

INREIT

— REAL ESTATE INVESTMENT TRUST —

 Community First

ATM

3RD ANNUAL REPORT TO SHAREHOLDERS
2004

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This material is not an offer to sell nor a solicitation of an offer to buy any security. Any offer is made by prospectus only.



March 31, 2005

Dear INREIT Shareholders:

INREIT Real Estate Investment Trust has completed its second full year of operations and we are very proud of our accomplishments. Our assets grew to approximately \$28 million from \$11 million. Our acquisitions in 2004 included the Community First Financial Center in Fargo, ND, the Edgewood Vista Senior Living Center in Minot, ND, and the Autumn Ridge apartment complex in Grand Forks, ND. Other activities included the remodeling of Midtown Plaza in Minot, which serves as our headquarters, leasing and build-out of several new tenants in the Grand Forks Marketplace, and several smaller remodeling projects at our existing properties. INREIT's first new construction project was the Autumn Ridge apartment complex in Grand Forks in 2004. The second 36-plex was completed in January, 2005. We continue to search for quality, long-term real estate investments to acquire and hold in our portfolio.

Shareholder Equity grew from \$4 million to almost \$10 million in 2004. This growth came from sales of our stock and contributions of our operating partnership units. We have completed our first stock offering and will be issuing our second offering soon.

Our Funds from Operations increased to over \$640,000 in 2004 from \$250,000 in 2003. We are pleased with the performance of our real estate portfolio.

We feel INREIT's future is very bright and we will continue to perform for the benefit of our shareholders.

Respectfully,

Randy I. Westby, CPA, COO
INREIT Management, LLC

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INREIT REAL ESTATE INVESTMENT TRUST

The Company:

INREIT was officially formed on November 1, 2002. At that point, the Golden Estates Independent Living Facility in Williston, ND, was purchased with funds from the original ten shareholders. We first sold shares to the public in January, 2003, as part of our \$2 million offering. That offering was expanded to \$5 million later in the year.

INREIT Properties, LLLP, was formed during 2003 to act as our operating partnership and to allow the Company to acquire appreciated real property and to provide non-recognition of gain by the owners. All of our properties are held by INREIT Properties, LLLP, for which INREIT acts as the General Partner.

The Board of Trustees:



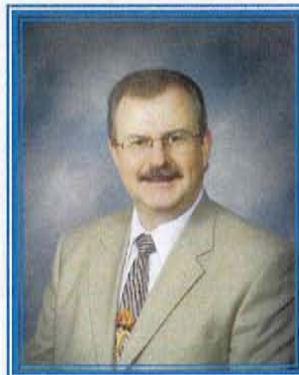
INREIT is governed by a Board of Trustees which makes all final decisions regarding real estate acquisitions, property dispositions and other important matters pertaining to the Company. Our Board is now comprised of eleven trustees. Since the above picture was taken, Philip Gisi and Clifford Fearing have also been appointed to the Board.

RANDY I. WESTBY, Rugby, North Dakota, is a Certified Public Accountant. Randy was raised in Rolette, ND, and graduated from Rolette High School in 1976. He graduated from the University of North Dakota, Grand Forks, ND, in 1980 with a BSBA in accounting, followed by two semesters of graduate school. He has worked as an accountant with Zine, Hoover & Voeller, CPAs, and Dresser Atlas, both in Williston, ND.

In July of 1983, he established Randy I. Westby, CPA, PC in Rugby, ND. Randy assisted in a \$3.5 million real estate development project with PAMIDA. He is general partner in the following groups: Pierce Inv. Ltd. Partnership, Mercer Inv. Ltd. Partnership and Langdon Inv.

Ltd. Partnership. He is the current president of KRESDA, Inc., a real estate development company, and also serves as Vice-President of the North Dakota Golf Association. Since its inception in November of 2002, he has acted as Chief Operating Officer of INREIT and was recently elected Vice Chairman of the Board for INREIT.

Randy currently resides in Minot with his wife, Debora and their two children.

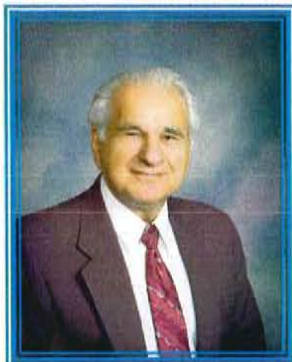


LAWRENCE R. (LARRY) O'CALLAGHAN has been a resident of Fargo, ND, for the past nine years and is the owner of O'Callaghan & Associates, Inc. As an investment broker he is actively raising new investment capital for INREIT.

Reared in the south central part of North Dakota near Hazelton, Larry spent his youth working on the family farm. After graduating from Hazelton High School, he moved to Bismarck and earned an associate of arts degree in computer programming and systems analyst from Bismarck State College in 1970. Larry has been a licensed life and health agent since 1974. From 1979 to 1984, he was co-owner of an insurance agency in Bismarck, ND. Being responsible for training, sales and marketing support for 14 agents, Larry has a history of positive experiences in staff & operations administration.

Larry's history as an investment consultant includes work experiences with EF Hutton, AG Edwards, Securities America, Huntingdon Securities, and currently is a financial consultant with Pintegra Financial Solutions. He has held his Series 6 and 63 Security Licenses since 1983 and Series 7 since 1985. Larry was awarded the CSA (Certified Senior Advisor) certification in

2001. His work experience includes raising millions of new investment capital dollars for Real Estate Investment Trusts since 1994. Larry served as INREIT's first Chairman of the Board.



VERNON OWAN was educated locally for twelve years and then attended UND in Grand Forks for a year. He has been active in farming, real estate, and both commercial and residential construction most of his adult life. His more recent accomplishments include 14 duplexes and a 16-unit independent living facility for senior citizens

(Golden Estates) which was opened in October of 1999. Vern resides in Williston, ND, where he recently celebrated the Grand Opening of his new motel, Marquis Plaza & Suites.

EARL STRINDEN is a current resident of Grand Forks, ND. He received a B.A. from Concordia College and an M.A. from UND. Earl has become a prominent part of North Dakota's political history. He spent twenty-six years in elected office, starting with the Grand Forks City Council from 1962-1970 and twenty-two years in the North Dakota House of Representatives. Earl served as House Majority Leader longer than anyone in North Dakota's history. Earl is a veteran of the U.S. Marine Corps. He was a faculty member at Lincoln High School, Thief River Falls, MN, and was part owner and manager of Strinden Hardware in Grand Forks from 1959-1969. He was one of the founding board members of Community National Bank, Grand Forks, ND, and a member of the board of directors from 1964 to 2000.

In 1969, Earl joined the staff of the Alumni Association of UND. In 1974, he became CEO of the Association, a non-profit corporation with a nationwide membership of over 90,000. In 1978, Earl was the founder of the UND Foundation and served as the CEO of the Foundation and the Alumni Association, two separate organizations, until he retired in 2000. Under his leadership, the Foundation grew in assets from \$1,000,000 to over \$130,000,000. Earl is the recipient of the Greater North Dakotan Award, the Sioux Award from the UND Alumni Association, and the Alumni Award from Concordia College.



INREIT

JOHN BOTSFORD earned a BS from the University of North Dakota, Grand Forks, in 1976. After college, he joined the family business of Botsford & Rice, a farm management, appraisal and real estate company. First in partnership with his father, and later as the sole owner, he operated and expanded the business and also created

a new companion company of Botsford & Rice Cooperative Securities, LLP, which specialized in the brokerage of ag co-op stock. In 1981, he earned the professional designation of Accredited Rural Appraiser from the American Society of Farm Managers and Rural Appraisers. John is currently a Certified General Real Property Appraiser in North Dakota and Minnesota, a licensed real estate broker in North Dakota, Minnesota and Montana, and a licensed securities registered representative.

Botsford & Rice, Inc. and Botsford & Rice Cooperative Securities were acquired by First National Bank North Dakota (now Alerus Financial) in 1998. Since 1998, John has been employed by Alerus Financial as an ag specialist and in new business development. In addition to his position at Alerus, John is also president of Botsford & Qualey Land Company — a regional land brokerage company.

John has served as President of the North Dakota Chapter of Farm Managers & Rural Appraisers and the Northwest Farm Managers Association. He also served on the Board of Directors of Bremer Funds (a mutual fund company) of St. Paul, MN. Currently, he serves as president of the Myra Foundation, a private charitable foundation based in Grand Forks, ND.

A native of Grand Forks, John continues to reside there with his wife, Dawn, and their son, Tom.

TIM HUNT is currently the CEO for a thirty-six physician hospital in Alexandria, Minnesota. He obtained his Masters in Health Care Administration from the University of Minnesota, is a



Diplomat in the American College of Healthcare Administrators and has spent twenty-eight years in healthcare administration. He is past board member of MN Medical Group Management Association (an association of 700 clinic managers) and currently holds board positions with the following groups: Board Member of Bremer Trust; Board Member and Treasurer of Luthercrest Bible Camp; and Board Member and President of Alexandria Imaging.



Tim is a past Board Member of the Alexandria Chamber of Commerce, past Board Member and President of Calvary Lutheran Church and past Board Member of United Way. He and his wife, Pamela and children make their home in Alexandria, Minnesota.

PEGGY J. BECKER was raised on a ranch at Beulah, ND, attended school at Beulah High and has worked in the restaurant business in Bismarck since 1970. She purchased the Little Cottage Café in 1985, which she managed and owned until 1997. Peggy purchased Armstrong Sanitation Plus in 1993 and Dakota Sanitation Plus & Roll-Off, Inc. in 1997, which she still owns & manages today.



PHILIP GISI is a shareholder and the Secretary/Treasurer and CFO of Edgewood Vista Senior Living, Inc., which was founded in Minot, North Dakota in 1992. The Corporation owns and operates independent living, assisted living and Alzheimer's care facilities in 20 locations covering a 5-state region.

Phil was raised in New Rockford, ND, and graduated from the University of North Dakota in 1982 with a BSBA in accounting, and attended graduate school in Health Care Administration. Phil was the CFO for Custom Contractors, Inc., an oil field service and construction company in Dickinson, ND, from 1982 to 1986. In 1986, Phil joined St. Joseph's/UniMed Medical Center, a 200-bed hospital in Minot, ND as Controller, and

was named Vice President/CFO in 1988 and President/CEO in 1995. Phil became a shareholder of Edgewood Vista Senior Living, Inc. in 1994 and joined the company as Vice President/CFO in April, 1996. Phil moved Edgewood's corporate offices to Grand Forks in 1998.

Phil also owns Edgewood Properties, LLC, and EMG Investment Group, LLC, which owns real estate and operates retail businesses in North Dakota and Minnesota. Phil is a past Chair of the East Grand Forks Chamber of Commerce. He and his wife, Trish, have two children and live in Grand Forks.

DR. THOMAS I. STRINDEN obtained his B.A. in biology from Concordia College in Moorhead, MN. He attended the University of North Dakota School of Medicine. After a transitional internship year at St. Lukes Hospital in Fargo, he completed his ophthalmology training at the University of Wisconsin, Madison. He began his career with River Valley Clinic in the Twin Cities area from 1992-1995 and is currently the managing physician partner for eye services with the Meritcare Medical Group in Fargo, ND. Dr. Strinden was awarded Fargo-Moorhead's "Top Doc" designation in 2002.



Dr. Strinden maintains several professional organization memberships as follows:

- * Councilor to the American Academy of Ophthalmology (Chair of the Heartland Region)
- * Fellow American Academy of Ophthalmology
- * North Dakota First District

Medical Society

- * American Society of Cataract and Refractive Surgery
- * North Dakota Society of Eye Physicians and Surgeons
- * Associate Clinical Professor UNDSM
- * Active member of the Fargo Rotary
- * Strathmore Who's Who 2002-2003.

DAVID A. LASKE has owned an accounting and tax practice for the past twenty years in Fargo, ND. He has been in the public accounting profession since 1969, including twelve years as a tax manager at then Eide Helmeke & Co., a large regional accounting firm in Fargo, ND. David practices in North Dakota as a Licensed Public Accountant (LPA) and holds the designation of Accredited Tax Advisor from the Accreditation Council of Accounting and Taxation.

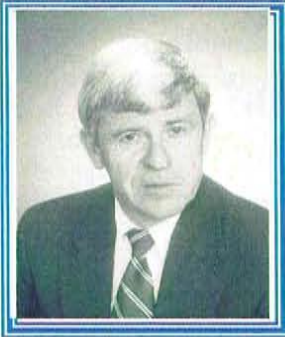
Active in the accounting profession, David has held the offices of President, Vice President and Secretary/Treasurer of the North Dakota Society of Public Accountants and CPE committee chair of NDSPA for approximately ten years. He was also involved with a seminar presentation

business for accountants.

In addition, David is currently on the Board of directors of Fraser, Ltd., in Fargo, ND, an organization serving the needs of the disabled population. He has been treasurer of Fraser, Ltd. for the past twelve years and serves on various board committees, including executive, finance and insurance, and personnel.



Clifford P. Fearing was born on August 24, 1943, in Hibbing, MN. He graduated from Hibbing High School in 1961, and graduated from the University of Minnesota, Duluth campus, in 1965 with a B.A. in Accounting/Finance, and a minor in International Law. Cliff began his accounting career with



Lybrand, Ross Brothers and Montgomery, Inc. in Chicago, IL, in 1965. In 1967 he moved to the accounting firm of Boulay, Heutmarker and Zibell, Inc. in Minneapolis. In 1969, Cliff took a position with the University of Minnesota Hospitals in Minneapolis, and eventually became CFO in charge of the Hospital's Finance Department, and retired from that position in 1999.

Cliff was a member of the Dellwood Hills Country Club board, and president of the board in 1999. He remains an active member of the Stillwater, MN, Country Club. He resides in Stillwater with his wife, Donna and has two adult children.

The Advisor:

As the Advisor to INREIT (the "Trust"), and under the direction of the Trustees, INREIT Management, LLC manages the day-to-day operations of the Trust. It provides the office facilities, equipment, supplies and staff required to conduct the operations of INREIT. The Advisor is responsible for preparation of reports to both the Trustees and shareholders, as well as advising the Board with regard to investment decisions.

The management team consists of Randy Westby, Dr. Thomas Strinden & Roger Domres.



Roger Domres is in charge of Marketing for INREIT.



Darla Iverson is INREIT's Corporate Secretary & handles Investor Relations Services.



Jon Strinden represents INREIT's legal counsel, Dorsey & Whitney, LLC, of Fargo, ND.

(Not pictured is Tonya Naumann, INREIT's receptionist.)

Real Estate Investments:

2002

On **November 1, 2002**, INREIT Purchased Golden Estates, a 16-unit independent living facility in Williston, ND.

\$ 1,350,000

2003

During 2003, INREIT purchased the following properties:

7/01/03 Grand Forks Marketplace, Grand Forks	\$ 6,040,415
9/30/03 Ellingson Apts., Carrington	\$ 588,492
9/30/03 The Villages housing developments, eight locations in ND & SD	\$ 2,409,664

2004

During 2004, INREIT acquired the following properties:

1/31/04 Midtown Plaza Bldg., Minot	\$ 300,000
3/16/04 Community First Bank Building, Fargo	\$ 3,800,000
8/16/04 Autumn Ridge Apts. Grand Forks (Building I & land)	\$ 3,000,000
9/15/04 Edgewood Vista, Minot	\$ 7,830,000
12/31/04 Autumn Ridge Apts. Grand Forks (Building II)	\$ 2,075,000

Currently, no properties have been sold or liquidated.



*Grand Forks Marketplace Retail Center
Grand Forks, ND*

EDGEWOOD VISTA

SENIOR LIVING CENTER



EDGEWOOD VISTA Senior Living Center is located in Minot, North Dakota. It houses 14 Alzheimer's units and 146 assisted living units. The property is leased to Edgewood Vista Senior Living, Inc. on a long-term basis.

INREIT
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ELLINGSON APARTMENTS

*Ellingson 4-plex Apts.
Carrington, North Dakota*



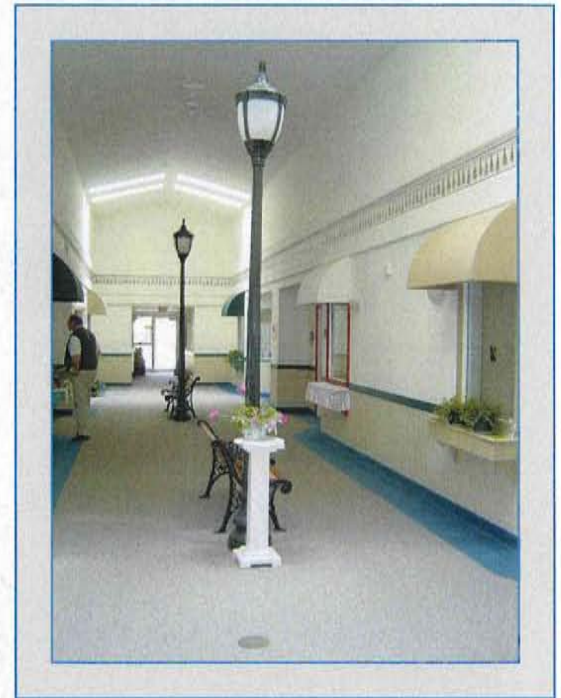
ELLINGSON APARTMENTS, Carrington, ND, were purchased in September, 2003. These higher-end apartments consist of 20 units, each with its own central vacuum system and washer & dryer. Garages are also available.



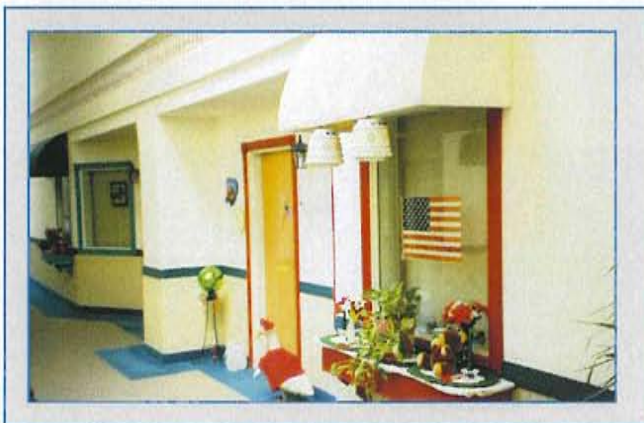
*Ellingson 12-plex Apartments,
Carrington, North Dakota*



GOLDEN ESTATES



GOLDEN ESTATES, a 16-unit independent living facility in Williston, North Dakota, was purchased on November 1, 2002. The facility was opened in 1999 and is occupied by private-pay individuals who are 55 years of age or older. The units are 858 square feet in size, with garages available on a monthly rental basis.



THE VILLAGES consists of 220 units of government-subsidized housing in Harvey, Hettinger, Lamoure, McVie and Rugby, North Dakota, and Groton, Redfield and Leola, South Dakota. These apartments were acquired in September, 2003.

THE VILLAGES



AUTUMN RIDGE

APTS.

AUTUMN RIDGE APARTMENTS are currently under construction in Grand Forks, ND. 36 units were completed in August and another 36 units in January, 2005.



MIDTOWN PLAZA



MIDTOWN PLAZA, an office building located in Minot, ND, was acquired during the first quarter of 2004. The building houses INREIT's corporate offices as well as several other professional businesses. Midtown Plaza is currently undergoing renovations and has been placed in the Renaissance Zone Program, creating relief from North Dakota income taxes and real estate taxes for tenants and owners.

COMMUNITY FIRST FINANCIAL CENTER



INREIT completed the purchase of the \$3.8 million Community First Bank building in Fargo on March 16, 2004. The building's 30,000 square feet of office space is leased to Eide Bailly and Community First Bank. Eide Bailly is a regional accounting and consulting firm with offices in six states and over 650 employees. *(Community First has since been bought out by Bank of the West.)*

GRAND FORKS MARKETPLACE

RETAIL CENTER



GRAND FORKS MARKETPLACE NATIONAL RETAIL CENTER in Grand Forks, ND, has 183,147 square feet leased and occupied by several national chains, such as Best Buy, Old Navy, Catherine's, Gordman's, Michael's, Hallmark, Famous Footwear, Bed Bath & Beyond, Lane Bryant, Great Clips, Foxy Nails, Starbucks, Qdoba Mexican Grill, Jimmy John's & Cold Stone Creamery. INREIT purchased a one-third interest in this \$19 million complex in July of 2003.





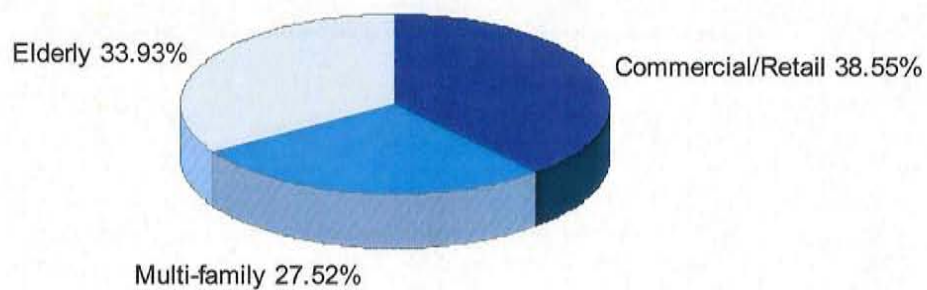
INREIT

INREIT



Real Estate Portfolio Mix

December 31, 2004



Operations

Our properties are performing well. Golden Estates in Williston remains full, and Grand Forks Marketplace is 100% occupied. The Ellingson Apartments remain full. The Villages occupancy rate has increased to 74% from 68% in 2004. The first Autumn Ridge building is completely occupied and we expect the second building to be full by early summer of 2005. Edgewood Vista and Community First Financial Center are completely occupied with long-term leases. We continue to try to arrange long-term financing at favorable rates.

Earnings & Dividends

Our earnings for 2004 were \$256,957. Adding back depreciation of \$383,227, our funds from operations were \$640,184.

Dividends and distributions paid for the first three quarters were \$278,810, and \$148,527.00 for the fourth quarter which was paid in January, 2005,

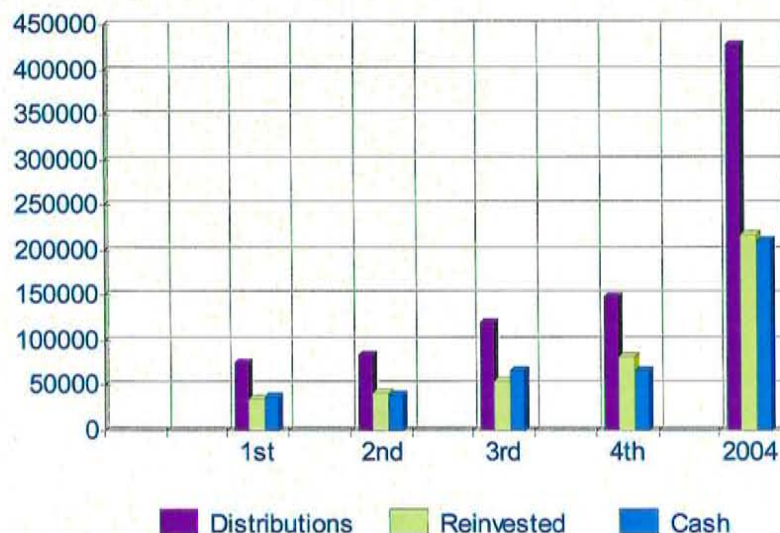
for a total of \$427,337.00. Our dividends were 1.5% each quarter, for an annualized rate of 6%.

Dividends declared each quarter during Fiscal 2004 were at a rate of \$.15 per share.



*Edgewood Vista Senior Living Center
Minot, ND*

2004 DISTRIBUTIONS



The graph shown above depicts the dividends and distributions paid by INREIT for each quarter, and the total paid for the year 2004.

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

**INREIT REAL ESTATE INVESTMENT TRUST
AND SUBSIDIARIES**

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES

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Consultants • Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
INREIT Real Estate Investment Trust
Minot, North Dakota

We have audited the accompanying consolidated balance sheets of **INREIT Real Estate Investment Trust and Subsidiaries** as of December 31, 2004 and 2003, and the related consolidated statements of operations, beneficial interest, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **INREIT Real Estate Investment Trust and Subsidiaries** as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Bismarck, North Dakota
March 11, 2005

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	\$ 27,332,026	\$ 10,405,754
CASH	341,990	417,553
REAL ESTATE DEPOSITS	-	212,000
RESTRICTED DEPOSITS AND FUNDED RESERVES	256,451	175,771
NOTE RECEIVABLE - RELATED PARTY	10,000	15,000
PREPAID EXPENSES	26,045	30,709
FINANCING COSTS, less accumulated amortization of \$3,794 in 2004 and \$0 in 2003	56,495	-
	<u><u>\$ 28,023,007</u></u>	<u><u>\$ 11,256,787</u></u>
LIABILITIES		
MORTGAGE NOTES PAYABLE	\$ 16,741,027	\$ 6,859,610
SPECIAL ASSESSMENTS PAYABLE	191,376	93,152
NOTES PAYABLE	125,000	-
DUE TO RELATED PARTY	81,050	86,100
TENANT SECURITY DEPOSITS PAYABLE	50,624	46,847
INVESTMENT CERTIFICATES	142,465	50,000
ACCOUNTS PAYABLE	532,760	-
ACCRUED EXPENSES	275,403	105,771
Total liabilities	<u>18,139,705</u>	<u>7,241,480</u>
MINORITY INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIP	<u>4,702,780</u>	<u>1,945,679</u>
BENEFICIAL INTEREST	<u>5,180,522</u>	<u>2,069,628</u>
	<u><u>\$ 28,023,007</u></u>	<u><u>\$ 11,256,787</u></u>

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
INCOME		
Income from rental operations	\$ 2,562,867	\$ 733,399
Interest income	2,289	3,519
Other income	18,649	1,965
	<u>2,583,805</u>	<u>738,883</u>
EXPENSES		
Expenses from rental operations		
Interest	729,366	181,933
Depreciation and amortization	383,227	115,486
Real estate taxes	178,083	53,548
Property management fees	140,712	48,260
Utilities	261,139	42,117
Repairs and maintenance	347,916	59,241
Insurance	65,024	28,113
Salary and wages	44,730	24,751
Food costs for residents	12,752	11,308
Administrative	55,053	4,533
	<u>2,218,002</u>	<u>569,290</u>
Administration of REIT		
Administrative expenses	11,768	3,133
Advisory fees	67,325	12,663
Director fees	8,176	2,933
Legal and accounting	21,577	15,657
	<u>108,846</u>	<u>34,386</u>
Total expenses	<u>2,326,848</u>	<u>603,676</u>
INCOME BEFORE MINORITY INTEREST	256,957	135,207
MINORITY INTEREST	<u>122,015</u>	<u>19,923</u>
NET INCOME	<u>\$ 134,942</u>	<u>\$ 115,284</u>

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF BENEFICIAL INTEREST
YEARS ENDED DECEMBER 31, 2004 AND 2003

	Shares	Amount	Accumulated Earnings (Deficit)	Syndication Costs	Total
BALANCE, JANUARY 1, 2003	73,750	\$ 470,000	\$ 4,829	\$ (1,375)	\$ 473,454
Issuance of common shares	174,303	1,743,132	-	-	1,743,132
Dividends			(73,685)		(73,685)
Dividends reinvested	7,115	68,097			68,097
Syndication costs				(256,654)	(256,654)
Net income	-	-	115,284	-	115,284
BALANCE, DECEMBER 31, 2003	255,168	2,281,229	46,428	(258,029)	2,069,628
Issuance of common shares	361,253	3,464,467	-	-	3,464,467
Redemption of shares	(2,790)	(25,666)			(25,666)
Dividends			(293,467)		(293,467)
Dividends reinvested	17,519	169,492			169,492
Syndication costs				(338,874)	(338,874)
Net income	-	-	134,942	-	134,942
BALANCE, DECEMBER 31, 2004	<u>631,150</u>	<u>\$ 5,889,522</u>	<u>\$ (112,097)</u>	<u>\$ (596,903)</u>	<u>\$ 5,180,522</u>

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
OPERATING ACTIVITIES		
Net income	\$ 134,942	\$ 115,284
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	379,433	115,486
Amortization	3,794	-
Minority interest	122,015	19,923
Effects on operating cash flows due to changes in		
Tenant security deposits	(3,777)	(31,259)
Real estate tax and insurance escrows	(84,263)	(99,227)
Prepaid expenses	4,664	(30,709)
Tenant security deposits payable	3,777	31,284
Due to management company	(5,050)	55,600
Accounts payable	532,760	-
Accrued expenses	169,632	105,771
NET CASH FROM OPERATING ACTIVITIES	<u>1,257,927</u>	<u>282,153</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(15,540,734)	(7,414,242)
Net deposits to replacement reserve	7,360	(13,773)
Real estate deposits	212,000	(212,000)
Payments received on related party note receivable	5,000	10,000
NET CASH USED FOR INVESTING ACTIVITIES	<u>(15,316,374)</u>	<u>(7,630,015)</u>
FINANCING ACTIVITIES		
Payments for financing costs	(60,289)	-
Proceeds from investment certificates issued	142,465	50,000
Payments on investment certificates	(50,000)	-
Principal payments on special assessments payable	(6,744)	-
Proceeds from mortgage payable	10,912,767	6,016,667
Principal payments on mortgage notes payable	(1,031,350)	(55,224)
Net change in notes payable	125,000	(50,000)
Proceeds from issuance of shares	3,464,467	1,743,132
Proceeds from issuance of upreit units	1,030,000	300,260
Redemption of shares	(25,666)	-
Distributions paid to shareholders	(123,975)	(5,588)
Distributions paid to minority partners	(54,917)	(4,504)
Payment of syndication costs	(338,874)	(256,654)
CASH FLOWS FROM FINANCING ACTIVITIES	<u>13,982,884</u>	<u>7,738,089</u>

(continued on next page)

CONSOLIDATED STATEMENTS OF CASH FLOWS – page 2

	<u>2004</u>	<u>2003</u>
NET CHANGE IN CASH	(75,563)	390,227
CASH AT BEGINNING OF YEAR	<u>417,553</u>	<u>27,326</u>
CASH AT END OF YEAR	<u>\$ 341,990</u>	<u>\$ 417,553</u>
 SCHEDULE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 665,888	\$ 181,933
Cash paid during the year for taxes	<u>-</u>	<u>864</u>
 SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Distributions reinvested	<u>\$ 169,492</u>	<u>\$ 68,097</u>
 Acquisition of assets in exchange for the issuance of minority interest shares in UPREIT	<u>\$ 1,660,004</u>	<u>\$ 1,630,000</u>
 Increase in land improvements due to increase in special assessments payable	<u>\$ 104,968</u>	<u>\$ 93,152</u>

INREIT REAL ESTATE INVESTMENT TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE 1 - ORGANIZATION

The INREIT Real Estate Investment Trust ("INREIT") is a registered, but unincorporated business trust organized in North Dakota in November 2002. Effective January 1, 2003, INREIT elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856-860 of the Internal Revenue Code, which requires that 75 percent of the assets of a REIT must consist of real estate assets and that 75 percent of its gross income must be derived from real estate. The net income of the REIT is allocated in accordance with the stock ownership in the same fashion as a regular corporation.

As of January 1, 2003, INREIT established an operating partnership (INREIT Properties, LLLP) and transferred all of its assets and liabilities to the operating partnership in exchange for general partnership units. The general partner has management responsibility for all activities of the operating partnership. As of December 31, 2004 and 2003, INREIT had an ownership percentage of approximately 64 and 57 percent, respectively. INREIT Properties, LLLP is the 100% owner of Grand Forks Inreit, LLC. INREIT Properties, LLLP is the 50% owner of Minot Vista Properties, LLC.

NOTE 2 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of INREIT, INREIT Properties, LLLP, and Minot Vista Properties, LLC. All significant intercompany transactions and balances have been eliminated in consolidation.

Principal Business Activity

INREIT has a general partner interest in INREIT Properties, LLLP, which owns and operates the following property:

Residential Property

- 16 unit assisted living facility in Williston, North Dakota.
- Two 4-plex and one 12-plex apartment buildings in Carrington, North Dakota.
- 220 units of government subsidized housing (Note 10) for elderly persons of low and moderate income in eight communities in North Dakota and South Dakota.
- 72 unit apartment building located in Grand Forks, North Dakota (36 units in service as of 12/31/04).
- 200,000 square feet of raw land available for future development located in Grand Forks, North Dakota.

Commercial Property

- 30,000 square foot office building in Fargo, North Dakota.
- 20,000 square foot office building in Minot, North Dakota (approximately 50% of space under construction as of December 31, 2004).

INREIT Properties, LLLP is the 100% owner of Grand Forks Inreit, LLC, which owns a 1/3 interest as a tenant in common of Grand Forks Marketplace Retail Center. Grand Forks Marketplace Retail Center has approximately 183,000 square feet of commercial space in Grand Forks, North Dakota.

INREIT Properties, LLLP is the 50% owner of Minot Vista Properties, LLC, which owns and leases property to a 160 unit assisted living facility in Minot, North Dakota.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Concentration of Credit Risk

INREIT's cash balances are maintained in various bank deposit accounts. The bank deposit accounts may exceed federally insured limits at various times throughout the year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment

Property and equipment is stated at cost. All costs associated with the development and construction of real estate investments are capitalized as a cost of the property. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for routine maintenance and repairs, which do not add to the value or extend useful lives, are charged to expense as incurred.

Depreciation is provided for over the estimated useful lives of the individual assets using the straight-line method over the following estimated useful lives:

Buildings and improvements	40 years
Furniture and fixtures	9 years

Annually, INREIT evaluates its real estate investments for significant changes in the operations to assess whether any impairment indications are present, including recurring operating losses and significant adverse changes in legal factors or business climate that affect the recovery of the recorded value. If any real estate investment is considered impaired, a loss is provided to reduce the carrying value of the property to its estimated fair value.

Cash and Cash Equivalents

Highly liquid investments with a maturity of three months or less when purchased are classified as cash equivalents.

Real Estate Deposits

Real estate deposits consist of funds held by an escrow agent to be applied toward the purchase of real estate property.

Minority Interest

Interests in the operating partnership held by limited partners are represented by operating partnership units. The operating partnerships' income is allocated to holders of units based upon the ratio of their holdings to the total units outstanding during the period. Capital contributions, distributions, and profits and losses are allocated to minority interests in accordance with the terms of the operating partnership agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Federal Income Taxes

INREIT elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code as of January 1, 2003. A REIT calculates taxable income similar to other domestic corporations, with the major difference being that a REIT is entitled to a deduction for dividends paid. A REIT is generally required to distribute each year at least 90 percent of its taxable income. If it chooses to retain the remaining 10 percent of taxable income, it may do so, but it will be subject to a corporate tax on such income. REIT shareholders are taxed on REIT distributions of ordinary income in the same manner as they are taxed on other corporate distributions.

INREIT intends to continue to qualify as a real estate investment trust as defined by the Internal Revenue Code and, as such, will not be taxed on the portion of the income that is distributed to the shareholders. In addition, INREIT intends to distribute all of its taxable income, therefore, no provision or liability for income taxes have been recorded in the financial statements.

INREIT Properties, LLLP is organized as a limited partnership. Income or loss is allocated to the partners in accordance with the provisions of the Internal Revenue Code 701(b) and 704(c). UPREIT status allows non-recognition of gain by an owner of appreciated real estate if that owner contributes the real estate to a partnership in exchange for partnership interest. The conversion of partnership interest to shares of beneficial interest in the REIT will be a taxable event to the limited partner.

Revenue Recognition

Housing units are rented under short-term lease agreements. Commercial space is rented under long-term lease agreements. Rent income from tenants is recognized in the month in which it is earned rather than received.

Reimbursements from commercial tenants for real estate taxes and other recoverable operating expenses are recognized as revenue in the period the applicable expenditures are incurred. INREIT receives payments for these reimbursements from substantially all its multi-tenant commercial tenants throughout the year based on estimates. Differences between estimated recoveries and the final billed amounts, which are immaterial, are recognized in the subsequent year.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2004 is as follows:

	Residential	Commercial	Total
Land and land improvements	\$ 1,128,247	\$ 2,157,187	\$ 3,285,434
Building and improvements	6,076,598	16,139,357	22,215,955
Furniture and fixtures	230,000	-	230,000
Construction in progress	2,024,500	77,711	2,102,211
	9,459,345	18,374,255	27,833,600
Less accumulated depreciation	(260,056)	(241,518)	(501,574)
	<u>\$ 9,199,289</u>	<u>\$ 18,132,737</u>	<u>\$ 27,332,026</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property and equipment as of December 31, 2003 is as follows:

	Residential	Commerical	Total
Land and land improvements	\$ 261,622	\$ 1,379,863	\$ 1,641,485
Building and improvements	4,033,656	4,712,753	8,746,409
Furniture and fixtures	140,000	-	140,000
Construction in progress	-	-	-
	4,435,278	6,092,616	10,527,894
Less accumulated depreciation	(68,356)	(53,784)	(122,140)
	<u>\$ 4,366,922</u>	<u>\$ 6,038,832</u>	<u>\$ 10,405,754</u>

NOTE 4 - RESTRICTED DEPOSITS

	2004	2003
Tenant security deposits	\$ 50,624	\$ 46,847
Real estate tax and insurance escrows	186,793	102,530
Replacement reserves	19,034	26,394
	<u>\$ 256,451</u>	<u>\$ 175,771</u>

Tenant Security Deposits

Pursuant to management policy, INREIT has set aside funds to repay tenant security deposits upon tenant move-out.

Real Estate Tax and Insurance Escrows

Pursuant to the terms of certain mortgages and management policy, INREIT established and maintains real estate tax escrows and insurance escrows to pay real estate taxes and insurance. INREIT is to contribute to the account monthly an amount equal to 1/12 of the estimated real estate taxes and insurance premiums.

Replacement Reserves

Pursuant to the terms of certain mortgages and management policy, INREIT established and maintains several replacement reserve accounts. INREIT makes monthly deposits into the replacement reserve accounts to be used for repairs and replacements on the property. Certain replacement reserve accounts require authorization from the mortgage company for withdrawals.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - MORTGAGE NOTES PAYABLE

Mortgage notes payable consists of:

	2004	2003
5.26% mortgage note payable, due in monthly installments of \$25,522, including interest until July 2013, secured by a mortgage on property, security agreement, and an assignment of rents	\$ 4,529,847	\$ 4,592,051
Variable rate mortgage note payable, (5.75% at December 31, 2004) due in monthly installments of \$9,898, adjusted annually, unpaid principal and interest due October 2023, secured by a mortgage on property, security agreement, and an assignment of rents	1,357,445	1,396,523
Variable rate mortgage note payable, (5.5% at December 31, 2004) due in monthly installments of \$32,470, adjusted annually, unpaid principal and interest due September 2011, secured by a mortgage on property and equipment	5,671,450	-
Variable rate mortgage note payable, (6.0% at December 31, 2004) due in monthly installments of \$3,290, adjusted annually, unpaid principal and interest due February 2014, secured by a mortgage on property and equipment	412,853	-
8.3% mortgage note payable, due in monthly installments of \$19,058, unpaid principal and interest due November 2010, secured by a mortgage on property and equipment	2,446,532	-
Variable rate mortgage note payable, (5.25% at December 31, 2004) due in monthly installments of \$11,392, adjusted annually, unpaid principal and interest due October 2011, secured by a mortgage on property, security agreement, and an assignment of rents	2,322,900	-
Notes paid in full	-	871,036
	<u>\$ 16,741,027</u>	<u>\$ 6,859,610</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Long-term debt maturities are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2005	\$ 279,451
2006	375,724
2007	426,307
2008	447,242
2009	469,350
Thereafter	14,742,953
	<u>\$ 16,741,027</u>

INREIT has a \$1,250,000 variable rate (6.25% at December 31, 2004) line of credit agreement with Bremer Bank, which expires on November 15, 2005. At December 31, 2004, \$125,000 was outstanding on the line of credit. At December 31, 2003, there were no outstanding borrowings under the line of credit.

INREIT has a \$500,000 variable rate (5.25% at December 31, 2004) line of credit agreement with Wells Fargo Bank, which expires on December 15, 2005. At December 31, 2004 and 2003, there were no outstanding borrowings under the line of credit.

NOTE 6 - INVESTMENT CERTIFICATES

INREIT periodically issues investment certificates bearing various interest rates in exchange for cash. The interest rate depends upon the maturity of the investment certificate. During 2004, INREIT issued investment certificates ranging from 4.5 to 6 percent totaling \$142,465. During 2003, INREIT issued a 4 percent investment certificate totaling \$50,000. The certificate matured June 2004.

Maturities of investment certificates are as follows: 2005 - \$80,000; 2006 - \$0; 2007 - \$10,000; 2008 - \$0; 2009 - \$42,465.

NOTE 7 - ACCRUED EXPENSES

	<u>2004</u>	<u>2003</u>
Real estate taxes	\$ 210,180	\$ 104,252
Interest	63,478	-
Other	1,745	1,519
	<u>\$ 275,403</u>	<u>\$ 105,771</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - RELATED PARTY TRANSACTIONS

Investments

On September 30, 2003, INREIT acquired The Villages housing development for approximately \$2,400,000 from the Gallagher Land Trust, an entity owned in part by Tim Hunt, who was subsequently elected as a member of the Board of Trustees.

Property Management Fees

During 2004 and 2003, INREIT incurred property management fees of 5 percent of rents to INREIT Management, LLC. The management team of INREIT Management, LLC consists of Board of Trustee members, Lawrence R. O'Callaghan, Randy I. Westby, and Thomas I. Strinden. For the years ended December 31, 2004 and 2003, INREIT paid management fees of \$15,927 and \$11,685, respectively.

Advisory Management Fees

During 2004 and 2003, INREIT paid \$67,325 and \$12,663 to INREIT Management, LLC for advisory management fees. These fees cover the office facilities, equipment, supplies, and staff required to manage the day-to-day operations of INREIT.

Acquisition Fees

During 2004 and 2003, INREIT incurred \$156,050 and \$161,000, respectively, to INREIT Management, LLC for acquisition fees. These fees are for performing due diligence on properties acquired from unrelated parties. As of December 31, 2004 and 2003, INREIT owed the management company \$81,050 and \$86,100, respectively.

Commissions

During 2004 and 2003, INREIT paid brokerage fees of \$127,375 and \$116,176, respectively, to Huntington HSC Financial Services, an entity owned by Roger Domres, stockholder of INREIT. During 2004 and 2003, INREIT paid marketing fees of \$65,082 and \$47,038, respectively, to Huntington Securities Corporation, an entity owned by Roger Domres.

Notes Receivable

As of December 31, 2004 and 2003, INREIT was owed \$10,000 and \$15,000 on a note receivable from Roger Domres. The note is secured by the Gateway Hotel in Westhope, North Dakota. The note carries an interest rate of 10% and is due November 1, 2005.

Real Estate Deposit

During 2003, INREIT made a \$200,000 earnest money deposit to Huntingdon Securities Corporation for the purchase of the Midtown Plaza office building in January 2004.

Director Fees

During 2004 and 2003, INREIT paid board members \$250 per quarter plus travel costs to attend board meetings. INREIT paid director fees of \$8,176 and \$2,933 in 2004 and 2003, respectively.

(continued on next page)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - RENTALS UNDER OPERATING LEASES / RENTAL INCOME

Commercial space is rented under long-term lease agreements. Minimum future rentals on noncancelable operating leases as of December 31 are as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2005	\$ 1,705,423
2006	1,614,227
2007	1,530,236
2008	1,525,172
2009	1,518,554
Thereafter	5,326,960
	<u>\$ 13,220,572</u>

Residential apartment units are rented to individual tenants with lease terms up to one year. Gross revenues from residential rentals totaled \$1,167,316 and \$409,103 for the years ended December 31, 2004 and 2003, respectively.

For the years ended December 31, 2004 and 2003, gross revenues from commercial property rentals, including CAM (common area maintenance) income of \$298,193 and \$50,981, respectively, totaled \$1,097,358 and \$326,260. Commercial properties are leased to tenants under terms expiring at various dates through 2016. Lease terms often include renewal options.

NOTE 10 - RENTAL ASSISTANCE PAYMENTS

As mentioned in Note 1 to the financial statements, INREIT has 220 units of government subsidized housing for elderly persons of low and moderate income in eight communities in North Dakota and South Dakota. In connection therein, INREIT has entered into rental assistance payment contracts with HUD, under the Section 8 Program on 160 of the 220 units. The project is subject to restrictions contained in the contract regarding rental charges and other operating policies with 160 of the units. INREIT has received a waiver from HUD to allow non-elderly individuals to reside in the projects.

The contracts are administered by North Dakota Housing Finance Agency and South Dakota Housing Finance Agency and provide direct assistance payments on behalf of qualified low-income tenants. The contracts expire at various times throughout 2005 and contain the following significant provisions:

- All dwelling units subject to the Section 8 Contracts must be rented to families eligible to receive the benefit of rental assistance payments. Contract rents are established for each unit, with the tenant paying a portion of the contract rent based on the person's income level and the balance paid by HUD.
- If a qualified tenant vacates the dwelling unit for any reason other than the owner's violation of lease terms, HUD will pay the Partnership 80 percent of the contract rent for a period of up to 30 days while the unit remains vacant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Construction Contract

INREIT has entered into a construction contract for construction of 36 units of a residential project in Grand Forks, North Dakota. The estimated costs of the project are \$2,078,900, of which \$2,024,500 has been incurred as of December 31, 2004.

Environmental Matters

Federal law (and the laws of some states in which INREIT may acquire properties) imposes liability on a landowner for the presence on the premises of hazardous substances or wastes (as defined by present and future federal and state laws and regulations). This liability is without regard to fault or knowledge of the presence of such substances and may be imposed jointly and severally upon all succeeding landowners. If such hazardous substance is discovered on a property acquired by INREIT, INREIT could incur liability for the removal of the substances and the cleanup of the property. There can be no assurance that INREIT would have effective remedies against prior owners of the property. In addition, INREIT may be liable to tenants and may find it difficult or impossible to sell the property either prior to or following such a cleanup.

Risk of Uninsured Property Losses

INREIT intends to maintain what it believes to be adequate property damage, fire loss, and liability insurance. However, there are certain types of losses (generally of a catastrophic nature), which may be either uninsurable or not economically insurable. Such excluded risks may include war, earthquakes, tornados, certain environmental hazards, and floods. Should such events occur, (i) the INREIT might suffer a loss of capital invested, (ii) tenants may suffer losses and may be unable to pay rent for the spaces, and (iii) the trust may suffer a loss of profits which might be anticipated from one or more properties.

NOTE 12 - SUBSEQUENT EVENTS

In January 2005, INREIT purchased a 12-plex apartment building in Grand Forks, North Dakota for a purchase price of \$310,000. INREIT financed the purchase by issuing 22,500 units (\$225,000 value) in INREIT Properties, LLLP and paying the remainder in cash.

In February 2005, INREIT purchased the Great American Insurance building in Fargo for approximately \$1,725,000. INREIT financed the purchase by issuing 85,879 units (\$858,795 value) in INREIT Properties, LLLP and drawing on their line of credit.

*Golden Estates Independent Living Facility,
Williston, North Dakota*





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