

Brick & Beam

OUR FOUNDATION FOR GROWTH

2003 ANNUAL REPORT



ALLIED
PROPERTIES REIT

Financial Highlights

For the 316-day period ended December 31

All amounts in thousands of Canadian dollars, except per share amounts

	2003	IPO ¹
Occupancy	97.5%	96.9%
Rental revenue	\$ 17,945	\$ 18,139
Net rental income	\$ 12,142	\$ 11,547
Net income	\$ 6,434	\$ 5,654
Distributable income ²	\$ 6,907	\$ 6,409
Net income per unit	\$ 1.05	\$ 0.94
Distributable income per unit	\$ 1.12	\$ 1.06
Distributions per unit	\$ 0.95	\$ 0.95

1. The forecast included in the Prospectus dated February 6, 2003 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. See page 22 for additional details.

Profile

Allied Properties Real Estate Investment Trust is the leading owner of Class I office properties in Toronto and a leading office property owner in the large areas immediately east and west of Toronto's downtown core.

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 the REIT's portfolio, these "better-than-new" buildings become a vital part of the urban fabric and contribute meaningfully to a sense of community.

The Class I value proposition includes:

- proximity to the downtown core in areas well served by public transportation,
- distinctive internal and external environments that assist tenants in attracting, retaining and motivating employees; and
- significantly lower overall occupancy costs than the office towers in the downtown core.

This value proposition has proven appeal to a diverse base of business tenants, including the full range of service and professional firms, telecommunications and information technology providers, media and film groups and selected entertainment and retail uses.

The REIT enjoys a first-mover advantage in the large-scale provision of Class I space in Toronto. The REIT intends to build on this advantage through ongoing consolidation of a large, fragmented and growing target market. In 2003, the REIT initiated the consolidation process by adding two office properties to its initial portfolio, increasing its gross leasable area by 20 per cent. At year-end, the REIT's portfolio comprised 16 predominantly Class I office properties with just over one million square feet of gross leasable area.

Durability and Growth

With sustainable competitive advantages – location, environmental distinctiveness and exceptional affordability – Allied Properties REIT's portfolio of predominantly Class I office properties in Toronto provides a durable operating platform for stable and growing cash distributions.

With a dominant position in its large, fragmented and growing target market and with access to the public capital markets, Allied Properties REIT is ideally positioned to grow:

- internally by continuing to exploit the operational advantages of specialization and scale; and
- externally by continuing to consolidate ownership in the target market through accretive acquisitions.

Key Achievements in 2003

- Acquired initial portfolio and completed initial public offering;
- Exceeded distributable income forecast by 5.4 per cent in respect of initial portfolio;
- Exceeded distributable income forecast by another 2.4 per cent through two accretive property acquisitions in the fourth quarter;
- Achieved forecast distributions at an 85 per cent pay-out ratio, well below the 90 per cent initially contemplated;
- Enhanced the size and key attributes of portfolio through property acquisitions;
- Raised additional equity through the issuance of over one million units;
- Reduced debt ratio from 56 per cent to 51 per cent;
- Increased leased area from 96.9 per cent to 97.5 per cent; and
- Made significant progress on 2004 lease expiries.





“We need to build aggressively on our dominant position in the target market. We need to continue to focus on our competitive strengths – convenient locations, distinctive internal and external environments and significantly lower overall occupancy costs.”

Report to Unitholders

I am very pleased to provide this first annual report to unitholders.

The Beginning

Allied Properties Real Estate Investment Trust went public in February 2003 and delivered strong performance for the remainder of the year, creating a durable foundation for growth in 2004 and beyond. We started with an excellent portfolio of predominantly Class I (brick-and-beam) office buildings in a clearly delineated target market – the areas to the east and west of Toronto’s downtown core. We focused on operations, exceeding the prospectus forecast for our initial portfolio. In the fourth quarter, we made two accretive acquisitions, which further enhanced our financial performance.

We believe strong operations are essential to growth. In 2003, the net rental income from our initial portfolio grew and exceeded forecast as a result of consistent and successful leasing activity. By year-end, our leased area had risen to 97.5 per cent. The REIT benefited further as our financing expense was lower than forecast, thanks to efficient cash management and the refinancing of two mortgages. By year-end, our debt-to-gross-book-value ratio had declined from 56 per cent to 51 per cent. Throughout the year we made the capital expenditures necessary to keep our portfolio in top physical condition, again in amounts less than initially forecast.

We also believe that disciplined acquisitions can enhance the amount and stability of per-unit distributable income. In October 2003, we acquired 99 Spadina Avenue, a Class I office building located in King West Central, an important area of concentration for the REIT. Another office building in the target market, 905 King Street West, followed in December, along with a concurrent private placement of units, which provided equity funding for both acquisitions. Together, the acquisitions enhanced our per-unit distributable income in the fourth quarter, increased the diversity of our tenant base and further improved our lease maturity schedule.

“Ownership of office properties in our target market remains highly fragmented, which favours our consolidation strategy. Consolidation of the target market supports, and is supported by, our growing size, our operating strength and our access to public capital markets.”

By year-end, our distributable income reached \$6.9 million, 7.8 per cent above forecast. This enabled us to meet our forecast distributions at an 85 per cent pay-out ratio, well below the 90 per cent pay-out ratio initially contemplated.

In short, we achieved what we set out to do at the beginning – perform reliably in 2003 and create a durable foundation for growth in 2004 and beyond.

Outlook for 2004

We look forward with confidence, enthusiasm and energy to 2004. We need to build aggressively on our dominant position in the target market. We need to focus on our competitive strengths – convenient locations, distinctive internal and external environments and significantly lower overall occupancy costs. We need to work continuously and effectively to remain a preferred provider of office space in the target market.

We believe the overall business climate remains positive for office properties in our target market. Accordingly, one of our objectives for 2004 is to accelerate the pace of acquisitions. Ownership of office properties in our target market remains highly fragmented, which favours our consolidation strategy. Consolidation of the target market supports, and is supported by, our growing size, our operating strength and our access to public capital markets. We expect a healthy flow of acquisition opportunities in 2004 and we will act on them decisively.

As we embark on 2004, our first full year of operations, let me acknowledge the continued enthusiastic support of our trustees and the members of our management team, whose dedication contributed greatly to our success in 2003 and will contribute to our continued success. Let me also thank our unitholders for their encouragement and continued interest in our business.

Finally, let me finish this report by reiterating that the management and trustees of Allied Properties REIT remain dedicated to providing stable and growing distributions to unitholders and to maximizing unitholder value through effective management and accretive growth of the REIT's portfolio.

Signed

Michael R. Emory
President and Chief Executive Officer





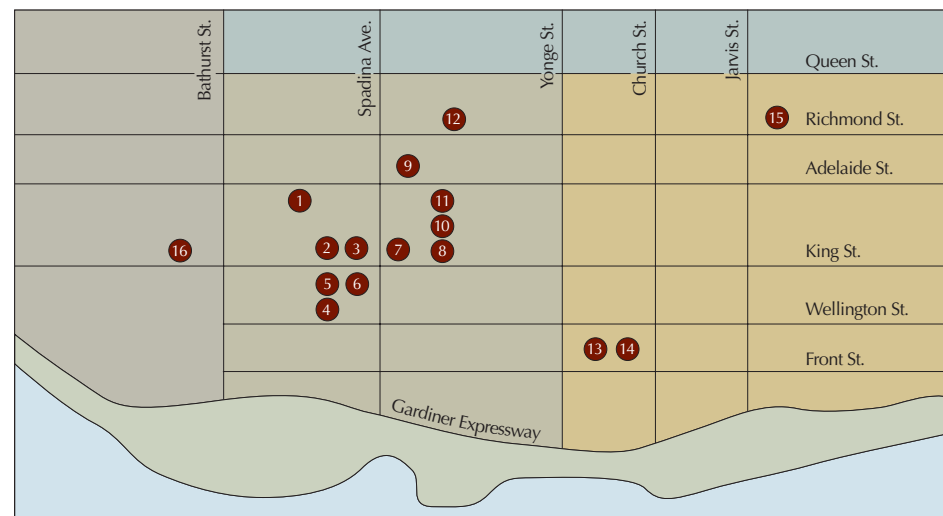
Portfolio Overview

At the end of 2003, the Allied Properties REIT portfolio consisted of 16 predominantly Class I office properties located in the King West, Downtown West and Downtown East sub-markets of the downtown Toronto office market. These 16 properties comprise more than one million square feet and represent approximately nine per cent of the 11 million square feet of office space in the REIT's target market.

The properties comprising the portfolio are strategically clustered. 905 King Street West is at the western edge of the portfolio. Seven properties are located near the intersection of King Street West and Spadina Avenue in an area known as King West Central. Five properties are located near the intersections of King Street West and Peter Street in the heart of the Entertainment District. Two properties are located near the intersection of Front Street East and Yonge Street in the St. Lawrence Market Area. 230 Richmond Street East is currently at the eastern edge of the portfolio.

The size, quality and strategic concentration of the portfolio make the REIT a preferred provider of office space in its target market to a wide variety of successful businesses. At the end of 2003, the portfolio was 97.5 per cent leased. The lease maturity schedule for the next five years is moderate, with average lease expiries of approximately 11% per year.

- | | | | |
|--------------------------|------------------------|-----------------------------|-------------------------|
| 1. 425 Adelaide St. W. | 5. 445-455 King St. W. | 9. 358-360 Adelaide St. W. | 13. 35-39 Front St. E. |
| 2. 500-522 King St. W. | 6. 425-439 King St. W. | 10. 82 Peter St. | 14. 41-45 Front St. E. |
| 3. 468 King St. W. | 7. 99 Spadina Ave. | 11. 331-333 Adelaide St. W. | 15. 230 Richmond St. E. |
| 4. 420 Wellington St. W. | 8. 388 King St. W. | 12. 134 Peter St. | 16. 905 King St. W. |







our portfolio

1. 425 Adelaide St. W.



425 Adelaide St. W. is a 10-storey, brick-and-concrete office/retail building. The property is comprised of 77,915 square feet of GLA and underground parking for 42 vehicles. Built in 1989, the property was cosmetically renovated in 2001.

2. 500-522 King St. W.



500-522 King St. W. is a restored, five-storey brick-and-beam office/retail building. The property is comprised of 122,475 square feet of GLA and surface parking for three vehicles. Built in 1872 and expanded in the early 1890s to house the Gurney Stove Factory, the property was extensively renovated and retrofitted for office and retail use in 2000 and 2001.

9. 358-360 Adelaide St. W.



The Weld Building is a six-storey, brick-and-concrete office/retail building. The property is comprised of 54,249 square feet of GLA and surface parking for four vehicles. Built in 1920 and home to The Bryant Press for decades, the property was extensively renovated and retrofitted for office and retail use in 1999.

10. 82 Peter St.



82 Peter St. is a restored six-storey, brick-and-beam office/retail building. The property is comprised of 46,910 square feet of GLA and surface parking for 14 vehicles. Built in 1928 and home to garment industry tenants for decades, the property was extensively renovated and retrofitted in 1999 for office and retail use, though currently the building is leased solely for office use.

3. 468 King St. W.



468 King St. W. is a restored, seven-storey, brick-and-beam office/retail building. The property is comprised of 65,039 square feet of GLA, leased surface parking for 14 vehicles and one third-party sign facing west on King St. W. Built in 1910 and home to the Ontario Cabinet & Furniture Works for decades, the property was extensively renovated and retrofitted in 1999 for office and retail use, though currently it is leased solely for office use.

4. 420 Wellington St. W.



420 Wellington St. W. is a restored three-storey, brick-and-beam office/retail building. This property is comprised of 36,950 square feet of GLA and surface parking for three vehicles. Built in 1912 by The Dominion Paper Box Company and home to garment industry tenants for decades, the property was extensively renovated and retrofitted for office and retail use in 2001.

11. 331-333 Adelaide St. W.



The Fremes Building is a restored six-storey, brick-and-beam office/retail building. The property is comprised of 22,982 square feet of GLA and two large third-party signs, one facing south on Peter St. and one facing west on Adelaide St. W. Built in 1910s and home to the Ontario Clock Company for decades, the property was renovated and retrofitted for office and retail use in 1987 and further renovated in 1999.

12. 134 Peter St.



134 Peter St. is a four-storey, brick-and-beam office/retail building close to Queen St. W. The property is comprised of 49,024 square feet of GLA, surface parking for 12 vehicles and a large third-party sign facing east on Richmond St. W. Built in 1915 and home to G. Weston Bread Limited for decades, the property was partially renovated and retrofitted for office and retail use in 1987 and further renovated in 1999.

1. 425 Adelaide St. W.



The Krangle Building is a restored, five-storey, brick-and-beam office/retail building. Located on the south side of King St. W., west of the intersection with Spadina Ave., the property is comprised of 50,236 square feet of GLA. Built in 1910 and home to garment industry tenants for decades, the property was extensively renovated and retrofitted for office and retail use in 2000.

6. 425-439 King St. W.



The Samuel Building is a restored, seven-storey, brick-and-beam office/retail building. The property is comprised of 98,974 square feet of GLA, surface parking for four vehicles and one large third-party sign facing south on Spadina Ave. Built in 1910 and home to garment industry tenants for decades, the property was extensively renovated and retrofitted for office and retail use in 2000.

13. 35-39 Front St. E.



The Beardmore Building is a restored, four-storey, brick-and-beam office/retail building. The property is comprised of 47,417 square feet of GLA and seven underground parking spaces. Built in 1872, the property was extensively renovated and retrofitted for office and retail use in 1986 and further renovated in 1991. This property has been designated by the City of Toronto as having historical or architectural value.

14. 41-45 Front St. E.



The Perkins/Dixon Building is a restored, four-storey, brick-and-beam office/retail building. The property is comprised of 33,544 square feet of GLA. Built in 1875, the property was extensively renovated and retrofitted for office and retail use in 1985 and further renovated in 1991. This property has been designated by the City of Toronto as having historical or architectural value.

7. 99 Spadina Ave.



99 Spadina Ave. is a seven storey, brick-and-beam office/retail building. The property is comprised of 51,850 square feet of GLA. Built around 1910, the property was extensively renovated and expanded in 2001.

8. 388 King St. W.



388 King St. W. is a restored three-storey, brick-and-concrete office/retail building. The property is comprised of 40,766 square feet of GLA and surface parking for nine vehicles. Built in the 1930s and home to garment industry tenants for decades, the property was extensively renovated and retrofitted for office use in the 1980s and again for office and retail use in 1999.

15. 230 Richmond St. E.



230 Richmond St. E. is a restored four-storey, brick-and-beam office building. The property is comprised of 73,611 square feet of GLA, with surface parking for 62 vehicles and a large third-party sign. Built in 1909, the property was extensively renovated and retrofitted for office use in 2000.

16. 905 King St. W.



905 King St. W. is a six-storey, brick-and-concrete office/retail building. Located on the south side of King St., west of the intersection with Bathurst St., the property is comprised of 112,886 square feet of GLA and underground parking for 118 vehicles. The property was built in 1987 to a specification that affords a high degree of security and flexibility to contemporary office users.

A Dialogue With Management

Allied Properties REIT benefits from a strong and well balanced management team bringing together many years of experience and a broad range of skills. In this first annual report to unitholders we have asked the members of the senior management team to respond to questions about the REIT and its operations.



Michael R. Emory
President and CEO

As the REIT's senior executive, Michael is responsible for all aspects of its strategy

Q: *Acquisitions are a central part of Allied Properties REIT's growth strategy, with two having been completed in 2003. How can the REIT continue or increase the pace of acquisitions going forward?*

A: Two important factors work in our favour to increase the pace of acquisitions. First, the business climate for office properties in the REIT's target market is already encouraging, and we believe it will continue to improve over the next 12 months. This stable operating environment should enable us to continue to make acquisitions that improve the REIT's portfolio attributes and strengthen its operating results. As importantly, the size of the REIT's portfolio, as well as its geographic and operating focus, have made the REIT a leading owner in what remains a very fragmented market. Our position in this market, coupled with our financial capability, make the REIT a natural source of liquidity for office property owners who might otherwise be unable to liquidate their assets promptly and reliably.

Q: *How does the corporate governance of Allied Properties REIT add to the achievement of its objectives: stable and growing cash distributions and maximizing unit values through active management of assets and acquisitions?*

A: The REIT's board of trustees has worked with management to establish priorities for maintaining and expanding the REIT's business base. First among these is ensuring the stability of the REIT's distributable income. This is achieved by making sure management is sensitive to the REIT's tenant base, including exposure to any single tenant, or particular industry, as well as the financial health of tenants. Ensuring that long-term financing funds long-term assets is also critical. Second among the objectives is ensuring that any additions to the REIT's portfolio increase distributable income and enhance tenant risk profiles. By setting priorities for REIT management, the trustees provide a framework within which to monitor management's performance.



Gordon R. Cunningham
Chairman, Board of Trustees

Represents unitholders as chair of the REIT's Board and its Governance and Compensation Committee



Wayne L. Jacobs
Executive Vice President

The senior executive most familiar to its tenants, overseeing the asset management

Q: *Allied Properties REIT is recognized for its distinctive brick-and-beam buildings and near-core downtown locations, but how does the REIT's value proposition attract the current tenant mix?*

A: The REIT's value proposition for tenants is based on location and efficiency. Our properties are located in close proximity to the downtown core, and our occupancy cost is generally 50 per cent below the high-rise office tower formats. In addition, the REIT's distinctive exterior and interior environments help office tenants attract, motivate and retain their most valuable assets... people.

Q: *The REIT added two properties to its portfolio in its first year of public operation, and it plans to accelerate the pace of acquisitions going forward. How does the REIT integrate a new property into its portfolio to ensure a seamless transition for the tenants?*

A: Our integration process starts long before the acquisition is completed, with extensive due diligence on all physical, financial and legal aspects of the property. We then prepare a comprehensive action plan to improve the operations of the property following acquisition. As soon as we've acquired a new property, we meet with the tenants face-to-face. When they find that we're aware of their concerns and have an action plan ready, they're generally pleased and reassured. They're often extremely helpful to us in the integration process. It's not uncommon for excellent operational suggestions to come from our tenants, new and old.



Marianne O'Leary
Vice President, Operations

A seasoned real estate professional with particular expertise in property management



Tom Wenner
CFO

The REIT's senior financial executive, responsible for maintaining its conservative capital structure

Q: *How does the REIT's financial strength and flexibility assist in the implementation of its acquisition strategy?*

A: The REIT's financial strength and flexibility is a product of its conservative debt profile. With conventional bank financing, the favourable interest rates on mortgages and access to the equity capital markets, the REIT is well positioned to consolidate its large, fragmented and growing target market. These financial resources and management's expertise in assessing and extracting the value of Class I properties will provide meaningful growth for the REIT.



Management's Discussion and Analysis

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 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 the 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 except for per unit amounts)	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 Income²	\$ 6,907	\$ 6,409	\$ 498	\$ 153	\$ 345
Net income per unit (basic)	\$ 1.046	\$ 0.936	\$ 0.110		
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 Income³	\$ 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 costs.

Rental property operating costs 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	97.0%	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 in 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

February 19 to December 31, 2003

(In thousands except for unit and per unit amounts)

Cash from operating activities	\$	7,001
Amortization, deferred expenses		(51)
Change in non-cash operating items		(43)
Distributable Income¹	\$	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

February 19 to December 31, 2003

(In thousands)

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 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 ended December 31, 2003, the average borrowings under the Operating Credit Facility was \$1,146. During the period, \$3,157 of the 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 these first mortgages will be discharged. The Acquisition Credit 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 Income¹	\$ 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)
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 Income²	\$ 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 result of the CICA issuing Section 1100, Generally Accepted Accounting Principles, 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 (leases that have an 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 year 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 in 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, 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

Management's Responsibility for the Financial Statements

The management of Allied Properties Real Estate Investment Trust (the "REIT") is responsible for the integrity and fairness of the financial information presented in this Annual Report. These financial statements were prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants and the Canadian Institute of Public and Private Real Estate Companies. The financial statements, where necessary, include amounts, which are based on best estimates and judgement of management. Financial information appearing throughout this Annual Report is consistent with that shown in accompanying financial statements.

Management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized.

The Board of Trustees oversees management's responsibility for financial reporting through an Audit Committee, which is composed entirely of outside trustees. The Audit Committee reviews the financial statements with both management and the independent auditors before such statements are approved by the Board of Trustees and submitted to Unitholders of the REIT.

BDO Dunwoody LLP, the independent auditors of the REIT, have examined the financial statements of the REIT in accordance with Canadian generally accepted auditing standards to enable them to express to the Unitholders their opinion on the financial statements. The Auditors of the REIT had full and free access to, and meet periodically with, the Audit Committee.

Signed

Michael R. Emory
President and Chief Executive Officer

Signed

Tom Wenner, CA
Chief Financial Officer

Auditors' Report

To the Unitholders of Allied Properties Real Estate Investment Trust

We have audited the balance sheet of Allied Properties Real Estate Investment Trust as at December 31, 2003 and the statements of earnings, unitholders' equity and cash flows for the period then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material mis-statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2003 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

Signed

BDO Dunwoody LLP
Toronto, Ontario
February 3, 2004
(except Note 16, as of February 27, 2004)

Balance Sheet

(in thousands) At December 31, 2003

Assets	
Rental properties (Note 4)	\$ 153,744
Deferred expenses (Note 5)	1,749
Other assets (Note 6)	1,271
Cash	305
	\$ 157,069
Liabilities	
Mortgages payable (Note 7)	\$ 82,096
Accounts payable and other liabilities (Note 8)	6,387
Distributions payable	653
	89,136
Unitholders' Equity (Note 9)	67,933
	\$ 157,069

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

Approved by the Board of Trustees

Signed

Gordon Cunningham
Trustee

Signed

Michael R. Emory
Trustee

Statement of Unitholders' Equity

From February 19, 2003, to December 31, 2003
(in thousands, except unit amounts)

Balance, beginning of period	\$	–
Net earnings		6,434
Distribution to unitholders		(5,868)
Units issued		72,229
Issue costs		(4,862)
	\$	67,933
Units issued and outstanding (Note 9)		7,120,279

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

Statement of Earnings

From February 19, 2003, to December 31, 2003
(in thousands, except unit and unit amounts)

Rental revenue	\$	17,945
Operating costs		5,803
Amortization of rental properties		789
Amortization of deferred expenses		51
		6,643
Operating income from rental properties		11,302
Financing expense		3,811
Trust expenses		1,057
Net earnings	\$	6,434
Net earnings per unit		
Basic	\$	1.046
Fully diluted	\$	1.045
Weighted average number of units		
Basic		6,153,384
Fully diluted		6,155,538

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

Statement of Cash Flows

From February 19, 2003, to December 31, 2003
(in thousands)

Cash Provided by (used in)	
Operating activities	
Net earnings	\$ 6,434
Items not affecting cash	
Amortization, rental properties	789
Amortization, deferred expenses	51
Amortization, premium on assumed mortgages payable	(316)
	6,958
Change in other non-cash operating items	43
Cash from operating activities	7,001
Investing activities	
Net assets acquired (Note 2)	(54,974)
Capital expenditures, rental properties	(270)
Deferred leasing costs	(481)
Cash used in investing activities	(55,725)
Financing Activities	
Repayment of mortgages payable	(1,383)
Deferred financing costs	(173)
Distributions	(4,588)
Proceeds of initial public offering of units (net of issue cost)	45,593
Proceeds of private placements (net of issue costs)	9,580
Cash provided by financing activities	49,029
Increase in cash and cash equivalents	305
Cash and cash equivalents, beginning of period	—
Cash and cash equivalents, end of period	\$ 305
Other cash flow information	
Interest paid	\$ 3,702
Supplemental disclosure of non-cash activities	
Units issued pursuant to the distribution reinvestment plan	\$ 628

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

Notes to Financial Statements

(In thousands of dollars except per unit and unit amounts)
December 31, 2003

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 REIT are traded on the Toronto Stock Exchange.

These financial statements present the financial position of the REIT as at December 31, 2003 and the results of operations and cash flows, for the 316-day period from February 19, 2003 to December 31, 2003.

2. Acquisitions

On February 19, 2003 the REIT acquired seven rental properties and acquired seven additional rental properties on February 20, 2003. On each of October 1, 2003 and December 19, 2003 the REIT acquired an additional rental property.

(a) The Offering

On February 20, 2003, the REIT issued 5 million voting units at \$10 per unit pursuant to an initial public offering (the “Offering”), resulting in gross proceeds of \$50,000. Costs relating to the Offering, including underwriters’ fees, were \$4,407.

Net assets acquired were as follows (using the purchase method of accounting):

Rental properties	\$ 125,424
Acquisition costs, including land transfer taxes	1,289
Amounts receivable	1,034
Secured debt	(66,956)
Accounts payable and accrued liabilities	(3,814)
	<hr/>
	\$ 56,977

Consideration paid for the net assets acquired consisted of the following:

Cash	\$ 46,538
1,043,902 units issued to vendors	10,439
	<hr/>
	\$ 56,977

(b) Other Acquisitions

On each of October 1, 2003 and December 19, 2003 the REIT acquired an additional rental property. Net assets acquired were as follows (using the purchase method of accounting):

Rental properties	\$ 27,056
Acquisition costs, including land transfer taxes	494
Amounts receivable	11
Fair value of in-place leases	1,146
Fair value of above and below-market leases	(883)
Secured debt	(16,839)
Accounts payable and accrued liabilities	(1,421)
	<hr/>
	\$ 9,564

Consideration paid for the net assets acquired consisted of the following:

Cash	\$ 8,436
110,000 units issued to vendor	1,128
	<hr/>
	\$ 9,564

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.

(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.

Amortization on buildings is recorded on the 5% sinking fund method to fully amortize the cost of the buildings over 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. 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.

(g) Unit-based compensation plan

The REIT has adopted section 3870 of the CICA Handbook with respect to the accounting and disclosure of unit-based compensation, which recommends that awards to employees and directors be valued using a fair-value method of accounting. Under section 3870, reporting entities that elect a method other than the fair-value method of accounting are required to disclose pro-forma net income and earnings per unit information, using a pricing model such as the Black-Scholes model as if the fair value method had been used.

The REIT has a unit based compensation plan, which is described in Note 10. No compensation expense is recognized for this plan when unit options are granted. Any consideration paid on exercise of unit options is credited to unitholders' equity.

(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. For the period ended December 31, 2003, the exercise of options would have been dilutive by a minimal amount.

4. Rental Properties

	Cost	Accumulated Amortization	Net Carrying Amount December 31, 2003
Land	\$ 24,187	\$ –	\$ 24,187
Building, improvements and other costs	130,346	(789)	129,557
	\$ 154,533	\$ (789)	\$ 153,744

5. Deferred expenses

Deferred expenses consist of costs incurred by the REIT, net of amortization of \$51, 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 \$1,271 consist of accounts receivable of \$190, cash deposits of \$70 on account for a pending property acquisition, prepaid expenses of \$38 and escrow accounts held by mortgagees of \$973.

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 7.09%. The fair value of the mortgages payable is \$83,735.

Mortgages payable at December 31, 2003 are due as follows:

	Principal Repayments	Balance Due at Maturity	Total
Year ended December 31, 2004	\$ 1,936	\$ 3,682	\$ 5,618
Year ended December 31, 2005	1,993	1,850	3,843
Year ended December 31, 2006	1,904	9,931	11,835
Year ended December 31, 2007	1,758	11,146	12,904
Year ended December 31, 2008	1,101	14,404	15,505
Thereafter	5,901	25,285	31,186
	\$ 14,593	\$ 66,298	\$ 80,891
Premium on assumed mortgages (net of amortization)			1,205
			\$ 82,096

The REIT has a \$5,000 revolving credit facility (the "Operating Credit Facility") with a Canadian chartered bank, which matures February 28, 2004, (see Note 16) and bears interest at bank prime rate plus 0.5%. The REIT also 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%. Both credit facilities are secured by first mortgage charges on two rental properties and by second and third mortgage charges on three other rental properties. At December 31, 2003 the amount outstanding under both credit facilities was \$ nil.

8. Accounts payable and other liabilities

Accounts payables and other liabilities consist of:

General operating payables and tenant deposits	\$ 5,025
Below market rents of leases acquired through rental property acquisition (net of above market rents)	883
Accrued interest on mortgages payable	425
Deferred revenue with respect to Bridge Covenants (Note 15)	54
	\$ 6,387

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 issued on February 19, 2003 pursuant to the acquisition of properties	100
Units issued on February 20, 2003 pursuant to the Offering	5,000,000
Units issued on February 20, 2003 to vendors of properties as partial satisfaction for the acquisition of properties	1,043,902
Redemption of units on February 20, 2003	(100)
Units issued on October 3, 2003 pursuant to a private placement	110,000
Units issued on December 18, 2003 pursuant to a private placement	900,000
Units issued under the Dividend Reinvestment Plan	66,377
Units outstanding, December 31, 2003	7,120,279

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 February 20, 2003 and 115,000 options vests on each of 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, 2003	345,000	\$ 10.00
Options exercisable, December 31, 2003	115,000	\$ 10.00

The weighted average fair value of options granted during the period ended December 31, 2003 amounted to \$0.088 per option. The fair value of each option granted was determined using the Black-Scholes option pricing model and the following average assumptions:

Risk-free interest rate	4.93%
Expected average life of option	4 years
Expected volatility in the market price of units	14%
Expected distribution yield	11%

If the Unit Option Plan had been accounted for based on fair value method, there would be no material affect on pro-forma net income for the period ended December 31, 2003 and pro-forma net income per unit would have remained as reported.

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 December 31, 2003. The fair value of the mortgages payable is \$83,735.

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 outstanding debt at December 31, 2003 is at fixed interest rates and is not exposed to changes in interest rates. However, as fixed rate debt matures and as the REIT utilizes additional floating rate debt under the revolving credit facilities, the REIT will be 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 December 31, 2003 were \$1,281.

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 December 31, 2003 was \$1,165.

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 December 31, 2003 was \$34.

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 December 31, 2003 was \$11.

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 December 31, 2003 was \$52.

Included in accounts payable and other liabilities is an amount of \$6 related to the above noted services. Included in commitments and contingencies is an amount of \$80 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 December 31, 2003:

Related Party	Nature of Revenue	For the Period Ended December 31, 2003
Vendors of properties	Bridge Covenants	\$ 602
TechSpace Canada Inc.	Lease	643
Vendors of properties	Head Lease	284
		\$ 1,529

TechSpace Canada Inc. is a subsidiary of Allied Properties.

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. The vendors have prepaid the obligations under the Bridge Covenants and the unamortized balance of the prepayment is recorded as deferred revenue. The vendors providing the Bridge Covenants 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 \$920, 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 February 27, 2004 the REIT acquired 217-225 Richmond Street West, a rental property in Toronto, Ontario for \$7,500. The acquisition was financed with an assumed mortgage of \$2,730, due November 1, 2007, bearing interest at 6.53% with a 20-year amortization, and the balance with cash.

On February 27, 2004 the REIT accepted a commitment with a Canadian chartered bank to provide the REIT with a \$15,000 revolving credit facility with a two-year term. Interest is payable monthly 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.

Corporate Governance

In a few short paragraphs I'd like to provide you my perspective on governance of our REIT. Like the vast majority of public companies and unit trusts, we have put in place all of the mechanics to meet corporate governance requirements, and are in compliance with each of the TSX guidelines in this regard.

Being in compliance with the mechanics of governance rules provides the appropriate framework of good governance, but it doesn't ensure it. Rules, no matter how sophisticated, will not deter people intent on misbehaving. Good governance is ensured by having in place people, whether trustees or management, who have the skill sets to run a business, the intellectual capacity and business experience required to understand the issues and risks facing that business, the time to invest to ensure that information provided is understood, and the integrity to stand up and be counted, should anything not pass the reasonably prudent man's litmus test.

I consider myself fortunate to be involved with an organization where both management and trustees are committed to good governance and possess the will and determination to provide it.

Signed

Gordon Cunningham
Trustee

Trustees and Management

Gerald R. Connor Mr. Connor is Chairman of Cumberland Asset Management Corp., which currently manages assets in excess of \$1 billion for institutions and high net worth investors. He is also a director of IPC Financial Network Inc. Prior to founding Cumberland Asset Management Corp. in 1997, Mr. Connor was President of Connor, Clark & Company Ltd. and Chairman of the board of directors of Connor, Clark & Lunn Investment Management.

Gordon R. Cunningham – Chairman Mr. Cunningham is President of Cumberland Asset Management Corp. He is also a director of Intertape Polymer Group Inc. Positions Mr. Cunningham has previously held include President and Chief Executive Officer of London Insurance Group and London Life Insurance Company. Mr. Cunningham was formerly a partner at the law firm of Torys.

Michael R. Emory Mr. Emory is President and Chief Executive Officer and a trustee of the REIT. He is also President and Chief Executive Officer and a director of Allied Properties, positions he has held since 1988. Prior thereto, Mr. Emory was a partner with the law firm of Aird & Berlis LLP, specializing in corporate and real estate finance.

Gordon C. Gray Mr. Gray is a director of Abitibi Consolidated Inc. and McDonald's Corporation. He is also Chairman of the board of directors of Integris Metals Inc., a metals products supplier owned by Alcoa Inc. and BHP Billiton Limited, an international mining and metals business. He has previously held positions as Chairman of the board of directors of both Rio Algom Limited and Royal LePage Ltd. and President and Chief Executive Officer of A.E. LePage.

Robert W. Martin Mr. Martin is Chairman of the board of directors of Acres Inc. He also holds directorships with Enbridge Inc., Enbridge Gas Distribution, HSBC Bank and HSBC Bank North America Canada and he is a Trustee of Atlas Cold Storage Income Trust and a member of the Advisory Board of Aon Reed Stenhouse. He is also a Director of York University and an honorary governor.

T. Iain Ronald Mr. Ronald is the Chairman of the board of directors of TransAlta Power Ltd., the general partner of TransAlta Power L.P. He is also a director of The Canada Life Assurance Company, Canada Life Financial Corporation, Loblaw Companies Ltd., and past Vice-Chairman of the board of the Canadian Imperial Bank of Commerce.

Daniel F. Sullivan Mr. Sullivan is Deputy Chairman of Scotia Capital Inc., the corporate and investment banking division of the Bank of Nova Scotia. Mr. Sullivan has over 30 years of experience in the investment banking industry, and has extensive experience in real estate financing and the acquisition and disposition of commercial properties. Mr. Sullivan is a director of Camco Inc. and has served on the boards of Cadillac Fairview Corporation, Monarch Developments Inc. and Schneider Corporation.

Wayne L. Jacobs Mr. Jacobs is Executive Vice President of the REIT. He is also Executive Vice President and a director of Allied Properties, positions he has held since 1995. Prior to joining Allied Properties in 1993, Mr. Jacobs was employed by CB Richard Ellis, a leading national real estate brokerage firm.

Marianne O'Leary Ms. O'Leary is Vice President, Operations of the REIT. She is also Senior Vice President, Real Estate Operations of Allied Properties, a position she has held since 1995. Ms. O'Leary is a Real Estate Institute of Canada Certified Property Manager (CPM) and Certified Manager of Condominiums (CMOC).

Tom Wenner Mr. Wenner is Chief Financial Officer and Secretary of the REIT. Prior to December 31 2003 he was also Vice President, Finance of Allied Properties, a position he held since 1999. Mr. Wenner was previously employed by The Bank of Nova Scotia, Corporate Banking and prior thereto he was employed by Deloitte & Touche. Mr. Wenner is a Chartered Accountant.

Shareholder Information

Corporate Offices:

Allied Properties
Real Estate Investment Trust
469 King Street West
Fourth Floor
Toronto, ON
M5V 1K4

Counsel:

Aird & Berlis LLP
BCE Place
Suite 1800, Box 754
181 Bay Street
Toronto, ON
M5J 2T9

Listing:

Toronto Stock Exchange
(TSX) AP.UN

Registrar and Transfer Agent:

CIBC Mellon Trust Company
320 Bay Street
P.O. Box 1
Toronto, ON
M5H 4A6

Annual Meeting:

Monday, May 3, 2004
4:15 PM ET
Toronto Stock Exchange
Conference Centre
130 King Street W.
Toronto, ON
M5X 1J2

Investor Relations Contact:

Michael R. Emory
President and Chief Executive Officer
Allied Properties
Real Estate Investment Trust
469 King Street West
Fourth Floor
Toronto, ON
M5V 1K4

Auditors:

BDO Dunwoody LLP
32nd Floor, Royal Bank Plaza
P.O. Box 32
Toronto, ON
M5J 2J8



This annual report is printed on paper that contains 10% post-consumer waste.
The financials are printed on paper that contains 30% post-consumer waste.