instruments

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, 2005 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.

15. Segmented Disclosure

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

16. Commitments and Contingencies

The REIT has entered into commitments for building renovations, leasing commissions and tenant inducements with respect to leasing activities and for repairs and operating costs. The commitments as at March 31, 2005 and December 31, 2004 were \$912 and \$406, respectively.

17. Related Party Transactions

(a) Property Management Agreement

Pursuant to the Property Management Agreement entered into by the REIT, Allied Canadian Corporation ("Property Manager") has been appointed as the property manager for the rental properties owned by the REIT. Allied Properties is a company controlled by the President and CEO of the REIT. The Executive Vice President of the REIT owns a significant interest in Allied Properties. 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 during the three month periods ended March 31, 2005 and March 31, 2004 were \$730 and \$438 respectively.

Pursuant to the Property Management Agreement, the Property Manager 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 three month periods ended March 31, 2005 and March 31, 2004 were \$19 and \$36, respectively.

Pursuant to the Property Management Agreement, the Property Manager 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 three month periods ended March 31, 2005 and March 31, 2004 were \$3 and \$24, respectively.

Pursuant to the Property Management Agreement, the Property Manager 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 during the three month periods ended March 31, 2005 and March 31, 2004 were \$17 and \$17, respectively.

Included in accounts payable and other liabilities is an amount of \$3 (December 31, 2004 - \$26) related to the above noted services. Included in commitments and contingencies is an amount of \$59 (December 31, 2004 - \$11) 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 three month period ended March 31, 2005:

Related Party	Nature of Revenue	Three Month Period Ended March 31, 2005 (Unaudited)	Three Month Period Ended March 31, 2004 (Unaudited)
Vendors of properties	Head Lease	\$42	\$ 83
Techspace Canada Inc.	Guarantee	61	-
Techspace Canada Inc.	Lease	15	-
Vendors of properties	Bridge Covenants	187	34
		\$ 305	\$ 117

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 expired on May 31, 2004 and the term with respect to 5,596 square feet expired on July 31, 2004. 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 \$628, which is held in an escrow account by Allied Properties. These vendors are under common control of certain trustees of the REIT.

Guarantee and Lease:

TechSpace Canada Inc. ("TechSpace"), a subsidiary of the Property Manager, leased 29,102 square feet of office space from the REIT on commercial terms. The lease was to expire on September 30, 2010. The Property Manager indemnified the REIT in respect of all of TechSpace's obligations under the lease. The indemnity and the option expire six months after TechSpace's operations have stabilized. The REIT has entered into a lease directly with a new tenant effective January 1, 2004 for the 29,102 square feet. The indemnity from the Property Manager remains in place to protect the REIT from any revenue shortfall (on a cash basis) from the original TechSpace lease.

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.

18. Subsequent Events

On April 18, 2005, the REIT issued 2.15 million voting units at \$14.00 per unit pursuant to a public offering (the "Offering"), resulting in gross proceeds of \$30,100. Costs relating to the Offering, including underwriters' fees, are estimated to be \$1,500.

On April 18, 2005, the REIT acquired 3575 St. Laurent Avenue, a rental property in Montreal, Quebec for \$23,350. The acquisition was financed with the assumption of certain liabilities and with cash.