ALLIED PROPERTIES REIT

# ANNUAL REPORT DECEMBER 31, 2014

BUILDING CITIES — ONE BUILDING AT A TIME

03.03.15

BUCA RESTAURANT
BASEMENT, 602 KING STREET WEST, TORONTO

# ANNUAL REPORT

DECEMBER 31, 2014

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# LETTER TO UNITHOLDERS

Dear Fellow Unitholder:

We set the bar high in 2014, both in absolute terms and in relation to what we anticipated would be a challenging environment for Canadian REITs. We achieved all-time high financial performance measures, which enabled us to increase our distribution for the eighth time since our IPO while maintaining our ongoing commitment to reduce pay-out ratios. Our FFO per unit for the year was $2.10, up 8% from 2013, while our AFFO per unit was $1.83, up 10%, reducing our FFO and AFFO pay-out ratios to 68% and 77%.

We completed 10 acquisitions in 2014 for a total of $234 million. We also announced the acquisition of an undivided 50% interest in 19 Duncan in Toronto for $23.5 million, which closed last month. The bulk of our 2014 acquisitions were in Toronto's Downtown West submarket.

Except for the timing of rent commencement on lease-up, we met or exceeded our value-creation targets for 2014. We also added three new development projects in Toronto, 460 King West, 485 King West and 19 Duncan. As importantly, we expanded our collaborative relationships with other best-in-class real estate organizations that will assist us in creating value going forward.

We made another significant commitment to the balance sheet in 2014 by using the proceeds of a large equity offering to acquire unencumbered assets and to pay off first-mortgage debt as it came due. While moderating our FFO and AFFO per unit in the fourth quarter, this reduced our debt ratio to 35% of fair value, increased our interest-coverage ratio to 3:1, extended the weighted-average term of our mortgages to 6.2 years, reduced the weighted average interest rate on our mortgages to 4.8%, expanded our pool of unencumbered properties to $900 million and moderated our mortgage maturity schedule. These balance-sheet metrics, along with growth in EBITDA over the course of the year, enabled us to secure an investment-grade issuer rating of BBB (low) with a Stable trend late in the year. This set the stage for further balance-sheet transformation.

## BALANCE- SHEET TRANSFORMATION

We've built our business with a judicious combination of equity and conventional first-mortgage financing, with the result that we now have one of the very best balance sheets in the Canadian REIT universe. The principles that guided us remain sacrosanct, particularly (i) the maintenance of low leverage, (ii) the utilization of long-term, fixed-rate debt financing and (iii) the matching of equity issuance to a clear and accretive use of proceeds. Where the transformation will now occur is in the nature of our long-term, fixed-rate debt. In time, we expect to replace a significant portion of our first-mortgage financing with unsecured debentures.

The benefits of the planned transformation are as follows:

(I) issuing a tranche of unsecured debentures (between $150 and $200 million) is much more efficient than placing numerous first mortgages of an equivalent aggregate principal amount;

(II) debt maturity can more easily and effectively be managed with unsecured debentures;

(III) unsecured debentures carry no principal repayment obligation during the term; and

(IV) unsecured debentures will enable us to increase the size of our pool of unencumbered properties.

The last benefit is very important to us. We expect the pool of unencumbered properties to grow considerably over the next five years, both in absolute terms and relative to the fair value of our assets.

Another benefit of the planned transformation is that it will afford us more flexibility in financing our development activity. Indeed, this and the maturation of our development pipeline will enable us to predict with more precision the contribution of our development activity going forward.

## MATURATION OF DEVELOPMENT PIPELINE

Over the past several years, we've been working to build a development pipeline that will make a recurring annual contribution to our business. I believe we've reached the point where the pipeline is built and primed. We expect QRC West, Phase I, 250 Front West, 460 King West and the first phase of the Breithaupt Block JV to begin making significant contributions to our NOI in 2015. We also expect to monetize our interest in the Spadina JV this year. We expect the second phase of the Breithaupt Block JV to begin making a contribution in 2016, along with 485 King West. We expect the TELUS Sky JV to begin making a contribution in late 2017. With the exception of the Spadina JV, which we expect to sell to a residential developer, each of the developments I've just mentioned is currently under construction.

Late last year, we received municipal approval for QRC West, Phase II, in Toronto. We expect to start construction in 2016 with an appropriate level of pre-leasing having been achieved. If so, this project will begin making a contribution to our NOI in 2018. We also expect to initiate construction on the King & Portland JV, Adelaide & Duncan JV and the College & Palmerston JV in 2016, subject to an appropriate amount of pre-leasing being achieved. If so, these projects will begin making a contribution to our NOI in 2018 and 2019. The initiation of construction on the College & Manning JV is contingent upon completion of construction by the College & Palmerston JV in 2018. As a result, we don't expect it to contribute to our NOI until 2020. It is important to emphasize that none of the five developments I've just mentioned is under construction, and any number of things can occur to delay the commencement of construction.

## GLOBALLY-FAVOURED REIT MODEL

We've been evolving for some time now toward what I think of as the globally-favoured REIT model. This model is characterized by the following attributes:

(i) low financial leverage;

(ii) low pay-out ratios;

(iii) a solid platform anchored by an internal management structure;

(iv) the ability to grow cash-flow (FFO and AFFO) per unit; and

(v) the ability to grow NAV per unit.

The emphasis on growth in NAV per unit is very pronounced among European and American institutional investors and is becoming more pronounced among Canadian institutional and retail investors. When we went public in 2003, the emphasis was overwhelmingly on providing a stable and growing yield. In that context, development was viewed with skepticism and concern. Three or four years later, American institutional investors began to take an interest in Canadian REITs. They saw development as a way to enhance yield and total return over time and favoured REITs with the necessary inclination and capability, **as long as they practiced prudent financial management**. Three or four years later again, European investors began to take an interest in Canadian REITs. While they weren't wholly indifferent to yield, they were much more focused on growth in NAV per unit. REITs with the ability to drive underlying asset values were favoured.

Although most Canadian REITs have a local or national focus, the way they operate is being influenced by international investors. I believe this bodes well for the ongoing evolution of the Canadian REIT sector.

## OUTLOOK

My confidence in Allied's outlook continues. Demand for urban workspace remains strong and deep. The industry has responded to this demand by creating new office-tower space, particularly in Downtown Toronto and Downtown Calgary. While concern lingers about the impact of oversupply in these markets, particularly in Calgary because of the recent decline in oil prices, I continue to believe that material disruption is unlikely, primarily because of significant new demand for urban workspace arising from (i) existing users with expansion requirements and (ii) new users migrating back to the inner-city from the suburban markets.

Allied remains well positioned to deliver above-average growth in FFO and AFFO per unit, with "above average" being defined as high single-digit to low double-digit growth year over year. This will be propelled by portfolio-wide rental growth, accretion from our ongoing acquisition activity and increased NOI as a result of our ongoing development activity.

Allied's commitment to the balance sheet remains "unwavering" because of the defensive and offensive benefits that flow from conservative financial management. Our capability in this regard has been enhanced by an investment-grade credit rating that will enable us to access the unsecured debenture market and expand our pool of unencumbered properties. This comes at an opportune time, as a number of large-scale development projects that we might otherwise have financed with conventional first-mortgage financing are approaching substantial completion.

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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,

Michael Emory
PRESIDENT AND CHIEF EXECUTIVE OFFICER

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION AS AT DECEMBER 31, 2014

# 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, 2014. 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, 2014. 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. In particular, certain statements in Part I—Overview, under the heading "Outlook", Part VI—Rental Portfolio, under the heading "Rental Properties Undergoing Intensification Approval", and Part VII—Development Portfolio, under the headings "Properties Under Development" and "250 Front Street West, Toronto" constitute forward looking information. This Annual Report includes, but is not limited to, forward-looking statements regarding: closing dates of proposed acquisitions; completion of construction and lease-up in connection with upgrade projects and PUDs; growth of our AFFO and FFO per unit; continued demand for space in our target markets; increase in net rental income per square feet of GLA; ability to extend lease terms; the creation of future value; estimated GLA, NOI and growth from upgrade projects and PUDs; estimated costs of upgrade projects and PUDs; future economic occupancy; return on investments, including return on investment in upgrade projects and PUDs; estimated rental revenue and anticipated rental rates; lease of our intensification projects; anticipated available square feet of leasable area; receipt of municipal approval for value-creation projects, including intensifications; and completion of future financings and availability of capital. 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 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 in their entirety by this forward-looking disclaimer. Without limiting the generality of the foregoing, the discussion in the Letter to Unitholders, Part I—Outlook, Part VI—Rental Portfolio and Part VII—Development Portfolio is qualified in its entirety by this forward-looking disclaimer. These statements are made as of March 3, 2015, 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, May 15, 2012 and May 14, 2013 ("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 2013, we had expanded our portfolio to 131 properties in the urban core of 10 Canadian cities with 9.64 million square feet of GLA.

We acquired ten properties in 2014 for $233,887. The basic details of the properties acquired are set out in the table below:

| PROPERTY | ACQUIRED | OFFICE GLA | RETAIL GLA | TOTAL GLA | PARKING SPACES |
|---|---|---|---|---|---|
| 85 Rue St. Paul, Montréal | February 13, 2014 | 79,778 | - | 79,778 | 25 |
| The Pilkington Building, Calgary | March 3, 2014 | 48,223 | - | 48,223 | 44 |
| The Biscuit Block, Calgary | March 3, 2014 | 54,258 | - | 54,258 | 48 |
| 241 Spadina, Toronto | April 2, 2014 | 24,812 | 6,586 | 31,398 | - |
| 32 Atlantic and 47 Jefferson, Toronto | April 2, 2014 | 57,268 | - | 57,268 | 7 |
| 560 King West, Toronto | June 19, 2014 | - | - | - | 171 |
| 460 King West, Toronto | August 18, 2014 | 11,700 | 4,550 | 16,250 | - |
| 555 Richmond West, Toronto | August 28, 2014 | 40,881 | 256,370 | 297,251 | 258 |
| 485 King West, Toronto | November 14, 2014 | 8,800 | 4,400 | 13,200 | 6 |
| 50% Interest in 499 Adelaide West, Toronto (1) | December 5, 2014 | 1,200 | - | 1,200 | - |
| Total | | 326,920 | 271,906 | 598,826 | 559 |

*(1) Addition to the King & Portland JV with RioCan*

Four Toronto properties (QRC West, Phase I, 460 King Street West, 485 King Street West and an undivided 50% interest in 491 College Street), one Kitchener property (an undivided 50% interest in The Breithaupt Block), one Montréal property (5445 de Gaspé Avenue), one Winnipeg property (138 Portage Avenue East), one Calgary property (an undivided 1/3 interest in 100 and 114-7th Avenue S.W., which comprise our share of the TELUS Sky JV) and one Victoria property (8-10 Bastion Square) are currently properties under development ("Properties Under Development" or "PUDs"). They are undergoing redevelopment, development or intensification. See "Development Portfolio" 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 six buildings in Toronto, 469 King Street West, 99 Spadina Avenue, 193 Yonge Street, 204-214 King Street East, 35-39 Front Street East and Queen-Richmond Centre, one building in Kitchener, 72 Victoria Street, and the seven buildings comprising Cité Multimédia in Montréal. We currently have Level 2 certification for one building in Toronto, 257 Adelaide Street West. We plan to put additional buildings forward for certification 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 as part of our Make Room for the Arts program, the most recent example of this being the lease of over 200,000 square feet of GLA to Pied Carré at 5445-5455 de Gaspé in Montréal for a 30-year term. What we forego in short-term rent, we more than make up in overall occupancy and net rent levels at other properties in the surrounding communities. 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

#### 1. 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 |
|---|---|---|---|---|
| Annualized increase per unit | $0.04 | $0.04 | $0.04 | $0.04 |
| % increase | 3.6% | 3.5% | 3.4% | 3.3% |
| Annualized distribution per unit | $1.14 | $1.18 | $1.22 | $1.26 |

| | MARCH 2008 | DECEMBER 2012 | DECEMBER 2013 | DECEMBER 2014 |
|---|---|---|---|---|
| Annualized increase per unit | $0.06 | $0.04 | $0.05 | $0.05 |
| % increase | 4.8% | 3.0% | 3.7% | 3.5% |
| Annualized distribution per unit | $1.32 | $1.36 | $1.41 | $1.46 |

### 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 $0.54, up 5.9% from the comparable quarter last year. Our FFO per unit (diluted) in the fourth quarter was inflated slightly by the fact that we complied with a recent change to the standardized definition of FFO by excluding direct leasing expenditures for the entire year in the quarter. When normalized, our FFO per unit (diluted) for the quarter was $0.52, up 2.0%, the same as the comparable quarter last year. In 2014, FFO per unit (diluted) was $2.10, up 8.2% from 2013. The quarterly and annual increase stemmed from net rental growth across most of our portfolio, completion of upgrade and redevelopment projects and accretion from recent acquisitions.

### 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 66.3%. In 2014, our FFO pay-out ratio was 67.6%.

### 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 $0.46, up 7.0% from the comparable quarter last year. In 2014, AFFO per unit (diluted) was $1.83, up 10.2% from 2013. The quarterly and annual increase stemmed from net rental growth across most of our portfolio, completion of upgrade and redevelopment projects and accretion from recent acquisitions.

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 77.9%. In 2014, our AFFO pay-out ratio was 77.3%.

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, 2014, was 35.3%, down from 35.7% on December 31, 2013. Expressed as a multiple of annualized fourth-quarter EBITDA, as described under "EBITDA" below, our net debt on December 31, 2014 was 6.4:1 as compared to 6.3:1 on December 31, 2013. Total debt and net debt are described under "Total Debt and Net Debt" below.

7. INTEREST-COVERAGE RATIO

A conservative interest coverage ratio mitigates unitholder risk. Expressed as operating interest expense in relation to EBITDA, our interest-coverage ratio in the fourth quarter was 3.8:1, down from 4.1:1 in the comparable quarter last year. Our operating interest-coverage ratio in 2014 was 3.8:1 and for 2013 was 4.0:1. Expressed as total interest expense in relation to EBITDA, our interest-coverage ratio in the fourth quarter and in the comparable quarter last year was 3.0:1. Our total interest-coverage ratio in 2014 and 2013 was 3.0:1. Operating interest expense and total interest expense are explained under "EBITDA" below.

## OPERATING MEASURES

1. 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 652,320 square feet of GLA matured in 2014. This amount does not include month-to-month leases for 113,829 square feet of GLA that are routinely renewed at the end of each month by the tenants. By December 31, 2014, we had renewed leases representing 357,918 square feet of this GLA and re-leased another 145,001 square feet of this GLA, representing 77.1% 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, 2014, our rental portfolio was 92.0% leased. The chart below summarizes the year-end levels of GLA and leased area in our rental portfolio since the end of 2003:

| | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| GLA (sf) | 984,856 | 1,636,343 | 2,321,507 | 3,415,279 |
| % leased | 97.5 | 99.2 | 97.0 | 96.3 |

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| GLA (sf) | 4,761,211 | 5,350,208 | 5,804,550 | 6,082,586 |
| % leased | 97.9 | 97.3 | 96.1 | 91.4 |

| | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| GLA (sf) | 7,481,333 | 8,308,591 | 8,927,755 | 9,500,675 |
| % leased | 92.5 | 92.2 | 91.9 | 92.0 |

The lower level of leased area in 2010 and through 2011 resulted from turnover vacancy in Montréal that was re-leased on favourable terms. The lower level of leased area in 2012, 2013 and 2014 resulted from deliberately reduced occupancy levels at upgrade projects in Montréal.

### 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 $47,909 in the fourth quarter, up 6.3% from the comparable quarter last year. Same-asset NOI in 2014 was $173,986, up 7.7% from 2013. The increase stemmed from higher occupancy and net rental growth across most of our portfolio.

### 4. LEASING EXPENDITURES

We monitor leasing expenditures carefully. Leases for 307,327 square feet of GLA commenced in the fourth quarter. $2,546 in leasing expenditures related to this space, representing $8.28 per leased square foot, within our normal range of $7 to $10 per leased square foot. Leases for 1,429,207 square feet of GLA commenced in 2014. $10,230 in leasing expenditures related to this space, representing $7.16 per leased square foot, within our normal range of $7 to $10 per leased square foot.

### 5. CAPITAL EXPENDITURES

We strive to maintain our properties in top physical condition. In the fourth quarter, we incurred $407 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 2014, we incurred $1,070 in regular maintenance capital expenditures, representing $0.11 per square foot of our portfolio, in–line with the amount per square foot in the same period of prior years.

## SUMMARY

The following table summarizes the key financial and operating performance measures for the fourth quarter and the comparable quarter in 2013.

| | Q4 2014 | Q4 2013 | CHANGE | % |
|---|---|---|---|---|
| Period-end distribution level per unit annualized | $1.46 | $1.41 | $0.05 | 3.5% |
| FFO per unit (diluted) | $0.54 | $0.51 | $0.03 | 5.9% |
| FFO pay-out ratio | 66.3% | 67.7% | (1.4%) | |
| AFFO per unit (diluted) | $0.46 | $0.43 | $0.03 | 7.0% |
| AFFO pay-out ratio | 77.9% | 79.8% | (1.9%) | |
| Total debt as a % of fair value of investment properties | 35.3% | 35.7% | (0.4%) | |
| Net debt as a multiple of annualized Q4 EBITDA | 6.4:1 | 6.3:1 | 0.1:1 | |
| Operating interest-coverage ratio | 3.8:1 | 4.1:1 | (0.3:1) | |
| Total interest-coverage ratio | 3.0:1 | 3.0:1 | 0.0:1 | |
| Period-end leased area of rental portfolio | 92.0% | 91.9% | 0.1% | |
| Renewal-replacement percentage of leases maturing | 77.1% | 85.6% | (8.5%) | |
| Same-asset NOI | $47,909 | $45,054 | $2,855 | 6.3% |
| Leasing expenditures | $2,546 | $3,993 | $(1,447) | (36.2%) |
| Leasing expenditures per square foot | $8.28 | $6.12 | $2.16 | 35.3% |
| Maintenance capital expenditures | $407 | $215 | $192 | 89.3% |
| 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 2014 and 2013.

| | 2014 | 2013 | CHANGE | % |
|---|---|---|---|---|
| Period-end distribution level per unit annualized | $1.46 | $1.41 | $0.05 | 3.5% |
| FFO per unit (diluted) | $2.10 | $1.94 | $0.16 | 8.2% |
| FFO pay-out ratio | 67.6% | 70.0% | (2.4%) | |
| AFFO per unit (diluted) | $1.83 | $1.66 | $0.17 | 10.2% |
| AFFO pay-out ratio | 77.3% | 82.2% | (4.9%) | |
| Total debt as a % of fair value of investment properties | 35.3% | 35.7% | (0.4%) | |
| Net debt as a multiple of annualized Q4 EBITDA | 6.4:1 | 6.3:1 | 0.1:1 | |
| Operating interest-coverage ratio | 3.8:1 | 4.0:1 | (0.2:1) | |
| Total interest-coverage ratio | 3.0:1 | 3.0:1 | 0.0:1 | |
| Period-end leased area of rental portfolio | 92.0% | 91.9% | 0.1% | |
| Renewal-replacement percentage of leases maturing | 77.1% | 85.6% | (8.5%) | |
| Same-asset NOI | $173,986 | $161,518 | $12,468 | 7.7% |
| Leasing expenditures | $10,230 | $14,109 | $(3,879) | (27.5%) |
| Leasing expenditures per square foot | $7.16 | $6.16 | $1.00 | 16.2% |
| Maintenance capital expenditures | $1,070 | $840 | $230 | 27.4% |
| Maintenance capital expenditures per portfolio square foot | $0.11 | $0.09 | $0.02 | 22.2% |

## 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 16.1 million square feet of office inventory in three sub-markets, Downtown East (2.3 million square feet), Downtown West (11.7 million square feet) and King West (2.1 million square feet). Approximately half of the office inventory in this target market falls within the Class I category. At December 31, 2014, the overall vacancy rate for the downtown Toronto office market was 4.8%, with the Downtown East, Downtown West and King West sub-markets finishing the quarter at 4.9%, 4.3% and 4.2%, respectively.[1]

### DOWNTOWN AND MIDTOWN MONTRÉAL

This target market includes 15 million square feet of office inventory in three sub-markets, Downtown East (6.6 million square feet), Old Montréal (5.9 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, 2014, the overall vacancy rate for the Central Montréal office market was 9.6%, with the Downtown East and Old Montréal sub-markets finishing the quarter at 4.4% and 8.5%, respectively.[2]

### DOWNTOWN OTTAWA

This target market includes 1.7 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, 2014, the overall vacancy rate for the downtown core Ottawa office market was 8.5%.[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, 2014, the overall vacancy rate for the downtown Winnipeg office market was 7.9%.[4]

### 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, 2014, the vacancy rate for the downtown Québec City office market was 6.7%.[5]

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[1] Cushman & Wakefield, 4th Quarter 2014 Statistical Summary, Greater Toronto Area.
[2] Cushman & Wakefield, 4th Quarter 2014 Marketbeat Office Snapshot, Montréal, Québec
[3] Cushman & Wakefield, 4th Quarter 2014 Marketbeat Office Snapshot, Ottawa, Ontario.
[4] Cushman & Wakefield, 4th Quarter 2014 Marketbeat Office Snapshot, Winnipeg, Manitoba.
[5] Altus InSite, 4th Quarter Market Perspective, Québec City, Québec.

### 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, 2014, the overall vacancy rate in the downtown Kitchener office market was 10.9%.[6]

### 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, 2014, the overall vacancy rate in the downtown Calgary office market was 6.2%.[7]

### DOWNTOWN EDMONTON

This target market includes approximately one million square feet of existing office inventory in the Downtown Core. At December 31, 2014, the overall vacancy rate in the downtown Edmonton office market was 11.4%.[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, 2014, the overall vacancy rate in the downtown Vancouver office market was 6.5%.[9]

### 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, 2014, the overall vacancy rate in the Victoria office market was 8.6%.[10]

### OUTLOOK[11]

We remain well positioned to deliver above-average growth in FFO and AFFO per unit, with "above average" being defined as high single-digit to low double-digit growth year-over-year. We expect this growth to be propelled by portfolio-wide rental growth, accretion from our ongoing acquisition activity and increased NOI as a result of our ongoing development activity. Our commitment to the balance sheet remains "unwavering" because of the defensive and offensive benefits that flow from conservative financial management. Our capability

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[6] Colliers International, Waterloo Region Office Market Dashboard, 2014 Q4.
[7] Cushman & Wakefield, 4th Quarter 2014 Marketbeat Office Snapshot, Calgary, Alberta.
[8] Cushman & Wakefield, 4th Quarter 2014 Marketbeat Office Snapshot, Edmonton, Alberta.
[9] Cushman & Wakefield, 4th Quarter 2014 Marketbeat Office Snapshot, Vancouver, British Columbia.
[10] Colliers International, Victoria Office Market Report, Year End 2014.
[11] This outlook section is comprised entirely of forward-looking statements. The forward-looking statements are qualified in their entirety by the cautionary language found above under the heading "Forward-Looking Disclaimer".

in this regard has been enhanced by an investment-grade credit rating that enables us to access the unsecured debenture market and expand our pool of unencumbered properties. This comes at an opportune time, as a number of large-scale value-creation projects that we might otherwise have financed with conventional first-mortgage financing are approaching substantial completion.

# PART II
## —*Fourth Quarter Results*

The following sets out summary information and financial results for the quarter ended December 31, 2014, and the comparable quarter, as well as the change between the two.

| (In thousands except for per unit and % amounts) | Q4 2014 | Q4 2013 | CHANGE | % CHANGE |
|---|---|---|---|---|
| Revenue from rental properties | 88,685 | 81,353 | 7,332 | 9.0% |
| Rental property operating cost | 37,069 | 34,830 | 2,239 | 6.4% |
| Net rental income | 51,616 | 46,523 | 5,093 | 10.9% |
| Real estate service income | 73 | 73 | - | 0.0% |
| Financing expense | | | | |
| Interest | 12,814 | 10,367 | 2,447 | 23.6% |
| Interest expense on finance lease - ground lease | 810 | 791 | 19 | 2.4% |
| Amortization of mortgage premium | (3) | (8) | 5 | (62.5%) |
| Amortization of financing cost | 301 | 327 | (26) | (8.0%) |
| Amortization | | | | |
| Leasing costs, computer and office equipment | 1,555 | 1,558 | (3) | (0.2%) |
| Income from operations | 36,212 | 33,561 | 2,651 | 7.9% |
| Less trust expense | 2,331 | 2,392 | (61) | (2.6%) |
| Add net gain on sale of rental property | 1,020 | - | 1,020 | - |
| Net income | 34,901 | 31,169 | 3,732 | 12.0% |
| Gain resulting from change in fair value - real estate | 52,445 | 40,449 | 11,996 | 29.7% |
| Gain/(loss) on derivative instruments | (4,909) | 624 | (5,533) | (886.7%) |
| Subtotal | 47,536 | 41,073 | 6,463 | 15.7% |
| Net income and comprehensive income | 82,437 | 72,242 | 10,195 | 14.1% |

| (In thousands except for per unit and % amounts) | Q4 2014 | Q4 2013 | CHANGE | % CHANGE |
|---|---|---|---|---|
| Weighted average units outstanding (diluted) | 75,051 | 68,830 | 6,221 | 9.0% |
| Distributions | 26,716 | 23,557 | 3,159 | 13.4% |
| | | | | |
| FFO | 40,274 | 34,796 | 5,478 | 15.7% |
| FFO per unit (diluted) | $0.54 | $0.51 | $0.03 | 5.9% |
| FFO pay-out ratio | 66.3% | 67.7% | (1.4%) | |
| | | | | |
| AFFO | 34,286 | 29,506 | 4,780 | 16.2% |
| AFFO per unit (diluted) | $0.46 | $0.43 | $0.03 | 7.0% |
| AFFO pay-out ratio | 77.9% | 79.8% | (1.9%) | |
| | | | | |
| NOI | 53,499 | 47,745 | 5,754 | 12.1% |
| Same-asset net operating income | 47,909 | 45,054 | 2,855 | 6.3% |
| | | | | |
| Fair value of investment properties | 3,854,664 | 3,408,968 | 445,696 | 13.1% |
| Total debt (excludes premium on assumed debt) | 1,359,461 | 1,216,966 | 142,495 | 11.7% |
| Total debt as a % of fair value of investment properties | 35.3% | 35.7% | (0.4%) | |
| | | | | |
| Annualized Q4 EBITDA | 209,878 | 186,032 | 23,846 | 12.8% |
| Net debt | 1,348,143 | 1,179,313 | 168,830 | 14.3% |
| Net debt as a multiple of annualized Q4 EBITDA | 6.4:1 | 6.3:1 | 0.1:1 | |
| | | | | |
| EBITDA | 52,469 | 46,508 | 5,961 | 12.8% |
| Financing expense | 13,922 | 11,477 | 2,445 | 21.3% |
| Financing expense as a multiple of EBITDA | 3.8:1 | 4.1:1 | (0.3:1) | |
| | | | | |
| Total rental GLA | 9,501 | 8,928 | 573 | 6.4% |
| Leased rental GLA | 8,742 | 8,209 | 533 | 6.5% |
| % leased | 92.0% | 91.9% | 0.1% | |

## NET RENTAL INCOME AND REAL ESTATE SERVICE INCOME

Net rental income for the quarter was $51,616, up 10.9% from the comparable quarter. The quarter-over-quarter change arose from the following: (i) a $2,083 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 $3,010 increase from properties not owned for the entire quarter and the entire comparable quarter. Net rental income per occupied square foot for the quarter was $23.62 annualized, as compared to $22.67 annualized in the comparable period.

The Property Manager provides real estate services to third-party property owners. Real estate service income for the quarter and the comparable quarter was $73.

### 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 increased by 22.7% from the comparable quarter, due largely to new and upward financing on existing properties and financing associated with recent acquisitions.

Total interest for the quarter was $16,318. $3,504 (21.5%) was capitalized in connection with capital improvements to our rental properties and Properties Under Development, leaving $12,814, which was included in financing expense.

### AMORTIZATION

We amortize leasing cost and tenant improvements on a straight-line basis over the term of the corresponding lease. Amortization for the quarter decreased by 0.2% from the comparable quarter.

### 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 2.6% from the comparable quarter, due to lower salary cost.

Trust expense for the quarter was $2,331. In accordance with our accounting policies, we capitalize certain salaries in connection with (i) capital improvements to our rental properties and Properties Under Development and (ii) acquisitions. The table below provides further detail in this regard:

| | TOTAL COSTS | CAPITALIZED TO CAPITAL IMPROVEMENTS | % CAPITALIZED TO CAPITAL IMPROVEMENTS | CAPITALIZED TO ACQUISITIONS | % CAPITALIZED TO ACQUISITIONS |
|---|---|---|---|---|---|
| Trust expense | 2,979 | 482 | 16.2% | 166 | 5.6% |
| APMLP expense (1) | 6,029 | 427 | 7.1% | 23 | 0.4% |
| Total | 9,008 | 909 | 10.1% | 189 | 2.1% |

*(1) Expense of our wholly owned subsidiary, Allied Properties Management Limited Partnership*

16.2% of our trust expense for the quarter was capitalized in connection with capital improvements and 5.6% in connection with acquisitions. A much smaller percentage of our APMLP expense was capitalized in connection with capital improvements and acquisitions.

### NET INCOME

Net income for the quarter was $34,901, as compared to $31,169 in the comparable quarter.

### NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income for the quarter was $82,437, as compared to $72,242 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 $3,854,664, up $445,696 from the end of the comparable quarter last year. $233,887 of the increase resulted from acquisitions over the intervening year, with the remaining $222,729 resulting from appreciation in value, offset somewhat by dispositions of $10,920.

### 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) $407 in regular maintenance capital expenditures (four cents per portfolio square foot) and (ii) $2,546 in leasing expenditures ($8.28 per leased square foot) in connection with new leases or lease-renewals for 307,327 square feet of GLA that commenced in the quarter. We incurred $14,770 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.

$909 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 2.2% 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 April 2014. 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 2014 | Q4 2013 |
|---|---|---|
| Net income and comprehensive income | 82,437 | 72,242 |
| Gain on sale of property | (1,020) | - |
| Gain resulting from change in fair value in investment properties | (52,445) | (40,449) |
| Loss/(gain) resulting from derivative instruments | 4,909 | (624) |
| Incremental leasing costs | 1,807 | - |
| Amortization of leasing costs and tenant improvements | 4,586 | 3,627 |
| FFO | 40,274 | 34,796 |

## 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 2014 | Q4 2013 |
|---|---|---|
| FFO | 40,274 | 34,796 |
| Step-rent adjustments | (1,228) | (1,082) |
| Incremental leasing costs | (1,807) | - |
| Regular leasing expenditures | (2,546) | (3,993) |
| Maintenance capital expenditures | (407) | (215) |
| AFFO | 34,286 | 29,506 |

## 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 2014 | Q4 2013 |
|---|---|---|
| Revenue from rental properties | 88,685 | 81,353 |
| Rental property operating cost | 37,069 | 34,830 |
| Net rental income | 51,616 | 46,523 |
| Amortization of tenant improvements | 3,111 | 2,304 |
| Step-rent adjustments | (1,228) | (1,082) |
| NOI | 53,499 | 47,745 |

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 quarter and the comparable quarter.

| (In thousands) | Q4 2014 | % OF NOI | Q4 2013 | % OF NOI | CHANGE | % CHANGE |
|---|---|---|---|---|---|---|
| Eastern Canada | 12,391 | 23.2% | 11,544 | 24.2% | 847 | 7.3% |
| Central Canada | 29,464 | 55.0% | 25,774 | 54.0% | 3,690 | 14.3% |
| Western Canada | 11,644 | 21.8% | 10,427 | 21.8% | 1,217 | 11.7% |
| NOI | 53,499 | 100.0% | 47,745 | 100.0% | 5,754 | 12.1% |

Our NOI in the quarter increased by 12.1% over the comparable quarter due to acquisitions and rental growth.

## EBITDA

EBITDA 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. EBITDA does not have any standardized meaning prescribed by IFRS. As computed by us, EBITDA 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 EBITDA to be a useful measure for the purpose of evaluating debt levels and interest coverage. The following reconciles comprehensive income for the quarter and comparable quarter, as presented in the Consolidated Financial Statements, to EBITDA.

| (In thousands) | Q4 2014 | Q4 2013 |
|---|---|---|
| Comprehensive income | 82,437 | 72,242 |
| Amortization of tenant improvements | 3,111 | 2,304 |
| Financing expense | 13,922 | 11,477 |
| Amortization of leasing costs and other assets | 1,555 | 1,558 |
| Gain resulting from change in fair value in investment properties | (53,465) | (40,449) |
| (Gain)/loss resulting from derivative instruments | 4,909 | (624) |
| EBITDA (A) | 52,469 | 46,508 |
| Financing expense (B) | 13,922 | 11,477 |
| Interest capitalized | 3,504 | 4,221 |
| Total financing expense (C) | 17,426 | 15,698 |
| Operating interest coverage (A)/(B) | 3.8:1 | 4.1:1 |
| Total interest coverage (A)/(C) | 3.0:1 | 3.0:1 |

## TOTAL DEBT AND NET DEBT

Total debt and net debt are non-IFRS financial measures and do not have any standard meaning prescribed by IFRS. As computed by us, total debt and net debt 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 total debt and net debt to be useful measures for evaluating debt levels and interest coverage. The following illustrates the calculation of total debt and net debt at the end of the fourth quarter and comparable quarter utilizing amounts reported on our Consolidated Balance Sheets:

| (In thousands) | Q4 2014 | Q4 2013 |
|---|---|---|
| Mortgages payable | 1,274,857 | 1,192,407 |
| Construction loans payable | 54,210 | 18,671 |
| Bank indebtedness | 24,336 | - |
| Total debt | 1,353,403 | 1,211,078 |
| Less cash and cash equivalents | 5,260 | 31,764 |
| Net debt | 1,348,143 | 1,179,314 |

# 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 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 |
|---|---|---|---|---|---|---|---|---|
| Revenue from rental properties | 88,685 | 85,836 | 80,638 | 82,547 | 81,353 | 76,954 | 73,420 | 70,306 |
| Rental property operating cost | 37,069 | 34,687 | 32,564 | 34,902 | 34,830 | 31,615 | 30,119 | 30,081 |
| Net rental income | 51,616 | 51,149 | 48,074 | 47,645 | 46,523 | 45,339 | 43,301 | 40,225 |
| Real estate service income | 73 | 79 | 37 | 109 | 73 | 87 | 52 | 83 |
| Financing expense | 13,922 | 13,500 | 13,180 | 13,072 | 11,477 | 11,375 | 10,815 | 10,955 |
| Amortization | 1,555 | 1,724 | 1,600 | 1,622 | 1,558 | 1,325 | 1,236 | 1,158 |
| Income from operations | 36,212 | 36,004 | 33,331 | 33,060 | 33,561 | 32,726 | 31,302 | 28,195 |
| Less trust expense | 2,331 | 1,740 | 1,882 | 1,733 | 2,392 | 1,571 | 1,756 | 1,346 |
| Add net gain/(loss) on sale of rental property | 1,020 | 741 | - | - | - | - | (485) | - |
| Net income | 34,901 | 35,005 | 31,449 | 31,327 | 31,169 | 31,155 | 29,061 | 26,849 |
| Gain/(loss) from change in fair value | 52,445 | 1,141 | (10,206) | (11,939) | 40,449 | 23,901 | 50,818 | (578) |
| Gain/(loss) on derivative instruments | (4,909) | (874) | (2,589) | (3,973) | 624 | (304) | 5,489 | (9) |
| Subtotal | 47,536 | 267 | (12,795) | (15,912) | 41,073 | 23,597 | 56,307 | (587) |
| Net income and comprehensive income | 82,437 | 35,272 | 18,654 | 15,415 | 72,242 | 54,752 | 85,368 | 26,262 |

| (In thousands except for per unit and % amounts) | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 |
|---|---|---|---|---|---|---|---|---|
| Weighted average units (diluted) | 75,051 | 71,371 | 69,670 | 69,116 | 68,830 | 68,590 | 68,449 | 65,644 |
| Distributions | 26,716 | 25,093 | 24,498 | 24,281 | 23,557 | 23,196 | 23,130 | 22,237 |
| FFO | 40,274 | 38,229 | 35,273 | 35,010 | 34,796 | 34,441 | 32,860 | 29,582 |
| FFO per unit (diluted) | $0.54 | $0.54 | $0.51 | $0.51 | $0.51 | $0.50 | $0.48 | $0.45 |
| FFO pay-out ratio | 66.3% | 65.6% | 69.5% | 69.4% | 67.7% | 67.3% | 70.4% | 75.2% |
| AFFO | 34,286 | 34,161 | 29,886 | 31,864 | 29,506 | 29,872 | 28,809 | 23,948 |
| AFFO per unit (diluted) | $0.46 | $0.48 | $0.43 | $0.46 | $0.43 | $0.44 | $0.43 | $0.36 |
| AFFO pay-out ratio | 77.9% | 73.5% | 82.0% | 76.2% | 79.8% | 77.7% | 80.3% | 92.9% |
| Fair value | 3,854,664 | 3,751,301 | 3,577,350 | 3,499,739 | 3,408,968 | 3,318,399 | 3,221,557 | 3,094,600 |
| Total debt | 1,359,461 | 1,332,052 | 1,353,948 | 1,270,216 | 1,216,966 | 1,197,354 | 1,093,854 | 1,071,690 |
| Total debt as a % of fair value of investment properties | 35.3% | 35.5% | 37.8% | 36.3% | 35.7% | 36.1% | 34.0% | 34.6% |
| Total rental GLA | 9,501 | 9,527 | 9,201 | 9,139 | 8,928 | 8,764 | 8,615 | 8,514 |
| Leased rental GLA | 8,742 | 8,726 | 8,358 | 8,319 | 8,209 | 8,128 | 7,922 | 7,901 |
| % leased | 92.0% | 91.6% | 90.8% | 91.0% | 91.9% | 92.7% | 92.0% | 92.8% |

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 completion of upgrade and redevelopment projects, our regular leasing expenditures and our regular maintenance capital expenditures.

# PART IV
## *—2014 Results*

The following sets out summary information and financial results for 2014, 2013 and 2012, as well as the change between 2014 and 2013.

| (In thousands except for per unit and % amounts) | 2014 | 2013 | CHANGE | % CHANGE | 2012 |
|---|---|---|---|---|---|
| Revenue from rental properties | 337,706 | 302,033 | 35,673 | 11.8% | 258,393 |
| Rental property operating cost | 139,222 | 126,645 | 12,577 | 9.9% | 109,246 |
| Net rental income | 198,484 | 175,388 | 23,096 | 13.2% | 149,147 |
| Real estate service income | 298 | 295 | 3 | 1.0% | 172 |
| Financing expense | | | | | |
| Interest | 49,050 | 40,315 | 8,735 | 21.7% | 42,670 |
| Interest expense on finance lease - ground lease | 3,211 | 3,149 | 62 | 2.0% | 2,721 |
| Amortization of mortgage premium | (74) | (107) | 33 | (30.8%) | (759) |
| Amortization of financing costs | 1,487 | 1,265 | 222 | 17.5% | 1,863 |
| Amortization | | | | | |
| Leasing costs, computer and office equipment | 6,501 | 5,277 | 1,224 | 23.2% | 4,249 |
| Income from operations | 138,607 | 125,784 | 12,823 | 10.2% | 98,575 |
| Less trust expense | 7,686 | 7,065 | 621 | 8.8% | 5,499 |
| Add net gain/(loss) on sale of rental property | 1,761 | (485) | 2,246 | (463.1%) | 249 |
| Net income | 132,682 | 118,234 | 14,448 | 12.2% | 93,325 |
| Gain/(loss) resulting from change in fair value - real estate | 31,441 | 114,590 | (83,149) | (72.6%) | 277,151 |
| Gain/(loss) on derivative instruments | (12,345) | 5,800 | (18,145) | (312.8%) | (660) |
| Change in fair value on owner-occupied property | - | - | - | - | 243 |
| Subtotal | 19,096 | 120,390 | (101,294) | (84.1%) | 276,734 |
| Net income and comprehensive income | 151,778 | 238,624 | (86,846) | (36.4%) | 370,059 |

| (In thousands except for per unit and % amounts) | 2014 | 2013 | CHANGE | % CHANGE | 2012 |
|---|---|---|---|---|---|
| Weighted average units outstanding (basic) | 71,049 | 67,444 | 3,605 | 5.3% | 56,477 |
| Weighted average units outstanding (diluted) | 71,319 | 67,889 | 3,430 | 5.1% | 57,113 |
| | | | | | |
| Net income per unit (basic) | $1.87 | $1.75 | $0.12 | 6.9% | $1.65 |
| Net income per unit (diluted) | $1.86 | $1.74 | $0.12 | 6.9% | $1.63 |
| | | | | | |
| Distributions | 100,588 | 92,120 | 8,468 | 9.2% | 75,422 |
| | | | | | |
| FFO | 148,786 | 131,679 | 17,107 | 13.0% | 102,152 |
| FFO per unit (diluted) | $2.10 | $1.94 | $0.16 | 8.2% | $1.79 |
| FFO pay-out ratio | 67.6% | 70.0% | (2.4%) | | 73.8% |
| | | | | | |
| AFFO | 130,197 | 112,135 | 18,062 | 16.1% | 81,707 |
| AFFO per unit (diluted) | $1.83 | $1.66 | $0.17 | 10.2% | $1.43 |
| AFFO pay-out ratio | 77.3% | 82.2% | (4.9%) | | 92.3% |
| | | | | | |
| NOI | 203,332 | 179,082 | 24,250 | 13.5% | 149,699 |
| Same-asset net operating income | 173,986 | 161,518 | 12,468 | 7.7% | 126,670 |
| | | | | | |
| Total assets | 3,932,719 | 3,500,609 | 432,110 | 12.3% | 3,051,556 |
| Total non-current financial liabilities | 1,221,839 | 1,079,582 | 142,257 | 13.2% | 979,946 |
| | | | | | |
| Fair value of investment properties | 3,854,664 | 3,408,968 | 445,696 | 13.1% | 2,948,599 |
| Total debt (excludes premium on assumed debt) | 1,359,461 | 1,216,966 | 142,495 | 11.7% | 1,073,164 |
| Total debt as a % of fair value of investment properties | 35.3% | 35.7% | (0.4%) | | 36.4% |
| | | | | | |
| Annualized Q4 EBITDA | 209,878 | 186,032 | 23,846 | 12.8% | 154,364 |
| Net debt | 1,348,143 | 1,179,313 | 168,830 | 14.3% | 1,006,427 |
| Net debt as a multiple of annualized Q4 EBITDA | 6.4:1 | 6.3:1 | 0.1:1 | | 6.5:1 |
| | | | | | |
| EBITDA | 201,426 | 176,907 | 24,519 | 13.9% | 149,081 |
| Financing expense | 53,674 | 44,622 | 9,052 | 20.3% | 46,495 |
| Financing expense as a multiple of EBITDA | 3.8:1 | 4.0:1 | (0.2:1) | | 3.2:1 |
| | | | | | |
| Total rental GLA | 9,501 | 8,928 | 573 | 6.4% | 8,309 |
| Leased rental GLA | 8,742 | 8,209 | 533 | 6.5% | 7,662 |
| % leased | 92.0% | 91.9% | 0.1% | | 92.2% |

### NET RENTAL INCOME AND REAL ESTATE SERVICE INCOME

Net rental income for 2014 was $198,484, up 13.2% from 2013. The period-over-period change arose from the following: (i) a $9,017 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); and (ii) a $14,079 increase from properties not owned for the entire period and the entire comparable period. Net rental income per occupied square foot for 2014 was $22.70, as compared to $21.37 in the comparable period.

The Property Manager provides real estate services to third-party property owners. Real estate service income for the period was $298, as compared to $295 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 2014 increased by 21.7% from 2013, due largely to new and upward financing on existing properties and financing associated with recent acquisitions.

Total interest for 2014 was $62,134. $13,084 (21.1%) was capitalized in connection with capital improvements to our rental properties and Properties Under Development, leaving $49,050, which was included in financing expense.

### AMORTIZATION

We amortize leasing cost and tenant improvements on a straight-line basis over the term of the corresponding lease. Amortization for 2014 increased by 23.2% from 2013, due largely to the increased leasing activity and corresponding costs.

### TRUST EXPENSE

Trust expense includes expense 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 2014 increased by 8.8% from 2013, due largely to increased salary cost resulting from the expansion of our senior management team.

Trust expense for 2014 was $7,686. In accordance with our accounting policies, we capitalize certain salaries in connection with (i) capital improvements to our rental properties and Properties Under Development and (ii) acquisitions. The table below provides further detail in this regard:

| | TOTAL COSTS | CAPITALIZED TO CAPITAL IMPROVEMENTS | % CAPITALIZED TO CAPITAL IMPROVEMENTS | CAPITALIZED TO ACQUISITIONS | % CAPITALIZED TO ACQUISITIONS |
|---|---|---|---|---|---|
| Trust expense | 10,161 | 1,885 | 18.6% | 590 | 5.8% |
| APMLP expense (1) | 22,229 | 1,748 | 7.9% | 103 | 0.5% |
| Total | 32,390 | 3,633 | 11.2% | 693 | 2.1% |

*(1) Expense of our wholly owned subsidiary, Allied Properties Management Limited Partnership*

18.6% of our trust expense for 2014 was capitalized in connection with capital improvements and 5.8% in connection with acquisitions. A much smaller percentage of our APMLP expense was capitalized in connection with capital improvements and acquisitions.

### NET INCOME

Net income for 2014 was $132,682, as compared to $118,234 in 2013.

### NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income for 2014 was $151,778, as compared to $238,624 in 2013. 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 2014 was $3,854,664, up $445,696 from 2013. $233,887 of the increase resulted from acquisitions over the intervening year, with the remaining $222,729 resulting from appreciation in value, offset somewhat by dispositions of $10,920.

### 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 2014, we incurred (i) $1,070 in regular maintenance capital expenditures ($0.11 per portfolio square foot) and (ii) $10,230 in leasing expenditures ($7.16 per leased square foot) in connection with new leases or lease-renewals for 1,429,207 square feet of GLA that commenced in the year.

We incurred $98,805 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.

$3,633 of the salaries paid in 2014, were capitalized in connection with capital improvements to our rental properties and Properties Under Development. This amount was equivalent to approximately 2.4% 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 April 2014. 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) | 2014 | 2013 |
|---|---|---|
| Net income and comprehensive income | 151,778 | 238,624 |
| (Gain)/loss on sale of property | (1,761) | 485 |
| Gain resulting from change in fair value in investment properties | (31,441) | (114,590) |
| (Gain)/loss resulting from derivative instruments | 12,345 | (5,800) |
| Incremental leasing costs | 1,807 | - |
| Amortization of leasing costs and tenant improvements | 16,058 | 12,960 |
| FFO | 148,786 | 131,679 |

## 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) | 2014 | 2013 |
|---|---|---|
| FFO | 148,786 | 131,679 |
| Step-rent adjustments | (5,482) | (4,595) |
| Incremental leasing costs | (1,807) | - |
| Regular leasing expenditures | (10,230) | (14,109) |
| Maintenance capital expenditures | (1,070) | (840) |
| AFFO | 130,197 | 112,135 |

## 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) | 2014 | 2013 |
|---|---|---|
| Revenue from rental properties | 337,706 | 302,033 |
| Rental property operating cost | 139,222 | 126,645 |
| Net rental income | 198,484 | 175,388 |
| Amortization of tenant improvements | 10,330 | 8,289 |
| Step-rent adjustments | (5,482) | (4,595) |
| NOI | 203,332 | 179,082 |

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) | 2014 | % OF NOI | 2013 | % OF NOI | CHANGE | % CHANGE |
|---|---|---|---|---|---|---|
| Eastern Canada | 47,763 | 23.5% | 41,278 | 23.0% | 6,485 | 15.7% |
| Central Canada | 112,559 | 55.3% | 100,143 | 56.0% | 12,416 | 12.4% |
| Western Canada | 43,010 | 21.2% | 37,661 | 21.0% | 5,349 | 14.2% |
| NOI | 203,332 | 100.0% | 179,082 | 100.0% | 24,250 | 13.5% |

Our NOI in 2014 increased by 13.5% over 2013 due to acquisitions and rental growth.

## EBITDA

EBITDA 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. EBITDA does not have any standardized meaning prescribed by IFRS. As computed by us, EBITDA 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 EBITDA to be a useful measure for the purpose of evaluating debt levels and interest coverage. The following reconciles comprehensive income for the period and comparable period, as presented in the Consolidated Financial Statements, to EBITDA.

| (In thousands) | 2014 | 2013 |
|---|---|---|
| Comprehensive income | 151,778 | 238,624 |
| Amortization of tenant improvements | 10,330 | 8,289 |
| Financing expense | 53,674 | 44,622 |
| Amortization of leasing costs and other assets | 6,501 | 5,277 |
| Gain resulting from change in fair value in investment properties | (33,202) | (114,105) |
| (Gain)/loss resulting from derivative instruments | 12,345 | (5,800) |
| EBITDA (A) | 201,426 | 176,907 |
| | | |
| Financing expense (B) | 53,674 | 44,622 |
| Interest capitalized | 13,084 | 13,757 |
| Total financing expense (C) | 66,758 | 58,379 |
| Operating interest coverage (A)/(B) | 3.8:1 | 4.0:1 |
| Total interest coverage (A)/(C) | 3.0:1 | 3.0:1 |

## TOTAL DEBT AND NET DEBT

Total debt and net debt are non-IFRS financial measures and do not have any standard meaning prescribed by IFRS. As computed by us, total debt and net debt 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 total debt and net debt to be useful measures for evaluating debt levels and interest coverage. The following illustrates the calculation of total debt and net debt at the end of the twelve-month period ended December 31, 2014 and the comparable period utilizing amounts reported on our Consolidated Balance Sheets:

| (In thousands) | 2014 | 2013 |
|---|---|---|
| Mortgages payable | 1,274,857 | 1,192,407 |
| Construction loans payable | 54,210 | 18,671 |
| Bank indebtedness | 24,336 | - |
| Total debt | 1,353,403 | 1,211,078 |
| | | |
| Less cash and cash equivalents | 5,260 | 31,764 |
| Net debt | 1,348,143 | 1,179,314 |

# PART V
## —*Leasing*

### STATUS

Leasing status for our rental portfolio as at December 31, 2014, is summarized in the following table:

| TOTAL GLA | OCCUPIED | % OCCUPIED | COMMITTED | % COMMITTED | LEASED | %LEASED |
|---|---|---|---|---|---|---|
| 9,500,675 | 8,366,038 | 88.1% | 375,968 | 3.9% | 8,742,006 | 92.0% |

Of 9,500,675 square feet of total GLA in our rental portfolio, 8,366,038 square feet were occupied by tenants on December 31, 2014. Another 375,968 square feet were subject to contractual lease commitments with tenants whose leases commence subsequent to December 31, 2014, bringing the leased area to 8,742,006 square feet, 92.0% of our total GLA.

Leasing status for our rental portfolio during the fourth quarter and 2014 is summarized in the following table:

| | OCCUPIED GLA ON AVERAGE | % OCCUPIED GLA ON AVERAGE |
|---|---|---|
| Fourth Quarter | 8,383,724 | 88.6% |
| 2014 | 8,138,311 | 88.0% |

During the fourth quarter, average occupied area was 8,383,724 square feet, representing 88.6% of the total GLA in the portfolio. During 2014, average occupied area was 8,138,311 square feet, representing 88.0% of the total GLA in the portfolio.

We monitor the level of sub-lease space in our portfolio. We are unaware of any space being offered for sub-lease in our Québec City, Ottawa and Edmonton portfolios. We are aware of 55,244 square feet of space being offered for sub-lease in our Toronto portfolio, 15,048 square feet in our Kitchener portfolio, 36,351 square feet in our Montréal portfolio, 27,425 square feet in our Calgary portfolio, 4,200 square feet in our Winnipeg portfolio, 5,210 square feet in our Vancouver portfolio and 3,876 in our Victoria portfolio. This level of sub-lease space is consistent with past experience and does not represent an operating or leasing challenge to us.

### ACTIVITY

Leasing activity in connection with our rental portfolio as at December 31, 2014, 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, 2014 | 858,213 | 376,319 | 43.8% | 481,894 |
| Acquired Vacancy in 2014 | 45,790 | 11,092 | 24.2% | 34,698 |
| Acquired Maturities in 2014 | 11,942 | 11,942 | 100.0% | - |
| Arranged Vacancy in 2014 | 134,674 | 41,998 | 31.2% | 92,676 |
| Maturities in 2014 | 652,320 | 502,919 | 77.1% | 149,401 |
| Total | 1,702,939 | 944,270 | 55.4% | 758,669 |

858,213 square feet of GLA was vacant at the beginning of 2014. By year-end, we leased 376,319 square feet of this GLA, leaving 481,894 square feet unleased.

Leases for 652,320 square feet of GLA matured in 2014. By year-end, we renewed or replaced leases for 502,919 square feet of this GLA, leaving 149,401 square feet unleased.

We renewed or replaced 77.1% of the GLA covered by leases maturing in 2014. With respect to those renewals and replacements (502,919 square feet of GLA in total), we achieved rental rates (i) above in-place rental rates for 54.7% of the GLA, (ii) equal to in-place rental rates for 33.5% of the GLA and below in-place rates for 11.7% of the GLA. This will result in an overall increase of 7.1% in net rental income per square foot from the GLA covered by the maturing leases.

### DEVELOPMENT PORTFOLIO

Leasing activity in our development portfolio has progressed well, with the following highlights so far this year:

(I) the lease of approximately 185,000 square feet of GLA at The Breithaupt Block in Kitchener (a redevelopment property) to Google for a term of 11 years and six months commencing on October 1, 2014, with respect to 91,289 square feet of GLA and commencing on or about April 1, 2016, with respect to the balance of the GLA;

(ii) the lease of approximately 9,000 square feet of GLA at 364 Richmond West in Toronto (part of QRC West, Phase I, an intensification property) to Estee Lauder for a term of 10 years commencing November 1, 2015;

(iii) the expansion of Sapient's commitment at QRC West, Phase I, in Toronto by approximately 10,000 square feet of GLA for a term of 10 years commencing July 1, 2015, bringing its total commitment to approximately 60,000 square feet of GLA;

(iv) the additional expansion of Sapient's commitment at QRC West, Phase I, by approximately 12,000 square feet of GLA for a term of 10 years commencing July 1, 2015, bringing its total commitment to approximately 72,000 square feet of GLA;

(v) the lease of approximately 70,000 of GLA at QRC West, Phase I, to eOne for a term of 13 years commencing June 1, 2015;

(vi) the expansion of eOne's commitment at QRC West, Phase I, by approximately 24,000 square feet of GLA for a term of 13 years commencing June 1, 2015, bringing its total commitment to approximately 94,000 square feet of GLA;

(vii) the lease of approximately 11,500 square feet of GLA at QRC West, Phase I, to Diageo Canada for a term of 10 years commencing August 1, 2015;

(viii) the lease of approximately 5,500 square feet of GLA at QRC West, Phase I, to Wirtz Beverage Canada for a term of 10 years commencing August 1, 2015;

(ix) the lease of approximately 15,000 square feet of GLA at QRC West, Phase I, to Givex for a term of 10 years commencing September 1, 2015;

(x) the lease of approximately 8,600 square feet of GLA at QRC West, Phase I, to &Co Architects for a term of 10 years commencing September 1, 2015;

(xi) the lease of 16,000 square feet of GLA at 250 Front Street West in Toronto to two tenants of 151 Front Street West needing expansion space for terms of 10 years commencing in 2014;

(xii) the lease of 68,000 square feet of GLA at 250 Front Street West in Toronto to three new tenants for terms of five to 10 years commencing in 2015 and 2016; and

(xiii) the lease of approximately 25,000 square feet at 5455 Gaspé in Montréal to Union Des Artistes for a term of 15 years commencing November 1, 2015.

## RENTAL PORTFOLIO

Leasing activity in our rental portfolio has also progressed well, with the following highlights so far this year:

(i) the lease of 34,751 square feet of GLA at 193 Yonge in Toronto to St. Michael's Hospital for a term of five years commencing June 1, 2014;

(ii) the expansion of Desire2Learn's premises at The Tannery in Kitchener by 15,000 square feet of GLA for a term of five years and 11 months commencing September 1, 2014, bringing its total GLA in this rental property to 130,428;

(iii) the lease of 15,594 square feet of GLA at Cité Multimédia in Montréal to Equisoft for a term of seven years and one month commencing February 1, 2014;

(iv) the expansion of Technicolor's premises at 645 Wellington in Montréal by 16,162 square feet of GLA for a term of nine years commencing August 1, 2014, bringing its total GLA in this rental property to 49,328 square feet of GLA;

(v) the expansion of Framestore's premises at 5455 de Gaspé in Montréal by 19,416 square feet of GLA for a term of eight years commencing February 1, 2015, bringing its total GLA in this upgrade property to 40,625 square feet of GLA;

(vi) the expansion of Attraction Media's premises at 5455 de Gaspé in Montréal by 15,663 square feet of GLA for a term of 10 years commencing November 1, 2014, bringing its total GLA in this upgrade property to 58,862 square feet of GLA;

(vii) the additional expansion of Technicolor's premises at 645 Wellington in Montréal by 5,399 square feet of GLA for a term of eight years and 11 months commencing December 1, 2014, bringing its total GLA in this rental property to 54,727 square feet of GLA;

(viii) the lease of 10,117 square feet at 840 Cambie Street in Vancouver to Technicolor for a term of 13 months commencing October 1, 2014, with the possibility of renewal and expansion at the end of the term;

(ix) the expansion of Ubisoft's premises at 5455 de Gaspé in Montréal by approximately 25,000 square feet of GLA for a term of up to 15 years commencing November 1, 2015, bringing its total GLA in this upgrade property to approximately 100,000 square feet of GLA;

(x) the lease of 11,513 square feet of space at Vintage I in Calgary to Economical Life Insurance for a term of 10 years commencing September 1, 2015; and

(xi) the lease of 46,529 square feet of space at 6300 du Parc in Montréal to Moment Factory for a term of 10 years commencing September 1, 2015.

# PART VI
## *—Rental Portfolio*

Our rental portfolio was built by consolidating the ownership in major Canadian cities of urban office properties with three distinct attributes—proximity to the core, distinctive internal and external environments and lower occupancy costs than conventional office towers. Scale within each city proved to be very important as we grew. It enabled us to provide our tenants with greater expansion flexibility, more parking and better telecom and IT capacity than our direct competitors. Scale across the country also proved to be important. It enabled us to serve national and global tenants better, to expand our growth opportunities and to achieve meaningful geographic diversification.

### TOP-10 RENTAL PROPERTIES

We now have 123 properties in our rental portfolio comprising 9.5 million square feet of GLA. Our top-10 rental properties, measured by annual NOI, are identified in the following table:

| (In thousands except for % amounts) | FAIR VALUE | 2014 NOI | CAP RATE | PRINCIPAL TENANTS BY NOI |
|---|---|---|---|---|
| 151 Front West, Toronto | 336,410 | 26,885 | 7.99% | Allstream, Bell, Cologix, Equinix |
| Cité Multimédia, Montréal | 301,930 | 17,249 | 5.71% | Desjardins, Morgan Stanley, Resolute |
| The Chambers, Ottawa | 118,540 | 10,467 | 8.83% | National Capital Commission |
| 555 Richmond West, Toronto | 100,000 | 5,860 | 5.86% | Sentinelle Medical |
| Boardwalk Revillion, Edmonton | 81,060 | 5,626 | 6.94% | Edmonton Public School Board |
| Vintage I & II, Calgary | 112,920 | 5,405 | 4.79% | Royal & Sun Alliance |
| The Tannery, Kitchener | 70,380 | 4,770 | 6.78% | Desire 2 Learn, Google |
| QRC East, Toronto | 70,930 | 3,740 | 5.27% | Key Media, Publicis |
| 500-522 King Street, Toronto | 68,600 | 3,660 | 5.34% | eBay |
| 905 King West, Toronto | 67,640 | 2,875 | 4.25% | Cologix |
| Total | 1,328,410 | 86,537 | 6.51% | |

Fair value for each rental property is the fair value assigned to it for the purposes of our Consolidated Financial Statements for the year ended December 31, 2014. The capitalization rate for each rental property is the capitalization rate used in determining the fair value assigned to it for the purposes of our Consolidated Financial Statements for the year ended December 31, 2014. The 2014 NOI from our top-10 rental properties represented approximately 41% of our total annual NOI in 2014. 555 Richmond West, Vintage I & II and 905 King West are the only top-10 rental properties where annual NOI is expected to increase significantly in 2015.[12]

## NET OPERATING INCOME

The NOI from our rental portfolio by use for the quarter and comparable quarter is set out in the following table:

| (In thousands) | Q4 2014 | % OF NOI | Q4 2013 | % OF NOI | CHANGE | % CHANGE |
|---|---|---|---|---|---|---|
| Office Space | 35,519 | 68.2% | 33,135 | 70.4% | 2,384 | 7.2% |
| Equipment (IT and Telecom) Space | 8,179 | 15.7% | 6,983 | 14.8% | 1,196 | 17.1% |
| Retail Space | 6,107 | 11.7% | 5,010 | 10.6% | 1,097 | 21.9% |
| Parking Space | 2,319 | 4.4% | 1,958 | 4.2% | 361 | 18.4% |
| NOI | 52,124 | 100.0% | 47,086 | 100.0% | 5,038 | 10.7% |

The NOI from our rental portfolio by use for 2014 and 2013 is set out in the following table:

| (In thousands) | 2014 | % OF NOI | 2013 | % OF NOI | CHANGE | % CHANGE |
|---|---|---|---|---|---|---|
| Office Space | 138,405 | 69.3% | 120,991 | 68.40% | 17,414 | 14.4% |
| Equipment (IT and Telecom) Space | 29,009 | 14.5% | 28,162 | 15.9% | 847 | 3.0% |
| Retail Space | 23,714 | 11.9% | 20,727 | 11.7% | 2,987 | 14.4% |
| Parking Space | 8,573 | 4.3% | 7,022 | 4.0% | 1,551 | 22.1% |
| NOI | 199,701 | 100.0% | 176,902 | 100.0% | 22,799 | 12.9% |

The NOI from our rental portfolio by region for the quarter and the comparable quarter is set out in the following table:

| (In thousands) | Q4 2014 | % OF NOI | Q4 2013 | % OF NOI | CHANGE | % CHANGE |
|---|---|---|---|---|---|---|
| Eastern Canada | 12,044 | 23.0% | 11,269 | 23.9% | 775 | 6.9% |
| Central Canada | 28,602 | 55.0% | 25,610 | 54.4% | 2,992 | 11.7% |
| Western Canada | 11,478 | 22.0% | 10,207 | 21.7% | 1,271 | 12.5% |
| NOI | 52,124 | 100.0% | 47,086 | 100.0% | 5,038 | 10.7% |

[12] This is a forward-looking statement. The most important factor affecting the completion will be successful lease-up of vacant space in the properties. The material assumptions made in formulating the statement are that the market for telecom and IT space and office space in downtown Toronto remains stable and the market for office space in downtown Calgary remains stable.

The NOI from our rental portfolio by region for 2014 and 2013 is set out in the following table.

| (In thousands) | 2014 | % OF NOI | 2013 | % OF NOI | CHANGE | % CHANGE |
|---|---|---|---|---|---|---|
| Eastern Canada | 46,292 | 23.2% | 40,503 | 22.9% | 5,789 | 14.3% |
| Central Canada | 111,039 | 55.6% | 99,480 | 56.2% | 11,559 | 11.6% |
| Western Canada | 42,370 | 21.2% | 36,919 | 20.9% | 5,451 | 14.8% |
| NOI | 199,701 | 100.0% | 176,902 | 100.0% | 22,799 | 12.9% |

### SAME-ASSET NET OPERATING INCOME

Our same-asset NOI in the quarter increased by 6.3% 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 2014 | % OF NOI | Q4 2013 | % OF NOI | CHANGE | % CHANGE |
|---|---|---|---|---|---|---|
| Eastern Canada | 11,703 | 24.4% | 11,197 | 24.9% | 506 | 4.5% |
| Central Canada | 26,128 | 54.6% | 23,830 | 52.8% | 2,298 | 9.6% |
| Western Canada | 10,078 | 21.0% | 10,027 | 22.3% | 51 | 0.5% |
| NOI | 47,909 | 100.0% | 45,054 | 100.0% | 2,855 | 6.3% |

The same-asset NOI increase in each region stemmed from a combination of occupancy gains and rent increases.

Our same-asset NOI in 2014 increased by 7.7% from 2013. This is best understood in the context of our same-asset NOI by region, as set out below:

| (In thousands) | 2014 | % OF NOI | 2013 | % OF NOI | CHANGE | % CHANGE |
|---|---|---|---|---|---|---|
| Eastern Canada | 44,656 | 25.7% | 40,207 | 24.9% | 4,449 | 11.1% |
| Central Canada | 100,252 | 57.6% | 92,902 | 57.5% | 7,350 | 7.9% |
| Western Canada | 29,078 | 16.7% | 28,409 | 17.6% | 669 | 2.4% |
| NOI | 173,986 | 100.0% | 161,518 | 100.0% | 12,468 | 7.7% |

The same-asset NOI increase in each region stemmed from a combination of occupancy gains and rent increases.

### RENTAL PROPERTIES UNDERGOING UPGRADE

One way we create value is by upgrading our rental properties. In 2014, we substantially completed two upgrade projects in Montréal, 5455 de Gaspé and 6300 due Parc. We did so within the expected timeframe and financial parameters, except that a significant portion of the NOI from each property will commence later in 2015 than initially anticipated.

## RENTAL PROPERTIES UNDERGOING INTENSIFICATION APPROVAL

Another way we create value is by intensifying the use of underutilized land. The land beneath our buildings in Toronto is significantly underutilized in relation to the existing zoning potential. 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 a low cost, we can achieve attractive risk-adjusted returns on intensification.

We have initiated the intensification approval process for eight rental properties in Toronto, four of which we own in their entirety and the remaining four of which we own with joint-venture partners. These properties are identified in the following table.

| | APPROVAL STATUS | USE | ESTIMATED GLA (SQUARE FEET)[13] |
|---|---|---|---|
| Union Centre | Rezoning completed | Office, limited retail | 1,129,000 |
| QRC West, Phase II | Rezoning completed | Office, retail | 74,000 |
| King & Peter | Rezoning completed | Office, limited retail | 790,000 |
| King & Spadina | Rezoning completed | Office, limited retail | 300,000 |
| College & Manning JV (1) | Rezoning completed | Office, limited retail, residential | 62,500 |
| King & Portland JV (2) | In rezoning | Office, retail, residential | 200,000 |
| Spadina JV (3) | Rezoning completed | Office, limited retail, residential | 150,000 |
| The Well JV (4) | In rezoning | Office, retail, residential | 1,240,000 |
| Total | | | 3,945,500 |

*(1) Equal two-way JV with RioCan, total estimated GLA is 125,000 square feet*
*(2) Equal two-way JV with RioCan, total estimated GLA is 400,000 square feet*
*(3) Equal two-way JV with Diamond, total estimated GLA is 300,000 square feet*
*(4) 40/40/20 JV with RioCan and Diamond, total estimated GLA is 3.1 million square feet*

Estimated GLA is the estimated total amount of gross leasable area in the intensification property based on applicable standards of area measurement and the expected or actual outcome of re-zoning.

The following table sets out the fair value and annual NOI of the rental properties identified in the preceding table, as at December 31, 2014, as well as the current funding obligations in relation to design-approval costs associated with those properties.

[13] This is a forward-looking statement. The most important factor affecting the magnitude of GLA is the municipal approval process.

| (In thousands except for % amounts) | FAIR VALUE | 2014 NOI | ESTIMATED DESIGN APPROVAL COST[14] | FUNDED | TO BE FUNDED |
|---|---|---|---|---|---|
| Union Centre | 82,000 | 2,406 | 2,500 | 2,475 | 25 |
| QRC West, Phase II | 28,130 | 1,293 | 750 | 750 | - |
| King & Peter | 33,320 | 1,390 | 700 | 700 | - |
| King & Spadina | 20,610 | 1,247 | 1,150 | 1,125 | 25 |
| College & Manning JV | 11,830 | 629 | 500 | 500 | - |
| King & Portland JV | 23,175 | 725 | 500 | 475 | 25 |
| Spadina JV | 6,730 | 616 | 475 | 475 | - |
| The Well JV | 70,800 | 1,181 | 3,580 | 3,390 | 190 |
| Total | 276,595 | 9,487 | 10,155 | 9,890 | 265 |

These properties are currently generating substantial annual NOI and will continue to do so until we initiate construction. All properties other than Union Centre and The Well are valued in relation to their current annual NOI or their current potential annual NOI. Union Centre is valued in relation to the approved density on the site, and The Well is valued in relation to the anticipated density on the site. With respect to the ultimate intensification of these properties, a significant amount of pre-leasing will be required before construction commences. The design-approval costs have been, and will continue to be, funded with cash-on-hand.

### UNION CENTRE, 20 YORK STREET, TORONTO

As part of our acquisition of 151 Front Street West in late 2009, we acquired 2.47 acres of surplus land running between York and Simcoe Streets immediately to the south of the main structure. This includes Skywalk, which connects with Union Station and will become the inner-city terminal for Union Pearson Express, which is scheduled to begin operations this year. Toronto City Council has approved our rezoning application to increase the GLA from 750,000 square feet to 1,129,000 square feet, enabling us to develop a 48-storey office tower on the surplus land. The municipal address will be 20 York Street, and the development will be called Union Centre. We have initiated the pre-leasing process.

### QRC WEST, PHASE II, TORONTO

This project was made possible by our acquisition of 375-381 Queen Street West in late 2009. 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. The Ontario Municipal Board approved our rezoning application early this year. We have initiated the pre-leasing process.

[14] This is a forward-looking statement. The most important factors affecting the estimated cost to complete are design and municipal approval costs. The material assumption made in formulating the statement is that design and municipal costs remain stable for the next year.

### KING & PETER, TORONTO

388 King Street West and 82 Peter Street represent a large-scale intensification opportunity. Toronto City Council has approved our rezoning application for 790,000 square feet of GLA, enabling us to develop a 36-storey office tower on the site. We have initiated the pre-leasing process.

### KING & SPADINA, TORONTO

489, 495 and 499 King Street West constitute the best remaining development site at King & Spadina. Toronto City Council has approved our rezoning application for 300,000 square feet of GLA, enabling us to develop a 12-storey office building on the site. We plan to reconfigure this project in light of the recent acquisition of 485 King West, which is adjacent to 489 King West.

### COLLEGE & MANNING JOINT VENTURE, TORONTO

This is a 50/50 joint venture between us and RioCan. The site is comprised of 551-555 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. Toronto City Council has approved the joint venture's rezoning application for 125,000 square feet of GLA (our share being 62,500 square feet). The joint venture has initiated the pre-leasing process.

### KING & PORTLAND JOINT VENTURE, TORONTO

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 400,000 square feet of leasable area. The joint venture initiated the municipal approval process in 2013.

### SPADINA JOINT VENTURE, TORONTO

This is a 50/50 joint venture between us and Diamond. 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. Toronto City Council has approved the joint venture's rezoning application for 240,000 square feet of GLA (our share being 120,000 square feet). The joint venture plans to sell the site to a residential developer later this year.

### THE WELL JOINT VENTURE, TORONTO

This is a 40/40/20 joint venture between us, RioCan and Diamond to redevelop the largest underdeveloped site in Toronto's Downtown West submarket. It's immediately south of our King & Spadina portfolio, which includes nearly a million square feet of space across 15 buildings. With 7.7 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 office space will be concentrated in a landmark building on the corner of Front & Spadina, but will also be interspersed throughout the site in an effort to replicate the character of the highly desirable, lower-rise office space at King & Spadina. The joint venture initiated the formal rezoning process in 2015 and have made considerable progress. The site will not be available for construction until commitments to existing tenants are fulfilled in late 2016.

# PART VII
## *—Development Portfolio*

Development is another way to create value and a particularly effective one for us, given the strategic positioning of our portfolio in the urban areas of Canada's major cities. 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. 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 expect development to become a more important component of our external growth as our projects are completed.[15] Pursuant to our Declaration, the cost of our Properties Under Development cannot exceed 15% of our Gross Book Value. (At the end of the December 31, 2014, the cost of our Properties Under Development was 5.6% of our Gross Book Value.) This self-imposed limitation is intended to align the magnitude of our development activity with the overall size of our business.

### PROPERTIES UNDER DEVELOPMENT

We have nine Properties Under Development. These properties are identified in the following table:

[15] This is a forward-looking statement. The expectation is largely contingent upon completing our development projects in the manner contemplated. The most important factor affecting completion will be successful lease-up of space in the development portfolio. The material assumption made in formulating the statement is that the office leasing market in the relevant markets remains stable.

| PROPERTIES UNDER DEVELOPMENT | ESTIMATED COMPLETION | ESTIMATED GLA (SQUARE FEET) |
|---|---|---|
| 5445 de Gaspé, Montréal | June 30, 2015 | 502,713 |
| QRC West, Toronto, Phase I | June 30, 2015 | 350,000 |
| 460 King Street West, Toronto | June 30, 2015 | 20,000 |
| 485 King Street West, Toronto | December 31, 2015 | 13,200 |
| The Breithaupt Block, Kitchener, Phase II (1) | March 31, 2016 | 45,000 |
| TELUS Sky JV, Calgary (2) | September 30, 2017 | 240,000 |
| College & Palmerston JV (3) | June 30, 2018 | 53,000 |
| 138 Portage Avenue East, Winnipeg | TBD | 36,334 |
| 8-10 Bastion Square, Victoria | TBD | 32,485 |
| Total | | 1,292,732 |

*(1) Equal two-way JV with Perimeter, total estimated GLA 90,000*
*(2) Equal three-way JV with Westbank and TELUS, total estimated GLA 720,000*
*(3) Equal two-way JV with RioCan, total estimated GLA 106,000*

For the purposes of the table, estimated completion is the date on which Management expects the redevelopment property to reach economic occupancy of 90% or more.[16] The estimated completion of 5445 de Gaspé has been extended to June 30, 2015. Estimated GLA is the estimated total amount of gross leasable area in the redevelopment property based on applicable standards of area measurement.

Properties Under Development are measured using a discounted cash flow method, 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, 2014, the fair value of our Properties Under Development, for accounting purposes, was $247,725, which was equivalent to 6% of the fair value of our portfolio under IFRS.

The following table sets out the fair value of our Properties Under Development, as at December 31, 2014, as well as Management's estimates with respect to the financial outcome on completion.

[16] This is a forward-looking statement. The most important factor affecting completion will be successful lease-up of vacant space in the redevelopment properties. The material assumptions made in formulating the statement are that the office leasing market in the relevant markets remains stable and that we experience no unusual construction delays.

| (In thousands except for ROI) | CURRENT FAIR VALUE | LAST QUARTER ANNUALIZED | ESTIMATED ANNUAL NOI | ESTIMATED TOTAL COST | ESTIMATED ROI | ESTIMATED COMPLETION COST |
|---|---|---|---|---|---|---|
| 5445 de Gaspé | 46,410 | 1,386 | 3,192 | 47,910 | 6.7% | 10,000 |
| QRC West, Phase I | 139,080 | 552 | 11,000 | 105,000 | 10.5% | 34,000 |
| 460 King West | 15,000 | - | 700 | 17,500 | 4.0% | 1,500 |
| 485 King West | 8,000 | - | 500 | 10,000 | 5.0% | 2,000 |
| The Breithaupt Block, Phase II | 6,535 | - | 1,170 | 10,000 | 11.7% | 5,000 |
| TELUS Sky | 12,960 | - | 10,004 | 134,290 | 7.4% | 133,550 |
| College & Palmerston JV | 3,850 | 31 | 1,350 | 25,500 | 5.3% | 13,300 |
| 138 Portage East | 6,510 | 13 | TBD | TBD | TBD | TBD |
| 8-10 Bastion | 9,380 | 405 | TBD | TBD | TBD | TBD |
| Total | 247,725 | 2,387 | 27,916 | 350,200 | 8.0% | 199,350 |

Last quarter annualized is the actual NOI from the Properties Under Development for the quarter, annualized for comparative purposes, that is currently reflected in our Consolidated Financial Statements for the quarter ended December 31, 2014. Estimated annual NOI is Management's estimate of the amount of annual NOI the Properties Under Development will generate on reaching full economic occupancy.[17] Estimated total cost includes acquisition cost and estimated total construction, leasing and financing costs.[18] Estimated ROI is the estimated annual NOI as a percentage of the estimated total cost. Estimated completion cost is the difference between the estimated total cost and the costs incurred to date.

## 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 is underway, and the re-leasing is gaining momentum. At December 31, 2014, 310,588 square feet of GLA in the property was leased, representing 64% of the total GLA. We are currently negotiating one large expansion. If completed, it will increase the leased area by 44,150 square feet of GLA, bringing the leased area to 73% of the total GLA.

## QRC WEST, PHASE I, TORONTO

This is a large-scale intensification project nearing completion. It involves the restoration of two existing Class I buildings (134 Peter Street and 364 Richmond Street West) and the addition of a new, LEED-certified component for a combined leasable area of approximately 350,000 square feet of GLA. We have now leased

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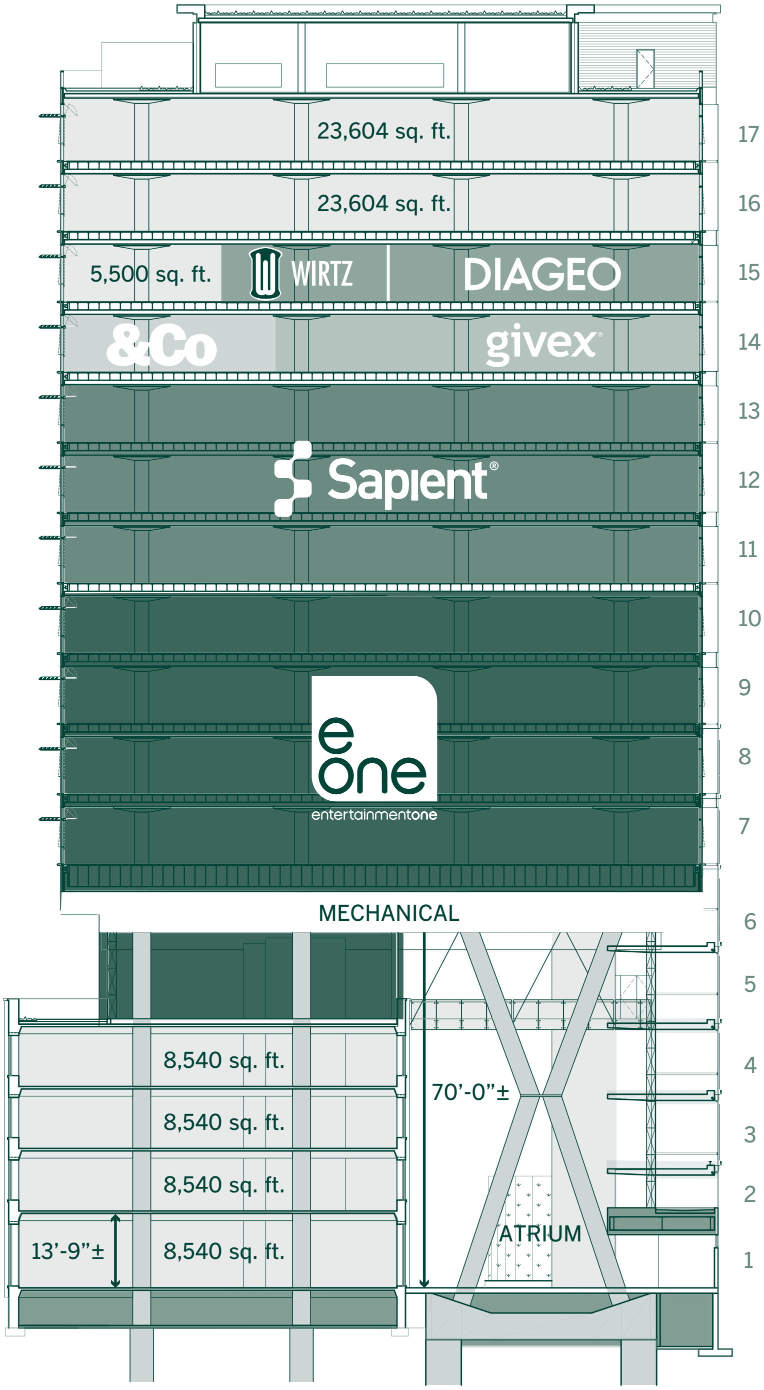
[17] This is a forward-looking statement. The most important factor affecting estimated annual NOI will be successful lease-up of vacant space in the upgrade properties at current levels of net rent per square foot. The material assumption made in formulating the statement is that the office leasing market in the relevant markets remains stable.

[18] This is a forward-looking statement. The most important factors affecting the estimated total cost are construction, leasing and financing costs. The material assumption made in formulating the statement is that construction, leasing and financing costs remain stable for the remainder of the development period.

approximately 80% of the total GLA in the new component and 9,000 square feet of GLA at 364 Richmond. We are close to finalizing the lease-up of the top two floors, which would bring the leased area to 98%. The current stacking plan for the new component and 134 Peter is set out below:



### 460 KING STREET WEST, TORONTO

With approximately 16,250 square feet of GLA and 4,220 square feet of surplus land, this heritage property completes our ownership along the eastern and southern perimeters of one of the most important city blocks in Toronto's Downtown West. We have initiated the restoration of the property for retail use at grade and office use above grade. In conjunction with the restoration of the property, we intend to initiate the intensification approval process for 78 Spadina Avenue, our surface parking lot immediately to the north.

### 485 KING STREET WEST, TORONTO

With approximately 13,200 square feet of GLA and 3,138 square feet of surplus land, this heritage property is located between 469 King West, a premiere Class I property in our portfolio, and the three properties (489, 495 and 499 King West) that form our King & Spadina intensification project. On or before July 1, 2015, we will initiate the restoration of the property for retail use at grade and office use above grade. We plan to reconfigure and expand the King & Spadina intensification project in light of the acquisition of the property.

### THE BREITHAUPT BLOCK JOINT VENTURE, KITCHENER

This is an equal two-way joint venture between us and Perimeter Development Corporation. The property was initially comprised of six former industrial buildings in the Warehouse District with approximately 176,000 square feet of space and two acres of surplus land. The joint venture redeveloped the existing building and initiated leasing in earnest early last year. As at December 31, 2013, the leased area was 23%. The joint venture has since entered into a lease with Google for approximately 185,000 square feet of GLA for a term of 11 and one-half years, commencing on October 1, 2014, with respect to 91,289 square feet of GLA and commencing on or about April 1, 2016, with respect to the balance of the GLA. In order to accommodate Google, the joint venture will add approximately 45,000 square feet of GLA to a two-storey building on the property, which is expected to be completed in early 2016. As a result of the lease transaction with Google, Allied's 50% interest in the completed portion of The Breithaupt Block, Phase I, became a rental property on September 30, 2014, within the expected timeframe and financial parameters. On completion of the expansion, expected to occur in early 2016, Allied's 50% interest in the remaining portion of The Breithaupt Block, Phase II, will become a rental property, at which time the property will be comprised of approximately 221,000 square feet of GLA, all of which is expected to be leased.

### TELUS SKY JOINT VENTURE, CALGARY

This is an equal three-way joint venture between us, TELUS and Westbank made possible, in part, by our acquisition of 100 – 7th Avenue S.W. in Calgary in late 2011. We contributed this property to the joint venture in 2014, and TELUS contributed its adjacent property at 114 – 7th Avenue S.W. at the same time. Westbank is the development manager. The joint venture intends to develop TELUS Sky on the site. The building has been designed to a LEED Platinum standard and will be comprised of approximately 444,000 square feet of office space, 326 rental apartments, 14,400 square feet of retail space and 333 underground parking spaces. TELUS has agreed to lease approximately 155,000 square feet of GLA, representing 36% of the office space. Construction has commenced. Lease-up of the remaining office space is underway.

### COLLEGE & PALMERSTON JOINT VENTURE, TORONTO

This is a 50/50 joint venture between us and RioCan. The site is comprised of 15,651 square feet of land on the south side of College and the east side of Palmerston. The College portion has 90 feet of frontage and includes a heritage building with just over 10,000 square feet of GLA. The Palmerston portion is separated from the College portion by a public laneway and is currently used for ancillary parking. The joint venture intends to intensify it over time by creating a mixed-use office, retail and residential complex, similar in concept to the one contemplated by the College & Manning Joint Venture.

### 138 PORTAGE AVENUE EAST, WINNIPEG

An attractive heritage structure with 36,334 square feet of GLA and 22 surface parking spaces, this property is located in Winnipeg's downtown core, just beyond the Exchange District. (The vast majority of Winnipeg's Class I buildings are located in the Exchange District.) Recognizing that highest and best use of the building going forward is residential, we are in the process of relocating the tenants to our Class I properties in the Exchange District. We plan to reposition the property for residential use, either on our own or in collaboration with a local residential developer.

### 8-10 BASTION SQUARE, VICTORIA

An attractive heritage structure with 32,485 square feet of GLA and 10 surface parking spaces, this property is well located in downtown Victoria on the east side of Wharf Street. With the sole office tenant having departed on expiry of its lease in late 2014, we are taking the opportunity to complete a seismic upgrade with a view to enhancing the income-producing potential of the office space. On completion, we will release the space to one or more office users.

## 250 FRONT STREET WEST, TORONTO

In June of 2012, we announced that we had entered into a lease of 168,000 square feet (the "Facility") 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 commenced last year, with an extensive rent-free period following commencement. The premises 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've made a $30 million investment in the Facility with a view to establishing it as a Tier 3 data-centre facility and have initiated the leasing program.

Although treated as a redevelopment for operating purposes, the Facility is not a Property Under Development for accounting purposes. It is a long-term lease of 173,500 square feet of GLA at the Canadian Broadcast Centre (up slightly from the initial 168,000 square feet). In accordance with our accounting policies, the fair value of the Facility is based on an independent appraisal prepared by Cushman & Wakefield. For the purposes of our Consolidated Financial Statements for the year ended December 31, 2014:

(i) the fair value of the Facility was $180,350 and carried as an asset on our Consolidated Balance Sheets; and

(ii) the present value of our commitment under the lease of space at the facility was $88,178 and carried as a liability on our Consolidated Balance Sheets.

The lease-up of the Facility steadily gained momentum in 2014, and the momentum has continued into 2015. Whereas our property at 151 Front West in Toronto has long been Canada's premiere carrier-neutral internet hub, the Facility is rapidly becoming Canada's premiere third-party cloud facility for leading global technology firms. 82,000 square feet of GLA in the Facility is now leased, representing 47% of the total GLA, with staggered commencement dates over this year and next. We are currently negotiating seven new leases. If completed, they will increase the leased area by 91,500 square feet of GLA, bringing the leased area to 100% of the total GLA, with staggered commencement dates over this year and next. In light of the quantity and quality of demand for space, Management is evaluating the possibility of expanding the Facility through exercise of our ongoing right of first refusal to lease space at the Canadian Broadcast Centre.[19]

Management initially estimated that the stabilized NOI from the Facility on reaching economic occupancy of 90% would be $11,424.[20] Because cloud users have more extensive base-building requirements than initially anticipated and are prepared to pay higher levels of net rent than initially anticipated, Management expects to invest additional capital in the Facility and to generate a higher level of stabilized NOI from the Facility.

[19] This is a forward-looking statement. The most important factor affecting completion will be successful completion of lease negotiations currently underway. The material assumption made in formulating the statement is that the global technology firms with whom we're negotiationg have concluded that the New Facility is an optimal solution for their cloud requirements.

[20] This is a forward-looking statement. The most important factor affecting completion will be successful lease-up of vacant space in the property. The material assumption made in formulating the statement is that the market for telecom and IT space in downtown Toronto remains stable.

# PART VIII
## *—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 Sheets as at December 31, 2014. 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 $3,854,664 as at December 31, 2014, $445,696 above the fair value indicated by the external valuation for December 31, 2013. $233,887 of the increase resulted from acquisitions over the intervening year, with the remaining $222,729 resulting from appreciation in fair value, offset somewhat by dispositions of $10,920.

In valuing our portfolio as at December 31, 2014, the appraiser used a range of capitalization rates ranging from 4.8% to 8.3%, the high-point being the capitalization rate associated with our property at 6300 Avenue du Parc. The portfolio weighted average cap rate was 6.2%.

### 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, 2014, we had mortgage debt of $1,280,915, bank indebtedness of $24,336, construction loans of $54,210 and unitholders' equity of $2,330,031. At December 31, 2013, we had mortgage debt of $1,198,295, bank indebtedness of $nil, construction loans of $18,671 and unitholders' equity of $2,068,714. The increase of $82,620 in mortgage debt is due to new financing net of regular principal repayments and retirement of debt. The increase in unitholders' equity is due to units issued in the intervening year and net income for the period of $151,778, offset by distributions to unitholders of $100,588

## UNITHOLDERS' EQUITY

At December 31, 2014, we had a market capitalization of approximately $2,810,580 based on a closing unit price of $37.44 on the Toronto Stock Exchange. As at December 31, 2013, we had a market capitalization of approximately $2,245,449 based on a closing unit price of $32.76 on the Toronto Stock Exchange.

In 2014, we issued a total of 6,526,502 units. Costs incurred to issue the units were $7,659. Units were issued as follows: 852,161 units under our distribution re-investment plan at an average price of $33.12 per unit for $28,227; 786,841 units pursuant to exercised options; 4,887,500 units at $35.30 for gross proceeds of $172,529 pursuant to a bought deal that closed on September 3, 2014. At December 31, 2014, we had 75,068,912 units issued and outstanding. At the date hereof, we have 77,412,652 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, 2014, and the date hereof, we had options to purchase 778,889 units outstanding, of which 353,371 had vested, and 17,000 units issued under the LTIP.

In April 2014, we adopted a new Unit Option Plan. The new plan has substantially the same terms as the previous plan referred to above, with the exception that the maximum number of units issuable under the new plan and all other equity compensation plans of the REIT is 3,002,756, representing approximately 4.0% of the issue and outstanding units.

In March of 2010, we adopted a restricted unit plan (the "Restricted Unit Plan"), whereby restricted units ("Restricted Units") are granted to certain key employees and trustees, 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, 2014, and the date hereof, we had 190,081 Restricted Units granted under the Restricted Unit Plan.

## MORTGAGES PAYABLE

Mortgages payable as at December 31, 2014, consisted of mortgage debt of $1,280,915. 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 | % TOTAL PRINCIPAL | WA INTEREST RATE |
|---|---|---|---|---|---|
| 2015 | 37,592 | 63,547 | 101,139 | 7.9% | 5.3% |
| 2016 | 35,883 | 66,510 | 102,393 | 8.0% | 5.1% |
| 2017 | 33,845 | 127,314 | 161,159 | 12.6% | 3.9% |
| 2018 | 32,889 | 56,900 | 89,789 | 7.0% | 5.4% |
| 2019 | 30,019 | 142,360 | 172,379 | 13.5% | 6.0% |
| Thereafter | 85,289 | 568,767 | 654,056 | 51.0% | 4.4% |
| Total | 255,517 | 1,025,398 | 1,280,915 | 100.0% | |

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

| (In thousands) | DIRECT MORTGAGE LENDER | CONDUIT MORTGAGE LENDER |
|---|---|---|
| 2015 | 38,172 | 25,375 |
| 2016 | 54,969 | 11,541 |
| 2017 | 127,314 | - |
| 2018 | 56,900 | - |
| 2019 | 142,360 | - |
| Thereafter | 550,036 | 18,731 |
| Total | 969,751 | 55,647 |

Interest rates on the mortgage debt are between 2.0% and 6.9% with a weighted average interest rate of 4.8%. The weighted average term of the mortgage debt is 6.2 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, 2014, we had a $100,000 revolving credit facility (the "Secured Facility") with a Canadian chartered bank bearing interest at bank prime plus 60 basis points or bankers' acceptance plus 170 basis points and maturing on August 31, 2015. The Secured Facility is secured by a combination of mortgage charges and security agreements on certain of our rental properties. In 2014, the average borrowings under the Secured Facility were $23,937. At December 31, 2014, the borrowings under the Secured Facility were $24,336.

## 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 Secured Facility, new mortgage financing and the access to public capital 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 $2.5 billion.

At December 31, 2014, we had future commitments as set out below:

| (In thousands) | DECEMBER 31, 2014 |
|---|---|
| Building renovations and maintenance capital expenditures | 5,507 |
| Revenue-enhancing capital | 8,723 |
| Expenses | 1,954 |
| Conditional and unconditional acquisitions | 20,600 |
| Total | 36,784 |

We had provided a guarantee to a Canadian chartered bank to support a $24,500 construction lending facility to assist with the financing of construction costs associated with The Breithaupt Block, in which we have a 50% ownership interest. On July 24, 2014 the amount of the loan under the lending facility was increased from $24,500 to $45,740 and our guarantee was reduced to 50% of the lending facility's outstanding balance. The lending facility consists of a secured term construction facility for a maximum amount of $45,740 available in the form of market based bankers' acceptance and/or bank prime rate loans. The construction lending facility matures on December 31, 2015. The balance outstanding under the lending facility as at December 31, 2014, was $20,100.

We secured a construction facility in May 2013 from a group of Canadian chartered banks to fund project construction costs for the development at QRC West, Phase I, in Toronto. The construction facility consists of two loans: (i) a non-revolving secured term construction facility for a maximum amount of $80,000 available in the form of market based bankers' acceptance and/or bank prime rate loans; and (ii) a non-revolving senior secured letter of credit for a maximum amount of $1,000 available in the form of letters of credit/guarantees. The loans mature on June 30, 2016. The construction facility requires us to maintain the financial covenants commensurate with a facility of this type. At December 31, 2014, there was $42,062 drawn on the facility.

# PART IX
## *—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, 2014. 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 Sheets as at December 31, 2014, 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 discounted cash flow method to determine fair value, 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 are the gross costs 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.

# PART X

## *—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, or caused to be evaluated under their direct supervision, the design and operating effectiveness of our disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) at December 31, 2014 and, based on that evaluation, 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 evaluated, or caused to be evaluated under their direct supervision, the effectiveness of our internal control over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) at December 31, 2014, using the COSO Internal Control – Independent Framework (2013), published by the Committee of Sponsoring Organizations of the Treadway Commission. 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.

No changes were made in our design of internal controls over financial reporting during the period ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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 XI

## *—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, Acquisitions and Asset Management, 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. No fees or other form of consideration are payable under the Option Agreement, nor have any fees or other form of consideration been paid under the Option Agreement in the past. Other than as disclosed in Note 20 to the financial statements, there were no other related party transactions for both the current period and the comparable period.

# PART XII
## —*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 6.9% with a weighted average interest rate of 4.8%. The weighted average term of our mortgage debt is 6.2 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, 2014:

| CATEGORY | % OF RENTAL REVENUE YEAR ENDED DECEMBER 31, 2014 |
| --- | --- |
| Telecommunications and information technology | 29.6% |
| Business service and professional | 27.4% |
| Retail (head office and storefront) | 13.9% |
| Media and entertainment | 11.8% |
| Other | 5.6% |
| Financial services | 5.3% |
| Government | 4.4% |
| Educational and institutional | 2.0% |

The following sets out the percentage of rental revenue from our top-10 tenants by rental revenue for the year ended December 31, 2014:

| TENANT | % OF RENTAL REVENUE YEAR ENDED DECEMBER 31, 2014 |
| --- | --- |
| Equinix | 3.2% |
| National Capital Commission | 3.1% |
| Desjardins | 3.0% |
| Ubisoft | 2.4% |
| Cologix | 2.4% |
| Allstream | 1.5% |
| SAP Canada | 1.4% |
| Bell Canada | 1.4% |
| Cenovus Energy | 1.3% |
| Peer 1 | 1.3% |

### 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.

92.0% of the GLA in our portfolio was leased at December 31, 2014. The weighted average term to maturity of our leases at that time was five years. The following sets out, as of today's date, the total GLA of the leases that mature to the end of 2019, 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, 2015, does not include month-to-month leases for 113,829 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, 2015 | 923,998 | 9.7% | $17.26 | $17.91 |
| December 31, 2016 | 760,987 | 8.0% | $17.74 | $19.41 |
| December 31, 2017 | 1,301,508 | 13.7% | $17.35 | $18.92 |
| December 31, 2018 | 1,138,043 | 12.0% | $19.62 | $20.04 |
| December 31, 2019 | 789,308 | 8.3% | $22.80 | $24.83 |

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, 2015 | 167,703 | 1.8% | $12.12 | $12.88 |
| December 31, 2016 | 155,835 | 1.6% | $11.77 | $12.69 |
| December 31, 2017 | 329,476 | 3.5% | $15.76 | $16.26 |
| December 31, 2018 | 190,771 | 2.0% | $13.64 | $14.29 |
| December 31, 2019 | 165,693 | 1.7% | $17.49 | $18.71 |

## 2. CENTRAL CANADA

| YEAR ENDED | SQUARE FEET | % OF TOTAL GLA | WA RENTAL RATE | WA MARKET RATE |
|---|---|---|---|---|
| December 31, 2015 | 509,043 | 5.4% | $18.09 | $18.34 |
| December 31, 2016 | 360,378 | 3.8% | $19.10 | $20.28 |
| December 31, 2017 | 786,752 | 8.3% | $16.67 | $18.14 |
| December 31, 2018 | 681,357 | 7.2% | $22.06 | $22.22 |
| December 31, 2019 | 453,180 | 4.8% | $26.10 | $29.06 |

## 3. WESTERN CANADA

| YEAR ENDED | SQUARE FEET | % OF TOTAL GLA | WA RENTAL RATE | WA MARKET RATE |
|---|---|---|---|---|
| December 31, 2015 | 247,252 | 2.6% | $19.05 | $20.45 |
| December 31, 2016 | 244,774 | 2.6% | $19.53 | $22.41 |
| December 31, 2017 | 185,280 | 2.0% | $23.10 | $26.95 |
| December 31, 2018 | 265,915 | 2.8% | $17.65 | $18.59 |
| December 31, 2019 | 170,435 | 1.8% | $19.18 | $19.53 |

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 $4,481 (approximately six 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, 2014, the fair value of Properties Under Development was equivalent to 6% of the fair value of our portfolio under IFRS.

### 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 XIII

## —*Subsequent Events*

On January 2, 2015, we repaid the first mortgage on 1040 Hamilton in Vancouver as it came due in the amount of $11,300.

On January 8, 2015, we offered to the public, on a bought-deal basis, 1,925,000 units from treasury at a price of $39.00 per unit for gross proceeds of approximately $75,000, together with an over-allotment option for up to an additional 288,750 units on the same terms and conditions.

On January 29, 2015, we established $200,000 unsecured revolving credit facility (the "Unsecured Facility") with a Canadian chartered bank bearing interest at bank prime plus 70 basis points or bankers' acceptance plus 170 basis points and maturing on January 28, 2018. The Unsecured Facility also contains an accordion feature that allows us to increase it to $300,000. The Unsecured Facility replaced the Secured Facility.

On February 2, 2015, we closed the previously announced offering of 2,213,750 units (inclusive of 288,750 units issued pursuant to the exercise in full of the over-allotment option) for gross proceeds of $86,336.

On February 2, 2015, we repaid the construction lending facility for QRC West, Phase I, in Toronto by drawing down on the Unsecured Facility. We intend to fund the remaining construction costs by drawing down on the Unsecured Facility.

On February 2, 2015, we announced that Wayne L. Jacobs, our Executive Vice President, Acquisitions and Asset Management, had decided to pursue a career opportunity with a private equity firm based in Vancouver following a transitional period with us. We also announced the appointment of Tyrone Bowers as Vice President, Acquisitions, and Sarah Jane O'Shea as Vice President, Asset Management.

On February 10, 2015, we completed the previously announced acquisition of an undivided 50% interest in 19 Duncan in Toronto and advanced the $40,770 acquisition loan to the Duncan & Adelaide JV between ourselves and Westbank.

On March 2, 2015, we repaid the first mortgage on 662 King West in Toronto and 1500 Notre Dame in Winnipeg as it came due in the aggregate amount of $5,300.

# PART XIV
## —*Property Table*

| PROPERTIES DECEMBER 31, 2014 | OFFICE GLA | RETAIL GLA | TOTAL GLA | %TOTAL GLA | OFFICE VACANT | RETAIL VACANT | TOTAL LEASED | LEASED % |
|---|---|---|---|---|---|---|---|---|
| College & Manning JV (1) | 28,251 | 4,270 | 32,521 | | 5,458 | - | 27,063 | 83.2% |
| 905 King W | 104,018 | 7,738 | 111,756 | | 33,096 | - | 78,660 | 70.4% |
| 32 Atlantic | 50,434 | - | 50,434 | | - | - | 50,434 | 100.0% |
| 47 Jefferson | 6,884 | - | 6,884 | | - | - | 6,884 | 100.0% |
| The Castle | 134,868 | 34,323 | 169,191 | | - | - | 169,191 | 100.0% |
| King West | 324,455 | 46,331 | 370,786 | 3.9% | 38,554 | - | 332,232 | 89.6% |
| The Well JV (2) | 96,039 | 5,145 | 101,184 | | - | - | 101,184 | 100.0% |
| 141 Bathurst | 10,281 | - | 10,281 | | - | - | 10,281 | 100.0% |
| 159-161 Bathurst | 4,000 | - | 4,000 | | - | - | 4,000 | 100.0% |
| 183 Bathurst | 27,358 | 5,600 | 32,958 | | - | - | 32,958 | 100.0% |
| 241 Spadina | 25,112 | 6,586 | 31,698 | | - | - | 31,698 | 100.0% |
| 379 Adelaide W | 36,249 | 2,700 | 38,949 | | - | - | 38,949 | 100.0% |
| 383 Adelaide W | 7,790 | - | 7,790 | | - | - | 7,790 | 100.0% |
| 420 Wellington W | 33,813 | 3,137 | 36,950 | | - | - | 36,950 | 100.0% |
| 425 Adelaide W | 76,157 | 4,104 | 80,261 | | 1,789 | - | 78,472 | 97.8% |
| 425-439 King W | 78,970 | 12,071 | 91,041 | | - | - | 91,041 | 100.0% |
| 441-443 King W | 8,320 | 3,065 | 11,385 | | - | - | 11,385 | 100.0% |
| 445-455 King W | 30,102 | 22,335 | 52,437 | | - | - | 52,437 | 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) | - | 3,276 | 3,276 | | - | - | 3,276 | 100.0% |
| 489 King W | 21,421 | 4,850 | 26,271 | | - | - | 26,271 | 100.0% |
| 495 King W | 10,876 | - | 10,876 | | - | - | 10,876 | 100.0% |
| 499 King W | - | 8,400 | 8,400 | | - | - | 8,400 | 100.0% |
| 500-522 King W | 83,980 | 43,336 | 127,316 | | - | - | 127,316 | 100.0% |
| 544 King W | 17,006 | - | 17,006 | | - | - | 17,006 | 100.0% |

## PROPERTIES
DECEMBER 31, 2014

| PROPERTIES DECEMBER 31, 2014 | OFFICE GLA | RETAIL GLA | TOTAL GLA | %TOTAL GLA | OFFICE VACANT | RETAIL VACANT | TOTAL LEASED | LEASED % |
|---|---|---|---|---|---|---|---|---|
| 555 Richmond W | 256,408 | 40,881 | 297,289 | | 7,850 | 6,977 | 282,462 | 95.0% |
| 57 Spadina (4) | 8,084 | 8,566 | 16,650 | | - | - | 16,650 | 100.0% |
| 579 Richmond W | 28,975 | - | 28,975 | | 2,111 | - | 26,864 | 92.7% |
| 589-591 Richmond W | - | 2,000 | 2,000 | | - | - | 2,000 | 100.0% |
| King & Portland JV (1) | 25,361 | 15,274 | 40,635 | | 1,913 | - | 38,722 | 95.3% |
| 662 King W | 30,773 | 2,126 | 32,899 | | - | - | 32,899 | 100.0% |
| 80-82 Spadina | 56,968 | 16,009 | 72,977 | | - | - | 72,977 | 100.0% |
| 96 Spadina | 80,517 | 9,861 | 90,378 | | - | - | 90,378 | 100.0% |
| King West Central | 1,187,842 | 229,822 | 1,417,664 | 14.9% | 13,663 | 6,977 | 1,397,024 | 98.5% |
| 116 Simcoe | 15,443 | - | 15,443 | | - | - | 15,443 | 100.0% |
| 151 Front | 266,354 | 6,000 | 272,354 | | 339 | - | 272,015 | 99.9% |
| Union Center | 10,736 | 29,239 | 39,975 | | - | - | 39,975 | 100.0% |
| 179 John | 68,937 | - | 68,937 | | - | - | 68,937 | 100.0% |
| 185 Spadina | 55,814 | - | 55,814 | | - | - | 55,814 | 100.0% |
| 200 Adelaide W | 28,024 | - | 28,024 | | - | - | 28,024 | 100.0% |
| 208-210 Adelaide W | 12,422 | - | 12,422 | | - | - | 12,422 | 100.0% |
| 217-225 Richmond W | 35,932 | 20,365 | 56,297 | | 3,220 | - | 53,077 | 94.3% |
| 257 Adelaide W | 46,350 | - | 46,350 | | - | - | 46,350 | 100.0% |
| 312 Adelaide W | 65,554 | 5,665 | 71,219 | | - | - | 71,219 | 100.0% |
| 331-333 Adelaide W | 20,503 | 3,210 | 23,713 | | - | - | 23,713 | 100.0% |
| 358-360 Adelaide W | 53,430 | - | 53,430 | | - | - | 53,430 | 100.0% |
| 375-381 Queen W | 23,891 | 10,648 | 34,539 | | - | - | 34,539 | 100.0% |
| 388 King W | 28,954 | 15,012 | 43,966 | | - | - | 43,966 | 100.0% |
| 82 Peter | 39,327 | 8,287 | 47,614 | | 16,001 | - | 31,613 | 66.4% |
| 99 Spadina | 39,531 | 11,392 | 50,923 | | - | - | 50,923 | 100.0% |
| Entertainment District | 811,202 | 109,818 | 921,020 | 9.7% | 19,560 | - | 901,460 | 97.9% |
| 193 Yonge | 34,349 | 16,318 | 50,667 | | - | - | 50,667 | 100.0% |
| Downtown | 34,349 | 16,318 | 50,667 | 0.5% | - | - | 50,667 | 100.0% |
| 106 Front E | 24,930 | 10,109 | 35,039 | | 2,268 | - | 32,771 | 93.5% |
| 35-39 Front E | 38,621 | 17,850 | 56,471 | | - | - | 56,471 | 100.0% |
| 36-40 Wellington E | 16,662 | 9,550 | 26,212 | | - | - | 26,212 | 100.0% |
| 41-45 Front E | 20,626 | 19,965 | 40,591 | | 16,690 | - | 23,901 | 58.9% |
| 45-55 Colborne | 28,362 | 14,934 | 43,296 | | - | - | 43,296 | 100.0% |
| 49 Front E | 9,320 | 10,441 | 19,761 | | - | - | 19,761 | 100.0% |
| 50 Wellington E | 21,866 | 11,049 | 32,915 | | - | - | 32,915 | 100.0% |
| 60 Adelaide E | 105,460 | 4,695 | 110,155 | | - | - | 110,155 | 100.0% |
| 184 Front E | 80,247 | 6,489 | 86,736 | | 5,568 | - | 81,168 | 93.6% |
| St. Lawrence Market | 346,094 | 105,082 | 451,176 | 4.7% | 24,526 | - | 426,650 | 94.6% |
| 145 Berkeley | 9,686 | 1,325 | 11,011 | | - | - | 11,011 | 100.0% |
| 204-214 King E | 124,097 | 5,460 | 129,557 | | - | - | 129,557 | 100.0% |
| 230 Richmond E | 73,767 | - | 73,767 | | - | - | 73,767 | 100.0% |

# PROPERTIES

DECEMBER 31, 2014

| | OFFICE GLA | RETAIL GLA | TOTAL GLA | %TOTAL GLA | OFFICE VACANT | RETAIL VACANT | TOTAL LEASED | LEASED % |
|---|---|---|---|---|---|---|---|---|
| 252-264 Adelaide E | 47,703 | - | 47,703 | | - | - | 47,703 | 100.0% |
| 489 Queen E | 29,889 | 2,737 | 32,626 | | - | - | 32,626 | 100.0% |
| Dominion Square | 70,262 | 38,050 | 108,312 | | 11,624 | - | 96,688 | 89.3% |
| 70 Richmond | 35,118 | - | 35,118 | | - | - | 35,118 | 100.0% |
| QRC East | 184,974 | 35,349 | 220,323 | | - | - | 220,323 | 100.0% |
| QRC South | 42,971 | - | 42,971 | | 7,505 | - | 35,466 | 82.5% |
| Queen Richmond | 618,467 | 82,921 | 701,388 | 7.4% | 19,129 | - | 682,259 | 97.3% |
| **Total Toronto** | **3,322,409** | **590,292** | **3,912,701** | **41.2%** | **115,432** | **6,977** | **3,790,292** | **96.9%** |
| 3575 Saint-Laurent | 167,397 | 18,327 | 185,724 | | 18,709 | - | 167,015 | 89.9% |
| 400 Atlantic | 86,395 | 292 | 86,687 | | 17,328 | - | 69,359 | 80.0% |
| 425 Viger W | 205,201 | 820 | 206,021 | | - | - | 206,021 | 100.0% |
| 4446 Saint-Laurent | 73,554 | 7,418 | 80,972 | | 4,800 | 3,725 | 72,447 | 89.5% |
| 5455 Gaspé | 505,859 | 750 | 506,609 | | 195,477 | - | 311,132 | 61.4% |
| 5505 Saint-Laurent | 252,452 | 2,524 | 254,976 | | - | - | 254,976 | 100.0% |
| 451-481 Saint-Catherine | 22,304 | 8,434 | 30,738 | | 8,569 | 1,650 | 20,519 | 66.8% |
| 6300 Parc | 192,510 | 16,987 | 209,497 | | 84,496 | 16,337 | 108,664 | 51.9% |
| 645 Wellington | 130,985 | 4,083 | 135,068 | | 1,305 | - | 133,763 | 99.0% |
| Cité Multimedia | 949,167 | 13,283 | 962,450 | | 66,650 | 4,200 | 891,600 | 92.6% |
| 85 Saint-Paul | 79,778 | - | 79,778 | | - | - | 79,778 | 100.0% |
| **Total Montréal** | **2,665,602** | **72,918** | **2,738,520** | **28.8%** | **397,334** | **25,912** | **2,315,274** | **84.5%** |
| 115 Bannatyne | 39,957 | - | 39,957 | | - | - | 39,957 | 100.0% |
| 123 Bannatyne | 20,518 | - | 20,518 | | 1,730 | - | 18,788 | 91.6% |
| 250 McDermot | 40,706 | 10,040 | 50,746 | | 17,000 | 4,000 | 29,746 | 58.6% |
| 54-70 Arthur | 110,171 | 8,546 | 118,717 | | 25,136 | - | 93,581 | 78.8% |
| 1500 Notre Dame | 109,518 | - | 109,518 | | - | - | 109,518 | 100.0% |
| **Total Winnipeg** | **320,870** | **18,586** | **339,456** | **3.6%** | **43,866** | **4,000** | **291,590** | **85.9%** |
| 390 Charest | 66,751 | 6,348 | 73,099 | | - | - | 73,099 | 100.0% |
| 410 Charest | 3,229 | 21,395 | 24,624 | | - | 1,295 | 23,329 | 94.7% |
| 420 Charest | 40,410 | 17,217 | 57,627 | | 18,509 | 8,549 | 30,569 | 53.0% |
| 605 Saint-Joseph | 26,345 | 7,729 | 34,074 | | 2,000 | - | 32,074 | 94.1% |
| 622 Saint-Joseph | 3,620 | 3,300 | 6,920 | | 2,845 | - | 4,075 | 58.9% |
| 633 Saint-Joseph | 15,388 | 6,000 | 21,388 | | 5,288 | - | 16,100 | 75.3% |
| **Total Québec City** | **155,743** | **61,989** | **217,732** | **2.3%** | **28,642** | **9,844** | **179,246** | **82.3%** |
| The Tannery | 251,193 | 74,756 | 325,949 | | - | - | 325,949 | 100.0% |
| 72 Victoria | 88,506 | - | 88,506 | | 10,067 | - | 78,439 | 88.6% |

| PROPERTIES DECEMBER 31, 2014 | OFFICE GLA | RETAIL GLA | TOTAL GLA | %TOTAL GLA | OFFICE VACANT | RETAIL VACANT | TOTAL LEASED | LEASED % |
|---|---|---|---|---|---|---|---|---|
| Breithaupt Phase I (5) | 65,500 | - | 65,500 | | - | - | 65,500 | 100.0% |
| **Total Kitchener** | **405,199** | **74,756** | **479,955** | **5.1%** | **10,067** | **-** | **469,888** | **97.9%** |
| 100-6th SW | 34,242 | - | 34,242 | | - | - | 34,242 | 100.0% |
| 119-6th SW | 63,063 | - | 63,063 | | - | - | 63,063 | 100.0% |
| 1207-1215 13th SE | 31,636 | - | 31,636 | | - | - | 31,636 | 100.0% |
| 1240-20th SE | 46,124 | - | 46,124 | | - | - | 46,124 | 100.0% |
| 129-8th SW | 3,072 | 5,336 | 8,408 | | - | - | 8,408 | 100.0% |
| 209-8th SW | 26,945 | 5,022 | 31,967 | | - | - | 31,967 | 100.0% |
| Demcor Building | 36,941 | - | 36,941 | | - | - | 36,941 | 100.0% |
| 237-8th SE | 65,502 | 10,035 | 75,537 | | 11,808 | - | 63,729 | 84.4% |
| 322-326 11th SW | 199,670 | 15,882 | 215,552 | | 43,437 | 3,054 | 169,061 | 78.4% |
| 402-11th SE | 48,414 | - | 48,414 | | - | - | 48,414 | 100.0% |
| 438-11th SE | 53,986 | - | 53,986 | | 16,046 | - | 37,940 | 70.3% |
| 601-611 10th SW | 46,788 | 2,592 | 49,380 | | 2,735 | - | 46,645 | 94.5% |
| 603-605 11th SW | 21,966 | 29,207 | 51,173 | | - | - | 51,173 | 100.0% |
| 604-1st SW | 66,340 | 20,844 | 87,184 | | 229 | - | 86,955 | 99.7% |
| 613-11th SW | - | 3,163 | 3,163 | | - | - | 3,163 | 100.0% |
| 617-11th SW | 2,930 | 6,071 | 9,001 | | 680 | - | 8,321 | 92.4% |
| 625-11th SW | 32,448 | 1,409 | 33,857 | | 9,300 | - | 24,557 | 72.5% |
| 805-1st SW | 8,775 | 18,408 | 27,183 | | - | 1,604 | 25,579 | 94.1% |
| 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** | **842,036** | **148,213** | **990,249** | **10.4%** | **84,235** | **4,658** | **901,356** | **91.0%** |
| 1040 Hamilton | 35,957 | 8,710 | 44,667 | | 1,988 | - | 42,679 | 95.5% |
| 1286 Homer | 15,727 | 8,977 | 24,704 | | 5,154 | - | 19,550 | 79.1% |
| 128 West Pender | 75,052 | 1,700 | 76,752 | | - | - | 76,752 | 100.0% |
| 840 Cambie | 91,746 | - | 91,746 | | - | - | 91,746 | 100.0% |
| 948-950 Homer | 23,114 | 23,290 | 46,404 | | - | - | 46,404 | 100.0% |
| **Total Vancouver** | **241,596** | **42,677** | **284,273** | **3.0%** | **7,142** | **-** | **277,131** | **97.5%** |
| 535 Yates | 12,718 | 6,312 | 19,030 | | - | - | 19,030 | 100.0% |
| 754 Fort | 13,339 | 9,209 | 22,548 | | - | - | 22,548 | 100.0% |
| **Total Victoria** | **26,057** | **15,521** | **41,578** | **0.4%** | **-** | **-** | **41,578** | **100.0%** |
| 10190-104 NW | 11,514 | 5,767 | 17,281 | | 5,862 | - | 11,419 | 66.1% |
| Boardwalk & Revillon Building | 219,535 | 45,169 | 264,704 | | 2,145 | - | 262,559 | 99.2% |

## PROPERTIES
DECEMBER 31, 2014

| | OFFICE GLA | RETAIL GLA | TOTAL GLA | %TOTAL GLA | OFFICE VACANT | RETAIL VACANT | TOTAL LEASED | LEASED % |
|---|---|---|---|---|---|---|---|---|
| **Total Edmonton** | **231,049** | **50,936** | **281,985** | **3.0%** | **8,007** | **-** | **273,978** | **97.2%** |
| The Chambers | 200,836 | 13,390 | 214,226 | | 6,343 | 6,210 | 201,673 | 94.1% |
| **Total Ottawa** | **200,836** | **13,390** | **214,226** | **2.3%** | **6,343** | **6,210** | **201,673** | **94.1%** |
| **Total** | **8,411,397** | **1,089,278** | **9,500,675** | | **701,068** | **57,601** | **8,742,006** | **92.0%** |

*(1) RioCan/Allied Joint Venture Properties*
*(2) RioCan/Diamond Corp/Allied Joint Venture Property*
*(3) Lifetime/Allied Joint Venture Property*
*(4) Diamond Corp/Allied Joint Venture Property*
*(5) Perimeter/Allied Joint Venture Property*

## PROPERTIES UNDER DEVELOPMENT

| | OFFICE GLA | RETAIL GLA | TOTAL GLA |
|---|---|---|---|
| QRC West Phase I, Toronto (1) | 60,074 | 36,818 | 96,892 |
| TELUS Sky, Calgary (2) | 7,091 | 4,892 | 11,983 |
| 138 Portage. Winnipeg | 36,399 | - | 36,399 |
| The Breithaupt Block Phase II, Kitchener (3) | 45,000 | - | 45,000 |
| 5445 Gaspé, Montréal | 497,271 | 647 | 497,918 |
| College & Palmerston JV (4) | - | 3,793 | 3,793 |
| 460 King W, Toronto | 11,700 | 4,550 | 16,250 |
| 485 King W, Toronto | 8,814 | 4,407 | 13,221 |
| 8-10 Bastion, Victoria | 22,399 | 10,086 | 32,485 |
| **Total PUD** | **688,748** | **65,193** | **753,941** |

*(1) Under Contruction*
*(2) Telus/Westbank/Allied Joint Venture*
*(3) Perimeter/Allied Joint Venture*
*(4) RioCan/Allied Joint Venture*

## ANCILLARY PARKING FACILITIES

| | NUMBER OF SPACES |
|---|---|
| 301 Markham, Toronto | 47 |
| 388 Richmond, Toronto | 117 |
| 78 Spadina, Toronto | 24 |
| 7-9 Morrison, Toronto | 25 |
| 650 King, Toronto | 71 |
| 560 King, Toronto | 171 |
| 478 King JV, Toronto (1) | 65 |
| King Brant, Toronto | 203 |
| **Total Parking Spaces** | **723** |

*(1) Lifetime/Allied Joint Venture Property*

*Square footage of GLA for a property that is less than 100% owned by the REIT reflects the REIT's percentage of the property's square footage.*

# CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

# 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 have 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

Cecilia C. Williams, CPA, 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, 2014 and 2013, 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, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

CHARTERED PROFESSIONAL ACCOUNTANTS, LICENSED PUBLIC ACCOUNTANTS
TORONTO, ONTARIO | MARCH 3, 2015

## ALLIED PROPERTIES REIT CONSOLIDATED BALANCE SHEETS

| (In thousands) | NOTES | DECEMBER 31, 2014 | DECEMBER 31, 2013 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investment properties | 5 | $3,726,757 | $3,300,750 |
| Equipment | 7 | 2,577 | 1,691 |
| Other assets | 8 | 138,527 | 125,228 |
| **Total non-current assets** | | 3,867,861 | 3,427,669 |
| **Current assets** | | | |
| Cash and cash equivalents | 6, 9 | 5,260 | 31,764 |
| Accounts receivable | 6 | 46,136 | 37,789 |
| Other assets | | 13,462 | 3,387 |
| **Total current assets** | | 64,858 | 72,940 |
| **Total assets** | | $3,932,719 | $3,500,609 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Mortgages payable | 6, 13 | $1,173,718 | $1,063,101 |
| Construction loan payable | 6 | 42,062 | 10,593 |
| Freehold lease and land lease obligations | 6, 11 | 128,758 | 118,002 |
| **Total non-current liabilities** | | 1,344,538 | 1,191,696 |
| **Current liabilities** | | | |
| Mortgages payable | 6, 13 | 101,139 | 129,306 |
| Construction loan payable | 6 | 12,148 | 8,078 |
| Freehold lease and land lease obligations | 6, 11 | 6,886 | 2,130 |
| Bank indebtedness | 6, 13 | 24,336 | - |
| Accounts payable and other liabilities | 6 | 104,512 | 92,631 |
| Distributions payable to Unitholders | 6 | 9,129 | 8,054 |
| **Total current liabilities** | | 258,150 | 240,199 |
| **Total liabilities** | | 1,602,688 | 1,431,895 |
| **Unitholders' equity** | 14 | 2,330,031 | 2,068,714 |
| **Total liabilities and unitholders' equity** | | $3,932,719 | $3,500,609 |

*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, 2014 | FOR THE YEAR ENDED DECEMBER 31, 2013 |
|---|---|---|---|
| Revenues | | | |
| Rental properties | 5 | $342,393 | $305,268 |
| Amortization of tenant improvements | | (10,330) | (8,289) |
| Amortization of straight-line rent | | 5,643 | 5,054 |
| **Total revenues** | | **337,706** | **302,033** |
| Expenses | | | |
| Rental property operating costs | 5 | 138,924 | 126,350 |
| Financing | | 53,674 | 44,622 |
| Trust | | 7,686 | 7,065 |
| Amortization of leasing costs and other assets | | 6,501 | 5,277 |
| **Total expenses** | | **206,785** | **183,314** |
| **Income before fair value adjustments** | | **130,921** | **118,719** |
| Change in fair value on investment properties | 5 | 33,202 | 114,105 |
| Change in fair value on derivative instruments | 13 | (12,345) | 5,800 |
| **Total change in fair values** | | **20,857** | **119,905** |
| **Net income and comprehensive income for the year** | | **$151,778** | **$238,624** |
| Net income per unit | 17 | | |
| Basic | | $2.14 | $3.54 |
| Diluted | | $2.13 | $3.51 |
| Weighted average number of units | 17 | | |
| Basic | | 71,048,941 | 67,443,659 |
| Diluted | | 71,319,055 | 67,889,273 |

*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, 2014 | FOR THE YEAR ENDED DECEMBER 31, 2013 |
|---|---|---|---|
| *Cash Flows* | | | |
| Operating activities | | | |
| Net income for the year | | $151,778 | $238,624 |
| Change in fair value on investment properties | 5 | (30,697) | (107,847) |
| Change in fair value on interest in freehold lease and land leases | | (745) | (6,304) |
| Change in fair value on derivative instruments | | 12,345 | (5,800) |
| Amortization of equipment | 7 | 678 | 510 |
| Amortization of customer relationships | | 96 | 96 |
| Amortization of leasing costs | | 5,727 | 4,671 |
| Amortization of tenant improvements | | 10,331 | 8,289 |
| Amortization of straight-line rent (revenue) | | (5,643) | (5,054) |
| Amortization of straight-line rent (expenses) | | 161 | 459 |
| Change in other non-cash operating items | | (22,238) | (8,836) |
| Change in other non-cash financing items | | 2,596 | 2,323 |
| Compensation expense | 15 | 1,934 | 1,767 |
| Amortization, premium on assumed mortgages | | (74) | (107) |
| Cash provided by operating activities | | 126,249 | 122,791 |
| Investing activities | | | |
| Capital expenditures, rental properties and other assets (net of assumed mortgages) | | (298,601) | (263,349) |
| Capital expenditures, properties under development | | (86,826) | (54,072) |
| Net proceeds on sale of rental property | | 13,374 | 6,937 |
| Tenant leasing costs | | (8,465) | (7,685) |
| Tenant improvements | | (21,778) | (19,665) |
| Cash provided by (used in) investing activities | | (402,296) | (337,834) |

## ALLIED PROPERTIES REIT CONSOLIDATED STATEMENTS OF CASH FLOWS - *continued*

| (in thousands) | NOTES | FOR THE YEAR ENDED DECEMBER 31, 2014 | FOR THE YEAR ENDED DECEMBER 31, 2013 |
|---|---|---|---|
| Financing Activities | | | |
| Financing cost | | (1,583) | (2,878) |
| Proceeds from new mortgages payable | | 268,575 | 314,142 |
| Repayment of mortgages payable | 6, 13 | (185,955) | (190,991) |
| Financing - freehold lease and land leases | | (49) | (58) |
| Distributions paid to Unitholders | | (71,286) | (69,356) |
| Proceeds of public offerings (net of issue costs) | 14 | 164,870 | 120,896 |
| Proceeds from exercise of unit options | 15 | 16,440 | 983 |
| Proceeds from units issued under the LTIP | 16 | 23 | 144 |
| Restricted unit plan | | (1,367) | (1,189) |
| Net increase in bank indebtedness and construction loans | | 59,875 | 11,710 |
| Cash provided by (used in) financing activities | | 249,543 | 183,403 |
| Decrease in cash and cash equivalents | | (26,504) | (31,640) |
| Cash and cash equivalents, beginning of year | | 31,764 | 63,404 |
| Cash and cash equivalents, end of year | | $5,260 | $31,764 |
| Other cash flow information | | | |
| Interest paid | | $62,168 | $54,225 |
| Supplemental cash flow information | | | |
| Units issued under DRIP | | 28,227 | 21,971 |
| Mortgages assumed on acquisition of properties | | - | 8,940 |
| Freehold lease and land leases | | 15,512 | 6,020 |

*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 OTHER COMPREHENSIVE INCOME | CONTRIBUTED SURPLUS | TOTAL |
|---|---|---|---|---|---|---|
| Balance at January 1, 2013 | 14 | $1,402,524 | $370,275 | $745 | $4,094 | $1,777,638 |
| Comprehensive income | | - | 238,624 | - | - | 238,624 |
| Public offering | | 120,896 | - | - | - | 120,896 |
| Distributions | 14 | - | (92,120) | - | - | (92,120) |
| Distribution reinvestment plan | 14 | 21,971 | - | - | - | 21,971 |
| Unit option plan – options exercised | 15 | 1,041 | - | - | (58) | 983 |
| Contributed surplus – unit option plan | 15 | - | - | - | 736 | 736 |
| Restricted unit plan | 15 | (1,189) | - | - | 1,031 | (158) |
| Long-term incentive plan | 16 | 144 | - | - | - | 144 |
| **Balance at December 31, 2013** | | **$1,545,387** | **$516,779** | **$745** | **$5,803** | **$2,068,714** |
| Balance at January 1, 2014 | 14 | $1,545,387 | $516,779 | $745 | $5,803 | $2,068,714 |
| Comprehensive income | | - | 151,778 | - | - | 151,778 |
| Public offering | | 164,870 | - | - | - | 164,870 |
| Distributions | 14 | - | (100,588) | - | - | (100,588) |
| Distribution reinvestment plan | 14 | 28,227 | - | - | - | 28,227 |
| Unit option plan – options exercised | 15 | 17,436 | - | - | (996) | 16,440 |
| Contributed surplus – unit option plan | 15 | - | - | - | 722 | 722 |
| Restricted unit plan | 15 | (1,367) | - | - | 1,212 | (155) |
| Long-term incentive plan | 16 | 23 | - | - | - | 23 |
| **Balance at December 31, 2014** | | **$1,754,576** | **$567,969** | **$745** | **$6,741** | **$2,330,031** |

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

December 31, 2014 and December 31, 2013

## 1. NATURE OF OPERATIONS

Allied Properties Real Estate Investment Trust ("Allied") is a Canadian unincorporated closed-end real estate investment trust created pursuant to the Declaration of Trust dated October 25, 2002, most recently amended May 14, 2013. Allied 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 is the ultimate parent of its group of companies.

Allied 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'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 two urban intensification projects on College Street in Toronto, Ontario;
- 50% interest in a retail property and underground parking spaces in Toronto, Ontario;
- 40% interest in an urban intensification project in Toronto, Ontario;
- 50% interest in an urban intensification project on Spadina Avenue in Toronto, Ontario; and
- one-third interest in an urban intensification project in Calgary, Alberta.

Allied is domiciled in Ontario, Canada. The address of Allied'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 for the year ending December 31, 2014 and 2013 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'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 for the year ended December 31, 2014 (including comparatives) were approved and authorized for issue by the Board of Trustees on March 3, 2015.

(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 interest rate swaps. The consolidated financial statements are presented in Canadian dollars, which is also Allied'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 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 and interest rate derivative contracts, 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 needs to maintain its REIT status. Allied'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 has 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*

At the time of acquisition of a property, Allied applies judgment when determining if the acquisition is an asset acquisition.

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 classifies its acquisitions as asset acquisitions when it acquires properties or a portfolio of properties; it has not assumed any employees or has not acquired an operating platform.

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

Allied uses the asset purchase model whereby the initial cost of an 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 use the discounted cash flow method to determine fair value, whereby the income and expenses 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. Properties under development are measured using both a comparable sales method and a discounted cash flow method, 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 has applied judgment in determining whether certain costs are additions to the carrying amount of investment properties.

Allied has applied judgement 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 are 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 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) F*reehold Lease and Land Leases*

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

(c) *Joint Arrangements*

Allied has applied judgment as to whether the joint arrangements provided it with joint control, significant influence or no influence. Allied has reviewed its joint arrangement agreements and has determined that the activities are jointly operated; and has concluded that it should recognize its interests as joint operations and account 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. Rental revenue with respect to parking income and incidental income is recognized as it is earned. 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 incurs to enter into a lease agreement when negotiating a new or renewed operating lease. Allied 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 improvements 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 into a lease. Lease incentives that do not provide benefits beyond the initial lease term are included in the carrying amount of investment properties. Allied 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 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 seven years.

Material residual value estimates and estimates of useful life are updated as required. 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'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'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 |
| Investment in government bonds | Held to maturity | Amortized cost |
| Mortgages payable | Other financial liabilities | Amortized cost |
| Construction loans 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 | Fair value through profit & loss | 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's investment in government bonds as at December 31, 2014 is classified as a held-to-maturity instrument.

Allied had no available-for-sale financial assets as at December 31, 2014 and December 31, 2013.

At the end of each reporting period, Allied 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 Consolidated 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 measures its bank indebtedness, construction loans, 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 'financing expenses', except for those interest-related charges capitalized to properties under development and also to investment properties.

From time to time, Allied 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 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 does not hold any fair-value or cash flow hedges.

Allied 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 Statements 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 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 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's estimate of equity instruments that will eventually vest. At the end of each reporting period, Allied revises its estimate of the number of equity instruments that are expected to vest.

Units granted under the Unit Option Plan and Restricted Unit Plan are subject to vesting conditions and disposition restrictions, in order to provide a long term compensation incentive. The Unit Options and Restricted Units ("Units") are subject to forfeiture until the participant has held his or her position with Allied for a specified period of time. Full vesting of Units may not occur until the participant has remained employed by Allied for three years from the date of grant. Upon forfeiture of Units by an employee or trustee of Allied, expense related to any unvested, forfeited Units recognized up to and including the date of the forfeiture is reversed.

(M) *Provisions*

Provisions are recognized when Allied 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 does not have any provisions as of the date of this report.

(N) *Impairment*

Allied assesses 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 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*

*Amendments to IAS 32 – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

Certain amendments to IAS 32 were issued in December, 2011 and discuss disclosure requirements that are intended to help clarify for financial statement users the effect or potential effect of offsetting arrangements on a company's financial position. Allied has adopted the amendments to IAS 32 in its Consolidated Financial Statements for the year ended December 31, 2014. The amendments have been applied prospectively and did not have a material impact on the financial position or results of operations of Allied.

*IFRIC 21 - Levies*

IFRIC 21 provides guidance on accounting for levies and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. Allied has adopted IFRIC 21 in its Consolidated Financial Statements for the year ended December 31, 2014. The adoption of IFRIC 21 has been applied prospectively and did not have an impact on the financial position or results of operations of Allied.

*Amendments to IAS 17 – Leases*

In March 2014, the IFRS Interpretations Committee ("IFRIC") issued an agenda decision related to the meaning of "incremental costs" in the context of initial direct leasing costs in IAS 17. The IFRIC determined that internal fixed costs, such as the salary costs of permanent staff involved in negotiating and arranging new leases, do not qualify as incremental costs within the context of IAS 17 and, therefore, should not be capitalized as initial direct leasing costs. Allied has been expensing salary costs of internal leasing staff in its Consolidated Financial Statements, therefore, this amendment did not have an impact on the financial position or results of operations of Allied.

(q) *Standards, Amendments and Interpretations to Existing Standards That Are Not Yet Effective and Have Not Been Adopted Early by Allied*

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.

Allied anticipates that all of the relevant pronouncements will be adopted in Allied's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to Allied'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's financial statements.

*IFRS 9 – Financial Instruments*

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard IFRS 9 as issued applies to the classification and measurement of financial assets and liabilities as defined in IAS 39. On July 24, 2014, the IASB issued a complete new version of IFRS 9 referred to as IFRS 9 (2014). In November 2009, the IASB issued the first version of IFRS 9 Financial Instruments (IFRS 9 (2009)) and subsequently issued various amendments in October 2010, (IFRS 9 Financial Instruments (2010)) and November 2013 (IFRS 9 Financial Instruments (2013)). IFRS 9 (2014) includes finalized guidance on the classification and measurement of financial assets, hedge accounting requirements and amends the impairment model by introducing a new expected credit loss model for calculating impairment. The mandatory effective date for IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018. IFRS 9 (2014) is to be applied retrospectively and early adoption of the standard is permitted. Allied is assessing the impact of the new standard on the financial statements of Allied.

*IFRS 15 – Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15: Revenue from Contracts with Customers. The new standard provides a framework that replaces existing revenue recognition guidance relating to recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. The mandatory effective date for IFRS 15 is for annual periods beginning on or after January 1, 2017. IFRS 15 is to be applied retrospectively, or as of the application date by adjusting retained earnings at that date and disclosing the effect of adoption on each line of profit or loss. Early adoption of the standard is permitted. Allied is assessing the impact of the new standard on the financial statements of Allied.

## 4. PRINCIPLES OF CONSOLIDATION

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

- Nominee corporations
- Allied Properties Management Trust
- Allied Properties Management Limited Partnership
- Allied Properties Management GP Limited
- Joint Arrangements (see note 5)

Subsidiaries are entities over which Allied 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, 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 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, 2014 | FOR THE YEAR ENDED DECEMBER 31, 2013 |
|---|---|---|
| Balance beginning of the year | $3,300,750 | $2,859,399 |
| Additions: | | |
| Results from acquisitions | 234,940 | 185,566 |
| Results from subsequent expenditure recognized in the carrying amount of an asset | 154,388 | 143,550 |
| Disposals | (13,374) | (6,937) |
| Interest in freehold lease and land leases | 18,611 | 5,021 |
| Fair value adjustments | 31,442 | 114,151 |
| Balance end of the year | $3,726,757 | $3,300,750 |

Included in the amounts noted above is $180,350 ($161,061 as at December 31, 2013) which represents Allied's interest in a 49 year, 173,500 square feet, freehold lease as at December 31, 2014 (see also Note 6).

Reconciliation between the valuation obtained and the adjusted valuation included in the consolidated financial statements for the carrying amounts of investment properties is as follows:

| | DECEMBER 31, 2014 | DECEMBER 31, 2013 |
|---|---|---|
| Total fair market value | $3,854,664 | $3,408,968 |
| Less | | |
| Straight-line rent | (23,206) | (17,703) |
| Tenant inducement | (72,166) | (60,718) |
| Leasing commission | (32,535) | (29,797) |
| Adjusted fair market value | $3,726,757 | $3,300,750 |

The following sensitivity table outlines the impact of a 0.25% change in the market capitalization rate on the fair market value of investment properties excluding properties under development and land values. A 0.25% change is considered a reasonable level of fluctuation on overall capitalization rates. As at December 31, 2014 the average weighted capitalization rate was 6.2% (December 31, 2013 – 6.2%).

| For the Year Ended December 31, 2014 | | -0.25% | +0.25% |
|---|---|---|---|
| | Fair Value | Change | Change |
| Fair market value | $3,854,664 | $153,115 | $(142,275) |

| For the Year Ended December 31, 2013 | | -0.25% | +0.25% |
|---|---|---|---|
| | Fair Value | Change | Change |
| Fair market value | $3,408,968 | $121,580 | $(115,840) |

The following amounts were recognized in income:

| | FOR THE YEAR ENDED DECEMBER 31, 2014 | FOR THE YEAR ENDED DECEMBER 31, 2013 |
|---|---|---|
| Rental income from investment properties | $338,292 | $293,973 |
| Rental income from properties under development | 4,101 | 11,295 |
| | 342,393 | 305,268 |
| Direct operating expenses from rental properties | (136,841) | (121,195) |
| Direct operating expenses from properties under development | (2,083) | (5,155) |
| | $(138,924) | $(126,350) |

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, 2015 THROUGH DECEMBER 31, 2015 | JANUARY 1, 2016 THROUGH DECEMBER 31, 2019 | THEREAFTER | TOTAL |
|---|---|---|---|---|
| Future minimum rental income | 323,171 | 991,399 | 591,165 | 1,905,735 |

## INVESTMENTS IN JOINT ARRANGEMENTS

In December 2010, Allied 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 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, 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, and adjacent properties that Allied 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 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 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. The agreement was subsequently amended in March 2013 to include the acquisition of a second parcel adjacent to the Globe and Mail Lands.

In February 2013, Allied entered into a joint venture agreement with Diamond Corporation on a 50/50 basis to develop 57 Spadina Avenue, Toronto, formerly owned exclusively by Allied. The investment in this joint arrangement is accounted for as a joint operation. However, the property is currently in the predevelopment period during which Allied has full decision making authority over operations of the existing property, receives all revenues from the operations, as well as bears responsibility for all related operating expenses. As a result, Allied has recorded the other assets, liabilities, revenues and expenses generated from this property at 100%. Allied has consolidated 50% of its share of this investment property.

In July 2013, Allied entered into a joint venture agreement with TELUS Communications Inc. and Westbank Projects Corp. on a 33 1/3rd basis to acquire and develop 114 7th Avenue S.W., Calgary (owned exclusively by TELUS Communications Inc.) and 100 7th Avenue S.W., Calgary (owned exclusively by Allied) into a new mixed use project known as TELUS Sky. On September 30, 2014, TELUS Communications Inc. and Allied transferred their respective properties into the partnership with a view to developing the combined property into the TELUS Sky building.

In December 2013, Allied entered into a joint venture agreement with RioCan REIT on a 50/50 basis to acquire and develop the land and building located at 289 Palmerston Avenue and 491 College Street, Toronto into a mixed-use office, retail and residential complex.

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

| | DECEMBER 31, 2014 | DECEMBER 31, 2013 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Investment properties | $157,930 | $129,183 |
| Other assets | 3,806 | 872 |
| **Total non-current assets** | **161,736** | **130,055** |
| **Current assets** | | |
| Cash and cash equivalents | 4,837 | 1,787 |
| Accounts receivable | 1,472 | 978 |
| Other assets | 39 | 43 |
| **Total current assets** | **6,348** | **2,808** |
| **Total assets** | **$168,084** | **$132,863** |
| **Liabilities** | | |
| **Non-current liabilities** | | |
| Mortgages payable | $43,151 | $45,596 |
| **Total non-current liabilities** | **43,151** | **45,596** |
| **Current liabilities** | | |
| Mortgages payable | 3,179 | 211 |
| Construction loan payable | 12,148 | 8,078 |
| Accounts payable and other liabilities | 6,637 | 2,967 |
| **Total current liabilities** | **21,964** | **11,256** |
| **Total liabilities** | **$65,115** | **$56,852** |

| | FOR THE YEAR ENDED DECEMBER 31, 2014 | FOR THE YEAR ENDED DECEMBER 31, 2013 |
|---|---|---|
| Revenues | | |
| Rental properties | $8,032 | $6,981 |
| Amortization of tenant improvements | (122) | (52) |
| Amortization of straight-line rent | 264 | 318 |
| Total revenues | 8,174 | 7,247 |
| Expenses | | |
| Rental property operating costs | 4,415 | 3,649 |
| Financing | 2,006 | 1,893 |
| Total expenses | 6,421 | 5,542 |
| Income before fair value adjustments | 1,753 | 1,705 |
| Change in fair value on investment properties | 5,827 | (4,696) |
| Total change in fair values | 5,827 | (4,696) |
| Net income (loss) for the year | $7,580 | $(2,991) |

## 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:

| | DECEMBER 31, 2014 | DECEMBER 31, 2013 |
|---|---|---|
| Financial assets | | |
| Loans and receivables and other assets measured at amortized costs | | |
| Cash and cash equivalents | $5,260 | $31,764 |
| Accounts receivable | 46,136 | 37,789 |
| Investment in government bonds | 5,119 | 5,497 |
| Other financial assets measured at fair value | | |
| Mortgage interest swap asset | - | 3,331 |
| | $56,515 | $78,381 |
| Financial liabilities | | |
| Financial liabilities measured at amortized cost | | |
| Mortgages payable | $1,274,857 | $1,192,407 |
| Construction loans payable | 54,210 | 18,671 |
| Freehold lease and land lease obligations | 135,644 | 120,132 |
| Bank indebtedness | 24,336 | - |
| Accounts payable and other liabilities | 95,778 | 92,631 |
| Distributions payable to Unitholders | 9,129 | 8,054 |
| Other financial liabilities measured at fair value | | |
| Mortgage interest swap liability | 8,734 | - |
| | $1,602,688 | $1,431,895 |

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of tenants to meet obligations under lease agreements. Allied 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 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, 2014 | FOR THE YEAR ENDED DECEMBER 31, 2013 |
|---|---|---|
| Allowance for doubtful accounts beginning of year | $1,850 | $1,092 |
| Provision for impairment of receivables | 2,547 | 932 |
| Reversal of provision for impairment | (1,132) | (174) |
| Allowance for doubtful accounts end of year | $3,265 | $1,850 |

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

| | FOR THE YEAR ENDED DECEMBER 31, 2014 | FOR THE YEAR ENDED DECEMBER 31, 2013 |
|---|---|---|
| Total interest expense on: | | |
| Financial liabilities measured at amortized cost | $50,463 | $41,473 |
| Interest expense on finance lease – land leases | 3,211 | 3,149 |
| | $53,674 | $44,622 |
| Interest capitalized to investment properties | $13,084 | $13,757 |

Borrowing costs have been capitalized at a rate of 4.8% per annum (December 31, 2013 – 4.8%).

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

## 7. EQUIPMENT

Equipment consists of the following:

| | DECEMBER 31, 2014 | DECEMBER 31, 2013 |
|---|---|---|
| **Computer and office equipment** | | |
| **Opening balance** | **$1,691** | **$777** |
| Additions | 1,564 | 1,423 |
| Amortization | (678) | (509) |
| **Balance end of the year** | **$2,577** | **$1,691** |

## 8. OTHER ASSETS

Other non-current assets consist of the following:

| | DECEMBER 31, 2014 | DECEMBER 31, 2013 |
|---|---|---|
| Tenant improvement allowances | $72,166 | $60,718 |
| Leasing commissions | 32,535 | 29,797 |
| Straight-line rents | 23,206 | 17,703 |
| Escrow accounts held by mortgagees | 3,824 | 5,253 |
| Mortgage interest swap asset | - | 3,331 |
| Other | 6,796 | 8,426 |
| Balance end of the year | $138,527 | $125,228 |

Included in Other is the non-current portion of an annuity loan receivable of $2,127 (December 31, 2013 - $3,162).

In March 2013, Allied defeased a mortgage associated with a property located at 134 Peter Street. Pursuant to the defeasance, Allied purchased $5,752 of government bonds and pledged them as security for the loan in return for the lender releasing the mortgage on 134 Peter Street. Neither the financial asset nor the loan qualified for de-recognition, and as a result, both remain in the Consolidated Balance Sheets. Therefore also included in Other is the non-current portion of the amount receivable on government bonds of $nil (December 31, 2013 - $5,119), relating to the purchase of the bonds as replacement security for the mortgage. This is not withstanding that the current portion of the amount receivable on government bonds is $5,119 (December 31, 2013 - $378). The government bonds are classified as a held to maturity financial asset. The government bonds have various maturities to August 1, 2015 and are measured at amortized cost. The weighted average interest rate on the government bonds is 1.48%.

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 31,2014 | DECEMBER 31, 2013 |
|---|---|---|
| Cash at bank and in hand | $5,113 | $11,559 |
| Short-term deposits | 147 | 20,205 |
| Total cash and cash equivalents | $5,260 | $31,764 |

Allied 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 Statements of Cash Flows. There are no amounts of significant cash and cash equivalent balances held by Allied that are not available for use.

## 10. INCOME TAXES

Allied is taxed as a "Mutual Fund Trust" for income tax purposes. Allied, 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 are the obligations of the Unitholders.

## 11. FREEHOLD LEASE AND LAND LEASE OBLIGATIONS

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

| | JANUARY 1, 2015 THROUGH DECEMBER 31, 2015 | JANUARY 1, 2016 THROUGH DECEMBER 31, 2019 | THEREAFTER | TOTAL |
|---|---|---|---|---|
| Future minimum lease payments | $7,371 | $33,751 | $496,057 | $537,179 |
| Less: Amounts representing interest | 485 | 7,289 | 393,761 | 401,535 |
| Present value of lease payments | $6,886 | $26,462 | $102,296 | $135,644 |

During the year ended December 31, 2014, minimum lease payments of $6,261 were paid by Allied (December 31, 2013 – $2,091). 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.

Some of Allied's finance lease agreements contain contingent rent clauses. Contingent rental payments are recognized in 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.

## 12. CAPITAL MANAGEMENT

Allied defines capital as the aggregate of Unitholders' equity, mortgages payable, construction loans payable, freehold lease and land lease obligations and bank indebtedness. Allied 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, and variable debt as a percentage of total debt are the primary ratios used in capital management. The Declaration of

Trust requires Allied 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, 2014 and December 31, 2013, debts having variable interest rates and debts having maturities of less than one year aggregated to 2.5% and 4.3% of gross book value, respectively.

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

| | DECEMBER 31, 2014 | DECEMBER 31, 2013 |
|---|---|---|
| Mortgages payable | $1,274,857 | $1,192,407 |
| Construction loans payable | 54,210 | 18,671 |
| Freehold lease and land lease obligations | 135,644 | 120,132 |
| Bank indebtedness | 24,336 | - |
| Unitholders' equity | 2,330,031 | 2,068,714 |
| | $3,819,078 | $3,399,924 |

## 13. FAIR VALUES AND FINANCIAL INSTRUMENT RISK MANAGEMENT

### (A) *Fair Values*

Allied uses various methods in estimating the fair values of assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 – quoted prices in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3 – valuation technique for which significant inputs are not based on observable market data.

The following summarizes the significant methods and assumptions used in estimating fair value of Allied's assets and liabilities measured at fair value:

#### (I) Investment Properties

Investment properties are appraised quarterly by independent appraisers and are included in the Consolidated Balance Sheets at their fair value. The fair value of investment properties as at December 31, 2014 is $3,726,757 (December 31, 2013 – $3,300,750). See Note 5 for the reconciliation between the valuation obtained and the adjusted valuation included in the financial statements.

### VALUATION METHODOLOGY

The fair value of each investment property is based on 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 fair value of investment properties is determined using the discounted cash flow method, whereby the income and expenses 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. The fair value of properties under development is measured using both a comparable sales method and a discounted cash flow method, net of costs to complete, as of the balance sheet date.

Management verifies all major inputs to the valuations and reviews the results with the independent appraiser. Management also analyses the changes in fair values at the end of each reporting period during the quarterly valuations' discussions with the independent appraiser.

### SIGNIFICANT UNOBSERVABLE INPUTS

There are significant unobservable inputs such as capitalization rates used in determining the fair value of each investment property (Level 3). See Note 5 for a sensitivity analysis showing the impact of a change in capitalization rates on the fair value of Allied's investment property portfolio. As shown in Note 5, there is an inverse relationship between capitalization rates and fair value. An increase in capitalization rates results in a lower estimated fair value, and a decrease in capitalization rates results in a higher estimated fair value.

### (II) Interest Rate Derivative Contracts

The fair value of Allied's interest rate derivative contracts which represents a net liability as at December 31, 2014 is $8,734 as compared to a net asset as at December 31, 2013 of $3,331. The fair value of the derivative contracts is determined using interest rates observable in the market (Level 2).

### (III) Financial liabilities

The fair value of Allied's mortgages payable, construction loans payable and land lease obligations as at December 31, 2014 is approximately $1,466,000 (December 31, 2013 – $1,339,000). The fair values of the mortgages payable and construction loans payable are estimated based on the present value of future payments, discounted at the yield on Government of Canada bonds, plus an estimated credit spread at the reporting date for a comparable loan (Level 2).

### (IV) Other assets and liabilities

The carrying value of Allied's financial assets, which include cash and cash equivalents, accounts receivable, as well as financial liabilities, which include accounts payable and other liabilities and bank indebtedness, approximate their fair values due to their short-term nature.

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

### (b) *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 is exposed to interest rate risk on its borrowings. Substantively all of Allied's mortgages payable and construction loans payable at December 31, 2014 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'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 utilizes additional floating rate debt under the revolving credit facility, Allied will be further exposed to changes in interest rates. In addition, there is a risk that interest rates will fluctuate from the date Allied commits to a debt to the date the interest rate is set with the lender. As part of its risk management program, Allied 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 +/– 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, 2014 | CARRYING AMOUNT | -1% INCOME | -1% UNITHOLDERS' EQUITY | +1% INCOME | +1% UNITHOLDERS' EQUITY |
|---|---|---|---|---|---|
| Bank indebtedness | $24,336 | $243 | $243 | $(243) | $(243) |
| Mortgages and loans payable maturing within one year | $113,287 | $1,133 | $1,133 | $(1,133) | $(1,133) |

| For the Year Ended December 31, 2013 | CARRYING AMOUNT | -1% INCOME | -1% UNITHOLDERS' EQUITY | +1% INCOME | +1% UNITHOLDERS' EQUITY |
|---|---|---|---|---|---|
| Bank indebtedness | $- | $- | $- | $- | $- |
| Mortgages and loans payable maturing within one year | $137,384 | $1,374 | $1,374 | $(1,374) | $(1,374) |

(c) *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 incurring a financial loss. Allied 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 to a significant portion of Allied'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, 2014 and December 31, 2013, allowances for doubtful accounts were $3,265 and $1,850, respectively.

The following sets out Allied's tenant-mix on the basis of percentage of rental revenue for the year ended December 31, 2014 and December 31, 2013:

| CATEGORY | % OF RENTAL REVENUE YEAR ENDED DECEMBER 31, 2014 | % OF RENTAL REVENUE YEAR ENDED DECEMBER 31, 2013 |
|---|---|---|
| Telecommunications and information technology | 29.6% | 30.4% |
| Business service and professional | 27.4% | 20.1% |
| Retail (head office and storefront) | 13.9% | 13.1% |
| Media and entertainment | 11.8% | 13.8% |
| Other | 5.6% | 13.5% |
| Financial services | 5.3% | 2.0% |
| Government | 4.4% | 4.7% |
| Educational and institutional | 2.0% | 2.4% |

Allied 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's maximum exposure to credit risk. None of Allied'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, 2014 | DECEMBER 31, 2013 |
|---|---|---|
| Less than 30 days | $80 | $1,475 |
| 30 to 60 days | 1,121 | 1,412 |
| More than 60 days | 16,341 | 3,023 |
| Total | $17,542 | $5,910 |

### (D) *Liquidity Risk*

Liquidity risk arises from the possibility of not having sufficient capital available to Allied. Mitigation of liquidity risk is discussed above in Note 12 - Capital Management. A significant portion of Allied's assets have been pledged as security under the related mortgages and other security agreements. Interest rates on the mortgages payable are between 2.0% and 6.9% for December 31, 2014 and between 2.0% and 8.1% for December 31, 2013.

Allied has a $100 million revolving credit facility with a Canadian chartered bank, which matures August 31, 2015 and bears interest at bank prime plus 60 basis points or bankers' acceptance plus 180 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, 2014. At December 31, 2014 the amount outstanding under the credit facility was $24.3 million (December 31, 2013 - $nil).

Allied has provided its guarantee (limited to 50%) to a Canadian chartered bank to support a $45.7 million construction lending facility to assist with the financing of construction costs associated with a property under development in which Allied has a 50% joint venture interest. The loan matures on December 31, 2015 and bears interest at bank prime plus 80 basis points or market based bankers' acceptance rate plus 180 basis points (see also Note 18). The balance outstanding under the facility as at December 31, 2014 was $24.3 million, of which $12.1 million is Allied's proportionate share of the loan. The balance outstanding under the facility as at December 31, 2013 was $16.2 million, of which $8.1 million is Allied's proportionate share of the loan.

In May 2013, Allied secured a construction facility from a group of Canadian chartered banks (the "Lenders") to fund project construction costs for the development at 134 Peter Street, Toronto, Ontario. The construction facility consists of two loans: i) a non-revolving secured term construction facility for a maximum amount of $80 million available in the form of market based bankers' acceptances and/or prime rate loans; and ii) a non-revolving senior secured letter of credit for a maximum amount of one million available in the form of letters of credit/guarantees. The loan matures on June 30, 2016. The construction facility requires Allied to maintain the financial covenants commensurate with a facility of this type. At December 31, 2014, there was $42.1 million drawn on the facility (December 31, 2013 - $10.6 million).

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

| As at December 31, 2014 | PRINCIPAL REPAYMENTS | BALANCE DUE AT MATURITY | TOTAL |
|---|---|---|---|
| Year ended December 31, 2015 | $37,592 | $63,547 | $101,139 |
| Year ended December 31, 2016 | 35,883 | 66,510 | 102,393 |
| Year ended December 31, 2017 | 33,845 | 127,314 | 161,159 |
| Year ended December 31, 2018 | 32,889 | 56,900 | 89,789 |
| Year ended December 31, 2019 | 30,019 | 142,360 | 172,379 |
| Thereafter | 85,289 | 568,767 | 654,056 |
| | $255,517 | $1,025,398 | $1,280,915 |
| Net discount on assumed mortgages (net of accumulated amortization of $2,474) | | | 655 |
| Financing costs (net of accumulated amortization of $8,782) | | | (6,713) |
| | | | $1,274,857 |

| As at December 31, 2013 | PRINCIPAL REPAYMENTS | BALANCE DUE AT MATURITY | TOTAL |
|---|---|---|---|
| Year ended December 31, 2014 | $33,611 | $95,695 | $129,306 |
| Year ended December 31, 2015 | 31,574 | 102,917 | 134,491 |
| Year ended December 31, 2016 | 29,646 | 70,244 | 99,890 |
| Year ended December 31, 2017 | 26,896 | 136,574 | 163,470 |
| Year ended December 31, 2018 | 25,593 | 56,900 | 82,493 |
| Thereafter | 75,090 | 513,555 | 588,645 |
| | $222,410 | $975,885 | $1,198,295 |
| Net discount on assumed mortgages (net of accumulated amortization of $2,400) | | | 728 |
| Financing costs (net of accumulated amortization of $6,964) | | | (6,616) |
| | | | $1,192,407 |

Allied has entered into interest rate derivative contracts to limit its exposure to fluctuations in the interest rates on approximately $255 million of its variable rate mortgages payable as at December 31, 2014 (December 31, 2013 – $239 million). Gains or losses arising from the change in fair values of the interest rate derivative contracts are recognized in the Consolidated Statements of Income and Comprehensive Income. During the year ended December 31, 2014, Allied recognized, as part of change in fair value adjustment on derivative instruments, a net loss of $12,345 (December 31, 2013 – net gain of $5,800).

## 14. UNITHOLDERS' EQUITY

The number of units issued and outstanding are as follows:

| | UNITS |
|---|---|
| **Units outstanding, January 1, 2013** | **64,090,341** |
| Units issued pursuant to offering on March 7, 2013 | 3,691,500 |
| Units issued under the Distribution Reinvestment Plan | 711,132 |
| Units issued under Unit Option Plan | 49,437 |
| **Units outstanding, December 31, 2013** | **68,542,410** |
| Units issued pursuant to offering on September 3, 2014 | 4,887,500 |
| Units issued under the Distribution Reinvestment Plan | 852,161 |
| Units issued under Unit Option Plan | 786,841 |
| **Units outstanding, December 31, 2014** | **75,068,912** |

| | DECEMBER 31, 2014 | DECEMBER 31, 2013 |
|---|---|---|
| The number of units issued and fully paid | 75,068,912 | 68,542,410 |

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

Units issued pursuant to public offerings are net of unit issue costs of $7,659 and $5,723 for the years ended December 31, 2014 and December 31, 2013, respectively.

## 15. UNIT OPTION AND RESTRICTED UNIT PLANS

Allied 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. 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 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, 43,333 and 43,334 options vested on January 15, 2010, January 15, 2011 and January 15, 2012, respectively. 130,000 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, 263,303, 263,304 and 258,042 options vested on December 31, 2010, March 9, 2011, March 9, 2012 and March 9, 2013, respectively. 832,895 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, 97,944 and 93,058 options vested on March 31, 2012, March 31, 2013 and March 31, 2014, respectively. 106,949 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. 76,795 and 71,237 options vested on March 6, 2013 and March 6, 2014, respectively. 64,606 options will vest on March 6, 2015. 65,160 options have been exercised. 13,494 options have been forfeited.

On March 5, 2013, 209,235 options were granted to trustees, officers and employees with an exercise price of $34.25 and expiring on March 5, 2018. 69,744 options vested on March 5, 2014. 62,905 and 62,906 options will vest on March 5, 2015 and March 5, 2016, respectively. 38,076 options have been exercised. 13,680 options have been forfeited.

On March 4, 2014, 266,174 options were granted to trustees, officers and employees with an exercise price of $33.29 and expiring on March 4, 2019. 75,538, 75,540 and 75,548 options will vest on March 4, 2015, March 4, 2016 and March 4, 2017, respectively. 39,548 options have been forfeited.

On May 6, 2014, 8,474 options were granted to an officer with an exercise price of $34.59 and expiring on May 6, 2019. 2,824, 2,825 and 2,825 options will vest on May 6, 2015, May 6, 2016 and May 6, 2017, respectively.

Allied 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, 2014 | | DECEMBER 31, 2013 | |
|---|---|---|---|---|
| | The range of exercise prices | Weighted average remaining contractual life (years) | The range of exercise prices | Weighted average remaining contractual life (years) |
| For the units outstanding at the end of the period | $19.39-34.59 | 2.62 | $12.34-34.25 | 2.17 |

| | DECEMBER 31, 2014 | | DECEMBER 31, 2013 | |
|---|---|---|---|---|
| | Number of units | Weighted average exercise price | Number of units | Weighted average exercise price |
| Balance at the beginning of the year | 1,350,941 | $23.30 | 1,191,143 | $21.23 |
| Granted during the year | 274,648 | 33.33 | 209,235 | 34.25 |
| Forfeited during the year | (59,859) | 32.76 | - | - |
| Exercised during the year | (786,841) | 20.89 | (49,437) | 19.89 |
| Balance at the end of the year | 778,889 | $28.54 | 1,350,941 | $23.30 |
| Units exercisable at the end of the year | 353,371 | $23.69 | 906,173 | $20.41 |

Weighted average unit price for the year ended December 31, 2014 was $35.01 (December 31, 2013 – $32.83).

Allied 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/MAY 2014 | MARCH 2013 |
|---|---|---|
| Unit options granted | 274,648 | 209,235 |
| Unit option holding period (years) | 5 | 5 |
| Volatility rate | 20.5% | 20.4% |
| Distribution yield | 4.2% | 4.0% |
| Risk free interest rate | 1.6% | 1.3% |
| Value of options granted | $972 | $765 |

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

For the Unit Option Plan, in total, $722 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, 2014 and credited to Unitholders' equity (December 31, 2013 – $736).

Certain employees and the Trustees of Allied 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 for a specific period of time. Full vesting of Restricted Units will not occur until the participant has remained employed by Allied 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. During the year, 46,594 units of Allied were granted for the Restricted Unit Plan and are included in the units outstanding (December 31, 2013 - 34,915). At December 31, 2014, 178,755 units of Allied were outstanding for the Restricted Unit Plan and 7,678 units were forfeited. At December 31, 2013, 138,414 units of Allied were outstanding for the Restricted Unit Plan and 1,425 units were forfeited.

For the Restricted Unit Plan, in total, $1,212 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) has been included in profit for December 31, 2014 and credited to Unitholders' equity (December 31, 2013 - $1,031).

## 16. LONG-TERM INCENTIVE PLAN

Officers and trustees of Allied 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, 2014 and December 31, 2013 were $636 and $1,212, 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, 2014 | YEAR ENDED DECEMBER 31, 2014 | CUMULATIVE AS AT DECEMBER 31, 2013 |
|---|---|---|---|
| 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) | - | (5,968) |
| Interest on installment loans receivable | (1,076) | (7) | (1,069) |
| Distributions applied against installment loans receivable | 3,592 | 30 | 3,562 |
| Repayments of installment loans | 3,283 | - | 3,283 |
| | (169) | 23 | (192) |
| | $6,587 | $23 | $6,564 |

| UNITS ISSUED UNDER THE LTIP | CUMULATIVE AS AT DECEMBER 31, 2013 | YEAR ENDED DECEMBER 31, 2013 | CUMULATIVE AS AT DECEMBER 31, 2012 |
|---|---|---|---|
| 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) | - | (5,968) |
| Interest on installment loans receivable | (1,069) | (9) | (1,060) |
| Distributions applied against installment loans receivable | 3,562 | 51 | 3,511 |
| Repayments of installment loans | 3,283 | 102 | 3,181 |
| | (192) | 144 | (336) |
| | $6,564 | $144 | $6,420 |

## 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, 2014 | FOR THE YEAR ENDED DECEMBER 31, 2013 |
|---|---|---|
| Basic | 71,048,941 | 67,443,659 |
| Unit option plan | 246,388 | 408,381 |
| Long-term incentive plan | 23,726 | 37,233 |
| Diluted | 71,319,055 | 67,889,273 |

## 18. COMMITMENTS AND CONTINGENCIES

Allied 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, 2014 and December 31, 2013 were $16,184 and $19,866, respectively.

Allied has provided its guarantee (limited to 50%) to a Canadian chartered bank to support a $45.7 million construction lending facility to assist with the financing of construction costs associated with a property under development in which Allied has a 50% ownership interest (see also Note 6). The loan matures on December 31, 2015 and bears interest at bank prime plus 80 basis points or market based bankers' acceptance rate plus 180 basis points. The balance outstanding under the facility as at December 31, 2014 was $24.3 million (December 31, 2013 - $16.2 million).

In May, 2013, Allied secured a construction facility from a group of Canadian chartered banks to fund project construction costs for the development at 134 Peter Street, Toronto, Ontario. The construction facility consists of two loans: i) a non-revolving secured term construction facility for a maximum amount of $80 million available in the form of market based bankers' acceptances and/or prime rate loans; and ii) a non-revolving senior secured letter of credit for a maximum amount of one million available in the form of letters of credit/guarantees. As at December 31, 2014, there was $42.1 million drawn on the facility (December 31, 2013 - $10.6 million).

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

Allied, through a financial intermediary, has issued letters of credit in the amount of $798 representing deposits on several of the conditional purchase agreements noted above and other financing requirements (December 31, 2013 - $1,556).

## 19. SEGMENTED INFORMATION

Management, in measuring Allied'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 does not include assets and liabilities in the segmented information below.

Allied 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 of financial instruments are not allocated to segments. These are disclosed below as Other.

## SEGMENTED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

| For the Year Ended December 31, 2014 | EASTERN CANADA | CENTRAL CANADA | WESTERN CANADA | SEGMENT TOTAL | OTHER | TOTAL |
|---|---|---|---|---|---|---|
| Revenues | | | | | | |
| Rental properties | $87,885 | $186,022 | $68,486 | $342,393 | $- | $342,393 |
| Amortization of tenant improvements | (4,955) | (4,295) | (1,080) | (10,330) | - | (10,330) |
| Amortization of straight line rent | 2,165 | 2,225 | 1,253 | 5,643 | - | 5,643 |
| Total revenues | 85,095 | 183,952 | 68,659 | 337,706 | - | 337,706 |
| Expenses | | | | | | |
| Rental property operating costs | 39,301 | 74,277 | 25,346 | 138,924 | - | 138,924 |
| Financing | - | - | - | - | 53,674 | 53,674 |
| Trust | - | - | - | - | 7,686 | 7,686 |
| Amortization of leasing costs and other assets | 2,419 | 2,781 | 527 | 5,727 | 774 | 6,501 |
| Total expenses | 41,720 | 77,058 | 25,873 | 144,651 | 62,134 | 206,785 |
| Income before fair value adjustments | 43,375 | 106,894 | 42,786 | 193,055 | (62,134) | 130,921 |
| Change in fair value on investment properties | (17,652) | 29,745 | 21,109 | 33,202 | - | 33,202 |
| Change in fair value on derivative instruments | - | - | - | - | (12,345) | (12,345) |
| Total change in fair values | (17,652) | 29,745 | 21,109 | 33,202 | (12,345) | 20,857 |
| Net income and comprehensive income for the year | $25,723 | $136,639 | $63,895 | $226,257 | $(74,479) | $151,778 |

## SEGMENTED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

| For the Year Ended December 31, 2013 | EASTERN CANADA | CENTRAL CANADA | WESTERN CANADA | SEGMENT TOTAL | OTHER | TOTAL |
|---|---|---|---|---|---|---|
| Revenues | | | | | | |
| Rental properties | $78,613 | $167,746 | $58,909 | $305,268 | $- | $305,268 |
| Amortization of tenant improvements | (4,474) | (3,259) | (556) | (8,289) | - | (8,289) |
| Amortization of straight line rent | 1,787 | 2,067 | 1,200 | 5,054 | - | 5,054 |
| Total revenues | 75,926 | 166,554 | 59,553 | 302,033 | - | 302,033 |
| Expenses | | | | | | |
| Rental property operating costs | 37,833 | 67,321 | 21,196 | 126,350 | - | 126,350 |
| Financing | - | - | - | - | 44,622 | 44,622 |
| Trust | - | - | - | - | 7,065 | 7,065 |
| Amortization of leasing costs and other assets | 2,209 | 2,239 | 343 | 4,791 | 486 | 5,277 |
| Total expenses | 40,042 | 69,560 | 21,539 | 131,141 | 52,173 | 183,314 |
| Income before fair value adjustments | 35,884 | 96,994 | 38,014 | 170,892 | (52,173) | 118,719 |
| Change in fair value on investment properties | 17,993 | 83,204 | 12,908 | 114,105 | - | 114,105 |
| Change in fair value on derivative instruments | - | - | - | - | 5,800 | 5,800 |
| Total change in fair values | 17,993 | 83,204 | 12,908 | 114,105 | 5,800 | 119,905 |
| Net income and comprehensive income for the year | $53,877 | $180,198 | $50,922 | $284,997 | $(46,373) | $238,624 |

## 20. RELATED PARTY TRANSACTIONS

Allied'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 engages in third-party property management business, including the provision of services for properties in which certain trustees of Allied have an ownership interest. For the year ended December 31, 2014 real estate service revenue earned from these properties was $235 and $235 for the year ended December 31, 2013.

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, 2014 | FOR THE YEAR ENDED DECEMBER 31, 2013 |
|---|---|---|
| Salary, bonus and other short-term employee benefits | $3,688 | $3,799 |
| Share-based payments | 1,337 | 1,302 |
| | $5,025 | $5,101 |

## 21. SUBSEQUENT EVENTS

On January 2, 2015, Allied repaid the first mortgage on 1040 Hamilton in Vancouver as it came due in the amount of $11,300.

On January 8, 2015, Allied offered to the public, on a bought-deal basis, 1,925,000 units from treasury at a price of $39.00 per unit for gross proceeds of approximately $75,000, together with an over-allotment option for up to an additional 288,750 units on the same terms and conditions.

On January 29, 2015, Allied established a $200,000 unsecured revolving credit facility (the "Unsecured Facility") with a Canadian chartered bank bearing interest at bank prime plus 70 basis points or bankers' acceptance plus 170 basis points and maturing on January 28, 2018. The Unsecured Facility also contains an accordion feature that allows Allied to increase it to $300,000. The Unsecured Facility replaced the existing $100,000 secured revolving credit facility with a Canadian chartered bank maturing on August 31, 2015.

On February 2, 2015, Allied closed the previously announced offering of 2,213,750 units (inclusive of 288,750 units issued pursuant to the exercise in full of the over-allotment option) for gross proceeds of $86,336.

On February 2, 2015, Allied repaid the construction lending facility for QRC West, Phase I, in Toronto by drawing down on the Unsecured Facility. Allied intends to fund the remaining construction costs by drawing down on the Unsecured Facility.

On February 10, 2015, Allied completed the previously announced acquisition of an undivided 50% interest in 19 Duncan in Toronto and advanced the $40,770 acquisition loan to the Duncan & Adelaide Joint Venture between Allied and Westbank.

On March 2, 2015, Allied repaid the first mortgage on 662 King West in Toronto and 1500 Notre Dame in Winnipeg as it came due in the aggregate amount of $5,300.

THE CELLAR
BASEMENT, 808-1ST STREET SW, CALGARY

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