

ALLIED PROPERTIES REIT

ANNUAL REPORT DECEMBER 31, 2012

URBAN OFFICE ENVIRONMENTS IN CANADA'S MAJOR CITIES

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST

ANNUAL REPORT DECEMBER 31, 2012

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LETTER TO UNITHOLDERS

Dear Fellow Unitholder:

In 2010, we began to transform our platform, portfolio and balance sheet. Our overriding objective was to keep pace with the anticipated growth and evolution of our business. Among other things, we bolstered and realigned our leadership team, improved the geographic diversification of our portfolio, focused more intensely on value creation and began de-levering an already conservative balance sheet. This process continued through 2011 and accelerated dramatically last year.

Our results in 2012 reached new heights, with an unprecedented level of FFO and AFFO per unit supporting a distribution increase for 2013. Acquisitions were numerous, varied and accretive, and our growth strategy evolved with an increasing emphasis on value creation. Throughout it all, we maintained what was described as "an unwavering commitment to the balance sheet".

We were assisted by a Goldilocks-like real estate environment, one that was neither too hot nor too cold. Real estate fundamentals were good, capital was affordable and abundant and asset-trading was brisk without being frenzied. The urban residential markets cooled in the latter half of the year. Not only did this reduce the likelihood of a severe correction in condominium prices, it increased the availability of underutilized urban land. Organizations with commercial capability took advantage of the situation and secured mixed-use redevelopment opportunities on favourable economic terms.

We were also assisted by a secular trend that favours urban intensification. The millennial generation's desire to live, work and play downtown and the principles of smart growth are propelling unprecedented increases in inner-city densities. Residential structures are moving inexorably upward, office structures are moving well beyond traditional boundaries and retailers are accepting new and different spatial configurations, all in an effort to exploit opportunity while accommodating the physical constraints of the inner-city. It has even reached a point where the migration to the suburbs that started in the 1950s is reversing itself.

In short, 2012 was the year we took advantage of a very supportive environment to make our business better and stronger in every material respect. We brought a transformation process that began in 2010 to an altogether new level.

OPERATING RESULTS

Our performance measures for the year were highlighted by FFO per unit, which at \$1.79 was up 29% from 2011, and AFFO per unit, which at \$1.43 was up 34%. Our FFO and AFFO pay-out ratios for the period were 74% and 92%, respectively.

Having leased over 1.7 million square feet of space in 2012, we finished the year with our rental portfolio 92.2% leased, 94.2% leased if we exclude upgrade properties. During the year, we renewed or replaced 81% of our maturing leases, resulting in an overall increase of 8% in net rental income per square foot from the affected space.

With over \$400 million in acquisitions announced and completed in 2012, we exceeded the high-end of our target. As expected, our acquisitions were fairly evenly spread over our three operating regions and included a significant number of value-creation opportunities. We also sold three non-core properties, one in Toronto and two in Winnipeg, as well as an undivided 50% interest to joint-venture partners in three Toronto properties.

Our balance sheet continued to grow and strengthen. At year-end, the fair-value of our assets was \$3 billion, up 41% from the beginning of the year through a combination of acquisitions (\$517 million) and value appreciation (\$369 million), offset somewhat by dispositions (\$32 million). Our debt as a percentage of fair-value at year-end was 36%, and our interest-coverage ratio in the fourth quarter was 4.2:1.

Our results enabled us to announce a 3% distribution increase in December. In approving the increase, our trustees took cognizance of the following ongoing objectives: continuing the reduction of FFO and AFFO payout ratios and maintaining conservative debt ratios, a high interest-coverage ratio and a high degree of liquidity. In other words, the commitment to the balance sheet remained unwavering.

VALUE CREATION

Our properties are exceptionally well positioned for value creation, in large part because they're clustered in urban areas undergoing intensification. This is a direct result of the investment and operating strategy we've pursued in a disciplined way since our IPO. We set out to consolidate the ownership of office properties having three distinct attributes—proximity to the core, distinctive internal and external environments and lower overall occupancy costs relative to conventional office towers. We've done just that in 10 major Canadian cities.

As 2012 got underway, our value-creation opportunities had become so numerous and varied that we needed to build a solid foundation for reliable and risk-appropriate execution. Our commitment to the balance sheet was certainly part of the effort. Another important part was recognizing the need in certain instances to collaborate with real estate organizations having complimentary expertise.

About half way through the year, we established a joint venture with RioCan REIT and initiated two mixed-use redevelopments in Toronto, one at College and Manning and the other at King and Portland. We also initiated a mixed-use redevelopment at 57 Spadina in Toronto with Diamond Corp., another leading real estate organization, in this instance with complimentary residential and land-development expertise. As the year came to a close, we announced a joint venture with RioCan and Diamond to undertake the mixed-use redevelopment of 6.5 acres in a very important part of Toronto's Downtown West.

Some value-creation opportunities are best pursued on our own. Our solo activity also accelerated last year, with the acquisition of redevelopment projects in Montréal and Calgary and the advancement of four urban intensification opportunities in Toronto. A year-end highlight in this regard was the announcement of a pre-lease commitment at Phase I of QRC West and the consequent launch of full construction.

We established a new and promising avenue of growth in 2012, the expansion of our telecom and IT facilities through the long-term lease of space at 250 Front West in Toronto. Once we complete a \$30 million upgrade this year, we'll lease the space to telecom and IT tenants on financial terms similar to those achievable at 151 Front West. We expect the facility to be very accretive to our annual AFFO per unit from 2014 onward.

OUTLOOK

We expect our FFO and AFFO per unit to continue to grow in 2013, and we expect the demand for space across our target markets to remain strong. We intend to continue the consolidation of ownership in our target markets, but with a more exclusive focus than last year on the acquisition of stabilized properties. We also intend to focus on the execution of our value-creation opportunities as part of our ongoing effort to build a value-creation pipeline that in time will make a recurring, annual contribution to the growth of our business. We believe that our conservative balance sheet, low debt ratios, moderate mortgage maturity schedule and abundant liquidity will provide stability and facilitate growth going forward.

THANKS

We commemorated our 10th anniversary as a REIT last month by expressing sincere thanks to our unitholders, tenants, employees, trustees, partners, lenders, brokers, advisors, suppliers and urban communities. Without these contributors, we wouldn't have built a national portfolio of urban office environments for the benefit of our tenants and unitholders. With them, we look to the future confidently and enthusiastically. Again, sincere thanks for your steadfast support!

We'll keep you apprised of our progress. In the meantime, if you have any questions or comments, please don't hesitate to call me at (416) 977-0643 or e-mail me at memory@alliedreit.com.

Yours truly,

hy the

Michael R. Emory
PRESIDENT AND CHIEF EXECUTIVE OFFICER

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION AS AT DECEMBER 31, 2012

PART I -Overview

FORWARD-LOOKING DISCLAIMER

The terms "Allied Properties", "the REIT", "we", "us" and "our" in the following Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") refer to Allied Properties Real Estate Investment Trust and its consolidated financial position and results of operations for the year ended December 31, 2012. This MD&A is based on financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 31, 2012. Historical results and percentage relationships contained in our consolidated financial statements and MD&A, including trends that might appear, should not be taken as indicative of our future results, operations or performance. Unless otherwise indicated, all amounts in this MD&A are in thousands of Canadian dollars.

Certain information included in this Annual Report contains forward-looking statements within the meaning of applicable securities laws, including, among other things, statements concerning our objectives and our strategies to achieve those objectives, statements with respect to Management's beliefs, plans, estimates and intentions and statements concerning anticipated future events, circumstances, expectations, results, operations or performance that are not historical facts. Forward-looking statements can be identified generally by the use of forward-looking terminology, such as "indicators", "outlook", "objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans", "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect Management's current beliefs and are based on information currently available to Management.

The forward-looking statements in this Annual Report are not guarantees of future results, operations or performance and are based on estimates and assumptions that are subject to risks and uncertainties, including those described below in this MD&A under "Risks and Uncertainties", which could cause actual results, operations or performance to differ materially from the forward-looking statements in this Annual Report. Those

risks and uncertainties include risks associated with property ownership, property development, geographic focus, asset-class focus, competition for real property investments, financing and interest rates, government regulations, environmental matters, construction liability and taxation. Material assumptions that were made in formulating the forward-looking statements in this Annual Report include the following: that our current target markets remain stable, with no material increase in supply of directly-competitive office space; that acquisition capitalization rates remain reasonably constant; that the trend toward intensification within our target markets continues; and that the equity and debt markets continue to provide us with access to capital at a reasonable cost to fund our future growth and to refinance our mortgage debt as it matures. Although the forward-looking statements contained in this Annual Report are based on what Management believes are reasonable assumptions, there can be no assurance that actual results, operations or performance will be consistent with these statements.

All forward-looking statements in this Annual Report are qualified by this forward-looking disclaimer. These statements are made as of March 5, 2013, and, except as required by applicable law, we undertake no obligation to update publicly or revise any such statements to reflect new information or the occurrence of future events or circumstances.

BUSINESS OVERVIEW AND STRATEGY

We are 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, May 14, 2008, May 11, 2010 and May 15, 2012 ("Declaration"). We are governed by the laws of Ontario. Our units are publicly traded on the Toronto Stock Exchange under the symbol AP.UN. Additional information on us, including our annual information form, is available on SEDAR at www.sedar.com.

We are a leading owner, manager and developer of urban office environments that enrich experience and enhance profitability for business tenants operating in Canada's major cities. Our objectives are to provide stable and growing cash distributions to unitholders and to maximize unitholder value through effective management and accretive portfolio growth.

We specialize in an office format created through the adaptive re-use of light industrial structures in urban areas that has come to be known as Class I, the "I" stemming from the original industrial nature of the structures. This format typically features high ceilings, abundant natural light, exposed structural frames, interior brick and hardwood floors. When restored and retrofitted to the standards of our portfolio, Class I buildings can satisfy the needs of the most demanding office and retail tenants. When operated in the coordinated manner of our portfolio, these buildings become a vital part of the urban fabric and contribute meaningfully to a sense of community.

The Class I value proposition includes (i) proximity to central business districts in areas well served by public transportation, (ii) distinctive internal and external environments that assist tenants in attracting, retaining and motivating employees and (iii) significantly lower overall occupancy costs than those that prevail in the central business districts. The 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 storefront retailers.

In addition to accommodating their employees in Class I office space, many of our tenants utilize sophisticated and extensive telecommunication and computer equipment. This is often a mission-critical need for our tenants. In an effort to serve this related need, we established extensive capability in downtown Toronto through the acquisition of 151 Front Street West, the leading telecommunication interconnection point in Canada. We've since expanded our capability and are intent on continuing to do so with a view to serving our tenants' space requirements more fully.

PROPERTY PORTFOLIO

We completed our Initial Public Offering ("IPO") on February 20, 2003. We used the net proceeds of the IPO to acquire a portfolio of 14 predominantly Class I office properties in downtown Toronto with 820,000 square feet of gross leasable area ("GLA"). By the end of 2011, we had acquired another 48 office properties in downtown Toronto, 42 of them Class I office properties, bringing our total GLA in that market to 3.4 million square feet. We had also acquired 16 predominantly Class I office properties in downtown and midtown Montréal, eight in downtown Winnipeg, one of which we sold in 2011, five in Québec City, two in Kitchener, nine in Calgary, two in Edmonton, three in Vancouver and one in Victoria, bringing our total portfolio at the end of 2011 to 107 properties with 7.8 million square feet of GLA.

In 2012, we sold a non-core property in Toronto, two non-core properties in Winnipeg, an undivided 50% interest in 555 College Street and 602-606 King Street West in Toronto as part of our intensification joint venture with RioCan REIT and an undivided 50% interest in 57 Spadina Avenue, Toronto, as part of our joint venture with Diamond Corp. We also acquired 21 properties for \$517,310, with our leasehold interest in 250 Front Street West in Toronto being valued at \$103,200. The basic details of the properties acquired are set out in the table below:

PROPERTY	ACQUIRED	OFFICE GLA	RETAIL GLA	TOTAL GLA	PARKING SPACES
Leeson and Lineham Block, Calgary	January 17, 2012	27,555	5,176	32,731	4
Leasehold Interest, The Chambers, Ottawa	February 16, 2012	197,160	15,870	213,030	144
535 Yates Street, Victoria	March 8, 2012	12,718	6,312	19,030	-
The Woodstone Building, Calgary	March 22, 2012	31,023	-	31,023	20
57 Spadina Avenue, Toronto	April 16, 2012	16,170	17,132	33,302	-
78 Spadina Avenue, Toronto	April 16, 2012	-	-	-	45
80-82 Spadina Avenue, Toronto	April 16, 2012	53,103	16,009	69,112	-
379 Adelaide Street West, Toronto	April 16, 2012	36,125	-	36,125	-
383 Adelaide Street West, Toronto	April 16, 2012	2,500	5,000	7,500	-
5445 de Gaspé Avenue, Montréal	April 17, 2012	502,693	-	502,693	150
Leasehold Interest, 250 Front Street West, Toronto	June 8, 2012	168,000	-	168,000	15
620 King Street West (and adjacent properties), Toronto*	July 20, 2012	7,600	-	7,600	50
Lang Tannery, Kitchener	August 1, 2012	291,763	48,666	340,429	345
478 King Street West, Toronto**	August 8, 2012	-	3,276	3,276	66
The Burns Building, Calgary	August 15, 2012	69,483	9,298	78,781	-
547 and 549 College Street, Toronto***	September 7, 2012	-	9,312	9,312	-
Chamber of Commerce Building, Calgary	October 23, 2012	33,874	-	33,874	-
Demcor Building, Calgary	November 2, 2012	39,440	-	39,440	43
1040 Hamilton Street, Vancouver	November 21, 2012	37,693	6,974	44,667	26
1286 Homer Street, Vancouver	November 21, 2012	15,746	8,977	24,723	-
The Globe & Mail Lands, Toronto****	December 12, 2012	101,047	-	101,047	232
Total		1,643,693	152,002	1,795,695	1,140

^{*}undivided 50% interest in 35,036 square-foot intensification site as part of the King & Portland Joint Venture with RioCan REIT

^{**}undivided 50% interest in 6,552 square-foot intensification site as part of the King & Fortuna found commercial parking spaces

***undivided 50% interest in 6,552 square-foot intensification site as part of the College & Manning Joint Venture with RioCan REIT

***undivided 40% interest in 6.5 acre intensification site as part of Downtown West Joint Vanture with RioCan REIT and Diamond Corp.

We also have the following acquisitions pending, which are included in our calculation of future commitments, as set out below in "Liquidity and Commitments":

- (I) an undivided 50% interest in 172 underground commercial parking spaces and 18,360 square feet of retail space to be constructed as part of a condominium project at 560 King Street West in Toronto, which is adjacent to our 544 King Street West; and;
- (II) an undivided 50% interest in 71 underground commercial parking spaces to be constructed as part of the condominium project at 650 King Street West in Toronto, which is adjacent to our 662 King Street West and in close proximity to our 602-606 King Street West.

Each acquisition is conditional on final condominium registration and is expected to close in 2013, subject to normal conditions. We will manage the underground commercial parking structures and retail space on behalf of the co-owners. This will enhance our commercial parking capacity and storefront retail portfolio in the King & Spadina area.

Five Toronto properties (134 Peter Street, also known as Phase I of QRC West, 364 Richmond Street West, 905 King Street West, 70 Richmond Street East and 500-522 King Street West), one Kitchener property (an undivided 50% interest in The Breithaupt Block), two Montréal properties (4450 Saint-Laurent Boulevard and 5445 de Gaspé Avenue) and two Calgary properties (The Burns Building and The Chamber of Commerce Building) are currently properties under development ("Properties Under Development" or "PUDs"). They are undergoing redevelopment, development or intensification. See "Value Creation" below.

PROPERTY MANAGEMENT

Our wholly owned subsidiary, Allied Properties Management Limited Partnership (the "Property Manager"), provides property management and related services on a fee-for-service basis.

CORPORATE SOCIAL RESPONSIBILITY

We are committed to sustainability as it relates to the physical environment within which we operate. Most of our buildings were created through the adaptive re-use of structures built over a century ago. They are recycled buildings, and the recycling has had considerably less impact on the environment than new construction of equivalent GLA would have had. To the extent we undertake new construction through development or intensification, we are committed to obtaining LEED certification. LEED certification is a program administered by the Canada Green Building Council for certifying the design, construction and operation of high-performance green buildings.

The ongoing operation of our buildings also affects the physical environment. We are committed to obtaining BOMA BESt certification for as many of our existing buildings as possible. Certification is based on an independent assessment of key areas of environmental performance and management. Level 1 certification involves independent verification that all BOMA BESt practices have been adopted. Level 2 through to Level

4 involve progressively better assessments of environmental performance and management. We currently have Level 3 certification for four buildings in Toronto, 469 King Street West, 99 Spadina Avenue, 193 Yonge Street and 204–214 King Street East, one building in Kitchener, 72 Victoria Street, and the seven buildings comprising Cité Multimédia in Montréal. We currently have Level 2 certification for two buildings in Toronto, 257 Adelaide Street West and Queen–Richmond Centre. We plan to put additional buildings forward for certification in 2013 and thereafter on an annual basis.

We are also attentive to the impact of our business on the human environment. Our investment and development activities can have a displacing impact on members of the artistic community. As building inventory in an area is improved, the cost of occupancy can become prohibitive. We believe that our buildings and tenants are best served if artists remain viable members of the surrounding communities. Accordingly, we've made it our practice to allocate an appropriate portion of our rentable area to artistic uses on an affordable basis. We've done this for some time at King & Spadina in Toronto, we're doing it at Mile End in Montréal and we're beginning to do it in Downtown Calgary. What we forego in short-term rent, we more than make up in overall occupancy and net rent levels. And, given what we do, we see this as an important part of our corporate social responsibility.

PERFORMANCE MEASURES

We measure the success of our strategies through key financial and operating performance measures.

FINANCIAL MEASURES

I. DISTRIBUTIONS

We are focused on increasing distributions to our unitholders on a regular and prudent basis. During our first 12 months of operations, we made regular monthly distributions of \$1.10 per unit on an annualized basis. Our distribution increases since then are set out in the table below:

	MARCH 2004	MARCH 2005	MARCH 2006	MARCH 2007	MARCH 2008	DECEMBER 2012
Annualized increase per unit	\$0.04	\$0.04	\$0.04	\$0.04	\$0.06	\$0.04
% increase	3.6%	3.5%	3.4%	3.3%	4.8%	3.0%
Annualized distribution per unit	\$1.14	\$1.18	\$1.22	\$1.26	\$1.32	\$1.36

2. FUNDS FROM OPERATIONS

Funds From Operations ("FFO") has a standardized definition, as described under "Funds From Operations" below. In the fourth quarter, FFO per unit (diluted) was \$0.45, up 12.5% from the comparable quarter last year. In 2012, FFO per unit (diluted) was \$1.79, up 28.8% from 2011. The increases stemmed from higher occupancy, net rental growth across most of our portfolio and accretion from acquisitions in the past 18 months.

3. FFO PAY-OUT RATIO

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate FFO pay-out ratio, the ratio of actual distributions to FFO in a given period. In the fourth quarter, our FFO pay-out ratio was 73.2%. In 2012, our FFO pay-out ratio was 73.8%.

4. ADJUSTED FUNDS FROM OPERATIONS

Increasing distributions cannot be achieved prudently without reference to adjusted funds from operations ("AFFO"). This financial measure takes account of regular maintenance capital expenditures and regular leasing expenditures while ignoring the impact of non-cash revenue, as described under "Adjusted Funds from Operations" below. In the fourth quarter, AFFO per unit (diluted) was \$0.38, up 15.2% from the comparable quarter last year. In 2012, AFFO per unit (diluted) was \$1.43, up 33.6% from 2011. The increases stemmed from higher occupancy, net rental growth across most of our portfolio and accretion from acquisitions in the past 18 months.

5. AFFO PAY-OUT RATIO

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate AFFO pay-out ratio, the ratio of actual distributions to AFFO in a given period. In the fourth quarter, our AFFO pay-out ratio was 87.5%. In 2012, our AFFO pay-out ratio was 92.3%.

6. DEBT RATIOS

A conservative debt ratio mitigates unitholder risk. Expressed as a percentage of the fair value of our investment properties, our total debt on December 31, 2012, was 36.4%, down from 44.8% on December 31, 2011. Expressed as a multiple of annualized fourth-quarter EBITDA, our net debt on December 31, 2012 was 6.3:1, just as it was on December 31, 2011.

7. INTEREST-COVERAGE RATIO

A conservative interest coverage ratio mitigates unitholder risk. Expressed as interest expense in relation to EBITDA, our interest-coverage ratio in the fourth quarter was 4.2:1 and in 2012 was 3.6:1. Our interest-coverage ratio for the comparable quarter in 2011 was 3.2:1 and for 2011 was 2.9:1.

OPERATING MEASURES

I. TENANT RETENTION AND REPLACEMENT

We place a high value on tenant retention, as the cost of retention is typically lower than the cost of securing new tenancies. If retention is neither possible nor desirable, we strive for high-quality replacement tenants. Leases representing 1,422,601 square feet of GLA matured in 2012. This amount does not include month-to-month leases for 263,468 square feet of GLA that are routinely renewed at the end of each month by the tenants. By December 31, 2012, we had renewed leases representing 812,557 square feet of this GLA and released another 294,783 square feet of this GLA, representing 81.3% of the GLA covered by the maturing leases.

2. LEASED AREA

We strive to maintain consistently high levels of occupancy and leased area. At December 31, 2012, our rental portfolio was 92.2% leased, 94.2% if we exclude upgrade properties. The chart below summarizes the yearend levels of GLA and leased area in our rental portfolio since the end of 2003:

	2003	2004	2005	2006	2007
GLA (sf)	984,856	1,636,343	2,321,507	3,415,279	4,761,211
% leased	97.5	99.2	97.0	96.3	97.9
	2008	2009	2010	2011	2012
GLA (sf)	5,350,208	5,804,550	6,082,586	7,481,333	8,308,591
% leased	97.3	96.1	91.4	92.5	92.2

3. SAME-ASSET NET OPERATING INCOME

We strive to maintain or increase same-asset net operating income ("NOI") over time. See "Net Operating Income" below. Same-asset refers to those properties that we owned and operated for the entire period in question and for the same period in the prior year. Ignoring the step-rent revenue, same-asset NOI was \$32,560 in the fourth quarter, up 6.1% from the comparable quarter last year. Same-asset NOI in 2012 was \$106,078, up 14.8% from 2011. The increases stemmed from higher occupancy and net rental growth across most of our portfolio.

4. LEASING EXPENDITURES

We monitor leasing expenditures carefully. Leases for 442,824 square feet of GLA commenced in the fourth quarter. \$3,001 in leasing expenditures related to this space, representing \$6.78 per leased square foot, slightly below our normal range of \$7 to \$10 per leased square foot. Leases for 1,958,423 square feet of GLA commenced in 2012. \$15,055 in leasing expenditures related to this space, representing \$7.69 per leased square foot, within our normal range.

5. CAPITAL EXPENDITURES

We strive to maintain our properties in top physical condition. In the fourth quarter, we incurred \$370 in regular maintenance capital expenditures, representing four cents per square foot of our portfolio, in-line with the amount per square foot in the fourth quarter of prior years. In 2012, we incurred \$681 in regular maintenance capital expenditures, representing eight cents per square foot of our portfolio, well below our normal range of fifty to seventy-five cents per portfolio square foot per year.

SUMMARY

The following table summarizes the key financial and operating performance measures for the fourth quarter and the comparable quarter in 2011.

	Q4 2012	Q4 2011	CHANGE	%CHANGE
Period-end distribution level per unit annualized	\$1.36	\$1.32	\$0.04	3.0%
FFO per unit (diluted)	\$0.45	\$0.40	\$0.05	12.5%
FFO pay-out ratio	73.2%	81.9%	(8.7%)	
AFFO per unit (diluted)	\$0.38	\$0.33	\$0.05	15.2%
AFFO pay-out ratio	87.5%	102.1%	(14.6%)	
Total debt as a % of fair value of investment properties	36.4%	44.8%	(8.4%)	
Net debt as a multiple of annualized Q4 EBITDA	6.3:1	6.3:1	-	
Interest-coverage ratio	4.2:1	3.2:1	1:1	
Period-end leased area of rental portfolio (excluding upgrades)	94.2%	94.3%	(0.1%)	
Renewal-replacement percentage of leases maturing	83.1%	90.2%	(7.1%)	
Same-asset NOI	\$32,560	\$30,688	\$1,872	6.1%
Leasing expenditures	\$3,001	\$2,929	\$72	2.5%
Leasing expenditures per square foot	\$6.78	\$8.64	\$ (1.86)	(21.5%)
Maintenance capital expenditures	\$370	\$150	\$220	146.7%
Maintenance capital expenditures per portfolio square foot	\$0.04	\$0.02	\$0.02	100.0%

The following table summarizes the key financial and operating performance measures for 2012 and 2011.

	2012	2011	CHANGE	%
Period-end distribution level per unit annualized	\$1.36	\$1.32	\$0.04	3.0%
FFO per unit (diluted)	\$1.79	\$1.39	\$0.40	28.8%
FFO pay-out ratio	73.8%	95.2%	(21.4%)	
AFFO per unit (diluted)	\$1.43	\$1.07	\$0.36	33.6%
AFFO pay-out ratio	92.3%	123.2%	(30.9%)	
Total debt as a % of fair value of investment properties	36.4%	44.8%	(8.4%)	
Net debt as a multiple of annualized Q4 EBITDA	6.3:1	6.3:1	-	
Interest-coverage ratio	3.6:1	2.9:1	0.7:1	
Period-end leased area of rental portfolio (excluding upgrades)	94.2%	94.3%	(0.1%)	
Renewal-replacement percentage of leases maturing	83.1%	90.2%	(7.1%)	
Same-asset NOI	\$106,078	\$92,422	\$13,656	14.8%
Leasing expenditures	\$15,055	\$11,050	\$4,005	36.2%
Leasing expenditures per square foot	\$7.69	\$7.05	\$0.64	9.1%
Maintenance capital expenditures	\$681	\$1,843	\$ (1,162)	(63.0%)
Maintenance capital expenditures per portfolio square foot	\$0.08	\$0.25	\$ (0.17)	(68.0%)

BUSINESS ENVIRONMENT AND OUTLOOK

We operate in 10 target markets—downtown Toronto, downtown and midtown Montréal, downtown Ottawa, downtown Winnipeg, downtown Québec City, downtown Kitchener, downtown Calgary, downtown Edmonton, downtown Vancouver and downtown Victoria. The following is a brief description of our target markets and current outlook:

DOWNTOWN TORONTO

This target market includes 14.6 million square feet of office inventory in three sub-markets, Downtown East (2.2 million square feet), Downtown West (10.4 million square feet) and King West (2.0 million square feet). Approximately half of the office inventory in this target market falls within the Class I category. At December 31, 2012, the overall vacancy rate for the downtown Toronto office market was 4.4%, with the Downtown East, Downtown West and King West sub-markets finishing the quarter at 5.5%, 4.9% and 3.5%, respectively.¹

¹ Cushman & Wakefield, Fourth Quarter 2012 Marketbeat Office Snapshot, Toronto Office Market.

DOWNTOWN AND MIDTOWN MONTRÉAL

This target market includes 17.8 million square feet of office inventory in three sub-markets, Downtown East (7.5 million square feet), Old Montréal (7.8 million square feet) and Mile End (2.5 million square feet). Approximately half of the office inventory in this target market falls within the Class I category. At December 31, 2012, the overall vacancy rate for the Central Montréal office market was 6.3%, with the Downtown East and Old Montréal sub-markets finishing the quarter at 2.3% and 6.2%, respectively. ²

DOWNTOWN OTTAWA

This target market includes 1.5 million square feet of office inventory, principally in the Downtown Core and Byward Market. Most of the office inventory in this target market falls within the Class I category. At December 31, 2012, the overall vacancy rate for the downtown core Ottawa office market was 6.0%.³

DOWNTOWN WINNIPEG

This target market includes 1.8 million square feet of office inventory, principally in the Exchange District. Most of the office inventory in this target market falls within the Class I category. At December 31, 2012, the overall vacancy rate for downtown Winnipeg office market was 6.7%.

DOWNTOWN QUÉBEC CITY

This target market includes 1.5 million square feet of office inventory in the Saint-Roch office node. Most of the office inventory in this target market falls within the Class I category. At December 31, 2012, the vacancy rate for the downtown Québec City office market was 8.3%.⁵

DOWNTOWN KITCHENER

This target market includes approximately one million square feet of existing and potential office inventory in the Warehouse District. Much of the office inventory in this target market falls within the Class I office category. At December 31, 2012, the overall vacancy rate in the downtown Kitchener office market was 19.1%.

² Cushman & Wakefield, Fourth Quarter 2012 Marketbeat Office Snapshot, Montréal Office Market.

³ Cushman & Wakefield, Fourth Quarter 2012 Marketbeat Office Snapshot, National Office Market.

⁴ Cushman & Wakefield, Fourth Quarter 2012 Marketbeat Office Snapshot, Winnipeg Office Market.

 $^{^{\}rm 5}$ Avison Young, Fourth Quarter 2012.

⁶ Colliers International, Waterloo Region Market Report, Fourth Quarter 2012.

DOWNTOWN CALGARY

This target market includes approximately one million square feet of existing office inventory in the heart of the Downtown Core, including Stephen Avenue Mall (8th Avenue), and in the Warehouse District. Most of the office inventory in this target market falls within the Class I office category. At December 31, 2012, the overall vacancy rate in the downtown Calgary office market was 2.5%. ⁷

DOWNTOWN FDMONTON

This target market includes approximately one million square feet of existing office inventory in the Downtown Core. At December 31, 2012, the overall vacancy rate in the downtown Edmonton office market was 8.2%.⁸

DOWNTOWN VANCOUVER

This target market includes approximately four million square feet of existing office inventory in the Downtown Core, including Yaletown, Crosstown and Gastown. Most of the office inventory in this target market falls within the Class I office category. At December 31, 2012, the overall vacancy rate in the downtown Vancouver office market was 4.2%.

DOWNTOWN VICTORIA

This target market includes 2.4 million square feet of existing office inventory. Most of the office inventory in this target market falls within the Class I office category. At December 31, 2012, the overall vacancy rate in the Victoria office market was 8.3%. ¹⁰

OUTLOOK

We expect our FFO and AFFO per unit to continue to grow in 2013, and we expect the demand for space across our target markets to remain strong. We intend to continue the consolidation of ownership in our target markets, but with a more exclusive focus than last year on the acquisition of stabilized properties. We also intend to focus on the execution of our value-creation opportunities as part of our ongoing effort to build a value-creation pipeline that in time will make a recurring, annual contribution to the growth of our business. We believe that our conservative balance sheet, low debt ratios, moderate mortgage maturity schedule and abundant liquidity will provide stability and facilitate growth going forward.

⁷ Cushman & Wakefield, Fourth Quarter 2012 Marketbeat Office Snapshot, Calgary Office Market.

⁸ Cushman & Wakefield, Fourth Quarter 2012 Marketbeat Office Snapshot, Edmonton Office Market.

⁹ Cushman & Wakefield, Fourth Quarter 2012 Marketbeat Office Snapshot, Vancouver Office Market.

¹⁰ Colliers International, Victoria Office Market Report, Fourth Quarter 2012.

PART II

—Fourth Quarter Results

The following sets out summary information and financial results for the quarter ended December 31, 2012, and the comparable quarter, as well as the change between the two.

(In thousands except for per unit and % amounts)	Q4 2012	Q4 2011	CHANGE	% CHANGE
Revenue from rental properties	68,691	57,097	11,594	20.3%
Rental property operating cost	29,913	22,427	7,486	33.4%
Net rental income	38,778	34,670	4,108	11.8%
Real estate service income	83	31	52	167.7%
Financing expense				
Interest	9,587	11,099	(1,512)	(13.6%)
Interest expense on finance lease - ground lease	759	1,949	(1,190)	(61.1%)
Amortization of mortgage premium	(241)	(143)	(98)	68.5%
Amortization of financing cost	332	275	57	20.7%
Amortization				
Leasing costs, computer and office equipment	1,343	808	535	66.2%
Income from operations	27,081	20,713	6,368	30.7%
Less trust expense	1,604	1,640	(36)	(2.2%)
Add net gain on sale of rental property	47	-	47	-
Net income	25,524	19,073	6,451	33.8%
Gain resulting from change in fair value-real estate	111,491	48,920	62,571	127.9%
Gain / (loss) on derivative instruments	710	(1,809)	2,519	(139.2%)
Fair value adjustment on owner-occupied property	-	(155)	155	(100.0%)
Subtotal	112,201	46,956	65,245	138.9%

(In thousands except for per unit and % amounts)	Q4 2012	Q4 2011	CHANGE	% CHANGE
Net income and comprehensive income	137,725	66,029	71,696	108.6%
Weighted average units outstanding (diluted)	61,779	51,633	10,146	19.7%
Distributions	20,500	16,948	3,552	21.0%
FFO	28,020	20,706	7,314	35.3%
FFO per unit (diluted)	\$0.45	\$0.40	\$0.05	12.5%
FFO pay-out ratio	73.2%	81.9%	(8.7%)	
AFFO	23,430	16,594	6,836	41.2%
AFFO per unit (diluted)	\$0.38	\$0.33	\$0.05	15.2%
AFFO pay-out ratio	87.5%	102.1%	(14.6%)	
NOI	38,893	34,545	4,348	12.6%
Same-asset net operating income	32,560	30,688	1,872	6.1%
Fair value of investment properties	2,948,599	2,094,144	845,455	40.8%
Total debt (excludes premium on assumed debt)	1,073,164	938,016	135,148	14.4%
Total debt as a % of fair value of investment properties	36.4%	44.8%	(8.4%)	
Annualized Q4 EBITDA	160,780	142,436	18,344	12.9%
Net debt	1,006,428	899,584	106,844	11.9%
Net debt as a multiple of annualized Q4 EBITDA	6.3:1	6.3:1	-	
EBITDA	40,195	35,609	4,586	12.9%
Interest	9,587	11,099	(1,512)	(13.6%)
Interest as a multiple of EBITDA	4.2:1	3.2:1	1:1	
Total rental GLA	8,309	7,481	828	11.1%
Leased rental GLA	7,662	6,917	745	10.8%
% leased	92.2%	92.5%	(0.3%)	

NET RENTAL INCOME AND REAL ESTATE SERVICE INCOME

Net rental income for the quarter was \$38,778, up 11.8% from the comparable quarter. The quarter-over-quarter change arose from the following: (i) a \$877 increase in same-asset net rental income from properties owned for the entire quarter and the entire comparable quarter (which includes the quarter-over-quarter change in step-rent

adjustments); (ii) a \$4,644 increase from properties not owned for the entire quarter and the entire comparable quarter; and (iii) a \$1,413 decrease in net rental income in relation to a one-time land lease adjustment in the fourth quarter of 2011. Net rental income per occupied square foot for the quarter was \$20.24 annualized, as compared to \$20.05 annualized in the comparable period.

The Property Manager provides real estate services to third-party property owners. Real estate service income for the quarter was \$83, as compared to \$31 in the comparable quarter.

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. Interest for the quarter decreased by 13.8% from the comparable quarter, due largely to the de-levering of our balance sheet, favourable mortgage renewals and the capitalization of interest in connection with Properties Under Development.

AMORTIZATION

We amortize leasing cost and tenant improvements on a straight-line basis over the term of the corresponding lease. Amortization for the quarter increased by 66.2% from the comparable quarter, due largely to increased leasing activity and corresponding costs.

TRUST EXPENSE

Trust expense includes expenses not directly attributable to investment properties, such as officers' compensation, trustees' fees, professional fees for legal and audit services, trustees' and officers' insurance premiums and general administrative expenses. Trust expense for the quarter decreased by 2.2% from the comparable quarter, due largely to the capitalization of salaries in connection with both the acquisition of our rental properties and the redevelopment or intensification of our Properties Under Development.

NET INCOME

Net income for the quarter was \$25,524, as compared to \$19,073 in the comparable quarter.

NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income for the quarter was \$137,725, as compared to \$66,029 in the comparable quarter. We elected the "fair value" approach to investment properties, with the result that they are recorded at fair value on the Consolidated Balance Sheets. To assist in establishing fair value, we retained an independent appraiser, Cushman & Wakefield, to appraise our portfolio. Changes in fair value are recorded on the Consolidated Statements of Income and Comprehensive Income. The fair value of our investment properties at the end of the fourth quarter was \$2,948,599, up \$854,455 from the end of the comparable quarter last year. \$517,310 of the increase resulted from acquisitions over the intervening year, with the remaining \$369,245 resulting from appreciation in value, offset somewhat by dispositions of \$32,100.

CAPITAL EXPENDITURES

Our portfolio requires ongoing maintenance capital expenditures and leasing expenditures. Leasing expenditures include the cost of in-suite or base-building improvements made in connection with the leasing of vacant space or the renewal or replacement of tenants occupying space covered by maturing leases, as well as improvement allowances and commissions paid in connection with the leasing of vacant space and the renewal or replacement of tenants occupying space covered by maturing leases.

In the quarter, we incurred (i) \$370 in regular maintenance capital expenditures (four cents per portfolio square foot) and (ii) \$3,001 in leasing expenditures (\$6.78 per leased square foot) in connection with new leases or lease-renewals for 442,824 square feet of GLA that commenced in the quarter. We incurred \$30,443 in revenue-enhancing capital and leasing expenditures in connection with space that was significantly reconfigured and retrofitted to accommodate high-value new tenancies and in connection with the completion of PUDs.

\$897 of the salaries paid in the quarter were capitalized in connection with capital improvements to our rental properties and Properties Under Development. This amount was equivalent to approximately 2.5% of the associated development costs.

FUNDS FROM OPERATIONS

FFO is a non-IFRS financial measure used by most Canadian real estate investment trusts and should not be considered as an alternative to net income or comprehensive income, cash flow from operating activities or any other measure prescribed under IFRS. While FFO does not have any standardized meaning prescribed by IFRS, the Real Property Association of Canada ("REALpac") established a standardized definition of FFO in its White Paper on Funds From Operations dated November 30, 2004 and subsequently revised November 2012. Essentially, the REALpac definition is net income with adjustments for non-cash and extraordinary items. Management believes that this definition is followed by most Canadian real estate investment trusts and that it is a useful measure of cash available for distributions. The following reconciles net income and comprehensive income for the quarter and comparable quarter, as presented in the consolidated financial statements, with FFO.

(In thousands)	Q4 2012	Q4 2011
Net income and comprehensive income	137,725	66,029
Gain/loss on sale of property	(47)	-
Gain resulting from change in fair value in investment properties	(111,491)	(48,920)
Gain/loss resulting from derivative instruments	(710)	1,809
Fair value adjustment on owner-occupied property	-	155
Amortization of owner-occupied property	-	48
Amortization of leasing cost and tenant improvements	2,543	1,585
FFO	28,020	20,706

ADJUSTED FUNDS FROM OPERATIONS

AFFO is a non-IFRS financial measure used by most Canadian real estate investment trusts and should not be considered as an alternative to net income or comprehensive income, cash flow from operating activities or any other measure prescribed under IFRS. AFFO does not have any standardized meaning prescribed by IFRS. As computed by us, AFFO may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers AFFO to be a useful measure of cash available for distributions. The principal advantage of AFFO is that it starts from the standardized definition of FFO and takes account of maintenance capital expenditures and regular leasing expenditures while ignoring the impact of non-cash revenue. Because maintenance capital expenditures and regular leasing expenditures are not incurred evenly throughout a fiscal year, there can be volatility in AFFO on a quarterly basis. The following, together with the preceding table, reconciles net income and comprehensive income for the quarter and comparable quarter, as presented in the consolidated financial statements, with AFFO.

(In thousands)	Q4 2012	Q4 2011
FFO	28,020	20,706
Step-rent adjustments	(1,219)	(1,033)
Regular leasing expenditures	(3,001)	(2,929)
Maintenance capital expenditures	(370)	(150)
AFFO	23,430	16,594

NET OPERATING INCOME

NOI is a non-IFRS financial measure and should not be considered as an alternative to net income or net income and comprehensive income, cash flow from operating activities or any other measure prescribed under IFRS. NOI does not have any standardized meaning prescribed by IFRS. As computed by us, NOI may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers NOI to be a useful measure of performance for rental properties. The following reconciles net rental income for the quarter and comparable quarter, as presented in the consolidated financial statements, to NOI.

(In thousands)	Q4 2012	Q4 2011
Revenue from rental properties	68,691	57,097
Rental property operating cost	29,913	22,427
Net rental income	38,778	34,670
Amortization of tenant improvements	1,334	908
Step-rent adjustments	(1,219)	(1,033)
NOI	38,893	34,545

We operate in 10 urban markets in Canada—Québec City, Montréal, Ottawa, Toronto, Kitchener, Winnipeg, Calgary, Edmonton, Vancouver and Victoria. For the purposes of analysing NOI, we group Québec City with Montréal and Ottawa as Eastern Canada, Toronto with Kitchener as Central Canada and Winnipeg with Calgary, Edmonton, Vancouver and Victoria as Western Canada. The following sets out the NOI by region for the quarter and the comparable quarter.

(In thousands)	Q4 2012	Q4 2011	CHANGE	% CHANGE
Eastern Canada	9,673	7,094	2,579	36.4%
Central Canada	22,599	21,701	898	4.1%
Western Canada	6,621	5,750	871	15.1%
NOI	38,893	34,545	4,348	12.6%

Our NOI in the quarter increased by 12.6% over the comparable quarter with a large increase in Western Canada due mostly to acquisitions, an increase in Central Canada due primarily to rental growth and a very large increase in Eastern Canada due to increased occupancy in Montréal. This is discussed in further detail below under "Same-Asset Net Operating Income".

SAME-ASSET NET OPERATING INCOME

Our same-asset NOI in the quarter increased by 6.1% from the comparable quarter. This is best understood in the context of our same-asset NOI by region, as set out below:

(In thousands)	Q4 2012	Q4 2011	CHANGE	% CHANGE
Eastern Canada	7,560	5,682	1,878	33.1%
Central Canada	19,229	19,271	(42)	(0.2%)
Western Canada	5,771	5,735	36	0.6%
NOI	32,560	30,688	1,872	6.1%

The same-asset NOI increase in Eastern Canada stems mostly from leasing success. The flat same-asset NOI in each of Central Canada and Western Canada stems from temporary vacancy in the quarter.

PART III

—Quarterly History

The following sets out summary information and financial results for the eight most recently completed fiscal quarters.

(In thousands except for per unit and % amounts)	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Revenue from rental properties	68,691	66,801	62,694	60,207	57,097	50,240	45,521	43,430
Rental property operating cost	29,913	27,831	25,940	25,562	22,427	22,138	21,670	20,515
Net rental income	38,778	38,970	36,754	34,645	34,670	28,102	23,851	22,915
Real estate service income	83	28	29	32	31	30	59	84
Financing expense	10,437	12,449	12,209	11,400	13,180	10,431	9,205	9,395
Amortization	1,343	1,042	933	931	808	861	848	766
Income from operations	27,081	25,507	23,641	22,346	20,713	16,840	13,857	12,838
Less trust expense	1,604	1,084	1,393	1,418	1,640	1,349	1,307	1,134
Add net gain/(loss) on sale of rental property	47	(704)	(85)	991	-	-	-	1,131
Net income	25,524	23,719	22,163	21,919	19,073	15,491	12,550	12,835
Gain from change in fair value	111,491	81,008	53,742	30,910	48,920	945	19,136	31,518
Gain/(loss) on derivative instruments	710	(22)	(4,047)	2,699	(1,809)	-	-	-
Fair value adjustment on owner- occupied property	-	-	(123)	366	(155)	28	174	-
Subtotal	112,201	80,986	49,572	33,975	46,956	973	19,310	31,518

(In thousands except for per unit and % amounts)	Q4 2012	Q3 2012	<u>Q</u> 2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Net income and comprehensive income	137,725	104,705	71,735	55,894	66,029	16,464	31,860	44,353
Weighted average units (diluted)	61,779	58,613	55,850	52,179	51,633	49,214	46,659	43,162
Distributions	20,500	19,381	18,442	17,099	16,948	16,364	15,295	14,341
FFO	28,020	26,777	24,424	22,931	20,706	17,559	14,683	13,143
FFO per unit (diluted)	\$0.45	\$0.46	\$0.44	\$0.44	\$0.40	\$0.36	\$0.32	\$0.31
FFO pay-out ratio	73.2%	72.4%	75.5%	74.6%	81.9%	93.2%	104.2%	109.1%
AFFO	23,430	21,614	18,224	18,439	16,594	13,152	10,822	10,515
AFFO per unit (diluted)	\$0.38	\$0.37	\$0.33	\$0.35	\$0.33	\$0.27	\$0.23	\$0.24
AFFO pay-out ratio	87.5%	89.7%	101.2%	92.7%	102.1%	124.4%	141.3%	136.4%
Fair value	2,948,599	2,678,209	2,491,632	2,279,420	2,094,144	2,014,086	1,741,966	1,600,000
Total debt	1,073,164	1,067,852	1,043,934	1,015,077	938,016	900,531	755,410	671,453
Total debt as a % of fair value of investment properties	36.4%	39.9%	41.9%	44.5%	44.8%	44.7%	43.3%	42.0%
Total rental GLA	8,309	8,600	8,285	7,719	7,481	7,438	6,715	6,048
Leased rental GLA	7,662	7,922	7,643	7,097	6,917	6,827	6,167	5,596
% leased	92.2%	92.1%	92.3%	91.9%	92.5%	91.8%	91.8%	92.5%

Factors that cause variation from quarter to quarter include but are not limited to our occupancy level, our debt ratio, our cost of capital, the extent to which we have cash that has not been deployed, the extent to which we have invested capital in PUDs, our same-asset NOI, our rate of property acquisition, our regular leasing expenditures and our regular maintenance capital expenditures.

PART IV -2012 Results

The following sets out summary information and financial results for 2012 and 2011, as well as the change between the two.

(In thousands except for per unit and % amounts)	2012	2011	CHANGE	% CHANGE
Revenue from rental properties	258,393	196,288	62,105	31.6%
Rental property operating cost	109,246	86,750	22,496	25.9%
Net rental income	149,147	109,538	39,609	36.2%
Real estate service income	172	204	(32)	(15.7%)
Financing expense				
Interest	42,670	39,375	3,295	8.4%
Interest expense on finance lease - ground lease	2,721	1,949	772	39.6%
Amortization of mortgage premium	(759)	(227)	(532)	234.4%
Amortization of financing costs	1,863	1,114	749	67.2%
Amortization				
Leasing costs, computer and office equipment	4,249	3,283	966	29.4%
Income from operations	98,575	64,248	34,327	53.4%
Less trust expense	5,499	5,430	69	1.3%
Add net gain on sale of rental property	249	1,131	(882)	(78.0%)
Net income	93,325	59,949	33,376	55.7%
Gain resulting from change in fair value-real estate	277,151	100,519	176,632	175.7%
Loss on derivative instruments	(660)	(1,809)	1,149	(63.5%)
Fair value adjustment on owner-occupied property	243	47	196	417.0%

7,662

92.2%

6,917

92.5%

Leased rental GLA

% leased

828

745

(0.3%)

10.8%

NET RENTAL INCOME AND REAL ESTATE SERVICE INCOME

Net rental income for 2012 was \$149,147, up 36.2% from 2011. The change arose from the following: (i) a \$9,761 increase in same-asset net rental income from properties owned for the entire period and the entire comparable period (which includes the period-over-period change in step-rent adjustments); (ii) a \$31,025 increase from properties not owned for the entire period and the entire comparable period; and (iii) a \$1,177 decrease in net rental income in relation to a one-time land lease adjustment in 2011. Net rental income per occupied square foot for 2012 was \$19.47, as compared to \$15.84 in the comparable period.

The Property Manager provides real estate services to third-party property owners. Real estate service income for the period was \$172, as compared to \$204 in the comparable period.

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. Interest for 2012 increased by 8.7% from 2011, due largely to the financing expense associated with additional properties acquired in 2011 and 2012, which was offset in part by de-levering of our balance sheet, favourable mortgage renewals and the capitalization of interest in connection with our Properties Under Development.

AMORTIZATION

We amortize leasing cost and tenant improvements on a straight-line basis over the term of the corresponding lease. Amortization for 2012 increased by 29.4% from 2011, due largely to the increased leasing activity and corresponding costs.

TRUST EXPENSE

Trust expense includes expenses not directly attributable to investment properties, such as officers' compensation, trustees' fees, professional fees for legal and audit services, trustees' and officers' insurance premiums and general administrative expenses. Trust expense for 2012 increased by 1.3% from 2011, due largely to higher occupancy and compliance costs, which were offset in part by the capitalization of salaries in connection with both the acquisition of our rental properties and the redevelopment or intensification of our Properties Under Development.

NET INCOME

Net income for 2012 was \$93,325, as compared to \$59,949 in 2011.

NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income for 2012 was \$370,059, as compared to \$158,706 in 2011. We elected the "fair value" approach to investment properties, with the result that they are recorded at fair value on the

Consolidated Balance Sheets. To assist in establishing fair value, we retained an independent appraiser, Cushman & Wakefield, to appraise our portfolio. Changes in fair value are recorded on the Consolidated Statements of Income and Comprehensive Income. The fair value of our investment properties at the end of 2012 was \$2,948,599, up \$854,455 from 2011. \$517,310 of the increase resulted from acquisitions over the intervening year, with the remaining \$369,245 resulting from appreciation in value, offset somewhat by dispositions of \$32,100.

CAPITAL EXPENDITURES

Our portfolio requires ongoing maintenance capital expenditures and leasing expenditures. Leasing expenditures include the cost of in-suite or base-building improvements made in connection with the leasing of vacant space or the renewal or replacement of tenants occupying space covered by maturing leases, as well as improvement allowances and commissions paid in connection with the leasing of vacant space and the renewal or replacement of tenants occupying space covered by maturing leases.

In 2012, we incurred (i) \$681 in regular maintenance capital expenditures (eight cents per portfolio square foot) and (ii) \$15,055 in leasing expenditures (\$7.69 per leased square foot) in connection with new leases or lease-renewals for 1,958,423 square feet of GLA that commenced in the year.

We incurred \$71,080 in revenue-enhancing capital and leasing expenditures in connection with space that was significantly reconfigured and retrofitted to accommodate high-value new tenancies and in connection with the completion of PUDs.

\$2,473 of the salaries paid in 2012, were capitalized in connection with capital improvements to our rental properties and Properties Under Development. This amount was equivalent to approximately 2.9% of the associated development costs.

FUNDS FROM OPERATIONS

FFO is a non-IFRS financial measure used by most Canadian real estate investment trusts and should not be considered as an alternative to net income or comprehensive income, cash flow from operating activities or any other measure prescribed under IFRS. While FFO does not have any standardized meaning prescribed by IFRS, the Real Property Association of Canada ("REALpac") established a standardized definition of FFO in its White Paper on Funds From Operations dated November 30, 2004 and subsequently revised November 2012. Essentially, the REALpac definition is net income with adjustments for non-cash and extraordinary items. Management believes that this definition is followed by most Canadian real estate investment trusts and that it is a useful measure of cash available for distributions. The following reconciles net income and comprehensive income for the period and comparable period, as presented in the consolidated financial statements, with FFO.

(In thousands)	2012	2011
Net income and comprehensive income	370,059	158,706
Gain/loss on sale of property	(249)	(1,131)
Gain resulting from change in fair value in investment properties	(277,151)	(100,519)
Gain/loss resulting from derivative instruments	660	1,809
Fair value adjustment on owner-occupied property	(243)	(47)
Amortization of owner-occupied property	43	48
Amortization of leasing cost and tenant improvements	9,033	7,225
FFO .	102,152	66,091

ADJUSTED FUNDS FROM OPERATIONS

AFFO is a non-IFRS financial measure used by most Canadian real estate investment trusts and should not be considered as an alternative to net income or comprehensive income, cash flow from operating activities or any other measure prescribed under IFRS. AFFO does not have any standardized meaning prescribed by IFRS. As computed by us, AFFO may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers AFFO to be a useful measure of cash available for distributions. The principal advantage of AFFO is that it starts from the standardized definition of FFO and takes account of maintenance capital expenditures and regular leasing expenditures while ignoring the impact of non-cash revenue. Because maintenance capital expenditures and regular leasing expenditures are not incurred evenly throughout a fiscal year, there can be volatility in AFFO on a quarterly basis. The following, together with the preceding table, reconciles net income and comprehensive income for the period, as presented in the consolidated financial statements, with AFFO.

(In thousands)	2012	2011
FFO	102,152	66,091
Step-rent adjustments	(4,709)	(2,115)
Regular leasing expenditures	(15,055)	(11,050)
Maintenance capital expenditures	(681)	(1,843)
AFFO	81,707	51,083

NET OPERATING INCOME

NOI is a non-IFRS financial measure and should not be considered as an alternative to net income or net income and comprehensive income, cash flow from operating activities or any other measure prescribed under IFRS. NOI does not have any standardized meaning prescribed by IFRS. As computed by us, NOI may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers NOI to be a useful measure of performance for rental properties. The following reconciles net rental income for the period, as presented in the consolidated financial statements, to NOI.

(In thousands)	2012	2011
Revenue from rental properties	258,393	196,288
Rental property operating cost	109,246	86,750
Net rental income	149,147	109,538
Amortization of tenant improvements	5,261	4,322
Step-rent adjustments	(4,709)	(2,115)
NOI	149,699	111,745

We operate in 10 urban markets in Canada—Québec City, Montréal, Ottawa, Toronto, Kitchener, Winnipeg, Calgary, Edmonton, Vancouver and Victoria. For the purposes of analysing NOI, we group Québec City with Montréal and Ottawa as Eastern Canada, Toronto with Kitchener as Central Canada and Winnipeg with Calgary, Edmonton, Vancouver and Victoria as Western Canada. The following sets out the NOI by region for the period and comparable period.

(In thousands)	2012	2011	CHANGE	% CHANGE
Eastern Canada	39,627	25,785	13,842	53.7%
Central Canada	85,418	72,623	12,795	17.6%
Western Canada	24,654	13,337	11,317	84.9%
NOI	149,699	111,745	37,954	34.0%

^{*}Operations in Ottawa did not commence until February 16, 2012.

Our NOI in 2012 increased by 34.0% over 2011 with a very large increase in Western Canada due mostly to acquisitions, a large increase in Central Canada due primarily to rental growth and a very large increase in Eastern Canada due to increased occupancy in Montréal. This is discussed in further detail below under "Same-Asset Net Operating Income".

SAME-ASSET NET OPERATING INCOME

Our same-asset NOI in 2012 increased by 14.8% from 2011. This is best understood in the context of our same-asset NOI by region, as set out below:

(In thousands)	2012	2011	CHANGE	% CHANGE
Eastern Canada	27,195	20,368	6,827	33.5%
Central Canada	71,913	65,665	6,248	9.5%
Western Canada	6,970	6,389	581	9.1%
NOI	106,078	92,422	13,656	14.8%

The same-asset NOI increase in each of Eastern Canada and Central Canada stems mostly from leasing success. The same-asset NOI increase in Western Canada stems from leasing success in Calgary and Vancouver, offset in part by an increase in vacancy in Winnipeg and by a temporary decline in NOI at Fashion Central in Calgary as part of a successful repositioning.

PART V -Leasing

STATUS

Leasing status for our rental portfolio as at December 31, 2012, is summarized in the following table:

TOTAL GLA	OCCUPIED	% OCCUPIED	COMMITTED	% COMMITTED	LEASED %	LEASED
8,308,591	7,460,407	89.8%	201,381	2.4%	7,661,788	92.2%

Of 8,308,591 square feet of total GLA in our rental portfolio, 7,460,407 square feet were occupied by tenants on December 31, 2012. Another 201,381 square feet were subject to contractual lease commitments with tenants whose leases commence subsequent to December 31, 2012, bringing the leased area to 7,661,788 square feet, 92.2% of our total GLA. Excluding upgrade properties, where we temporarily reduce occupancy in order to upgrade interior space, our leased area was 94.2%.

Leasing status for our rental portfolio during the fourth quarter and 2012 is summarized in the following table:

	OCCUPIED GLA ON AVERAGE	% OCCUPIED GLA ON AVERAGE
Fourth Quarter	7,434,058	88.9%
2012	7,036,964	87.9%

During the fourth quarter, average occupied area was 7,434,058 square feet, representing 88.9% of the total GLA in the portfolio. During 2012, average occupied area was 7,036,964 square feet, representing 87.9% of the total GLA in the portfolio. Excluding upgrade properties, where we temporarily reduce occupancy in order to upgrade interior space, our average occupied area in the fourth quarter was 91.3% and in 2012 was 90.2%.

We monitor the level of sub-lease space in our portfolio. We are unaware of any space being offered for sub-lease in our Kitchener, Ottawa, Edmonton, Winnipeg, Vancouver and Victoria portfolios. We are aware of 37,881 square feet of space being offered for sub-lease in our Toronto portfolio, 2,255 square feet in our Montréal portfolio, 5,800 square feet in our Québec City portfolio and 50,483 square feet in our Calgary portfolio. This level of sub-lease space is consistent with past experience and does not represent an operating or leasing challenge to us, especially in light of the fact that almost all of the sub-lease space in question has limited remaining term. In our experience, prospective sub-tenants of such space will strive to enter into a direct leasing relationship with us and thereby obtain extended term. This tends to put us in a very good bargaining position opposite both the head-tenant and the sub-tenant.

ACTIVITY

Leasing activity in connection with our rental portfolio as at December 31, 2012, is summarized in the following table:

	GLA	SF LEASED BY DECEMBER 31	% LEASED BY DECEMBER 31	SF UNLEASED ON DECEMBER 31
Vacancy on January 1, 2012	879,428	536,148	61.0%	343,280
Acquired Vacancy in 2012	54,167	17,964	33.2%	36,203
Acquired Maturities in 2012	44,453	11,026	24.8%	33,427
Arranged Vacancy in 2012	18,704	17,238	92.2%	1,466
Maturities in 2012	1,378,148	1,145,721	83.1%	232,427
Total	2,374,900	1,728,097	72.8%	646,803

879,428 square feet of GLA was vacant at the beginning of 2012. By the year-end, we leased 536,148 square feet of this GLA, leaving 343,280 square feet unleased.

Leases for 1,422,601 square feet of GLA matured in 2012. By year-end, we renewed or replaced leases for 1,156,747 square feet of this GLA, leaving 265,854 square feet unleased.

We leased 1.73 million square feet of space in 2012. We finished the period with leased area of 94.2% (excluding upgrade properties and Properties Under Development), down 10 basis points from the year-ended 2011.

We renewed or replaced 81.3% of the GLA covered by leases maturing in 2012. With respect to those renewals and replacements (1,107,340 square feet of GLA in total), we achieved rental rates (i) above in-place rental rates

for 56.5% of the GLA, (ii) equal to in-place rental rates for 16.5% of the GLA and below in-place rates for 27.0% of the GLA. This will result in an overall increase of 8.3% in net rental income per square foot from the GLA covered by the maturing leases.

Other leasing highlights in 2012 included the following:

- (I) the lease of 21,893 square feet at Cité Multimédia to Thomson Reuters for a term of 10 years commencing October 1, 2012;
- (II) the further expansion of SAP Labs at Cité Multimédia for a term expiring August 31, 2021, bringing its total area to 111,603 square feet;
- (III) the lease of 7,000 square feet at Skywalk to Metrolinx for a term of 35 years commencing March 1, 2012, for use as the inner-city terminal for the rail link between Union Station and Pearson International Airport;
- (IV) the lease of 14,109 square feet at 645 Wellington Street in Montréal to La Presse for a term of seven years commencing November 1, 2012;
- (v) the 23,000-square-foot expansion of Ubisoft at 5455 de Gaspé in Montréal for a term of 10 years commencing October 1, 2012;
- (vI) the lease of 9,130 square feet at 3575 Saint-Laurent in Montréal to iPerceptions for a term of five years commencing October 1, 2012;
- (VII) the lease of 15,234 square feet at 425-439 King Street West in Toronto to Desire2Learn for a term of five years commencing September 1, 2012;
- (VIII) the lease of 10,182 square feet at 388 King Street West in Toronto to Shop.ca for a term of three years commencing October 1, 2012, subject to a demolition clause in our favour;
- (IX) the lease of 8,775 square feet at Fashion Central in Calgary to GeoTir for a term of 10 years commencing January 1, 2013, completing the desired transition of the second level from retail to office space;
- (x) the 18,590-square-foot expansion of Farleigh Dickenson University at 840 Cambie Street in Vancouver for a term of 12 years commencing December 1, 2012;
- (xI) the lease of 29,989 square feet at 500-522 King Street West in Toronto to e-Bay for a term of 10 years commencing November 1, 2013;
- (XII) the lease of 15,860 square feet at 70 Richmond Street East in Toronto to One Advertising for a term of 10 years commencing June 1, 2013;

- (XIII) the lease of all the rentable area in The Chamber of Commerce Building in Calgary (33,874 square feet) to Cenovus for a term of 10 years commencing June 1, 2013;
- (xiv) the lease of 10,860 square feet at The Burns Building in Calgary to the Calgary Chamber of Commerce for a term of 10 years commencing March 1, 2013;
- (xv) the lease of 28,152 square feet at the Boardwalk Revillion Building in Edmonton to Dialog for a term of 10 years commencing April 1, 2013;
- (xvi) the lease of 8,435 square feet of retail space at 645 Wellington Street in Montréal to Houston Canada for a term of 10 years commencing April 1, 2013;
- (XVII) the lease of 6,066 square feet of space at Cité Multimédia in Montréal to Research in Motion for a term of five years commencing December 1, 2012;
- (xvIII) the lease of 21,209 square feet at 5455 de Gaspé in Montréal to Framestore for a term of 10 years commencing April 15, 2013;
- (XIX) the lease of 12,594 square feet at 645 Wellington Street in Montréal to CM Labs for a term of 10 years commencing November 1, 2012;
- (xx) the lease of 17,281 square feet at 500 King Street West in Toronto to Regus for a term of 11 years commencing August 1, 2013; and
- (xxi) the lease of 15,341 square feet at 500 King Street West in Toronto to The Score for a term of six years commencing July 1, 2013

PART VI

-Value Creation

Operations underpin a stable and growing yield, the provision of which is our overriding objective. Acquisitions can enhance yield, directly through financial accretion and indirectly through overall portfolio strengthening. Acquisitions have been, and will continue to be, the largest single component of our external growth. Value creation is another way to enhance yield and a particularly effective one for us, given the strategic positioning of our portfolio in the urban areas of Canada's major cities. We expect value creation to become a progressively more important component of our external growth as our many current projects come to fruition.

Urban intensification is the single most important trend in relation to our business. Not only does it anchor our investment and operating focus, it provides the context within which we create value for our unitholders. And the pace of urban intensification is accelerating. Residential structures are moving inexorably upward, office structures are moving well beyond traditional boundaries and retailers are accepting new and different spatial configurations, all in an effort to exploit opportunity while accommodating the physical constraints of the inner-city. It has even reached a point where the migration to the suburbs that started in the 1950s is reversing itself. What was identified a few years back as an incipient trend has become a reasonably widespread reverse migration, with office tenants returning to the inner city to capture the ever more concentrated talent pools.

We create value in three ways—by upgrading rental properties, by putting properties to a higher and better use through redevelopment and by intensifying the use of underutilized land. Our goal in doing so is to build a development pipeline that, in time, will make a recurring, annual contribution to the growth of our business and the augmentation of our FFO and AFFO per unit.

UPGRADES

We have three properties in Montréal that we are actively and extensively upgrading. They are currently operating as rental properties and are contributing to our NOI, but we temporarily reduce the occupancy level (and, consequently, our NOI) as part of the upgrade process. Our upgrade properties are identified in the following table and described briefly:

UPGRADES IN PROGRESS

645 Wellington Avenue	141,192
6300 Avenue du Parc	217,373
5455 de Gaspé Avenue	522,270
Total	880,835

645 WELLINGTON STREET

This is a Class I building located in close proximity to Cité Multimédia. The physical upgrade is now complete, and we have nearly completed the lease-up. We expect the augmented level of rental revenue to contribute on a largely stabilized basis to our overall rental revenue in 2013.

6300 AVENUE DU PARC

This is a Class I building located in Mile End, an area undergoing transformation, in part because of the construction nearby of University of Montréal's Health Sciences Campus. The physical upgrade is underway, and the re-leasing is proceeding slowly. We don't expect a materially augmented level of rental revenue from this property in 2013.

5455 DE GASPÉ AVENUE

This is a Class I building in the Plateau, an area undergoing rapid intensification and transformation. The building has exceptional ceiling height, favourable column spacing and very large floor plates. The physical upgrade is well underway, and the re-leasing is proceeding very well with high-quality tenants like Ubisoft and Framestore. We expect the augmented level of rental revenue to begin to contribute to our overall rental revenue in 2013.

REDEVELOPMENT

Our redevelopments in progress are identified in the following table and described briefly below:

REDEVELOPMENTS IN PROGRESS

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905 King West, Toronto	113,009
70 Richmond East, Toronto	34,750
500-522 King West, Toronto	124,837
The Breithaupt Block, Kitchener (50% Interest)*	88,000
The Burns Building, Calgary	73,701
The Chamber of Commerce Building, Calgary	33,874
5445 de Gaspé, Montréal	502,713
Total	970,884

^{*}Total estimated GLA is 176,000 square feet

905 KING STREET WEST, TORONTO

This is one of five redevelopments now nearing completion. We've completed the retrofit necessary to put 60,000 square feet to a higher and better use, increasing its income generating potential. We've leased 20,000 square feet at higher than anticipated net rental rates. We have since worked with the original tenant to upgrade the 60,000 square feet to a point where it qualifies as a Tier 3 data centre in accordance with the standards of the Telecommunications Industry Association. Tier 3 is a very high level of capability for a data centre, guaranteeing 99.982% availability of data from the hardware at the centre, exceeded only by Tier 4, which guarantees 99.995% availability. With this additional work now complete, we expect to lease the remaining 40,000 square feet this year.

70 RICHMOND STREET EAST, TORONTO

This is a Class I building, the interior attributes of which were concealed by years of institutional-style office build-outs. On gaining vacant possession of the building on August 31, 2011, we initiated a complete interior restoration, removing all drop-ceilings, drywall coverings and carpeting to reveal a superb post-and-beam structural frame, exposed interior brick and hardwood floors. We have completed the re-leasing of the building. It will become a rental property for accounting purposes in early 2013.

500-522 KING STREET WEST, TORONTO

This is a Class I building, the interior attributes of which were diminished by a poor tenant build-out nearly a decade ago. On gaining control of the office component on April 30, 2012, we initiated the necessary interior restoration, as well the exterior restoration of the parapet of each building and the laneway between the two buildings. We have completed the restoration work and re-leasing of the building. It will become a rental property for accounting purposes in the second half of 2013.

THE BREITHAUPT BLOCK, KITCHENER

This is comprised of six former industrial buildings in the Warehouse District with approximately 176,000 square feet of space and two acres of surplus land. With Perimeter Development Corporation, we've redeveloped this property for office use. On completion, scheduled for mid-2013, it will add depth to our Kitchener portfolio, with the surplus land affording additional value-creation potential down the road.

THE BURNS BUILDING, CALGARY

This is a Class I building located on Stephen Avenue Mall in close proximity to Calgary City Hall. We acquired the leasehold interest in the property last year with a view to redeveloping and re-leasing the building within a relatively short timeframe. We have already made considerable progress in restoring and re-leasing the office space and expect the process to be complete before the end of 2013.

THE CHAMBER OF COMMERCE BUILDING, CALGARY

This a heritage building located on the northwest corner of 6th Avenue S.W. and Centre Street S.W., directly across from The Bow and in close proximity to the Lougheed Building and the Telephone Building. We acquired

the property last year with a view to completing an interior retrofit and leasing the entire property to Cenovus for a term of 10 years commencing April 1, 2013. The retrofit is nearing completion, and the building will become a rental property for accounting purposes in the second quarter of this year.

5445 DE GASPÉ, MONTRÉAL

This is a Class I building adjacent to 5455 de Gaspé with identical attributes: exceptional ceiling height, favourable column spacing and very large floor plates. The long-term lease arrangement we've entered into with Pied Carré has made building-wide redevelopment necessary. The redevelopment has commenced, and we expect a very substantial portion of the building to be producing stabilized revenue by November of this year. Accordingly, we don't expect the augmented level of rental revenue to contribute meaningfully to our overall rental revenue until 2014.

INTENSIFICATION

Much of the value we can create is inherent in what we already own. The land beneath our buildings in Toronto is significantly underutilized. This is also true of some of our buildings in Kitchener, Montréal, Calgary and Vancouver. These opportunities are becoming more compelling as the urban areas of Canada's major cities intensify. Because we've captured the unutilized land value at such a low cost, we can achieve very attractive risk-adjusted returns on intensification.

In addition to QRC West, Phase I, which is now under full construction, we've initiated four intensification opportunities on our own and another four with joint-venture partners, all in Toronto. The table below identifies our intensifications in progress.

INTENSIFICATIN PROGRESS		USE	ESTIMATED GLA
QRC West, Phase I	PUD, under construction	Office, limited retail	350,000
QRC West, Phase II	Rental property in municipal approval process	Office, retail	74,000
King & Peter	Rental property in municipal approval process	Office, limited retail	700,000
King & Spadina	Rental property in municipal approval process	Office, limited retail	300,000
171 Front West	Rental property in pre-development	Office, limited retail	750,000
College & Manning JV*	Rental property in municipal approval process	Office, retail, residential	62,500
King & Portland JV**	Rental property in municipal approval process	Office, retail, residential	200,000
Spadina JV***	Rental property in municipal approval process	Office, retail, residential	120,000
Downtown West JV****	Rental property in municipal approval process	Office, retail, residential	920,000
Total			3,476,500

^{*50/50} JV with RioCan, total estimated GLA is 125,000 square feet

^{**50/50} JV with RioCan, total estimated GLA is 400,000 square feet

^{***50/50} JV with Diamond, total estimated GLA is 240,000 square feet

^{****40/40/20} JV with RioCan and Diamond, total estimated GLA is 2.3 million square feet

QRC WEST, PHASE II

This project was made possible by our acquisition of 375-381 Queen Street West in late 2009. As currently conceived, it will be comprised of 46,000 square feet of office space over four storeys, with floor plates of around 12,000 square feet, and 28,000 square feet of retail space on two levels, with exceptional ceiling height (18 feet) at the grade level. Now that site-plan approval has been finalized for QRC West, Phase I, we are proceeding with the municipal approval process for Phase II. The height and density issues are straightforward, but certain shareduse issues require more attention, particularly our wish to acquire one public laneway and our need to secure an aerial easement over another. We expect to complete the municipal approval process this year.

KING & PETER

388 King Street West and 82 Peter Street are also rental properties generating a respectable levered return. These properties represent a large-scale intensification opportunity. Preliminary work suggests that over 700,000 square feet of useable area can be created on the land component of the two properties. The former property is subject to a long-term lease that will have to be renegotiated. Having finalized the plans for a large-scale, LEED certified, office building, we've now initiated the municipal approval process for this site, which we expect to complete this year.

KING & SPADINA

Although currently rental properties, 489, 495 and 499 King Street West constitute the best remaining development site at King & Spadina. 489 and 495 King Street West are small buildings with no historic value occupied for the most part by tenants pursuant to leases that we can terminate on six months' notice. 499 King Street West is a former car dealership currently operating as a restaurant/nightclub. We have a running right of early termination with the sole tenant. 489, 495 and 499 King Street West comprise close to 40,000 square feet of land. Preliminary work suggests that the site could support over 400,000 square feet of useable area. Having finalized the plans for a large-scale, LEED certified, office building, we've now initiated the municipal approval process for this site, which we expect to complete next year.

171 FRONT STREET WEST

As part of our acquisition of 151 Front Street West in late 2009, we acquired surplus land running between York and Simcoe Streets immediately to the south of the main structure. Municipal and site-plan approval is currently in place for an office development of 750,000 square feet of useable area, which we expect to increase during the pre-development phase. Given the singularly desirable location of the potential development, we are now upgrading the plans and evaluating the cost of construction with a view to initiating the marketing of the project to prospective large-scale users. We have finalized an arrangement with 20 VIC to act as development manager and will work toward identifying a suitable joint-venture partner as we move closer to completion of the predevelopment phase.

COLLEGE & MANNING JOINT VENTURE

This is a 50/50 joint venture between us and RioCan. The site is comprised of 555-563 College Street, initially owned by us, and 547 and 549 College Street, initially owned by RioCan. It includes 23,028 square feet of land with 185 feet of frontage on College. The joint venture intends to intensify the site by creating a mixed-use office, retail and residential complex with approximately 125,000 square feet of gross floor area. We are currently in the design phase and expect to initiate the municipal approval process this year.

KING & PORTLAND JOINT VENTURE

This is also a 50/50 joint venture between us and RioCan. This site is comprised of 602-606 King Street West, initially owned by us, and adjacent properties to the west extending from King through to Adelaide Street West that we acquired with RioCan. It includes 61,608 square feet of land with frontage on King, Portland and Adelaide. The joint venture intends to intensify the site by creating a mixed-use office, retail and residential complex with approximately 300,000 square feet of gross floor area. We are currently in the design phase and expect to initiate the municipal approval process this year.

SPADINA JOINT VENTURE

This is a 50/50 joint venture between us and Diamond Corp. The site is comprised of 57 Spadina in Toronto, initially owned by us. It is comprised of 18,115 square feet of land with frontage on Spadina, just south of the intersection of King & Spadina. The joint venture intends to develop a mixed-use office, retail and residential complex with approximately 240,000 square feet of gross floor area. We are currently in the design phase and expect to initiate the municipal approval process this year.

DOWNTOWN WEST JOINT VENTURE

This is a 40/40/20 joint venture between us, RioCan and Diamond to redevelop the Globe & Mail Lands, the largest underdeveloped site in the vibrant Downtown West submarket of Toronto. It's immediately south of our King & Spadina portfolio, which includes nearly a million square feet of space across 15 buildings. With 6.5 acres of land on the large city block bounded by Spadina, Front, Wellington and Draper, the site will support significant retail, office and residential space. The site affords an opportunity to create a Toronto landmark with mutually reinforcing mixed-uses. Our confidence in the undertaking derives from two things: first, the extraordinary appeal of the surrounding neighbourhood; and, second, the combined development capabilities of the joint-venture team, ourselves, RioCan and Diamond.

TELECOMMUNICATIONS AND INFORMATION-TECHNOLOGY FACILITIES

We currently own and operate 151 Front Street West, 905 King Street West and 60 Adelaide Street East in Toronto. Although the three properties constitute approximately 340,000 square feet of specialized space for telecom and IT tenants, we believe that demand is growing at a much faster rate than supply. Furthermore, we believe we are uniquely well positioned to satisfy the demand, in part because of our ability to establish direct fibre-optic connections with 151 Front.

In June of last year, we announced that we had entered into a lease of 168,000 square feet at the Canadian Broadcast Centre, 250 Front Street West, Toronto, for a term of 49 years at net rental rates that escalate at intervals of not less than five years over the term. The lease term will commence in 2013, with an extensive rent-free period following commencement.

The premises at 250 Front will have significant floor-loading and freight-elevator capacity, over 14 foot clear ceiling height, access to Enwave deep-water cooling and a dedicated electrical service of 9 MVA with two 11 MVA dedicated feeders. We expect to invest approximately \$30 million in the premises with a view to establishing it as a premiere facility in Canada. On completion of the upgrade, which is expected to occur in 2013, we will lease the space to the type of tenants we serve at 151 Front, 905 King and 60 Adelaide. On lease-up, we expect the facility to be very accretive to our annual AFFO per unit.

PROPERTIES UNDER DEVELOPMENT

Properties Under Development are measured using a discounted cash flow model, net of costs to complete, as of the balance sheet date. The initial cost of Properties Under Development includes the acquisition cost of the property, direct development costs, realty taxes and borrowing costs directly attributable to the development. Borrowing costs associated with direct expenditures on Properties Under Development are capitalized. The amount of capitalized borrowing costs is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Practical completion is when the property is capable of operating in the manner intended by management. Generally this occurs upon completion of construction and receipt of all necessary occupancy and other material permits.

At December 31, 2012, the fair value of our Properties Under Development was \$231,905, which was equivalent to 7.9% of the fair value of our portfolio under IFRS and 6.6% of our Gross Book Value, as defined in our Declaration.

PART VII

—Financial Condition

ASSETS

We elected the "Fair Value" approach to our investment properties and, accordingly, have recorded them at fair value in the consolidated balance sheet as at December 31, 2012. We retained an external appraiser, Cushman & Wakefield, to appraise our portfolio of investment properties in its entirety on December 31, 2009, and at the end of each subsequent quarter. For more information on the appraisal process, see "Critical Accounting Estimates" below.

The external valuation indicated fair value for our investment properties of \$2,948,599 as at December 31, 2012, \$854,455 above the fair value indicated by the external valuation for December 31, 2011. \$517,310 of the increase resulted from acquisitions over the intervening year, with the remaining \$337,145 resulting from appreciation in fair value.

In valuing our portfolio as at December 31, 2012, the appraiser used a range of capitalization rates ranging from 4.8% to 8.5%, the high-point being the capitalization rate associated with our property at 5455 de Gaspé. The portfolio weighted average cap rate was 6.1%.

FINANCING

We finance our operations through three sources of capital: (i) mortgage debt secured by our rental properties, (ii) secured short-term debt financing with a Canadian chartered bank and (iii) equity. At December 31, 2012, we had mortgage debt of \$1,066,203, bank indebtedness of \$nil, a construction loan of \$6,961 and unitholders' equity of \$1,777,638. At December 31, 2011, we had mortgage debt of \$933,878, bank indebtedness of \$nil, a construction loan of \$4,138 and unitholders' equity of \$1,141,558. The increase in mortgage debt is due to \$132,325 in new mortgage financing, net of reductions due to regular principal repayments and mortgage assumption by purchasers. The increase in unitholders' equity is due to units issued in the intervening year and net income for the period of \$370,059, offset by distributions to unitholders of \$75,422.

UNITHOLDERS' EQUITY

At December 31, 2012, we had a market capitalization of approximately \$2,114,981 based on a closing unit price of \$33.00 on the Toronto Stock Exchange. As at December 31, 2011, we had a market capitalization of approximately \$1,309,391 based on a closing unit price of \$25.28 on the Toronto Stock Exchange.

In 2012, we issued a total of 12,294,816 units. Costs incurred to issue the units were \$14,458. Units were issued as follows: 641,560 units under our distribution re-investment plan at an average price of \$27.32 per unit for \$17,530; 231,656 units pursuant to exercised options; 3,850,000 units at \$26.00 for gross proceeds of \$100,100 pursuant to a bought deal that closed on April 11, 2012; 3,834,100 units at \$30.00 for gross proceeds of \$115,023 pursuant to a bought deal that closed on August 14, 2012; and 3,737,500 units at \$30.80 for gross proceeds of \$115,115 pursuant to a bought deal that closed on December 4, 2012. At December 31, 2012, we had 64,090,341 units issued and outstanding. At the date hereof, we have 64,195,969 units issued and outstanding.

We adopted a Unit Option Plan at the time of our IPO. In May of 2004, we adopted a long-term incentive plan ("LTIP") whereby our trustees and officers ("Participants") may from time to time, at the discretion of the trustees and subject to regulatory approval, subscribe for units at a market price established in accordance with the provisions of the LTIP. The price for the units is payable as to 5% upon issuance and as to the balance ("LTIP Loan") over 10 years with interest on the LTIP Loan at an annual rate established in accordance with the provisions of the LTIP. The units issued pursuant to the LTIP are registered in the name of a Custodian on behalf of the Participants who are the beneficial owners. The units are pledged to us as security for payment of the LTIP Loan, and all distributions paid on the units are forwarded by the Custodian to us and applied first on account of interest on the LTIP Loan and then to reduce the outstanding balance of the LTIP Loan. In May of 2010, we amended the Unit Option Plan and the LTIP to limit the number of units authorized for issuance under the Unit Option Plan, the LTIP or any other equity compensation plan to 8.1% of the issued and outstanding units from time to time. At December 31, 2012, and the date hereof, we had options to purchase 1,191,143 units outstanding, of which 522,829 had vested, and 42,000 units issued under the LTIP.

In March of 2010, April of 2011 and March of 2012, we adopted a restricted unit plan (the Restricted Unit Plan"), whereby restricted units ("Restricted Units") are granted to certain key employees, at the discretion of the Trustees. The Restricted Units are purchased in the open market. Employees who are granted Restricted Units have the right to vote and to receive distributions from the date of the grant. The Restricted Units vest (in the sense that such Units are not subject to forfeiture) as to one-third on each of the three anniversaries following the date of the grant. Whether vested or not, without the specific authority of the Governance and Compensation Committee, the Restricted Units may not be sold, mortgaged or otherwise disposed of for a period of six years following the date of the grant. The Restricted Unit Plan contains provisions providing for the forfeiture within specified time periods of unvested Restricted Units in the event the employee's employment is terminated. At December 31, 2012, and the date hereof, we had 103,499 Restricted Units granted under the Restricted Unit Plan.

MORTGAGES PAYABLE

Mortgages payable as at December 31, 2012, consisted of mortgage debt of \$1,066,203. The following sets out the maturity schedule of our mortgage debt and the weighted average interest rate on the maturing mortgages.

(In thousands)	PERIODIC Principal Payments	BALANCE DUE AT Maturity	TOTAL Principal	% OF TOTAL Principal	WA INTEREST RATE
2013	31,096	62,122	93,218	8.7%	5.1%
2014	27,691	195,513	223,204	20.9%	5.1%
2015	24,545	85,917	110,462	10.4%	4.9%
2016	22,286	70,244	92,530	8.7%	5.1%
2017	19,185	136,574	155,759	14.6%	4.0%
Thereafter	48,224	342,806	391,030	36.7%	5.3%
Total	173,027	893,176	1,066,203	100.0%	

The principal balances due at maturity by type of lender are as follows:

(In thousands)	DIRECT MORTGAGE LENDER	CONDUIT MORTGAGE LENDER
2013	62,122	-
2014	176,630	18,883
2015	60,542	25,375
2016	58,703	11,541
2017	136,574	-
Thereafter	324,074	18,732
Total	818,645	74,531

Interest rates on the mortgage debt are between 2.00% and 8.10% with a weighted average interest rate of 5.0%. The weighted average term of the mortgage debt is five years. Each individual mortgage loan is secured by a mortgage registered on title of a rental property and by security agreements covering assignment of rents and personal property with respect to such property. The mortgage debt provides the holder with recourse to our assets. We attempt to stagger the maturity of our mortgages and to have mortgages maturing each year to be in a position to upward finance the principal amount of maturing mortgages as needed. Additionally, we attempt to maintain 5 to 15% of our rental properties free from traditional long-term mortgage financing with a view to providing these assets as security for bank credit facilities or as a source of future liquidity.

BANK CREDIT FACILITY

At December 31, 2012, we had a \$70,000 revolving credit facility ("Facility") with a Canadian chartered bank bearing interest at bank prime plus 60 basis points or bankers' acceptance plus 185 basis points and maturing on August 31, 2014. The credit facility is secured by a combination of mortgage charges and security agreements on certain of our rental properties. In 2012, the average borrowings under the Facility were \$3,460. At December 31, 2012, the borrowings under the Facility were \$nil.

LIQUIDITY AND COMMITMENTS

Net operating income generated from our rental properties is the primary source of liquidity to fund our financing expense, trust expense and distributions to unitholders.

We expect that increased financing on maturing mortgages will provide sufficient cash flow to fund mortgage repayments. We plan to fund anticipated ongoing commitments, obligations, capital expenditures and leasing expenditures by using retained cash flow from operations and availing ourselves of borrowing capacity under the Facility.

The Facility, new mortgage financing and the access to the public equity markets will provide the necessary capital we require for acquisitions. Our acquisition capacity, meaning our ability to use un-utilized borrowing capacity while not exceeding the limit stipulated in our Declaration of Trust is approximately \$1.9 billion.

At December 31, 2012, we had future commitments as set out below.

(In thousands)	DECEMBER 31, 2012
Building renovations and maintenance capital expenditures	9,198
Revenue-enhancing capital	3,118
Expenses	1,089
Total	13,405

We have provided a guarantee to a Canadian chartered bank to support a \$24.4 million construction lending facility to assist with the financing of construction costs associated with The Breithaupt Block, in which we have a 50% ownership interest. The balance outstanding under the facility as at December 31, 2012, was \$13.9 million.

PART VIII

—Accounting

The significant accounting policies used in preparing our consolidated financial statements are described in Note 3 to our Consolidated Financial Statements for the year ended December 31, 2012. The following is a discussion of Management's estimates that are most important to the presentation of our results of operations and financial condition and are most subjective as a result of matters that are inherently uncertain.

Investment properties are appraised quarterly and are included in the Consolidated Balance Sheet as at December 31, 2012, at their fair value. Fair value is based on independent appraisals prepared by Cushman & Wakefield, an external professional appraiser with appropriate expertise, and is supported by objective market data. Any gain or loss resulting from a change in the fair value of our investment properties is immediately recognized.

The independent appraisals are based in large measure on the income approach to determining fair value. The income approach is derived from either of, or a combination of, two methods: the overall capitalization rate method, whereby the net operating income is capitalized at an appropriate overall capitalization rate; and the discounted cash flow method, whereby the income and expense are projected over the anticipated term of the investment and combined with a terminal value, all of which is discounted using an appropriate discount rate. Valuations of investment properties are most sensitive to changes in assumptions as to appropriate capitalization and discount rates.

The initial cost of Properties Under Development includes the acquisition cost of the property, direct development costs, realty taxes and borrowing cost directly attributable to the development. Borrowing cost associated with direct expenditures on Properties Under Development is capitalized. The amount of capitalized borrowing costs is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross cost incurred on those borrowings. Borrowing costs are capitalized from the commencement of the development until the date of practical completion where the

property is substantially ready for its intended use. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. Practical completion is when the property is capable of operating in the manner intended by management. Generally this occurs upon completion of construction and receipt of all necessary occupancy and other material permits. If space is pre-leased at or prior to the property being substantially ready for its intended use, and the lease requires tenant improvements, which enhance the value of the property, practical completion is considered to occur when such improvements are completed.

On December 7, 2010, we entered into a joint venture agreement for a 50% interest in a property under development. As at January 1, 2011 and for the year ended December 31, 2011, we accounted for the investment using the equity basis and due to the nature of the underlying assets, recognized our investment in the joint venture through the Consolidated Balance Sheets as investment property. Effective January 1, 2012, we decided to use the proportionate consolidation method to account for our 50% interest in the joint venture. There is no impact to our January 1, 2011 financial position due to this change in accounting policy. In addition, there was no impact on the statement of income and comprehensive income for the year ended December 31, 2011. Due to this change in accounting policy we retrospectively restated the Consolidated Balance Sheet as at December 31, 2011 to recognize our proportionate share of the joint venture's assets and liabilities. As at December 31, 2012, the joint venture continued to develop the property. In addition, during the period we initiated new joint ventures, all of which are accounted for on a proportionate basis. (See also Section VI – Value Creation)

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PART IX

—Disclosure Controls and Internal Controls

Management maintains appropriate information systems, procedures and controls to ensure that information that is publicly disclosed is complete, reliable and timely. The Chief Executive Officer and Chief Financial Officer evaluated the design and operating effectiveness of our disclosure controls and procedures (as defined in Multilateral Instrument 52–109, Certification of Disclosure in Issuers' Annual and Interim Filings) at December 31, 2012, and have concluded that such disclosure controls and procedures were appropriately designed and were operating effectively.

Management is responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS (previously in accordance with GAAP). The Chief Executive Officer and Chief Financial Officer assessed, or caused an assessment under their direct supervision of the design and operating effectiveness of our internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) at December 31, 2012, using the Committee of Sponsoring Organizations Internal Control – Integrated Framework. Based on that assessment, the Chief Executive Officer and the Chief Financial Officer determined that our internal controls over financial reporting were appropriately designed and were operating effectively.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance of control issues, including whether instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) that controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

PART X

-Related Party Transactions

Allied Canadian Development Corporation ("ACDC") is a company controlled by the President and Chief Executive Officer of the REIT and in which the Executive Vice President of the REIT has an interest. We have an option agreement ("Option Agreement") with ACDC, pursuant to which it must offer to sell to us at fair market value all developed or redeveloped office properties upon substantial completion. Seven of the properties in our portfolio were acquired pursuant to the Option Agreement. ACDC has no properties under development or redevelopment at this time. While the Option Agreement permits it to engage in development and redevelopment activity on an ongoing basis, ACDC is not currently pursuing office development or redevelopment opportunities and does not expect to do so in the foreseeable future.

PART XI

-Risks and Uncertainties

There are certain risk factors inherent in the investment and ownership of real estate. Real estate investments are capital intensive, and success from real estate investments depends upon maintaining occupancy levels and rental income flows to generate acceptable returns. These success factors are dependent on general economic conditions and local real estate markets, demand for leased premises and competition from other available properties.

Our portfolio is focused on a particular asset class in 10 metropolitan real estate markets in Canada. This focus enables Management to capitalize on certain economies of scale and competitive advantages that would not otherwise be available.

FINANCING AND INTEREST RATE RISK

We are 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 our success. In order to minimize risk associated with debt financing, we strive to re-finance maturing loans with long-term fixed-rate debt and to stagger the maturities over time.

Interest rates on our mortgage debt are between 2.0% and 8.1% with a weighted average interest rate of 5.0%. The weighted average term of our mortgage debt is five years.

TENANT CREDIT RISK

We are subject to credit risk arising from the possibility that tenants may not be able to fulfill their lease obligations. We strive to mitigate this risk by maintaining a diversified tenant-mix and limiting exposure to any single tenant. The following sets out our tenant-mix on the basis of percentage of rental revenue for the year ended December 31, 2012:

CATEGORY

Business service and professional	19.5%
Telecommunications and information technology	31.9%
Retail (head office and storefront)	14.1%
Media and entertainment	10.2%
Financial services	5.6%
Educational and institutional	1.8%
Government	4.5%
Other	12.4%

The following sets out the percentage of rental revenue from our top-10 tenants by rental revenue for the year ended December 31, 2012:

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% OF RENTAL REVENUE YEAR ENDED DECEMBER 31, 2012

Equinix	3.6%
National Capital Commission	3.1%
Cologix	2.8%
Ubisoft	2.4%
Visa Desjardins	2.3%
Allstream	2.2%
SAP Canada	1.8%
Bell Canada	1.7%
TELUS	1.5%
Verizon	1.4%

LEASE ROLL-OVER RISK

We are subject to lease roll-over risk. Lease roll-over risk arises from the possibility that we may experience difficulty renewing or replacing tenants occupying space covered by leases that mature. We strive to stagger our lease maturity schedule so that we are not faced with a disproportionately large level of lease maturities in a given year.

94.2% of the GLA in our portfolio was leased at December 31, 2012 (excluding upgrade properties). The weighted average term to maturity of our leases at that time was 5.0 years. The following sets out, as of today's date, the total GLA of the leases that mature to the end of 2017, assuming tenants do not exercise renewal options, the percentage of total GLA represented by the maturing leases, the weighted average in-place net rental rate on the maturing leases and the weighted average market net rental rate on the space covered by the maturing leases. The square footage

maturing by December 31, 2013, does not include month-to-month leases for 263,468 square feet of GLA that are routinely renewed at the end of each month by the tenants. The weighted average market net rental rate is based on Management's current estimates and is supported in part by independent appraisals of certain of the relevant properties. There can be no assurance that Management's current estimates are accurate or that they will not change with the passage of time.

YEAR ENDED	SQUARE FEET	% OF TOTAL GLA	WA RENTAL RATE	WA MARKET RATE
December 31, 2013	955,749	11.5%	\$17.66	\$19.29
December 31, 2014	667,779	8.0%	\$17.65	\$18.74
December 31, 2015	870,314	10.5%	\$15.76	\$16.46
December 31, 2016	598,623	7.2%	\$21.90	\$24.63
December 31, 2017	1,232,112	14.8%	\$17.26	\$17.82

The following sets out lease maturity information for our 10 target markets, with Québec City, Montréal, and Ottawa being combined as Eastern Canada, Toronto and Kitchener being combined as Central Canada, and Winnipeg, Calgary, Edmonton, Vancouver and Victoria being combined as Western Canada.

1. EASTERN CANADA YEAR ENDED	SQUARE FEET	% OF TOTAL GLA	WA RENTAL RATE	WA MARKET RATE
December 31, 2013	328,609	4.0%	\$7.57	\$10.91
December 31, 2014	204,999	2.5%	\$10.74	\$12.72
December 31, 2015	165,007	2.0%	\$9.78	\$10.37
December 31, 2016	104,285	1.3%	\$12.76	\$13.59
December 31, 2017	356,271	4.3%	\$16.35	\$16.08

2. CENTRAL CANADA YEAR ENDED	SQUARE FEET	% OF TOTAL GLA	WA RENTAL RATE	WA MARKET RATE
December 31, 2013	518,501	6.2%	\$23.64	\$24.51
December 31, 2014	198,884	2.4%	\$22.57	\$23.10
December 31, 2015	529,118	6.4%	\$16.43	\$17.40
December 31, 2016	323,908	3.9%	\$25.73	\$29.88
December 31, 2017	717,618	8.6%	\$16.74	\$17.82

3. WESTERN CANAD YEAR ENDED	A SQUARE FEET	% OF TOTAL GLA	WA RENTAL RATE	WA MARKET RATE
December 31, 2013	108,639	1.3%	\$19.62	\$19.75
December 31, 2014	263,896	3.2%	\$19.30	\$20.12
December 31, 2015	176,189	2.1%	\$19.32	\$19.35
December 31, 2016	170,430	2.1%	\$20.20	\$21.39
December 31, 2017	158,223	1.9%	\$21.65	\$21.68

In evaluating our lease roll-over risk, it is informative to determine our sensitivity to a decline in occupancy. For every full-year decline of 100 basis points in occupancy at our average rental rate per square foot, our annual AFFO would decline by approximately \$2,597 (approximately five cents per unit). The decline in AFFO per unit would be more pronounced if the decline in occupancy involved space leased above our average rental rate per square foot and less pronounced if the decline in occupancy involved space leased below our average rental rate per square foot.

ENVIRONMENTAL RISK

As an owner of real estate, we are subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that we could be liable for the costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect our ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims against us. We are not aware of any material non-compliance with environmental laws at any of the properties in our portfolio. We are also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the properties in our portfolio or any pending or threatened claims relating to environmental conditions at the properties in our portfolio.

DEVELOPMENT RISK

As an owner of Properties Under Development, we are subject to development risks, such as construction delays, cost over-runs and the failure of tenants to take occupancy and pay rent in accordance with lease arrangements. In connection with all Properties Under Development, we incur development costs prior to (and in anticipation of) achieving a stabilized level of rental revenue. In the case of the development of ancillary or surplus land, these risks are managed in most cases by not commencing construction until a satisfactory level of pre-leasing is achieved. Overall, these risks are managed by ensuring that Properties Under Development do not represent a large component of our GBV. At December 31, 2012, the fair value of Properties Under Development was equivalent to 7.9% of the fair value of our portfolio under IFRS and 6.6% of our Gross Book Value, as defined in our Declaration.

TAXATION RISK

On June 22, 2007, rules changing the manner in which trusts are taxed were proclaimed into force. Trusts that meet the REIT exemption are not subject to these rules. The determination as to whether we qualify for the REIT exemption in a particular taxation year can only be made with certainty at the end of that taxation year. While there can be no assurance in this regard, due to uncertainty surrounding the interpretation of the relevant provisions of the REIT exemption, we expect that we will qualify for the REIT exemption.

PART XII

-Subsequent Events

On February 11, 2013, we announced the acquisition of 613 and 625 – 11th Avenue S.W. in Calgary and 754 Fort Street in Victoria.

On February 19, 2013, we announced the acquisition of Vintage I & II (322–326 – 11th Avenue S.W.) in Calgary and a concurrent bought-deal for 3,210,000 units from treasury at a price of \$34.30 per unit, with an overallotment option in favour of the underwriters for an additional 481,500 units on the same terms, exercisable in whole or in part during the 30 days following closing.

On February 20, 2013, we received from a consortium of three Canadian financial institutions a commitment for up to \$80 million in a non-revolving term loan bearing interest at bank prime plus 100 basis points or bankers' acceptance plus 225 basis points to be used in connection with the construction of QRC West, Phase I, in Toronto, with an initial term of 36 months from March 31, 2013, and the initial advance occurring by April 30, 2013.

On February 21, 2013, we closed the previously announced acquisition of 613 – 11th Avenue S.W. in Calgary.

On February 28, 2013, we closed the previously announced sale of an undivided 50% interest in 57 Spadina Avenue in Toronto.

PART XIII

—Property Table

PROPERTIES DECEMBER 31, 2012	OFFICE GLA	RETAIL GLA	TOTAL S	% TOTAL GLA	OFFICE VACANT	RETAIL VACANT	TOTAL Leased	LEASED %
547-563 College **	28,498	4,270	32,768		-	-	32,768	100.0%
860 Richmond W	24,199	-	24,199		-	-	24,199	100.0%
The Castle	129,817	34,323	164,140		-	-	164,140	100.0%
King West	182,514	38,593	221,107	2.7%	<u> </u>	-	221,107	100.0%
440-462 Front W, 1 Draper & 425-439 Wellington W***	91,658	5,145	96,803		352	-	96,451	99.6%
141 Bathurst (+land)	10,386	-	10,386		-	-	10,386	100.0%
183 Bathurst	27,219	5,600	32,819		6,085	-	26,734	81.5%
379 Adelaide W	38,801	-	38,801		-	-	38,801	100.0%
383 Adelaide W	7,500	-	7,500		-	-	7,500	100.0%
420 Wellington W	33,813	3,137	36,950		-	-	36,950	100.0%
425 Adelaide W	73,466	4,104	77,570		-	=	77,570	100.0%
425-439 King W	79,812	17,297	97,109		-	=	97,109	100.0%
441-443 King W	8,320	3,065	11,385		-	=	11,385	100.0%
445-455 King W	28,763	23,048	51,811		-	-	51,811	100.0%
468 King W	65,027	-	65,027		-	-	65,027	100.0%
469 King W	68,255	10,500	78,755		-	-	78,755	100.0%
478 King W **	-	3,276	3,276		-	-	3,276	100.0%
489 King W	21,421	4,850	26,271		-	-	26,271	100.0%
495 King W	10,698	-	10,698		-	-	10,698	100.0%
499 King W	-	8,400	8,400		-	-	8,400	100.0%
544 King W	17,006	-	17,006		-	-	17,006	100.0%
57 Spadina	16,170	17,132	33,302		-	-	33,302	100.0%
579 Richmond W	28,975	-	28,975		-	-	28,975	100.0%
602-622a King W**	23,543	18,773	42,316		-	-	42,316	100.0%
662 King W	30,774	2,126	32,900		-	-	32,900	100.0%
80-82 Spadina	43,003	25,158	68,161		7,740	-	60,421	88.6%
96 Spadina	80,552	9,861	90,413		-	-	90,413	100.0%

PROPERTIES

OFFICE RETAIL TOTAL % TOTAL OFFICE RETAIL TOTAL LEASED % GLA GLA GLA VACANT VACANT LEASED

DECEMBER 31, 2012

King West Central	805,162	161,472	966,634	11.6%	14,177	l .	952,457	98.5%
116 Simcoe	15,289	-	15,289		-	-	15,289	100.0%
151 Front W & 20 York	277,132	35,239	312,371		-	-	312,371	100.0%
179 John	67,022	-	67,022		3,752	-	63,270	94.4%
185 Spadina	55,814	-	55,814		-	-	55,814	100.0%
200 Adelaide W	28,024	-	28,024		3,076	-	24,948	89.0%
208-210 Adelaide W	12,422	-	12,422		-	-	12,422	100.0%
217-225 Richmond W	35,393	20,365	55,758		-	-	55,758	100.0%
257 Adelaide W	47,024	-	47,024		-	-	47,024	100.0%
312 Adelaide W	65,343	5,665	71,008		-	-	71,008	100.0%
331-333 Adelaide W	20,503	3,210	23,713		-	-	23,713	100.0%
358-360 Adelaide W	56,250	-	56,250		-	-	56,250	100.0%
388 King W	28,954	15,012	43,966		-	-	43,966	100.0%
375-381 Queen W	24,331	10,648	34,979		-	-	34,979	100.0%
82 Peter	38,811	8,287	47,098		8,116	-	38,982	82.8%
99 Spadina	39,327	11,392	50,719		3,637	-	47,082	92.8%
Entertainment District	811,639	109,818	921,457	11.1%	18,581	-	902,876	98.0%
193 Yonge	34,836	16,318	51,154		-	-	51,154	100.0%
Downtown	34,836	16,318	51,154	0.6%	-	-	51,154	100.0%
106 Front E	24,386	10,109	34,495		-	-	34,495	100.0%
35-39 Front E	37,481	17,850	55,331		-	-	55,331	100.0%
41-45 Front E	20,848	19,811	40,659		-	-	40,659	100.0%
45-55 Colborne	28,204	15,039	43,243		-	-	43,243	100.0%
49 Front E	9,351	10,441	19,792		4,376	-	15,416	77.9%
50 Wellington E	21,865	11,049	32,914		-	-	32,914	100.0%
60 Adelaide E	105,460	4,695	110,155		3,005	-	107,150	97.3%
184 Front E	80,748	6,489	87,237		4,460	-	82,777	94.9%
36-40 Wellington E	16,662	9,550	26,212		-	<u>-</u>	26,212	100.0%
St. Lawrence Market	345,005	105,033	450,038	5.4%	11,841	-	438,197	97.4%
145 Berkeley	9,486	1,325	10,811		3,846	-	6,965	64.4%
204-214 King E	121,060	5,460	126,520		-	-	126,520	100.0%
230 Richmond E	73,767	-	73,767		-	-	73,767	100.0%
252-264 Adelaide E	48,935	-	48,935		20,368	-	28,567	58.4%
489 Queen E	32,905	-	32,905		4,907	-	27,998	85.1%
Dominion Square	69,271	38,050	107,321		14,469	-	92,852	86.5%
Queen Richmond Centre	187,864	35,559	223,423		-	-	223,423	100.0%
QRC South	41,557		41,557		6,052	<u> </u>	35,505	85.4%
Queen Richmond	584,845	80,394	665,239	8.0%	49,642	-	615,597	92.5%
Total Toronto	2,764,001	511,628	3,275,629	39.4%	94,241	-	3,181,388	97.1%

PROPERTIES OFFICE RETAIL TOTAL % TOTAL OFFICE RETAIL TOTAL LEASED % VACANT GLA GLA GLA GLA VACANT LEASED DECEMBER 31, 2012 172.928 18.273 21.771 3575 Saint-Laurent 191.201 169.430 88.6% 86.284 220 86.504 15.917 70.587 81.6% 400 Atlantic 205.193 820 206.013 206.013 100.0% 425 Viger W (+ land) 71.787 4446 Saint-Laurent 74.354 7,418 81.772 9,985 87.8% 82.4% 5455 de Gaspé* 522.000 270 522.270 91.790 430.480 5505 Saint-Laurent 255.760 2.524 258.284 258.284 100.0% 451-481 Saint Catherine 22.222 30.656 2.823 26.183 85.4% 8 434 1.650 130,048 6300 Avenue du Parc* 200.086 17,287 217.373 73.238 14.087 59.8% 645 Wellington* 136,053 5.139 141.192 36.909 104.283 73.9% 111 Duke: Phase IV 368.956 331.155 5.200 374.156 43.001 88.5% 28.337 28.337 7.955 20.382 71.9% 50 Queen: Phase I 700 Wellington: Phase V 130.154 130.154 17.081 113.073 86.9% 75 Queen: Phase VI & VII 249,270 2.128 251.398 22.446 228.952 91.1% 80 Oueen: Phase II 68.579 65.305 95.2% 68.579 3.274 91.9% 87 Prince: Phase III 106.537 1.065 107.602 8.737 98 865 Total Montréal 2,626,713 68,778 2,695,491 32.5% 354,927 15.737 2,324,827 86.2% Total Montréal Excluding Upgrades 1.768.574 46.082 1.814.656 152.990 1.650 1.660.016 91.5% 115 Bannatyne 39.216 39.216 39.216 100.0% 123 Bannatyne 21.095 21.095 577 20.518 97.3% 138 Portage E 44.650 44.650 17.237 27.413 61.4% 250 McDermot 41,447 10,040 51,487 21.052 30,435 59.1% 54-70 Arthur 111,347 7.400 118.747 38.174 80.573 67.9% 1500 Notre Dame 109.518 109.518 19.818 89.700 81.9% Total Winnipeg 367,273 17,440 384,713 4.6% 96.858 287.855 74.8% 390 Charest 66.751 6.348 73.099 4.091 2.236 66,772 91.3% 410 Charest 3.229 21,708 24,937 3,700 21.237 85.2% 420 Charest 40.303 17.217 57.520 7.774 49.746 86.5% 622 Saint-Joseph 3.620 3.300 6.920 2.845 4.075 58.9% 633 Saint-Joseph 15.388 6,000 21,388 21.388 100.0% Total Québec City 129,291 54,573 183,864 2.2% 14,710 5.936 163.218 88.8% The Tannery 252.311 88.706 341.017 18.654 322.363 94.5% 72 Victoria 88 869 88 869 88 869 100.0% Total Kitchener 341,180 88,706 429,886 5.2% 18.654 411,232 95.7% 100-7th SW 12.542 14,675 27,217 667 2.133 24.417 89.7% 119-6th SW 63.063 63.063 63.063 100.0%

PROPERTIES DECEMBER 31, 2012	OFFICE GLA	RETAIL GLA	TOTAL GLA	% TOTAL GLA	OFFICE VACANT	RETAIL VACANT	TOTAL Leased	LEASED %
1207-1215 13th SE	31,023	-	31,023		-	-	31,023	100.0%
129-8th SW	3,072	5,336	8,408		-	-	8,408	100.0%
209-8th SW	27,105	5,176	32,281		-	-	32,281	100.0%
Demcor Building	39,440	-	39,440		5,399	-	34,041	86.3%
601-611 10th SW	46,863	2,592	49,455		7,075	-	42,380	85.7%
603-605 11th SW	21,966	29,207	51,173		1,338	-	49,835	97.4%
604-1st SW	66,530	20,923	87,453		1,136	-	86,317	98.7%
805-1st SW	8,775	18,408	27,183		-	1,556	25,627	94.3%
808-1st SW	17,325	30,244	47,569		-	-	47,569	100.0%
809-10th SW	35,869	-	35,869		-	-	35,869	100.0%
Total Calgary	373,573	126,561	500,134	6.0%	15,615	3,689	480,830	96.1%
1040 Hamilton	35,957	8,710	44,667		-	-	44,667	100.0%
1286 Homer	15,746	8,977	24,723		-	-	24,723	100.0%
128 West Pender	77,626	3,687	81,313		-	1,987	79,326	97.6%
840 Cambie	91,746	-	91,746		-	-	91,746	100.0%
948-950 Homer	22,966	23,290	46,256		<u> </u>	-	46,256	100.0%
Total Vancouver	244,041	44,664	288,705	3.5%	-	1,987	286,718	99.3%
535 Yates	12,718	6,312	19,030		-	-	19,030	100.0%
8-10 Bastion & 1205-1213 Wharf	22,399	10,086	32,485		<u> </u>	3,606	28,879	88.9%
Total Victoria	35,117	16,398	51,515	0.6%	-	3,606	47,909	93.0%
10190-104 NW	16,814	5,767	22,581		-	5,308	17,273	76.5%
10310-102nd NW	216,845	45,169	262,014		7,250	840	253,924	96.9%
Total Edmonton	233,659	50,936	284,595	3.4%	7,250	6,148	271,197	95.3%
40-46 Elgin	200,669	13,390	214,059		2,561	4,884	206,614	96.5%
Total Ottawa	200,669	13,390	214,059	2.6%	2,561	4,884	206,614	96.5%
Total	7,315,517	993,074	8,308,591		604,816	41,987	7,661,788	92.2%
Total Excluding Upgrades	6,457,378	970,378	7,427,756		402,879	27,900	6,996,977	94.2%

^{*}Upgrade Properties **Riocan/Allied Joint Venture Properties ***RioCan/Diamond Corp/Allied Joint Venture Properties

PROPERTIES UNDER DEVELOPMENT	OFFICE GLA	RETAIL GLA	TOTAL GLA
100-6th SW, Calgary	33,874	-	33,874
134 Peter, Toronto	30,151	19,518	49,669
237-8th SE, Calgary	63,667	10,034	73,701
364 Richmond, Toronto	22,760	17,300	40,060
The Breithaupt Block, Kitchener	88,000	-	88,000
500-522 King West, Toronto	90,599	34,238	124,837
5445 de Gaspé, Montréal	502,066	647	502,713
70 Richmond St E, Toronto	34,750	-	34,750
905 King W, Toronto	104,018	8,991	113,009
Total PUD	969,885	90,728	1,060,613

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements, management's discussion and analysis of results of operations and financial condition and the annual report are the responsibility of the Management of Allied Properties Real Estate Investment Trust (the "REIT"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and where appropriate, include amounts, which are based on judgments, estimates and assumptions of Management.

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 (the "Board") is responsible for ensuring that Management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee (the "Committee"), which is comprised entirely of outside trustees. The Committee reviews the consolidated financial statements with both Management and the independent auditors. The Committee reports its findings to the Board, which approves the consolidated financial statements before they are submitted to the Unitholders of the REIT.

BDO Canada LLP (the "Auditors"), the independent auditors of the REIT, have audited the consolidated 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 consolidated financial statements. The Auditors had direct and full access to, and meet periodically with the Committee, both with and without Management present.

Michael R. Emory

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Peter E. Sweeney, CA

VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Allied Properties Real Estate Investment Trust:

We have audited the accompanying consolidated financial statements of Allied Properties Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of unitholders' equity, income and comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Allied Properties Real Estate Investment Trust as at December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

BOO Canada LLP

CHARTERED ACCOUNTANTS, LICENSED PUBLIC ACCOUNTANTS TORONTO, ONTARIO \mid MARCH 5, 2013

ALLIED PROPERTIES REIT CONSOLIDATED BALANCE SHEETS

(In thousands)	NOTES	DECEMBER 31, 2012	DECEMBER 31, 2011
Assets			
Non-current assets			
Investment properties	5	\$2,859,399	\$2,019,113
Equipment	7	777	554
Other assets	8	101,119	82,894
Total non-current assets		2,961,295	2,102,561
Current assets			
Cash and cash equivalents	6, 9	63,404	34,203
Accounts receivable	6	23,481	20,206
Other assets		3,376	2,081
Total current assets		90,261	56,490
Total assets		\$3,051,556	\$2,159,051
Liabilities			
Non-current liabilities			
Mortgages payable	6, 13	\$969,653	\$839,943
Construction loan payable	6	6,961	4,138
Freehold lease and land lease obligations	6, 11	111,959	12,459
Total non-current liabilities Current liabilities		1,088,573	856,540
Mortgages payable	6, 13	93,218	89,706
Freehold lease and land lease obligations	6, 11	2,153	837
Accounts payable and other liabilities	6	82,713	64,712
Distributions payable to Unitholders	6	7,261	5,698
Total current liabilities		185,345	160,953
Total liabilities		1,273,918	1,017,493
Unitholders' equity	14	1,777,638	1,141,558
Total liabilities and unitholders' equity		\$3,051,556	\$2,159,051

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

Gordon Cunningham

TRUSTEE

Michael R. Emory

TRUSTEE

ALLIED PROPERTIES REIT CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(in thousands, except unit and per unit amounts)	NOTES	FOR THE YEAR ENDED DECEMBER 31, 2012	FOR THE YEAR ENDED DECEMBER 31, 2011
Revenues			
Rental properties	5	\$258,650	\$198,848
Amortization of tenant improvements		(5,261)	(4,322)
Amortization of straight-line rent		5,004	1,762
Expenses		258,393	196,288
Rental property operating costs		109,074	86,546
Financing		46,495	42,211
Trust		5,499	5,430
Amortization of leasing costs and other assets		4,249	3,283
In a source to a form a source of the source		165,317	137,470
Income before undernoted		93,076	58,818
Change in fair value adjustment on investment properties	5	277,400	101,650
Change in fair value adjustment on derivative instruments	13	(660)	(1,809)
		276,740	99,841
Net income for the period		369,816	158,659
Fair value adjustment on owner- occupied property		243	47
Comprehensive income for the year		\$370,059	\$158,706
Income per unit	17		
Basic		\$6.55	\$3.37
Fully diluted		\$6.48	\$3.33
Weighted average number of units	17		
Basic		56,476,631	47,102,069
Fully diluted		57,112,835	47,697,422

 $[\]label{thm:companying} The\ accompanying\ notes\ are\ an\ integral\ part\ of\ these\ consolidated\ financial\ statements.$

ALLIED PROPERTIES REIT CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	NOTES	FOR THE YEAR ENDED DECEMBER 31, 2012	FOR THE YEAR ENDED DECEMBER 31, 2011
Cash Flows			
Operating activities			
Net income for the year		\$369,816	\$158,659
Change in fair value adjustment on investment properties	5	(238,950)	(98,568)
Change in fair value adjustments on interest in freehold lease and land leases		(38,450)	(1,958)
Change in fair value adjustments on derivative instruments		660	1,809
Amortization owner occupied properties		43	48
Amortization of equipment	7	338	225
Amortization of customer relationships		96	108
Amortization of leasing costs		3,772	2,902
Amortization of tenant improvements		5,261	4,322
Amortization of straight-line rent (revenue)		(5,004)	(1,762)
Amortization of straight-line rent (expenses)		295	(353)
Change in other non-cash operating items		10,741	8,507
Change in other non-cash financing items		2,425	3,063
Compensation expense	15	1,559	1,519
Amortization, premium on assumed mortgages		(756)	(227)
Cash provided by operating activities Investing activities		111,846	78,294
Capital expenditures, rental properties and other assets (net of assumed mortgages)		(392,683)	(316,303)
Capital expenditures, properties under development		(10,370)	(29,003)
Net proceeds on sale of rental property		48,473	1,132
Tenant leasing costs		(7,537)	(9,761)
Tenant improvements		(11,455)	(26,615)
Cash provided by (used in) investing activities		(373,572)	(380,550)

${\bf ALLIED\ PROPERTIES\ REIT\ CONSOLIDATED\ STATEMENTS\ OF\ CASH\ FLOWS\ (continued)}$

(In thousands)	NOTES	FOR THE YEAR ENDED DECEMBER 31, 2012	FOR THE YEAR ENDED DECEMBER 31, 2011
Financing Activities			
Financing cost		(1,998)	(2,237)
Proceeds from new mortgages payable		206,692	248,631
Repayment of mortgages payable	6, 13	(179,780)	(37,263)
Distributions paid to Unitholders		(56,329)	(47,881)
Proceeds of public offerings (net of issue costs)	14	315,780	181,167
Proceeds from exercise of unit options	15	4,448	13,795
Proceeds from units issued under the LTIP	16	2,895	592
Restricted unit plan		(781)	(466)
Net increase (decrease) in bank indebtedness		-	(21,766)
Cash provided by (used in) financing activities		290,927	334,572
Increase (decrease) in cash and cash equivalents		29,201	32,316
Cash and cash equivalents, beginning of year		34,203	1,887
Cash and cash equivalents, end of year		\$63,404	\$34,203
Other cash flow information			
Interest		\$52,567	\$42,439
Supplemental cash flow information			
Units issued under DRIP		17,530	14,003
Mortgages assumed on acquisition of properties		105,461	48,776
Freehold lease and land leases		100,820	13,296

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

ALLIED PROPERTIES REIT CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(In thousands)	NOTES	TRUST UNITS	RETAINED EARNINGS	CUMULATIVE COMPREHENSIVE INCOME	CONTRIBUTED SURPLUS	TOTAL
Balance at January 1, 2011	14	\$853,013	\$(19,830)	\$455	\$1,383	\$835,021
Comprehensive income		-	158,659	47	-	158,706
Public offering		181,167	-	-	-	181,167
Distributions	14	-	(62,948)	-	-	(62,948)
Distribution reinvestment plan	14	14,003	-	-	-	14,003
Unit option plan – options exercised	15	13,964	-	-	(169)	13,795
Contributed surplus – unit option plan	15	-	-	-	1,111	1,111
Restricted unit plan	15	(466)	-	-	577	111
Long-term incentive plan	16	592	-	-	-	592
Balance at December 31, 2011		\$1,062,273	\$75,881	\$502	\$2,902	\$1,141,558
Balance at January 1, 2012	14	\$1,062,273	\$75,881	\$502	\$2,902	\$1,141,558
Comprehensive income		-	369,816	243	-	370,059
Public offering		315,780	-	-	-	315,780
Distributions	14	-	(75,422)	-	-	(75,422)
Distribution reinvestment plan	14	17,530	-	-	-	17,530
Unit option plan - options exercised	15	4,828	-	-	(378)	4,450
Contributed surplus – unit option plan	15	-	-	-	788	788
Restricted unit plan	15	(782)	-	-	782	-
Long-term incentive plan	16	2,895	-	-	-	2,895
Balance at December 31, 2012		\$1,402,524	\$370,275	\$745	\$4,094	\$1,777,638

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

ALLIED PROPERTIES REIT NOTES TO IFRS CONSOLIDATED FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS EXCEPT PER UNIT AND UNIT AMOUNTS)

December 31, 2012 and December 31, 2011

I. NATURE OF OPERATIONS

Allied Properties Real Estate Investment Trust ("Allied Properties 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, May 14, 2008, May 11, 2010 and May 15, 2012. Allied Properties REIT is governed by the laws of the Province of Ontario and began operations on February 19, 2003. The units of the Trust are traded on the Toronto Stock Exchange. Allied Properties REIT is the ultimate parent of its group of companies.

Allied Properties REIT is a leading owner, manager and developer of urban office environments that enrich experience and enhance profitability for business tenants operating in Canada's major cities. Allied Properties REIT's objectives are to provide stable and growing cash distributions to Unitholders and to maximize Unitholder value through effective management and accretive portfolio growth.

Allied Properties REIT is a participant in the following joint arrangements:

- 50% interest in a property under development in Kitchener, Ontario;
- 50% interest in an urban intensification project on King Street West in Toronto, Ontario;
- 50% interest in an urban intensification project on College Street in Toronto, Ontario;
- 50% interest in a retail property and underground parking spaces in Toronto, Ontario; and
- 40% interest in an urban intensification project in Toronto, Ontario

Allied Properties REIT is domiciled in Ontario, Canada. The address of Allied Properties REIT's registered office and its principal place of business is 520 King Street West, Suite 300, Toronto, Ontario, M5V 1L7.

2. BASIS OF PRESENTATION

(A) Statement of Compliance

The consolidated financial statements of Allied Properties REIT for the year ending December 31, 2012, are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies set out below were consistently applied to all the years presented unless otherwise noted.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting judgments, estimates and assumptions that affect the amounts reported. Allied Properties REIT's

basis for applying judgments, estimates and assumptions to its accounting policies are described in notes 2(B) and 3 below.

The consolidated financial statements are presented in accordance with IAS 1 – Presentation of Financial Statements. Allied Properties REIT has elected to present the Consolidated Statements of Income and Comprehensive Income in one statement.

The consolidated financial statements for the year ended December 31, 2012 (including comparatives) were approved and authorized for issue by the Board of Trustees on March 5, 2013.

(B) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, as modified by the revaluation of investment properties and owner occupied property. The consolidated financial statements are presented in Canadian dollars, which is also Allied Properties REIT's functional currency, and all values are rounded to the nearest thousand (CDN \$'000), unless otherwise indicated.

The preparation of these consolidated financial statements requires Allied Properties REIT to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates, which, by their nature, are uncertain. The impact of such estimates is pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods. Significant estimates and assumptions include the fair values assigned to investment properties, useful lives of assets used to calculate amortization and allowances for doubtful accounts.

(c) Compliance with REIT Legislation

In order to be taxed as a "Mutual Fund Trust" for income tax purposes, Allied Properties REIT needs to maintain its REIT status. Allied Properties REIT's current and continuing qualification as a REIT depends on its ability to meet the various requirements imposed under SIFT rules, which relate to such matters as its organizational structure and the nature of its assets and revenues. Allied Properties REIT applied judgment in determining whether it continues to qualify as a REIT under the SIFT rules (see also note 10).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Investment Properties

Accounting for investment properties under IAS 40 only applies if it is considered that an asset has been acquired. Allied Properties REIT has applied judgment when determining if an acquisition is an asset acquisition under IAS 40.

An asset acquisition exists when:

- (i) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and
- (ii) the cost of the investment property can be measured reliably.

Allied Properties REIT classifies its acquisitions as asset acquisition when it acquires properties or a portfolio of properties; it has not acquired any legal entities, assumed any employees or has not acquired an operating platform.

Investment properties are properties held to earn rentals and are accounted for using the fair value model. Rental income and operating expenses from investment properties are reported within 'revenue' and 'expenses' respectively. Investment properties include rental properties and properties under development.

Allied Properties REIT uses the asset purchase model whereby the cost of a purchased investment property is comprised of its purchase price and any directly attributable expenditures. Directly attributable expenditures include transaction costs such as due diligence costs, appraisal fees, environmental fees, legal fees, land transfer taxes, and brokerage fees.

Investment properties are appraised quarterly and are included in the Consolidated Balance Sheets at their fair values. Fair value is based on valuations prepared by nationally recognized and qualified independent professional appraisers with sufficient experience with respect to both the geographic location and the nature of the investment property and supported by market evidence. Any gain or loss resulting from a change in the fair value of an investment property is immediately recognized. The fair value of each investment property is based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the balance sheet date, less future estimated cash outflows in respect of such properties.

The independent professional appraisers engaged by Allied Properties REIT use the income approach to determine fair value. The income approach is one in which the fair value is estimated by capitalizing the net rental income, which the investment property can reasonably be expected to produce over its remaining economic life. The income approach is derived from two methods: the overall capitalization rate method whereby the net operating income is capitalized at the requisite overall capitalization rate; and/or the discounted cash flow method in which the income and expenses are projected over the anticipated term of the investment plus a terminal value discounted using an appropriate discount rate. Properties under development are measured using both a comparable sales method and a discounted cash flow model, net of costs to complete, as of the balance sheet date. Valuations of investment properties are most sensitive to changes in discount rates and capitalization rates.

Allied Properties REIT has applied judgment in determining whether certain costs are additions to the carrying amount of investment properties.

Prior to moving to its new location during the third quarter of 2012, Allied Properties REIT had elected to treat its owner-occupied property on a fair value basis and included this property as part of its investment properties, and amortized the components of this owner-occupied property respectively. Accordingly, amortization was recorded on the building, elevator and heating and air conditioning components based on their respective fair value over their estimated useful lives. Any gain or loss resulting from a change in the fair value of an owner-occupied property was recognized in other comprehensive income. Subsequent to moving to its new location Allied Properties REIT has determined that it no longer has an owner-occupied property for accounting purposes.

Allied Properties REIT has applied judgment when reporting its properties under development. The initial cost of properties under development includes the acquisition cost of the property, direct development costs, realty taxes and borrowing costs attributable to the development. Borrowing costs associated with direct expenditures on properties under development are capitalized. The amount of capitalized borrowing costs is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Where borrowings are associated with specific developments, the amounts capitalized is based on the gross cost incurred on those borrowings. Borrowing costs are capitalized from the commencement of the development until the date of practical completion where the property is substantially ready for its intended use. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. Practical completion is when the property is capable of operating in the manner intended by management. Generally this occurs upon completion of construction and receipt of all necessary occupancy and other material permits. If Allied Properties REIT has pre-leased space at or prior to the property being substantially ready for its intended use, and the lease requires tenant improvements, which enhance the value of the property, practical completion is considered to occur when such improvements are completed.

(B) Freehold Lease and Land Leases

Allied Properties REIT has applied judgment in determining whether certain freehold lease and land leases, where Allied Properties REIT is the lessee, are operating leases or finance leases. Allied Properties REIT has determined that pursuant to the long term contractual obligations in the freehold lease and land lease agreements, that the freehold lease and land leases are finance leases and accordingly they are classified as investment properties.

(c) Joint Arrangements

Allied Properties REIT has applied judgment as to whether the joint ventures provided it with joint control, significant influence or no influence. Allied Properties REIT reviewed its joint venture agreements and has

determined that the activities are jointly operated and has concluded that it should recognize its interest in join operations and accounts for its share of assets held jointly, liabilities incurred jointly, revenue shared jointly and expenses incurred jointly.

(D) Revenue Recognition

Rental revenue includes rents from tenants under leases, property tax and operating cost recoveries, parking income and incidental income. Rental revenue with respect to rents from tenants under lease is recognized on a straight-line basis over the term of the lease. Operating cost recoveries are recognized in the period that recoverable costs are chargeable to tenants.

(E) Borrowing Costs

Borrowing costs directly attributable to the construction of a qualifying asset are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use. Other borrowing costs are expensed in the period in which they are incurred and reported as 'financing expenses'.

(F) Other Assets

Other assets – non-current include tenant improvements and inducements, which are costs that Allied Properties REIT incurs to enter into a lease agreement when negotiating a new or renewed operating lease. Allied Properties REIT uses judgment to determine whether lease incentives provided in connection with a lease enhance the value of the leased space, which determines whether or not such amounts are treated as tenant improvement and added to investment properties. Lease incentives such as cash, free rent periods and lessee– or lessor–owned improvements, may be provided to lessees to enter in to lease. Lease incentives that do not provide benefits beyond the initial lease term are included in the carrying amount of investment properties. Allied Properties REIT recognizes the aggregate cost of tenant improvements and inducements as a reduction of rental income over the lease term, on a straight-line basis.

Other assets - non-current also include straight-line rent, which is used to straight-line revenue from operating leases over the term of the lease. Allied Properties REIT recognizes the aggregate cost/benefit of straight-line rent as a reduction/increase of rental income over the lease term, on a straight-line basis.

Other assets - non-current also include leasing commissions and other related leasing costs, which are initial direct costs that are incremental and directly attributable to negotiating and arranging a lease. These costs are recognized as an expense over the lease term on a straight-line basis.

(G) Equipment

Computer and office equipment are carried at acquisition cost less subsequent depreciation and impairment losses. Depreciation is recognized on a straight-line basis to write down the cost over estimated useful lives of three to five years.

Material residual value estimates and estimates of useful life are updated as required, at least annually. Gains or losses arising on the disposal of equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized as profit or loss.

(H) Financial Instruments

Allied Properties REIT's cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less.

Allied Properties REIT's mortgages payable consists of the legal liabilities owing pursuant to loans secured by mortgages and premiums and discounts recognized on loans assumed on acquisition of properties, netted against the transaction cost, and the effective interest method of amortization is applied to the premiums, discounts and transaction costs.

ASSET/LIABILITY	CLASSIFICATION	MEASUREMENT
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Mortgages payable	Other financial liabilities	Amortized cost
Construction loan payable	Other financial liabilities	Amortized cost
Freehold lease and land lease obligations	Other financial liabilities	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Accounts payable and other liabilities	Other financial liabilities	Amortized cost
Distributions payable to Unitholders	Other financial liabilities	Amortized cost
Interest rate swaps	Held for trading	Fair value

FINANCIAL ASSETS

Financial assets are classified into one of the following four categories: loans and receivables; fair value through profit or loss; held-to-maturity; and available-for-sale. Financial assets are initially measured at fair value. Subsequent measurement and recognition of the changes in fair value of financial instruments depends upon their initial classifications.

Allied Properties REIT had no held-to-maturity or available-for-sale financial assets as at December 31, 2012 and December 31, 2011.

At the end of each reporting period, Allied Properties REIT assesses whether there is objective evidence that a financial asset that is not carried at fair value through profit and loss, is impaired. Impairments are measured as the excess of the carrying amount over the fair value and are recognized in the statements of income and comprehensive income.

FINANCIAL LIABILITIES

Financial liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognized in profit or loss.

Allied Properties REIT measures its bank indebtedness, construction loan, freehold lease and land lease obligations, accounts payable and other liabilities, distributions payable and mortgages payable at amortized cost using the effective interest method. All interest-related charges are reported in profit or loss and are included within 'finance costs', except for those interest-related charges capitalized to properties under development and also to investment properties.

From time to time, Allied Properties REIT uses derivative financial instruments to manage risks from fluctuations in interest rates. All derivative instruments, including embedded derivatives that must be separately accounted for, are valued at their respective fair values unless they are effective cash flow hedging instruments.

On the date a derivative contract is entered into, Allied Properties REIT assesses whether or not to designate the derivative as either a hedge of the fair value of a recognized asset or liability (a "fair-value hedge") or a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability or a forecasted transaction (a "cash-flow hedge"). Except as noted below, Allied Properties REIT does not hold any fair-value or cash flow hedges.

Allied Properties REIT has entered into interest rate derivative contracts to limit its exposure to fluctuations in the interest rates on variable rate mortgages. Gains or losses arising from the change in fair values of the interest rate derivative contracts are recognized in the Consolidated Statement of Income and Comprehensive Income.

(I) Unitholders' Equity

Unit capital represents the nominal value of units that have been issued. Any transaction costs associated with the issuing of units are deducted from unit proceeds.

Unitholders' equity includes all current and prior period retained income. Distributions payable to Unitholders are included in 'Distributions payable to Unitholders' when the distributions have been approved prior to the reporting date.

(J) Distribution Reinvestment Plan (DRIP)

Allied Properties 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.

(K) Short-Term Employee Benefits

Allied Properties REIT does not provide pension plan benefits. Short-term employee benefits are expensed as a period expense.

(L) Unit-Based Payments

Equity-settled unit-based payments to employees and trustees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled unit-based payments is expensed on a straight-line basis over the period during which the employee becomes unconditionally entitled to equity instruments, based on Allied Properties REIT's estimate of equity instruments that will eventually vest. At the end of each reporting period, Allied Properties REIT revises its estimate of the number of equity instruments expected to vest.

(M) Provisions

Provisions are recognized when Allied Properties REIT has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date. Where a provision is measured using cash flow estimated to settle the present obligation, its carrying amount is the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Allied Properties REIT does not have any provisions as of the date of this report.

(N) Impairment

Allied Properties REIT assessed the possibility of any impairment loss or write-down as it relates to amounts receivable (see also note 6).

(o) 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, excluding those units issued under the Long Term Incentive Plan, which are not fully paid up.

Diluted net income per unit is calculated using the denominator of the basic calculation described above adjusted to include the potentially dilutive effect of outstanding unit purchase options. The denominator is increased by the total number of additional units that would have been issued by Allied Properties REIT assuming exercise of all unit purchase options with exercise prices below the average market price for the year. The calculation of net income per unit on a diluted basis includes those units issued under the Long Term Incentive Plan, which are not fully paid up.

(P) Adoption of Accounting Standards

On December 7, 2010, Allied Properties REIT entered into a joint venture agreement for a 50% interest in a property under development. As at January 1, 2011 and for the year ended December 31, 2011, Allied Properties REIT accounted for the investment using the equity basis and due to the nature of the underlying assets, recognized its investment in the joint venture through the Consolidated Balance Sheets as an investment property.

Effective January 1, 2012, Allied Properties REIT decided to use the proportionate consolidation method to account for its 50% interest in the joint venture. Allied Properties REIT determined that the change in accounting policy provided more relevant information about the effects of transactions with respect to value-creation opportunities with joint arrangement partners. The impact of this change in accounting policy as at January 1, 2011 was to increase investment properties by \$3,993, increase accounts receivable by \$506 and to increase construction loans payable by \$4,138. There is no impact to Allied Properties REIT's January 1, 2011 net financial position due to this change in accounting policy. In addition, there was no impact on the statement of income and comprehensive income for the year ended December 31, 2011. Due to this change in accounting policy Allied Properties REIT has retrospectively restated the Consolidated Balance Sheet as at December 31, 2011 to recognize its proportionate share of the joint venture's assets and liabilities.

Effective July 1, 2012, Allied Properties REIT decided to early adopt IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements and IFRS 12 – Disclosure of Interests in Other Entities and the amendments to IAS 27 – Separate Financial Statements and IAS 28 – Investments in Associates and Joint Ventures.

IFRS 10 – Consolidated Financial Statements builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The adoption of IFRS 10 was applied retrospectively and had no impact on the financial position or results of operations of Allied Properties REIT.

IFRS 11 – Joint Arrangements establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled. The adoption of IFRS 11 was applied retrospectively and had no impact on the financial position or results of operations of Allied Properties REIT, after the REIT's change in accounting policy noted above.

IFRS 12 - Disclosure of Interest in Other Entities provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities. Additional disclosure, where necessary, was included in the financial statements retrospectively.

(Q) Standards, Amendments and Interpretations to Existing Standards That Are Not Yet Effective and Have Not Been Adopted Early by Allied Properties REIT At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by Allied Properties REIT.

Allied Properties REIT anticipates that all of the relevant pronouncements will be adopted in Allied Properties REIT's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that is expected to be relevant to Allied Properties REIT's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on Allied Properties REIT's financial statements.

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and de-recognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after January 1, 2015. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

IFRS 9 – Financial Instruments addresses the classification and measurement of financial assets (effective from January 1, 2015).

IFRS 13 – Fair Value Measurement defines fair value, requires disclosure of fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards (effective from January 1, 2013).

4. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Allied Properties REIT and its subsidiaries listed below:

- Nominee corporations
- Allied Properties Management Trust
- Allied Properties Management Limited Partnership
- Allied Properties Management GP Limited
- Joint Arrangements

Subsidiaries are entities over which Allied Properties REIT has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefit from its activities. Control exits when a parent company is exposed to or has rights to variable returns with the subsidiaries and has the ability to affect those returns through its power. Subsidiaries are fully consolidated from the date control is transferred to Allied Properties REIT, and are de-consolidated from the date control ceases. Intercompany transactions between subsidiaries are eliminated on consolidation. All subsidiaries have a reporting date of

December 31. Allied Properties REIT recognizes its interest in joint operations and accounts for its share of assets held jointly, liabilities incurred jointly, revenue shared jointly and expenses incurred jointly.

5. INVESTMENT PROPERTIES

Changes to the carrying amounts of investment properties presented in the Consolidated Balance Sheets can be summarized as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2012	FOR THE YEAR ENDED DECEMBER 31, 2011
Balance beginning of the period	\$2,019,113	\$1,519,146
Additions:		
Results from acquisitions	436,289	349,483
Results from subsequent expenditure recognized in the carrying amount of an asset	75,107	34,956
Disposals	(48,473)	-
Fair value adjustments	240,483	100,573
Interest in freehold lease and land leases	136,880	14,955
Balance end of the period	\$2,859,399	\$2,019,113

Included in the amounts noted above is \$105,900 (\$nil as at December 31, 2011) which represents Allied Properties REIT's interest in a 49 year, 168,000 square feet, freehold lease as at December 31, 2012 (see also Note 6).

Included in the amounts noted above is \$nil (\$4,801 as at December 31, 2011) which represents Allied Properties REIT's owner-occupied property as at December 31, 2012.

The following interest rate sensitivity table outlines the impact of a 0.25% change in the market capitalization rate on investment properties. A 0.25% change is considered a reasonable level of fluctuation on market capitalization rates. As at December 31, 2012 the average weighted capitalization rate was 6.1% (December 31, 2011 – 7.2%).

FOR THE YEAR ENDED DECEMBER 31, 2012

-0.25% +0.25%

	Fair Value	Change	Change
Fair market value	\$2,948,599	\$47,920	\$(48,900)

FOR THE YEAR ENDED DECEMBER 31, 2011

-0.25%

+0.25%

	Fair Value	Change	Change
Fair market value	\$2,094,144	\$73,096	\$(70,704)

The following amounts were recognized in income:

	FOR THE YEAR ENDED DECEMBER 31, 2012	FOR THE YEAR ENDED DECEMBER 31, 2011
Rental income from investment properties	249,298	196,273
Rental income from properties under development	9,352	2,575
	258,650	198,848
Direct operating expenses from rental properties	(103,160)	(83,615)
Direct operating expenses from properties under development	(5,914)	(2,931)
	(109,074)	(86,546)

Investment properties are subject to operating leases with tenants. Lease contracts are all typically non-cancellable for periods that typically range from 3 to 10 years from the commencement of the lease.

Future minimum rental income as a lessor is as follows:

	JANUARY 1, 2013 THROUGH DECEMBER 31, 2013	JANUARY 1, 2014 THROUGH DECEMBER 31, 2017	THEREAFTER	TOTAL
Future minimum rental income	251,169	779,185	460,358	1,490,712

Reconciliation between the valuation obtained and the adjusted valuation included in the financial statements is as follows:

	DECEMBER 31, 2012	DECEMBER 31, 2011
Total fair market value	\$2,948,599	\$2,094,144
Less		
Straight-line rent	(13,075)	(8,913)
Tenant inducement	(49,342)	(43,061)
Leasing commission	(26,783)	(23,057)
Adjusted fair market value	\$ 2,859,399	\$2,019,113

INVESTMENTS IN JOINT ARRANGEMENTS

In December 2010, Allied Properties REIT entered into a joint venture agreement with Perimeter Development Corporation on a 50/50 basis to develop The Breithaupt Block which is located in Kitchener, Ontario and is included as a property under development.

In July 2012, Allied Properties REIT entered into a non-exclusive joint venture agreement with RioCan REIT on a 50/50 basis to acquire properties in the urban areas of major Canadian cities. The first site is comprised of 555-563 College Street, Toronto, formerly owned exclusively by Allied Properties REIT, and 547 and 549 College Street, Toronto, formerly owned exclusively by RioCan REIT. The joint venture participants have combined their respective properties with a view to intensify this first site. The second site is comprised of 602-606 King Street West, Toronto, formerly owned exclusively by Allied Properties REIT, and adjacent properties that Allied Properties REIT and RioCan REIT acquired jointly. The joint venture participants have combined the respective properties with a view to intensify this second site.

In August 2012, Allied Properties REIT entered into a joint venture agreement with Victory Residences Inc. on a 50/50 basis to acquire the retail property and parking spaces located at 478 King Street West, Toronto.

In December 2012, Allied Properties REIT entered into a joint venture agreement with RioCan REIT and Diamond Corporation on a 40/40/20 basis to acquire and develop the Globe and Mail Lands located in Toronto.

These investments in joint arrangements are accounted for as joint operations. The following represents Allied Properties REIT's interest in the assets, liabilities, revenues and expenses for the joint operations in which it participates.

Assets		
Non-current assets		
Investment properties	\$108,035	\$9,271
Other assets	39	-
Total non-current assets	108,074	9,271
Current assets		
Cash and cash equivalents	489	41
Accounts receivable	397	574
Other assets	14	47
Total current assets	900	662
Total assets	\$108,974	\$9,933
Liabilities		
Non-current liabilities		
Mortgages payable	\$36,990	\$-
Construction loan payable	6,961	5,125
Total non-current liabilities	43,951	5,125
Current liabilities		
Mortgages payable	200	-
Accounts payable and other liabilities	1,123	804
Total current liabilities	1,323	804
Total liabilities	45,274	5,929

Revenues		
Rental properties	\$1,160	\$-
Amortization of straight-line rent	21	-
	1,181	-
Expenses		
Rental property operating costs	409	-
Financing	181	-
	590	-
Income before undernoted	591	-
Change in fair value adjustment on investment properties	2,787	-
	2,787	-
Net income for the period	3,378	-

6. FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments presented in the Consolidated Balance Sheets relate to the following categories of financial assets and liabilities:

	BALANCE AS AT DECEMBER 31, 2012	BALANCE AS AT DECEMBER 31, 2011
Financial assets		
Loans and receivables		
Cash and cash equivalents	\$63,404	\$34,203
Accounts receivable	23,481	20,206
	\$86,885	\$54,409
Financial liabilities measured at amortized cost		
Mortgages payable	\$1,062,871	\$929,649
Construction loan payable	6,961	4,138
Freehold lease and land lease obligations	114,112	13,296
Accounts payable and other liabilities	82,713	64,712
Distributions payable to Unitholders	7,261	5,698
	\$1,273,918	\$1,017,493

The fair value of Allied Properties REIT's financial assets and liabilities with current maturities approximate their carrying amounts as at December 31, 2012 and December 31, 2011. The fair value of the mortgages payable, construction loan payable, freehold lease and land lease obligations is \$1,198,278 as at December 31, 2012 and \$977,898 as at December 31, 2011.

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of tenants to meet obligations under lease agreements. Allied Properties REIT actively reviews receivables and determines the potentially uncollectible accounts on a per-tenant basis. An accounts receivable is written down to its estimated realizable value when Allied Properties REIT has reason to believe that the tenant will not be able to fulfill its obligations under the lease agreement.

The movement in the allowance for doubtful accounts is reconciled as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2012	FOR THE YEAR ENDED DECEMBER 31, 2011
Allowance for doubtful accounts beginning of period	\$994	\$1,129
Provision for impairment of trade receivables	440	239
Reversal of provision for impairment	(342)	(374)
Allowance for doubtful accounts end of period	\$1,092	\$994

Allied Properties REIT has recognized the following items in the Consolidated Statements of Income and Comprehensive Income:

	FOR THE YEAR ENDED DECEMBER 31, 2012	FOR THE YEAR ENDED DECEMBER 31, 2011	
Total interest expense on:			
Financial liabilities measured at amortized cost	\$43,774	\$44,061	
Interest expense on finance lease - land leases	2,721	1,949	
	\$46,495	\$46,010	
Interest expense capitalized into investment property	\$8,903	\$3,799	

Borrowing costs have been capitalized at a rate of 5.0% per annum (December 31, 2011 – 5.3%).

A description of Allied Properties REIT's risk management objectives and policies for financial instruments is provided in Note 13.

7. EQUIPMENT

The carrying amounts for equipment are as follows:

	DECEMBER 31, 2012	DECEMBER 31, 2011
Computer and office equipment		
Opening balance	\$554	\$463
Additions	559	336
Amortization	(336)	(245)
Balance end of the period	\$777	\$554

8. OTHER ASSETS

Other assets non-current include:

	DECEMBER 31, 2012	DECEMBER 31, 2011
Summary		
Tenant improvement allowances	\$49,342	\$43,061
Leasing commissions	26,783	23,057
Straight-line rents	13,075	8,913
Escrow accounts held by mortgagees	7,500	7,527
Third-party management contracts	240	336
Other	4,179	-
Balance end of the period	\$101,119	\$82,894

All amortization and impairment charges (or reversals if any) are included as follows within the Consolidated Statements of Income and Comprehensive Income:

- Tenant Improvements and Inducements amortized in 'amortization of tenant improvements' account and offset against rental revenue.
- Straight-Line Rent amortized in 'amortization of straight-line rent' account and offset against rental revenue.
- Leasing Commissions amortized in 'amortization of leasing costs' account and recorded as an expense

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	DECEMBER 31, 2012	DECEMBER 31, 2011
Cash at bank and in hand	\$3,189	\$506
Short-term deposits	60,215	33,697
Total cash and cash equivalents	\$63,404	\$34,203

Allied Properties REIT did not have any investing and financing transactions that do not require the use of cash or cash equivalents which would be excluded from the consolidated statement of cash flows. There are no amounts of significant cash and cash equivalent balances held by Allied Properties REIT that are not available for use.

IO. INCOME TAXES

Allied Properties REIT is taxed as a "Mutual Fund Trust" for income tax purposes. Allied Properties REIT, pursuant to its Declaration of Trust, distributes or designates substantially all of its taxable income to Unitholders and does not deduct such distributions or designations for income tax purposes. Accordingly, no provision for income taxes has been made. Income tax obligations relating to distributions of Allied Properties REIT are the obligations of the Unitholders.

II. FREEHOLD LEASE AND LAND LEASE OBLIGATIONS

Allied Properties REIT's future minimum finance lease payments as a lessee are as follows:

	JANUARY 1, 2013 THROUGH DECEMBER 31, 2013	JANUARY 1, 2014 THROUGH DECEMBER 31, 2017	THEREAFTER	TOTAL
Future minimum lease payments	\$2,153	\$14,414	\$514,815	\$531,382
Less: Amounts representing interest	137	3,372	413,761	417,270
Present value of lease payments	\$2,016	\$11,042	\$101,054	\$114,112

During the year, minimum lease payments of \$1,848 were paid by Allied Properties REIT (December 31, 2011 - \$473). No sublease payments or contingent rent payments were made or received. No sublease income is expected as all assets held under lease agreements are used exclusively by Allied Properties REIT.

Some of Allied Properties REIT's finance lease agreements contain contingent rent clauses. Contingent rental payments are recognized to the Consolidated Statements of Income and Comprehensive Income as required when contingent criteria are met. None of the finance lease agreements contain renewal or purchase options or escalation clauses or any restrictions concerning distributions, additional debt and further leasing.

I2. CAPITAL MANAGEMENT

Allied Properties REIT defines capital as the aggregate of Unitholders' equity, mortgages payable, construction loan payable, freehold lease and land lease obligations and bank indebtedness. Allied Properties REIT manages its capital to comply with investment and debt restrictions pursuant to the Declaration of Trust; to comply with debt covenants; to ensure sufficient operating funds are available to fund business strategies; to fund leasing and capital expenditures; to fund acquisitions and development of properties; and to provide stable and growing cash distributions to Unitholders.

Various debt, equity and earnings' distributions ratios are used to monitor capital adequacy requirements. For debt management, debt to gross book value and fair value, debt average term to maturity, variable debt as a percentage of total debt are the primary ratios used in capital management. The Declaration of Trust requires Allied Properties REIT to maintain debt to gross book value, as defined by the Declaration of Trust, of less than 60% (65% of gross book value, including the principal amount of indebtedness outstanding pursuant to convertible debentures) and the variable rate debt and debt having maturities of less than one year to not exceed 15% of gross book value. As at December 31, 2012 and December 31, 2011, debts having variable interest rate and debts having maturities of less than one year aggregated to 5.8% and 7.0%, respectively.

Summary of quantitative data representing capital managed by Allied Properties REIT is as follows:

	DECEMBER 31, 2012	DECEMBER 31, 2011
Mortgages payable	\$1,062,871	\$929,649
Construction loan payable	6,961	4,138
Freehold lease and land lease obligations	114,112	13,296
Unitholders' equity	1,777,638	1,141,558
•••••	\$2,961,582	\$2,088,641

13. FINANCIAL INSTRUMENT RISK MANAGEMENT

Except as noted below, Allied Properties REIT does not require, hold or issue derivative financial instruments for hedging or trading purposes. Allied Properties REIT is subject to the following risks related to its financial instruments:

(A) Market Risk

Market risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market prices. Allied Properties REIT is exposed to interest rate risk on its borrowings. Substantively all of Allied Properties REIT's mortgages payable at December 31, 2012 are at fixed interest rates and are not exposed to changes in interest rates, during the term of the debt. However, there is interest rate risk associated with Allied Properties REIT's fixed interest rate term debt due to the expected requirement to refinance such debts upon maturity. Bank indebtedness is at floating rate interest rates and is exposed to changes in interest rates. As fixed rate debt matures and as Allied Properties REIT utilizes additional floating rate debt under the revolving credit facility, Allied Properties REIT will be further exposed to changes in interest rates. In addition, there is a risk that interest rates will fluctuate from the date Allied Properties REIT commits to a debt to the date the interest rate is set with the lender. As part of its risk management program, Allied Properties REIT endeavours to maintain an appropriate mix of fixed rate and floating rate debt, to stagger the maturities of its debt and to minimize the time between committing to a debt and the date the interest rate is set with the lender.

The following table illustrates the annualized sensitivity of income and equity to a reasonably possible change in interest rates of \pm 1%. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

For the Year Ended December 31, 2012	CARRYING Amount	-1% INCOME	-1% Unitholders' Equity	+1% INCOME	+1% UNITHOLDERS' EQUITY
Bank indebtedness Mortgages payable maturing within one year	- \$93,218	- \$932	\$932	- \$(932)	\$(932)
For the Year Ended December 31, 2011	CARRYING AMOUNT	-1% INCOME	-1% Unitholders' Equity	+1% INCOME	+1% UNITHOLDERS' EQUITY
Bank indebtedness Mortgages payable maturing within one year	\$89,706	- \$897	\$897	- \$(897)	\$(897)

(B) Credit Risk

Credit risk from tenant receivables arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments, resulting in Allied Properties REIT incurring a financial loss. Allied Properties REIT manages credit risk to mitigate exposure to financial loss by staggering lease maturities, diversifying revenue sources over a large tenant base, ensuring no individual tenant contributes a significant portion of Allied Properties REIT's revenues and conducting credit reviews of new tenants. Management reviews tenant receivables on a regular basis and reduces carrying amounts through the use of allowance for doubtful accounts and the amount of any loss is recognized in the Consolidated Statements of Income and Comprehensive Income within rental property operating cost. As at December 31, 2012 and December 31, 2011, allowances for doubtful accounts were \$1,092 and \$994, respectively.

The following sets out Allied Properties REIT's tenant-mix on the basis of percentage of rental revenue for the year ended December 31, 2012:

CATEGORY	% OF RENTAL REVENUE YEAR ENDED DECEMBER 31, 2012	% OF RENTAL REVENUE YEAR ENDED DECEMBER 31, 2011
Business service and professional	19.5%	20.2%
Telecommunications and information technology	31.9%	34.8%
Retail (head office and storefront)	14.1%	15.4%
Media and entertainment	10.2%	11.6%
Financial services	5.6%	5.3%
Educational and institutional	1.8%	2.4%
Government	4.5%	0.7%
Other	12.4%	9.6%

Allied Properties REIT considers that all the financial assets that are not impaired or past due for each of the reporting dates under review are of good quality. The carrying amount of accounts receivable best represents Allied Properties REIT's maximum exposure to credit risk. None of Allied Properties REIT's financial assets are secured by collateral or other credit enhancements. Some of the unimpaired trade receivables are past due as at the reporting date. An aging of trade receivables, including trade receivables past due but not impaired can be shown as follows:

	DECEMBER 31, 2012	DECEMBER 31, 2011
Less than 30 days	\$2,765	\$1,172
30 to 60 days	1,148	234
More than 60 days	2,431	2,234
Total	\$6,344	\$3,640

DECEMBED 21 2012

DECEMBED 21 2011

(c) Liquidity Risk

Liquidity risk arises from the possibility of not having sufficient capital available to Allied Properties REIT. Mitigation of liquidity risk is discussed above in the Note 12 - Capital Management. Substantially all of Allied Properties REIT's assets have been pledged as security under the related mortgages and other security agreements. Interest rates on the mortgages payable are between 2.00% and 8.10% for December 31, 2012 and between 2.39% and 8.10% for December 31, 2011.

Allied Properties REIT has a \$70,000 revolving credit facility with a Canadian chartered bank, which matures August 31, 2014 and bears interest at bank prime plus 60 basis points or bankers' acceptance plus 185 basis points. Security for the facility consists of first and second mortgage charges on seven rental properties and security agreements covering assignment of rents and personal property with respect to the seven properties. The credit facility has a number of covenants which were met as at December 31, 2012. At December 31, 2012 the amount outstanding under the credit facility was \$nil (December 31, 2011 \$nil).

Allied Properties REIT has provided its guarantee to a Canadian chartered bank to support a \$21.8 million construction lending facility to assist with the financing of construction costs associated with a property under development in which Allied Properties REIT has a 50% joint venture interest. The loan matures on September 30, 2014 and bears interest at bank prime plus 125 basis points. The balance outstanding under the facility as at December 31, 2012 was \$13.9 million, of which \$7.0 million is Allied Properties REIT's proportionate share of the loan.

A maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities can be presented as follows:

As at December 31, 2012	PRINCIPAL Repayments	BALANCE DUE AT MATURITY	TOTAL	
Year ended December 31, 2013	\$31,096	\$62,122	\$93,218	
Year ended December 31, 2014	27,691	195,513	223,204	
Year ended December 31, 2015	24,545	85,917	110,462	
Year ended December 31, 2016	22,286	70,244	92,530	
Year ended December 31, 2017	19,185	136,574	155,759	
Thereafter	48,224	342,806	391,030	
	\$173,027	\$893,176	\$1,066,203	
Net discount on assumed mortgages (net of accumulated amortization of \$2,293)			1,672	
Financing costs (net of accumulated amortization of \$5,578)			(5,004)	
			\$1,062,871	

As at December 31, 2011	PRINCIPAL Repayments	BALANCE DUE At Maturity	TOTAL
Year ended December 31, 2012	\$24,874	\$64,832	\$89,706
Year ended December 31, 2013	25,717	62,122	87,839
Year ended December 31, 2014	22,035	195,513	217,548
Year ended December 31, 2015	18,618	74,596	93,214
Year ended December 31, 2016	16,870	70,244	87,114
Thereafter	44,511	313,946	358,457
	\$152,625	\$781,253	\$933,878
Net discount on assumed mortgages (net of accumulated amortization of \$1,537)			635
Financing costs (net of accumulated amortization of \$3,571)			(4,864)
			\$929,649

Allied Properties REIT has entered into interest rate derivative contracts to limit its exposure to fluctuations in the interest rates on approximately \$208 million of its variable rate mortgages payable as at December 31, 2012. Gains or losses arising from the change in fair values of the interest rate derivative contracts are recognized in the Statement of Income and Comprehensive Income. During the year ended December 31, 2012, Allied Properties REIT recognized, as part of change in fair value adjustment on derivative instruments, a net loss of \$660 (2011 - \$1,809).

14. UNITHOLDERS' EQUITY

The number of units issued and outstanding are as follows:

	UNITS
Units outstanding, January 1, 2011	42,129,289
Units issued pursuant to offering on March 14, 2011	3,921,500
Units issued pursuant to offering on August 12, 2011	4,404,500
Units issued under the Distribution Reinvestment Plan	640,089
Units issued under Unit Option Plan	700,147
Units outstanding, December 31, 2011	51,795,525
Units issued pursuant to offering on April 11, 2012	3,850,000
Units issued pursuant to offering on August 14, 2012	3,834,100
Units issued pursuant to offering on December 4, 2012	3,737,500
Units issued under the Distribution Reinvestment Plan	641,560
Units issued under Unit Option Plan	231,656
Units outstanding, December 31, 2012	64,090,341

	DECEMBER 31, 2012	DECEMBER 31, 2011	
The number of units issued and fully paid	64,090,341	51,795,525	
The number of units issued but not fully paid	-	-	

Allied Properties REIT does not hold any of its own trust units, nor does Allied Properties REIT reserve any trust units for issue under options and contracts.

Units issued pursuant to public offerings are net of unit issue costs of \$14,458 and \$8,612 for the years ended December 31, 2012 and December 31, 2011 respectively.

15. UNIT OPTION AND RESTRICTED UNIT PLANS

Allied Properties 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 certain employees of Allied Properties 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. All options are settled in units.

On December 17, 2007, 710,000 options were granted to trustees and officers with an exercise price of \$21.13 and expiring on December 17, 2012. 128,331 options vested on December 17, 2008, 236,664 options vested on December 17, 2009 and 233,336 options vested on December 17, 2010. 118,333 options have expired. 591,667 options have been exercised.

On December 15, 2008, 3,750 options were granted to trustees and employees with an exercise price of \$10.87 and expiring on December 15, 2013. 1,249 options vested on December 15, 2009, 1,250 options vested on December 15, 2010 and 1,251 options vested on December 15, 2011. 3,750 options have been exercised.

On January 15, 2009, 130,000 options were granted to employees and officers with an exercise price of \$12.34 and expiring on January 15, 2014. 43,333 options vested on January 15, 2010, 43,333 options vested on January 15, 2011 and 43,334 options vested on January 15, 2012. 124,800 options have been exercised.

On March 9, 2010, 895,176 options were granted to trustees, officers and employees with an exercise price of \$19.39 and expiring on March 9, 2015. 105,264 options vested on December 31, 2010, 263,303 options vested on March 9, 2011 and 263,304 options vested on March 9, 2012. 258,042 options will vest on March 9, 2013. 190,351 options have been exercised. 5,263 options have been forfeited.

On March 31, 2011, 293,295 options were granted to trustees, officers and employees with an exercise price of \$21.91 and expiring on March 31, 2016. 97,761 options vested on March 31, 2012. 95,497 and 95,505 options will vest on March 31, 2013 and March 31, 2014, respectively. 21,651 options have been exercised. 4,532 options have been forfeited.

On March 6, 2012, 226,132 options were granted to trustees, officers and employees with an exercise price of \$26.51 and expiring on March 6, 2017. 73,089, 73,090 and 73,090 options will vest on March 6, 2013, March 6, 2014 and March 6, 2015, respectively. 6,863 options have been forfeited.

Allied Properties REIT accounts for its Unit Option Plan using the fair value method, under which compensation expense is measured at the date options are granted and recognized over the vesting period.

DECEMBER 31, 2012

DECEMBER 31, 2011

19.44

21.91

19.70

19.89

19.88

	22021		DD0D111DD11	
	The range of exercise prices	Weighted average remaining contractual life (years)	The range of exercise prices	Weighted average remaining contractua life (years)
For the units outstanding at the end of the period	10.87-26.51	2.79	10.87-21.91	3.24
	DECE	MBER 31, 2012	DECEN	ИВЕR 31, 2011
	Number of units	Weighted average exercise price	Number of units	Weighted average exercise price
Balance at the beginning of				

19.89

26.51

23.01

19.20

21.23

19.69

1.620.177

293,295

(700,147)

1,213,325

350,086

Average unit price during the period was \$29.33 (December 31, 2011 - \$21.77).

1,213,325

226,132

(16,658)

(231,656)

1,191,143

522,829

the period

Granted during the period

Forfeited during the period

Exercised during the period

Balance at end of the period

Units exercisable at the end

of the period

Allied Properties REIT utilizes the Black-Scholes Model for valuation of unit options with no performance criteria and the binomial option pricing model for valuation of unit options with performance criteria. The Binomial option pricing model incorporates into the measurement factors specific to the share incentive plan such as market conditions by means of actuarial modeling.

Assumptions utilized in the calculation using the Black-Scholes Model for option valuation are as follows:

	MARCH 2012	MARCH 2011
Unit options granted	226,132	293,295
Unit option holding period (years)	5	5
Volatility rate	22.2%	23.5%
Distribution yield	4.9%	6.0%
Risk free interest rate	1.39%	2.80%
Value of options granted	\$635	\$707

The underlying expected volatility was determined by reference to historical data of Allied Properties REIT's units over 5 years.

For the Unit Option Plan, in total, \$788 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) has been included in profit or loss for December 31, 2012 and credited to Unitholders' equity (December 31, 2011 - \$1,005).

Certain employees of Allied Properties REIT may be granted Restricted Units pursuant to the terms of the Restricted Unit Plan, which are subject to vesting conditions and disposition restrictions, in order to provide a long-term compensation incentive. The Restricted Units remain subject to forfeiture until the participant has held his or her position with Allied Properties REIT for a specific period of time. Full vesting of Restricted Units will not occur until the participant has remained employed by Allied Properties REIT for three years from the date of grant. Units required under the Restricted Unit Plan are acquired in the secondary market through a custodian and then distributed to the individual participant accounts.

For the Restricted Unit Plan, in total, \$782 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) has been included in profit or loss for December 31, 2012 and credited to Unitholders' equity (December 31, 2011 – \$514).

16. LONG-TERM INCENTIVE PLAN

Officers and trustees of Allied Properties REIT have been granted the right to participate in a LTIP, whereby the participants subscribed for units for a purchase price equal to the weighted average trading price of the units for five trading days preceding the date of the grant. The purchase price was payable as to 5% upon issuance and as to the balance ("installment loan receivable") over a term not exceeding 10 years. The installment loan receivable bears interest at rates of 3% or 5% per annum on any outstanding balance and is a direct, personal obligation of the participant. The units issued under the LTIP are held by a custodian for the benefit of the participants until the installment loan receivable has been paid in full. The values of these units held by the Custodian as at December 31, 2012 and December 31, 2011 were \$1,386 and \$8,914,

respectively. Cash distributions paid in respect of the units issued under the LTIP are applied first to the interest and then to reduce the balance of the installment loan receivable.

The fair value of the LTIP is the estimated present value of the imputed interest benefit over an estimated expected term of ten years, which is recorded as compensation cost. The LTIP installment loans receivable are recognized as deductions from units issued. Distributions received under the LTIP are charged to Unitholders' equity while interest received under the LTIP is credited to distributions.

UNITS ISSUED UNDER THE LTIP	CUMULATIVE AS AT DECEMBER 31, 2012	YEAR ENDED DECEMBER 31, 2012	CUMULATIVE AS AT DECEMBER 31, 2011	
Number of units issued	412,293	-	412,293	
Units issued	\$6,282	\$-	\$6,282	
Compensation cost	474	-	474	
	6,756		6,756	
LTIP installment loans receivable	(5,968)	(116)	(5,852)	
Interest on installment loans receivable	(1,060)	(88)	(972)	
Distributions applied against installment loans receivable	3,511	385	3,126	
Repayments of installment loans	3,181	2,714	467	
	(336)	2,895	(3,231)	
	\$6,420	\$2,895	\$3,525	

UNITS ISSUED UNDER THE LTIP	CUMULATIVE AS AT DECEMBER 31, 2011	YEAR ENDED DECEMBER 31, 2011	CUMULATIVE AS AT DECEMBER 31, 2010	
Number of units issued	412,293	-	412,293	
Units issued	\$6,282	\$-	\$6,282	
Compensation cost	474	-	474	
	6,756	-	6,756	
LTIP installment loans receivable	(5,852)	-	(5,852)	
Interest on installment loans receivable	(972)	(122)	(850)	
Distributions applied against installment loans receivable	3,126	474	2,652	
Repayments of installment loans	467	240	227	
	(3,231)	592	(3,823)	
	\$3,525	\$592	\$2,933	

17. WEIGHTED AVERAGE NUMBER OF UNITS

The weighted average number of units for the purposes of diluted income per unit is the weighted average number of ordinary units used in the calculation of basic income per unit as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2012	FOR THE YEAR ENDED DECEMBER 31, 2011	
Basic	56,476,631	47,102,069	
Unit option plan	358,546	238,700	
Long-term incentive plan	277,658	356,653	
Fully diluted	57,112,835	47,697,422	

There were no anti-dilutive instruments for the periods ended December 31, 2012 and December 31, 2011.

18. COMMITMENTS AND CONTINGENCIES

Allied Properties REIT has entered into commitments for acquisitions, building renovations with respect to leasing activities and for repairs and operating costs. The commitments as at December 31, 2012 and December 31, 2011 were \$13,405 and \$4,456, respectively.

Allied Properties REIT has provided its guarantee to a Canadian chartered bank to support a \$24.4 million construction lending facility to assist with the financing of construction costs associated with a property under development in which Allied Properties REIT has a 50% ownership interest (see also Note 6). The balance outstanding under the facility as at December 31, 2012 was \$13.9 million (December 31, 2011 – \$8.3 million).

Allied Properties REIT is subject to legal and other claims in the normal course of business. Management and Allied Properties REIT's legal counsel evaluate all claims. In the opinion of management these claims are generally covered by Allied Properties REIT's insurance policies and any liability from such claims would not have a significant effect on Allied Properties REIT's consolidated financial statements.

Allied Properties REIT, through a financial intermediary, has issued letters of credit in the amount of \$6,318 representing deposits on several of the conditional purchase agreements noted above and other financing requirements (December 31, 2011 – \$2,676).

19. SEGMENTED INFORMATION

Management, in measuring Allied Properties REIT's performance based on income from property operations, distinguishes its operations in three geographical locations which include Eastern Canada (Montréal, Québec City and Ottawa), Central Canada (Toronto and Kitchener) and Western Canada (Winnipeg, Calgary, Edmonton, Vancouver and Victoria). Management reviews assets and liabilities on a total corporate basis and therefore Allied Properties REIT does not include assets and liabilities in the segmented information below.

Allied Properties REIT does not allocate interest expense to segments as mortgages and debt are viewed by management as used for the purpose of acquisitions, development and improvements of/to properties. Similarly, general administration expenses, interest income and fair value adjustment to financial instruments are not allocated to segments. These are disclosed below as Other.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Year Ended December 31, 2012	EASTERN CANADA	CENTRAL Canada	WESTERN CANADA	SEGMENT TOTAL	OTHER	TOTAL
Revenues						
Rental properties	\$72,577	\$146,245	\$39,828	\$258,650	\$-	\$258,650
Amortization of tenant improvements	(3,050)	(1,999)	(212)	(5,261)	-	(5,261)
Amortization of straight line rent	1,202	3,282	520	5,004	-	5,004
	70,729	147,528	40,136	258,393	-	258,393
Expenses	•••••				• • • • • • • • • • • • • • • • • • • •	• • • • • • • • • • • • • • • • • • • •
Rental property operating costs	35,098	58,957	15,019	109,074	-	109,074
Financing	-	-	-	-	46,495	46,495
Trust	-	-	-	-	5,499	5,499
Amortization of leasing costs and other assets	1,613	2,150	154	3,917	332	4,249
•••••	36,711	61,107	15,173	112,991	52,326	165,317
Income before undernoted	34,018	86,421	24,963	145,402	(52,326)	93,076
Change in fair value adjustment on investment properties	42,954	207,053	27,393	277,400	-	277,400
Change in fair value adjustment on derivative instruments	-	-	-	-	(660)	(660)
••••	42,954	207,053	27,393	277,400	(660)	276,740
Net Income	76,972	293,474	52,356	422,802	(52,986)	369,816
Fair value adjustment on owner-occupied property	-	-	-	-	243	243
Comprehensive income for the period	\$76,972	\$293,474	\$52,356	\$422,802	\$(52,743)	\$370,059

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Year Ended December 31, 2011	EASTERN CANADA	CENTRAL CANADA	WESTERN CANADA	SEGMENT TOTAL	OTHER	TOTAL
Revenues						
Rental properties	\$50,148	\$127,494	\$21,206	\$198,848	\$-	\$198,848
Amortization of tenant improvements	(2,278)	(1,601)	(443)	(4,322)	-	(4,322)
Amortization of straight line rent	161	1,154	447	1,762	-	1,762
	48,031	127,047	21,210	196,288	-	196,288
Expenses						• • • • • • • • • • • • • • • • • • • •
Rental property operating costs	26,287	52,471	7,788	86,546	-	86,546
Financing	-	-	-	-	42,211	42,211
Trust	-	-	-	-	5,430	5,430
Amortization of leasing cost and other assets	1,041	1,758	103	2,902	381	3,283
	27,328	54,229	7,891	89,448	48,022	137,470
Income before undernoted	20,703	72,818	13,319	106,840	(48,022)	58,818
Change in fair value adjustment on investment properties	15,276	64,197	22,177	101,650	-	101,650
Change in fair value adjustment on derivative instruments	-	-	-	-	(1,809)	(1,809)
	15,276	64,197	22,177	101,650	(1,809)	99,841
Net Income	35,979	137,015	35,496	208,490	(49,831)	158,659
Fair value adjustment on owner-occupied property	-	-	-	-	47	47
Comprehensive income for the period	\$35,979	\$137,015	\$35,496	\$208,490	\$(49,784)	\$158,706

20. RELATED PARTY TRANSACTIONS

Allied Properties REIT's related parties include its subsidiaries: nominee corporations, Allied Properties Management Trust, Allied Properties Management Limited Partnership, Allied Properties Management GP Limited; and key management and their close family members.

Allied Properties REIT engages in third-party property management business, including the provision of services for properties in which certain trustees of Allied Properties REIT have an ownership interest. For the year ended December 31, 2012 real estate service revenue earned from these properties was \$260 and \$239 for the year ended December 31, 2011.

The transactions are in the normal course of operations and were measured at the amount set out in agreement between the respective property owners. Related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Transactions with key management personnel:

	FOR THE YEAR ENDED DECEMBER 31, 2012	FOR THE YEAR ENDED DECEMBER 31, 2011
Salary, bonus and other short-term employee benefits	\$3,544	\$2,891
Share-based payments	1,201	1,248
	\$4,745	\$4,139

21. SUBSEQUENT EVENTS

On February 11, 2013, Allied Properties REIT announced the acquisition of 613 and 625 – 11th Avenue S.W. in Calgary and 754 Fort Street in Victoria for an aggregate purchase price of \$21.3 million.

On February 19, 2013, Allied Properties REIT announced the acquisition of Vintage I & II (322–326 – 11th Avenue S.W.) in Calgary for \$110.0 million and a concurrent bought-deal for 3,210,000 units from treasury at a price of \$34.30 per unit, with an overallotment option in favour of the underwriters for an additional 481,500 units on the same terms, exercisable in whole or in part during the 30 days following closing.

On February 20, 2013, Allied Properties REIT received from a consortium of three Canadian financial institutions a commitment for up to \$80 million in a non-revolving term loan bearing interest at bank prime plus 100 basis points or bankers' acceptance plus 225 basis points to be used in connection with the construction of QRC West, Phase I, in Toronto, with an initial term of 36 months from March 31, 2013, and the initial advance occurring by April 30, 2013.

On February 21, 2013, Allied Properties REIT closed the previously announced acquisition of 613 – 11th Avenue S.W. in Calgary for a purchase price of \$1.6 million.

On February 28, 2013, Allied Properties REIT closed the previously announced sale of an undivided 50% interest in 57 Spadina Avenue in Toronto for \$6.3 million.

