

ALLIED

ALLIED PROPERTIES REIT

ANNUAL REPORT DECEMBER 31, 2015

BUILDING CITIES — ONE BUILDING AT A TIME

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MARKETING CENTRE, THE WELL
460 KING STREET WEST, TORONTO

ALLIED

ANNUAL REPORT

DECEMBER 31, 2015

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LETTER TO UNITHOLDERS

Dear Fellow Unitholder:

Our short-term results for 2015 came in below expectation, whereas our long-term results came in at or above expectation. While the former can't be ignored, I attribute more importance to latter, as they're more indicative of future performance and the ongoing evolution of our business.

FFO per unit for the fourth quarter was 57 cents, up 6% from the comparable quarter. For the year, it was \$2.17, up 3% from 2014. NAV per unit at the end of 2015 was \$33.05, up 7% from the end of 2014. We completed four developments on schedule in 2015 with the fifth being rescheduled for completion this year. We also completed \$130 million of strategic acquisitions in Toronto's Downtown West with value-creation potential that can be realized in three to five years, along with a \$28 million in-fill acquisition at King & Spadina. Our balance-sheet metrics remained exceptionally strong, with our pool of unencumbered properties reaching \$1.6 billion at the end of 2015, up 107% from the end of 2014. All things considered, a good year for Allied.

OPERATING AND DEVELOPMENT ENVIRONMENT FOR 2016

I expect our operating and development environment to be generally favourable in 2016. Our recent leasing activity reflects the depth and breadth of demand for urban office space in our target markets across the country. Demand in the downtown Toronto market is unrelenting, as existing office users continue to expand and office users from the suburbs continue to migrate downtown. The downtown Montréal office market is less buoyant, but the demand among TAMI office users for large blocks of affordable space remains high. The downtown Calgary office market is clearly under stress. Our Calgary portfolio held up well in 2015 and is expected to remain stable in 2016. The downtown Vancouver market remains strong. We've now backfilled the office space that depressed our same-asset NOI in Vancouver last year.

I expect a return to same-asset NOI growth in 2016, with Eastern and Central Canada growing progressively over the four quarters of the year and Western Canada declining modestly in the first half of the year and growing over the last two quarters. Development completions will contribute to NOI growth in 2016, though the contribution to FFO and AFFO will be muted somewhat by the discontinuance of interest and expense capitalization on completion. I expect we'll initiate two or more Toronto developments in 2016 in response to the ongoing demand for distinctive urban office space.

ACQUISITION ENVIRONMENT FOR 2016

I expect our acquisition environment to be generally unfavourable in 2016. Capitalization rates are declining in the urban markets, especially Toronto. While this bodes well for the upward valuation of our existing portfolio and consequent growth in NAV per unit, it marginalizes all but the most strategic potential acquisitions. Our pace of acquisitions, as a result, is likely to slow in 2016. Indeed, for the purposes of our internal forecast, we've assumed no acquisitions this year. It's important to state two things here – first, we remain committed to consolidating the ownership of urban office properties in our target markets; and, second, we can readily afford to do so. We simply don't believe the current conditions for our type of acquisitions are favourable. This will change, and when it does, we'll be ready, willing and able. In the meantime, we'll continue to focus on adding value to our existing portfolio, something we're uniquely well positioned to do.

We also remain committed to selling our small number of non-core assets. We sold one of our three properties in Victoria last year and will work toward selling the remaining two this year. We'll also work toward selling our Québec City portfolio in the next 12 to 18 months. We'll adopt a more reactive approach to our Winnipeg and Edmonton portfolios, especially as they're generating a very respectable return on investment and the disposition environment in those cities is sub-optimal. In addition to enabling us to redeploy a relatively small amount of capital profitably in our primary markets, selling our non-core assets will enable us to streamline our operations.

As expected, we recently sold our undivided 50% interest in 57 Spadina Avenue in Toronto at an amount well in excess of IFRS value. With our co-owner, we rezoned the property, primarily for residential use, and decided to sell the rezoned site profitably rather than pursue the development of a building with a very small commercial component. We will redeploy the capital in connection with our ongoing development activity.

OUTLOOK FOR 2016

My confidence in Allied's near-term and longer-term outlook continues. In 2016, we expect a return to same asset NOI growth, enabling us to deliver FFO, AFFO and NAV per unit growth in the mid-single-digit range. This assumes no acquisitions in 2016 and takes full account of the temporarily dilutive impact of the \$130 million of strategic acquisitions made in 2015. While we fully expect to make continued progress on the lease-up and completion of 250 Front Street West, we have moderated our assumptions for the purpose of internal forecasting.

My confidence in Allied's outlook is predicated on the continued intensification of the urban core of Canada's major cities and the continued desire on the part of office users to locate in distinctive urban office environments, both of which I consider to be secular trends. My confidence is underpinned by our recent leasing success in our target markets. It's also underpinned by the depth and strength of the Allied team and the team's ability to execute our strategy at all levels.

* * *

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,

A handwritten signature in black ink, appearing to read 'Michael Emory', with a large, stylized initial 'M'.

Michael Emory
PRESIDENT AND CHIEF EXECUTIVE OFFICER

MANAGEMENT'S DISCUSSION
AND ANALYSIS OF RESULTS
OF OPERATIONS AND
FINANCIAL CONDITION AS
AT DECEMBER 31, 2015

SECTION I

—Overview

This Management’s Discussion and Analysis (“MD&A”) of results of operations and financial condition relates to the year ended December 31, 2015. Unless the context indicates otherwise, all references to “Allied”, “the Trust”, “we”, “us” and “our” in this MD&A refer to Allied Properties Real Estate Investment Trust. The Board of Trustees of Allied, upon the recommendation of its Audit Committee, approved the contents of this MD&A.

This MD&A has been prepared with an effective date of March 1, 2016, and should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2015. This MD&A is based on financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”). Historical results and percentage relationships contained in this MD&A, including trends that might appear, should not be taken as indicative of future results, operations or performance. Unless otherwise indicated, all amounts in this MD&A are in thousands of Canadian dollars.

Readers are cautioned that certain terms used in the MD&A such as Funds from Operations (“FFO”), Adjusted Funds from Operations (“AFFO”), Net Operating Income (“NOI”), Net Asset Value (“NAV”), Gross Book Value (“GBV”), Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”), Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (“Adjusted EBITDA”), “Payout Ratio”, “Interest Coverage”, “Net Debt to Adjusted EBITDA” and any related per Unit amounts used by Management of Allied to measure, compare and explain the operating results and financial performance of Allied do not have any standardized meaning prescribed under IFRS and, therefore, should not be construed as alternatives to net income or cash flow from operating activities calculated in accordance with IFRS. These terms are defined in the MD&A and reconciled to the consolidated financial statements of Allied for the year ended December 31, 2015. Such terms do not have a standardized meaning prescribed by IFRS and may not be comparable to similarly titled measures presented by other publicly traded entities. See “Other Financial Performance Measures”, “Net Operating Income”, “Debt” and “Financial Covenants”.

EBITDA is a non-IFRS measure that is comprised of earnings less income taxes, interest expense, amortization expense and depreciation expense. It is a metric that can be used to help determine Allied's ability to service its debt, finance capital expenditures and provide for distributions to its Unitholders.

Adjusted EBITDA, as defined by Allied, is a non-IFRS measure that is comprised of net earnings less income taxes, interest expense, amortization expense and depreciation expense, as well as gains and losses on disposal of investment properties and the fair value changes associated with investment properties and financial instruments ("IFRS value changes"). It is a metric that can be used to help determine Allied's ability to service its debt, finance capital expenditures and provide for distributions to its Unitholders. Additionally, Adjusted EBITDA removes the non-cash impact of the IFRS value changes and gains and losses on investment property dispositions. The IFRS value is referred to as the fair value of the investment properties in the consolidated financial statements.

The ratio of Net Debt to Adjusted EBITDA is included and calculated each period to provide information on the level of Allied's debt versus Allied's ability to service that debt. Adjusted EBITDA is used as part of this calculation as the IFRS value changes and gains and losses on investment property dispositions do not impact cash flow, which is a critical part of the measure.

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws, including, among other things, statements concerning Allied's objectives and 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 the Letter to Unitholders, Section I—Overview, under the headings "Business Overview and Strategy", "Corporate Social Responsibility" and "Business Environment and Outlook", Section III—Asset Profile, under the headings "Rental Properties" and "Development Properties" and Section IV—Liquidity and Capital Resources, constitute forward looking information. This MD&A includes, but is not limited to, forward-looking statements regarding: closing dates of proposed acquisitions; completion of construction and lease-up in connection with Properties Under Development ("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 gross leasable area ("GLA"); ability to extend lease terms; the creation of future value; estimated GLA, NOI and growth from PUDs; estimated costs of PUDs; future economic occupancy; return on investments, including return on investment on PUDs; estimated rental revenue and anticipated rental rates; lease up 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 MD&A 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 in Section IX - Risks and Uncertainties, which could cause actual results, operations or performance to differ materially from the forward-looking statements in this MD&A. 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 MD&A 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 MD&A 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 MD&A are qualified in their entirety by this forward-looking disclaimer. Without limiting the generality of the foregoing, the discussion in the Letter to Unitholders, Section I—Business Overview and Strategy and Section III—Asset Profile are qualified in their entirety by this forward-looking disclaimer. These statements are made as of March 1, 2016, and, except as required by applicable law, Allied undertakes no obligation to update publicly or revise any such statements to reflect new information or the occurrence of future events or circumstances.

SUMMARY OF KEY FINANCIAL AND OPERATING PERFORMANCE MEASURES

The following table summarizes the key financial and operating performance measures for the three months and year ended December 31, 2015, and the comparable periods in 2014 and 2013.

(\$000's except per-square foot, per-unit and other data)	THREE MONTHS ENDED		FOR THE YEARS ENDED		
	DECEMBER 31, 2015	DECEMBER 31, 2014	DECEMBER 31, 2015	DECEMBER 31, 2014	DECEMBER 31, 2013
Portfolio					
Number of properties			148	143	134
Total rental GLA (000's of square feet)			10,421	9,501	8,928
Leased rental GLA (000's of square feet)			9,516	8,742	8,209
Leased area			91.3%	92.0%	91.9%
Occupied area			90.6%	88.1%	89.4%
Average in place net rent per square foot (period-end)			19.85	19.63	N/A
Estimated market rent per square foot (period-end)			20.72	20.87	N/A
Investment properties			4,197,277	3,726,757	3,408,968
Total assets			4,455,946	3,932,719	3,500,609
Cost of PUD as % of GBV			4.7%	5.6%	3.4%
Unencumbered investment properties			1,619,465	782,100	400,000
Total debt			1,587,503	1,353,403	1,211,078
Total debt as a % of investment properties			37.8%	36.3%	35.5%
Net asset value			2,591,731	2,330,031	2,068,714
Annualized Adjusted EBITDA	220,984	209,876	219,208	201,426	176,907
Net debt	1,583,180	1,348,143	1,583,180	1,348,143	1,179,313
Net debt as a multiple of annualized Adjusted EBITDA	7.2x	6.4x	7.2x	6.7x	6.7x
Adjusted EBITDA	55,246	52,469	219,208	201,426	176,907
Interest expense	11,497	13,922	52,131	53,674	44,622
Interest expense as a multiple of Adjusted EBITDA	4.8x	3.8x	4.2x	3.8x	4.0x
Rental revenue from investment properties	94,024	88,524	365,401	337,545	302,033
NOI	55,274	53,573	215,452	203,631	179,082
Same-asset NOI - rental portfolio	50,067	52,169	183,002	190,570	N/A
Same-asset NOI - total portfolio	54,142	53,452	199,091	193,690	N/A

		THREE MONTHS ENDED		FOR THE YEARS ENDED		
(\$000's except per-square foot, per-unit and other data)		DECEMBER 31, 2015	DECEMBER 31, 2014	DECEMBER 31, 2015	DECEMBER 31, 2014	DECEMBER 31, 2013
Net income excluding gain (loss) on disposal and IFRS value adjustments		36,889	33,880	144,671	130,920	118,419
Net Income		45,165	82,437	254,367	151,778	238,624
FFO		44,318	40,274	168,610	148,786	131,679
AFFO		35,356	34,286	140,683	130,197	112,135
Distributions		28,836	26,716	113,674	100,588	92,120
Per unit:						
Rental revenue from investment properties		1.20	1.18	4.70	4.73	4.45
NOI		0.71	0.71	2.77	2.86	2.64
Net income excluding gain (loss) on disposal and IFRS value adjustments		0.47	0.45	1.86	1.84	1.74
Net income		0.58	1.10	3.27	2.13	3.51
FFO		0.57	0.54	2.17	2.09	1.94
AFFO		0.45	0.46	1.81	1.83	1.66
AFFO payout ratio		81.6%	77.9%	80.8%	77.3%	82.2%
Distributions		0.37	0.36	1.46	1.41	1.34
Net asset value				33.05	31.04	30.18
Actual units outstanding				78,430,153	75,068,912	68,542,410
Weighted average diluted units outstanding		78,355,768	75,050,618	77,773,683	71,319,055	67,889,273
Financial Ratios	ALLIED'S TARGETS					
Total indebtedness ratio	<40%			35.8%	34.4%	34.6%
Secured indebtedness ratio	<45%			27.0%	34.4%	34.6%
Debt service coverage ratio	>1.50x			2.2x	2.1x	2.3x
Unencumbered property asset ratio	>1.40x			4.1x	N/A	N/A
Interest-coverage ratio - including interest capitalized	>3.0x			3.1x	3.0x	3.0x

BUSINESS OVERVIEW AND STRATEGY

Allied is an unincorporated closed-end real estate investment trust created pursuant to the Declaration of Trust (“Declaration”) dated October 25, 2002, as amended and restated on February 6, 2003, May 14, 2008, May 11, 2010, May 15, 2012, May 14, 2013 and May 14, 2015. Allied is governed by the laws of Ontario. Allied’s Units are publicly traded on the Toronto Stock Exchange under the symbol “AP.UN”. Additional information on Allied, including its annual information form, is available on SEDAR at www.sedar.com.

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 specializes 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 Allied’s portfolio, Class I buildings can satisfy the needs of the most demanding office and retail tenants. When operated in the coordinated manner of Allied’s 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. This value proposition has proven appeal to a diverse base of business tenants, including the full range of service and professional firms, telecommunications and information technology providers, media and film groups and storefront retailers.

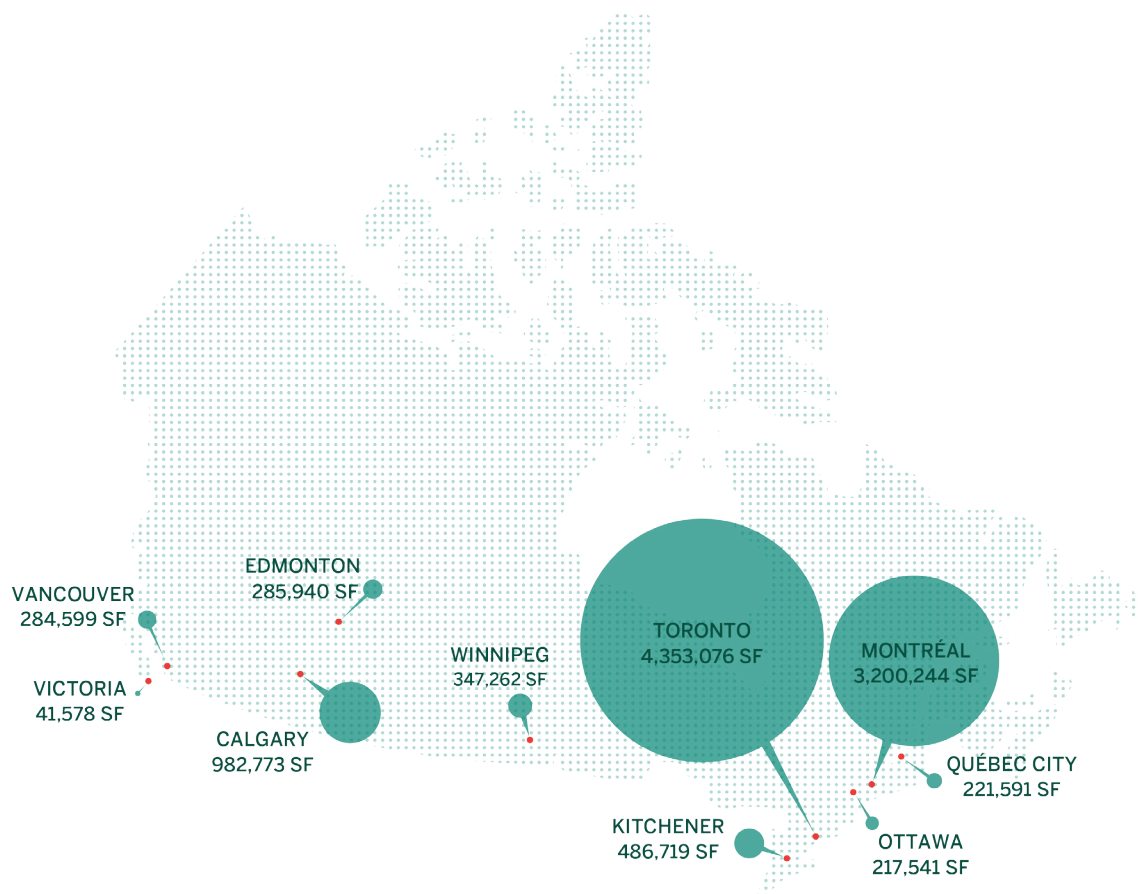
In addition to accommodating their employees in urban office space, many of Allied’s tenants utilize sophisticated and extensive telecommunication and computer equipment. This is often a mission-critical need for our tenants. In an effort to serve this related need, Allied established extensive capability in downtown Toronto through the acquisition of 151 Front Street West, the leading telecommunication interconnection point in Canada. Allied has since expanded its capability with a view to serving its tenants’ space requirements more fully.

PROPERTY MANAGEMENT

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

PROPERTY PORTFOLIO

Allied completed its initial public offering (“IPO”) on February 20, 2003, at which time it had assets of \$120 million, a market capitalization of \$62 million and a local, urban-office portfolio of 820,000 square feet. As of December 31, 2015, Allied had assets of \$4.5 billion, a market capitalization of \$2.5 billion and a national urban-office platform of 10.4 million square feet of GLA in ten cities across Canada. The illustration below depicts the geographic diversity of Allied’s rental portfolio.



ACQUISITIONS

During 2015, Allied acquired five properties for \$164,834, a summary of which is in the table below:

PROPERTY	ACQUISITION DATE	PURCHASE PRICE ⁽¹⁾	OFFICE GLA	RETAIL GLA	TOTAL GLA	PARKING SPACES
19 Duncan, Toronto ⁽²⁾	February 20, 2015	\$24,573	30,956	—	30,956	36
180 John, Toronto	April 15, 2015	8,581	30,033	6,140	36,173	2
511-539 King West, Toronto ⁽³⁾	June 29, 2015	102,939	56,267	8,517	64,784	107
552-560 King West, Toronto	September 17, 2015	28,342	8,019	16,696	24,715	—
105 George - Parking, Toronto	October 13, 2015	399	—	—	—	15
Total		\$164,834	125,275	31,353	156,628	160

(1) Purchase price including acquisition costs.

(2) Equal two-way co-ownership with Westbank Corp. ("Westbank"), referred to as Adelaide & Duncan, with total estimated GLA of 61,912.

(3) For property count purposes, this acquisition is split into three components: parking, a heritage rental property and a rental property.

Subsequent to year-end, Allied and First Capital Realty acquired 816-838 – 11th Avenue SW, Calgary, for \$21,000, with each party acquiring an undivided 50% interest in the property.

DISPOSITIONS

During 2015, Allied disposed of one property for \$6,275, a summary of which is in the table below:

PROPERTY	DISPOSITION DATE	SALE PRICE	OFFICE GLA	RETAIL GLA	TOTAL GLA	PARKING SPACES
8-10 Bastion Square, Vancouver	November 4, 2015	\$6,275	22,003	10,086	32,089	—
Total		\$6,275	22,003	10,086	32,089	—

Subsequent to year-end, Allied sold its undivided 50% interest in 57 Spadina Avenue, Toronto, for net proceeds of \$9,450.

CORPORATE SOCIAL RESPONSIBILITY

Allied is committed to sustainability as it relates to the physical environment within which it operates. Most of Allied's 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 Allied undertakes new construction through development or intensification, it is 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. Allied is committed to obtaining BOMA BEST certification for as many of its 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. Allied has one property with Level 2 certification and thirteen properties with Level 3 certification, with plans to put additional buildings forward for certification on an annual basis.

Allied is also attentive to the impact of its business on the human environment. Allied's 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. Allied believes that its buildings and tenants are best served if artists remain viable members of the surrounding communities. Accordingly, Allied has made it a practice to allocate an appropriate portion of its rentable area to artistic uses on an affordable basis as part of its 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 Allied foregoes in short-term rent, it more than makes up in overall occupancy and net rent levels at other properties in the surrounding communities. Allied sees this as an important part of its corporate social responsibility.

BUSINESS ENVIRONMENT AND OUTLOOK

Allied operates in 10 urban markets in Canada – Toronto, Montréal, Ottawa, Winnipeg, Québec City, Kitchener, Calgary, Edmonton, Victoria and Vancouver. The office inventory statistics are summarized in the table below:

	TOTAL OFFICE INVENTORY	ESTIMATED TARGET MARKET INVENTORY	ALLIED CURRENT GLA	PERIOD END ALLIED LEASED RATE	ALLIED'S ESTIMATED SHARE OF TARGET MARKET
Toronto	87,800,000	16,100,000	4,353,076	96.0%	27.0%
Montréal	47,100,000	17,500,000	3,200,244	85.5%	18.3%
Ottawa	18,700,000	1,700,000	217,541	94.3%	12.8%
Winnipeg	10,300,000	1,800,000	347,262	83.0%	19.3%
Québec City	19,000,000	1,500,000	221,591	86.2%	14.8%
Kitchener	2,400,000	1,000,000	486,719	97.0%	48.7%
Calgary	49,300,000	2,900,000	982,773	87.4%	33.9%
Edmonton	15,800,000	1,000,000	285,940	92.5%	28.6%
Victoria	4,900,000	2,400,000	41,578	100.0%	1.7%
Vancouver	33,300,000	4,000,000	284,599	98.6%	7.1%
Total	288,600,000	49,900,000	10,421,323	91.3%	20.9%

Allied expects its operating and development environment to be generally favourable in 2016 and its acquisition environment to be generally unfavourable. While the latter will result in a much slower pace of acquisitions in 2016, it will also enable Allied to focus more intently on adding value to its existing portfolio, something it is uniquely well positioned to do.

Allied expects to return to same-asset NOI growth in 2016, enabling it to deliver FFO, AFFO and NAV per unit growth in the mid-single-digit range. This assumes no acquisitions in 2016 and takes full account of the dilutive impact of the \$130 million of strategic acquisitions made in 2015. While Allied expects to make continued progress on the lease-up and completion of 250 Front Street West, it has moderated the assumptions in the interest of prudence.

Allied's outlook is predicated on the continued intensification of the urban core of Canada's major cities and the continued desire on the part of office users to locate in distinctive urban office environments. Allied's outlook is underpinned by recent leasing success in its target markets. It is also underpinned by the depth and strength of the Allied team and the team's ability to execute Allied's strategy at all levels.

SECTION II

—Leasing

Allied strives to maintain high levels of occupancy and leased area. At December 31, 2015, Allied's rental portfolio was 91.3% leased.

STATUS

Leasing status for the rental portfolio as at December 31, 2015, is summarized in the following table:

	TOTAL GLA	OCCUPIED GLA	%	COMMITTED GLA	%	LEASED GLA	%
Rental Portfolio - before transfers from PUD in 2015	9,588,088	8,778,347	91.6%	73,952	0.8%	8,852,299	92.3%
Add: Transfers from PUD in 2015	833,235	664,073	79.7%	—	—	664,073	79.7%
Total Rental Portfolio	10,421,323	9,442,420	90.6%	73,952	0.7%	9,516,372	91.3%

Of 10,421,323 square feet of total GLA in Allied's rental portfolio, 9,442,420 square feet were occupied by tenants on December 31, 2015. Another 73,952 square feet were subject to contractual lease commitments with tenants whose leases commence subsequent to December 31, 2015, bringing the leased area to 9,516,372 square feet, which represents 91.3% of Allied's total GLA.

Occupancy as at December 31, 2015, and the comparable period in 2014 is summarized in the following table:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Occupied GLA	9,442,420	8,366,038
% Occupied GLA	90.6%	88.1%

Allied monitors the level of sub-lease space in its portfolio. Below is a summary of sub-lease space by city as at December 31, 2015 and 2014:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Calgary	12,937	27,425
Edmonton	1,645	—
Kitchener	2,061	15,048
Montréal	26,645	36,351
Ottawa	—	—
Québec City	—	—
Toronto	113,563	55,244
Vancouver	—	5,210
Victoria	3,876	3,876
Winnipeg	4,223	4,200
Total square feet	164,950	147,354
% of Total GLA	1.6%	1.6%

This level of sublease space is consistent with past experience and does not represent an operating or leasing challenge.

ACTIVITY

Allied places 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, Allied strives for high-quality replacement tenants.

Leasing activity in connection with the rental portfolio as at December 31, 2015, is summarized in the following table:

	LEASABLE SF	LEASED SF BY DECEMBER 31	% LEASED BY DECEMBER 31	UNLEASED SF AT DECEMBER 31
Vacancy on January 1, 2015, including re-measurement	778,890	303,257	38.9%	475,633
Vacancy transferred from PUD - YTD	243,282	74,120	30.5%	169,162
Arranged vacancy as at December 31, 2015	163,604	45,078	27.6%	118,526
Maturities as at December 31, 2015, excluding month to month tenants	865,132	723,502	83.6%	141,630
Total	2,050,908	1,145,957	55.9%	904,951

At the beginning of 2015, 778,890 square feet of GLA was vacant. By the end of 2015, Allied leased 303,257 square feet of this GLA, leaving 475,633 square feet unleased.

Leases for 865,132 square feet of GLA matured in the period ended December 31, 2015, at the end of which Allied renewed or replaced leases for 723,502 square feet of this GLA, leaving 141,630 square feet unleased.

For the year ended December 31, 2015, 723,502 of GLA, or 83.6%, of leases maturing in 2015 were renewed or replaced. With respect to those renewals and replacements, Allied achieved rental rates (i) above in-place rental rates for 57.5% of the GLA, (ii) equal to in-place rental rates for 25.2% of the GLA and (iii) below in-place rental rates for 17.4% of the GLA. Overall, this has resulted in an increase of 5.5% in the net rental income per square foot from maturing leases.

TENANT PROFILE

The following sets out Allied's tenant-mix on the basis of percentage of rental revenue for the year ended December 31, 2015:

CATEGORY	% OF RENTAL REVENUE DECEMBER 31, 2015
Telecommunications and information technology	28.9%
Business service and professional	28.6%
Media and entertainment	13.0%
Retail (head office and storefront)	12.9%
Other	5.8%
Financial services	5.1%
Government	3.9%
Educational and institutional	1.8%
	100.0%

The following sets out the percentage of rental revenue from top 10 tenants by rental revenue for the period ended December 31, 2015:

TENANT	% OF RENTAL REVENUE DECEMBER 31, 2015	WEIGHTED AVERAGE REMAINING LEASE TERM (YEARS)	CREDIT RATING DBRS/S&P/MOODY'S
Equinix	3.0%	9.3	-/BB/Ba3
National Capital Commission (a Canadian Crown Corporation)	2.8%	19.1	Not rated
Desjardins	2.6%	3.0	AA/A+/Aa2
Ubisoft	2.4%	7.1	Not rated
Cologix	2.2%	11.3	Not rated
Allstream	1.4%	3.2	* -/B/B2
Morgan Stanley	1.3%	4.8	AH/BBB+/A3
Bell Canada	1.3%	4.6	AL/BBB+/Baa1
SAP Canada	1.3%	5.7	* -/A/A2
Peer 1	1.2%	2.8	* BBH/BB+/-
	19.5%		

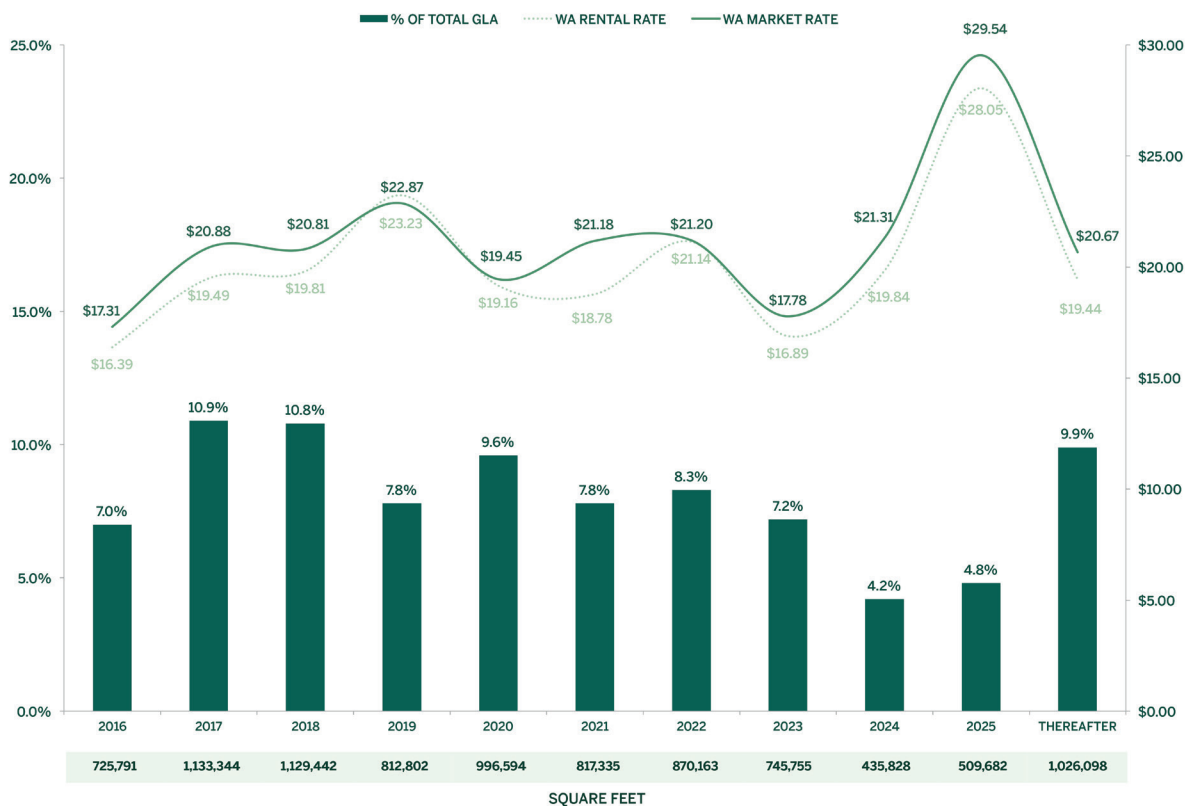
*Credit rating for parent company

LEASE MATURITY

As at December 31, 2015, 91.3% of the GLA in Allied's rental portfolio was leased. The weighted average term to maturity of Allied's leases at that time was 5.8 years. The square footage maturing by December 31, 2015, does not include month-to-month leases for 158,605 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 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.

The following table contains information on the office and retail leases that mature up to 2025 and thereafter, assuming tenants do not exercise renewal options, and the corresponding estimated weighted average market rental rate:

TOTAL RENTAL PORTFOLIO	SQUARE FEET	% OF TOTAL GLA	WEIGHTED AVERAGE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2016	725,791	7.0%	16.39	17.31
December 31, 2017	1,133,344	10.9%	19.49	20.88
December 31, 2018	1,129,442	10.8%	19.81	20.81
December 31, 2019	812,802	7.8%	23.23	22.87
December 31, 2020	996,594	9.6%	19.16	19.45
December 31, 2021	817,335	7.8%	18.78	21.18
December 31, 2022	870,163	8.3%	21.14	21.20
December 31, 2023	745,755	7.2%	16.89	17.78
December 31, 2024	435,828	4.2%	19.84	21.31
December 31, 2025	509,682	4.8%	28.05	29.54
Thereafter	1,026,098	9.9%	19.44	20.67



The estimated weighted average market rental rate of Allied's maturing leases as at December 31, 2015 of \$20.72 declined by 0.4% from the estimated rate at September 30, 2015, of \$20.80. The majority of the decrease was driven by the Western region, which has seen market rates decrease in response to the current economic conditions.

The following tables contain information on the office and retail lease maturities by region:

EASTERN CANADA	SQUARE FEET	% OF REGIONAL GLA	WEIGHTED AVERAGE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2016	240,978	6.6%	10.13	12.25
December 31, 2017	328,467	9.0%	17.38	15.22
December 31, 2018	194,016	5.3%	14.55	14.19
December 31, 2019	209,468	5.7%	20.71	13.94
December 31, 2020	271,844	7.4%	15.58	14.52
December 31, 2021	369,036	10.1%	16.71	15.86
December 31, 2022	257,841	7.1%	16.29	14.63
December 31, 2023	450,642	12.3%	11.96	15.28
December 31, 2024	100,576	2.8%	13.58	14.53
December 31, 2025	107,639	2.9%	13.42	13.06
Thereafter	487,580	13.4%	12.46	13.21

CENTRAL CANADA	SQUARE FEET	% OF REGIONAL GLA	WEIGHTED AVERAGE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2016	282,366	5.8%	19.75	22.53
December 31, 2017	624,090	12.9%	19.77	25.04
December 31, 2018	659,638	13.6%	23.41	26.18
December 31, 2019	422,314	8.7%	25.68	29.81
December 31, 2020	497,997	10.3%	22.18	24.29
December 31, 2021	304,252	6.3%	22.61	26.76
December 31, 2022	567,037	11.7%	22.60	24.19
December 31, 2023	135,069	2.8%	22.18	26.37
December 31, 2024	214,653	4.4%	21.92	25.34
December 31, 2025	288,504	6.0%	35.45	39.84
Thereafter	529,272	10.9%	25.66	27.45

WESTERN CANADA	SQUARE FEET	% OF REGIONAL GLA	WEIGHTED AVERAGE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2016	202,447	10.5%	19.14	16.06
December 31, 2017	180,787	9.4%	22.34	16.82
December 31, 2018	275,788	14.3%	14.88	12.61
December 31, 2019	181,020	9.4%	20.46	16.99
December 31, 2020	226,753	11.7%	16.82	14.75
December 31, 2021	144,047	7.5%	15.95	23.01
December 31, 2022	45,285	2.3%	30.46	21.08
December 31, 2023	160,044	8.3%	26.29	17.57
December 31, 2024	120,599	6.2%	21.36	19.80
December 31, 2025	113,539	5.9%	23.10	18.99
Thereafter	9,246	0.4%	31.92	26.00

RECENT UPDATES

Leasing momentum was strong throughout 2015 and has continued into 2016. On January 25, 2016, Allied provided a formal leasing update on over 300,000 square feet of GLA. Since then and in addition to ongoing renewal activity, Allied has leased 16,505 square feet of vacant office GLA in its Calgary portfolio, mostly at Vintage II, 13,616 square feet of vacant office GLA at Cité Multimedia in Montréal and 12,147 square feet of vacant retail GLA in its Edmonton, Toronto, Ottawa and Montreal portfolios, in each instance with rent commencing in the second quarter of 2016. In the opinion of Management, this ongoing leasing activity reflects the depth and breadth of demand for urban office and retail space in its target markets across the country.

Since its most recent leasing update, Allied has entered into expansion negotiations with existing tenants of 250 Front Street West that could result in material additional lease-up of GLA with rent commencing over the course of 2016. With respect to completed leases, Allied is providing the following schedule of rent commencement for 250 Front:

COMMENCEMENT DATE	GLA	% OF TOTAL GLA
At December 31, 2015	29,000	17%
Q1 2016	37,000	21%
Q2 2016	27,000	16%
Total	93,000	54%

SECTION III

—Asset Profile

As at December 31, 2015, Allied's portfolio consisted of 148 investment properties (129 rental properties, nine development properties and ten ancillary parking facilities) comprising 10.4 million square feet of space, with an IFRS value of \$4,197,277.

	DECEMBER 31, 2015			DECEMBER 31, 2014		
	RENTAL PROPERTIES	PROPERTIES UNDER DEVELOPMENT	TOTAL	RENTAL PROPERTIES	PROPERTIES UNDER DEVELOPMENT	TOTAL
Balance, beginning of year	\$3,490,057	\$236,700	\$3,726,757	\$3,163,688	\$137,062	\$3,300,750
Additions:						
Acquisitions	140,261	24,573	164,834	208,709	26,231	234,940
Transfers from PUD	230,531	(230,531)	—	11,796	(11,796)	—
Transfers to PUD	(186,892)	186,892	—	(8,403)	8,403	—
Capital expenditures	72,363	115,859	188,222	82,727	71,661	154,388
Dispositions	(6,275)	—	(6,275)	(6,294)	(7,080)	(13,374)
Freehold lease and land leases	—	6,301	6,301	18,611	—	18,611
IFRS value gain	114,031	3,407	117,438	19,223	12,219	31,442
Balance, end of year	\$3,854,076	\$343,201	\$4,197,277	\$3,490,057	\$236,700	\$3,726,757

The IFRS value (or the "fair value", as referred to in the consolidated financial statements) for each rental property is the value assigned to it for the purpose of Allied's consolidated financial statements for the year ended December 31, 2015.

The IFRS value of rental 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 IFRS value of properties under development is measured using either a comparable sales method or 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 analyzes the changes in IFRS values at the end of each reporting period during the quarterly valuation discussions with the independent appraiser.

The capitalization rate for each rental property is the rate used in determining the IFRS value assigned to it. In valuing our portfolio as at December 31, 2015, the appraiser used capitalization rates ranging from 4.0% to 8.0%, the high-point being the capitalization rate associated with our property at 6300 Avenue du Parc. The portfolio weighted average overall capitalization rate was 6.0%.

	DECEMBER 31, 2015		DECEMBER 31, 2014	
	RANGE %	WEIGHTED AVERAGE %	RANGE %	WEIGHTED AVERAGE %
Central Region	4.00% - 7.25%	5.8%	4.75% - 7.50%	6.3%
Eastern Region	5.75% - 8.00%	6.2%	5.75% - 8.25%	6.2%
Western Region	4.50% - 7.50%	5.8%	4.75% - 7.50%	6.0%
Rental Properties	4.00% - 8.00%	5.9%	4.75% - 8.25%	6.2%
Properties Under Development	7.00% - 7.75%	7.3%	5.50% - 7.75%	6.7%
Total Investment Properties	4.00% - 8.00%	6.0%	4.75% - 8.25%	6.3%

RENTAL PROPERTIES

Allied's 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 Allied grew. It enabled Allied to provide its tenants with greater expansion flexibility, more parking and better telecommunication and information technology capacity than its direct competitors. Scale across the country also proved to be important. It enabled Allied to serve national and global tenants better, to expand its growth opportunities and to achieve meaningful geographic diversification.

TOP-10 RENTAL PROPERTIES

Last Quarter Annualized (“LQA”) NOI, representing the most recent completed quarter results multiplied by four, from the top 10 rental properties represented 42.1% of total NOI in the period ended December 31, 2015. The top 10 rental properties, measured by LQA NOI, are identified in the following table:

PROPERTY NAME	IFRS VALUE	LQA NOI	CAP RATE	PRINCIPAL TENANTS BY NOI
151 Front West, Toronto	\$356,605	\$27,015	7.25%	Allstream, Bell, Cologix, Equinix
Cité Multimédia, Montréal	291,371	19,421	5.75%	Desjardins, Morgan Stanley, Resolute
The Chambers, Ottawa	146,137	8,858	5.75%	National Capital Commission
QRC West, Toronto	166,546	7,386	4.75%	Arc Productions, Sapient Canada, eOne
555 Richmond West, Toronto	108,592	6,103	5.75%	Sentinel Medical
The Tannery, Kitchener	71,461	5,364	6.50%	Desire 2 Learn, Google
Vintage I & II, Calgary	101,256	5,236	6.00%	Royal & Sun Alliance
5455 de Gaspé, Montréal	57,696	4,966	7.50%	Ubisoft, Attraction Media
Boardwalk Revillon, Edmonton	76,202	4,489	6.23%	Edmonton Public School Board
QRC East, Toronto	79,357	4,214	5.25%	Key Media, Publicis
Total	\$1,455,223	\$93,052	6.39%	

RENTAL PROPERTIES UNDERGOING INTENSIFICATION APPROVAL

One way Allied creates value is by intensifying the use of underutilized land. The land beneath the buildings in Toronto is significantly underutilized in relation to the existing zoning potential. This is also true of some of Allied’s buildings in Kitchener, Montréal, Calgary and Vancouver. These opportunities are becoming more compelling as the urban areas of Canada’s major cities intensify. Since Allied has captured the unutilized land value at a low cost, it can achieve attractive risk-adjusted returns on intensification.

Allied has initiated the intensification approval process for seven rental properties in Toronto, four of which are owned in their entirety and the remaining three co-owned with partners. These properties are identified in the following table:

PROPERTY NAME	APPROVAL STATUS	USE	CURRENT GLA	ESTIMATED GLA ON COMPLETION	ESTIMATED COMPLETION
Union Centre	Rezoning completed	Office, limited retail	39,975	1,129,000	Unscheduled
QRC West, Phase II	Rezoning completed	Office, retail	32,439	74,000	Unscheduled
King & Peter	Rezoning completed	Office, limited retail	91,221	790,000	Unscheduled
King & Spadina ⁽¹⁾	Rezoning completed	Office, limited retail	107,381	TBD	Unscheduled
College & Manning ⁽²⁾	Rezoning completed	Office, limited retail, residential	31,581	62,500	2020
King & Portland ⁽³⁾	Rezoning completed	Office, retail, residential	42,638	180,000	2019
The Well ⁽⁴⁾	In rezoning	Office, retail, residential	101,183	1,240,000	Unscheduled
Total			446,418	3,475,500	

(1) This site has been expanded to include 489-539 King Street West.

(2) Equal two-way co-ownership with RioCan Real Estate Investment Trust ("RioCan"), total estimated GLA is 125,000 square feet.

(3) Equal two-way co-ownership with RioCan, total estimated GLA is 360,000 square feet.

(4) 40/40/20 co-ownership with RioCan and Diamond Corp. ("Diamond"), total estimated GLA is 3,100,000 square feet.

Estimated GLA is based on applicable standards of area measurement and the expected or actual outcome of re-zoning.

The following table sets out the IFRS value and LQA NOI of the rental properties identified in the preceding table, as at December 31, 2015, as well as the current funding obligations in relation to design for zoning approval costs associated with those properties.

PROPERTY NAME	IFRS VALUE	LQA NOI	ESTIMATED DESIGN-APPROVAL COST	FUNDED	TO BE FUNDED
Union Centre	\$81,007	\$1,336	\$2,500	\$2,490	10
QRC West, Phase II	29,172	1,149	750	750	—
King & Peter	61,327	1,348	700	700	—
King & Spadina	126,784	1,839	TBD	1,140	TBD
College & Manning	16,043	595	500	500	—
King & Portland	23,729	532	500	500	—
The Well	95,226	1,060	4,898	3,990	908

These properties are currently generating NOI and will continue to do so until Allied initiates construction. With respect to the ultimate intensification of these properties, a significant amount of pre-leasing will be required on the larger projects before construction commences. The design-approval costs have been, and will continue to be, funded with cash-on-hand.

DEVELOPMENT PROPERTIES

Development is another way to create value and a particularly effective one for Allied, given the strategic positioning of its portfolio in the urban areas of Canada's major cities. Urban intensification is the single most important trend in relation to Allied's business. Not only does it anchor Allied's investment and operating focus, it provides the context within which Allied creates value for its 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.

It is expected that development activity will become a more important component of Allied's growth as projects are completed. The expectation is largely contingent upon completing the 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. Pursuant to Allied's Declaration, the cost of Properties Under Development cannot exceed 15% of GBV. At the end of December 31, 2015, the cost of Allied's Properties Under Development was 4.7% of GBV (December 31, 2014 – 5.6%). This self-imposed limitation is intended to align the magnitude of Allied's development activity with the overall size of the business.

Properties Under Development consist of properties purchased with the intention of being developed before being operated and properties transferred from the rental portfolio once activities changing the condition or state of the property, such as the de-leasing process, commence.

Allied currently has the following nine Properties Under Development:

	USE	ESTIMATED GLA ON COMPLETION (SF)	% OF GLA OCCUPIED AT PERIOD END	% OF GLA LEASED
250 Front West, Toronto	Telecommunications and IT	173,800	17%	54%
485 King West, Toronto	Office, retail	13,221	—	100%
The Breithaupt Block, Phase II, Kitchener ⁽¹⁾	Office	45,000	—	100%
TELUS Sky, Calgary ^{(1) (2)}	Office, residential	223,000	—	32%
Adelaide & Duncan, Toronto ^{(1) (3)}	Office, residential	200,000	82%	—
College & Palmerston, Toronto ⁽¹⁾	Office, retail	53,000	—	30%
180 John, Toronto	Office	46,000	—	100%
189 Joseph, Kitchener	Office	26,373	—	100%
138 Portage East, Winnipeg	Office	36,399	—	—
Total		816,793		

(1) These properties are co-owned, reflected in the table at Allied's ownership percentage of assets and liabilities.

(2) The GLA components (in square feet) at our 33 1/3% share are as follows: 148,000 of office, 70,000 of residential and 5,000 of retail. 32% of the office space is leased, representing 21% of the total GLA.

(3) The GLA components (in square feet) at our 50% share are as follows: 150,000 of residential and 50,000 of office.

The following table sets out the IFRS value of Allied's Properties Under Development, as at December 31, 2015, as well as Management's estimates with respect to the financial outcome on completion. To reflect the current state of the Calgary real estate market, we have reduced the estimated NOI from TELUS Sky by 20%.

	TRANSFER TO RENTAL PORTFOLIO	IFRS VALUE	LQA NOI	ESTIMATED ANNUAL NOI	ESTIMATED TOTAL COST	ESTIMATED YIELD ON COST	ESTIMATED COST TO COMPLETE
250 Front West	Q4 2016	\$257,443	\$5,653	\$20,000	\$90,000	22.2%	\$67,000
485 King West	Q1 2016	7,342	—	645	12,900	5.0%	11,900
The Breithaupt Block, Phase II ⁽¹⁾	Q2 2016	10,409	—	1,170	15,180	7.7%	3,396
TELUS Sky ⁽¹⁾	Q4 2018	25,200	—	8,000	133,000	6.0%	95,122
Adelaide & Duncan ⁽¹⁾	Q4 2018	26,025	244	7,860	122,800	6.4%	96,000
College & Palmerston ⁽¹⁾	Q4 2018	3,865	—	477	8,971	5.3%	5,750
180 John	Q1 2017	8,247	38	1,550	22,794	6.8%	15,300
189 Joseph	Q2 2017	1,360	—	685	12,460	5.5%	13,300
138 Portage East	Unscheduled	3,310	84	—	TBD	—	TBD
Total		\$343,201	\$6,019	\$40,387	\$418,105	9.7%	\$307,768

(1) These properties are co-owned, reflected in the table at Allied's ownership percentage of assets and liabilities.

The IFRS value of Properties Under Development is measured using either a comparable sales method or 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.

Transfer to the rental portfolio occurs 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. With the exception of 250 Front West, estimated annual NOI is based on 100% economic occupancy. In the case of 250 Front West, estimated NOI is based on 90% occupancy. The most important factor affecting estimated annual NOI will be successful lease-up of vacant space in the development 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. Estimated total cost includes acquisition cost, estimated total construction and financing costs. The material assumption made in formulating the estimated total cost is that construction and financing costs remain stable for the remainder of the development period. Estimated yield on cost is the estimated annual NOI as a percentage of the estimated total cost. Estimated cost to complete is the difference between the estimated total cost and the costs incurred to date.

SECTION IV

— Liquidity and Capital Resources

Allied's liquidity and capital resources are used to fund capital investments including development activity, leasing costs, interest expense and distributions to Unitholders. The primary source of liquidity is net operating income generated from rental properties, which is dependent on rental and occupancy rates, the structure of lease agreements, leasing costs, and the rate and amount of capital investment and development activity, among other variables.

Allied has financed its operations through the use of equity, mortgage debt secured by rental properties, construction loans, an unsecured operating line, senior unsecured debentures and the unsecured term loan. Conservative financial management has been consistently applied through the use of long term, fixed rate, debt financing. Allied's objective is to maximize financial flexibility while continuing to strengthen the balance sheet. Management intends to achieve this by continuing to access the unsecured debenture market and growing the pool of unencumbered assets, which totals \$1.6 billion as at December 31, 2015.

DEBT

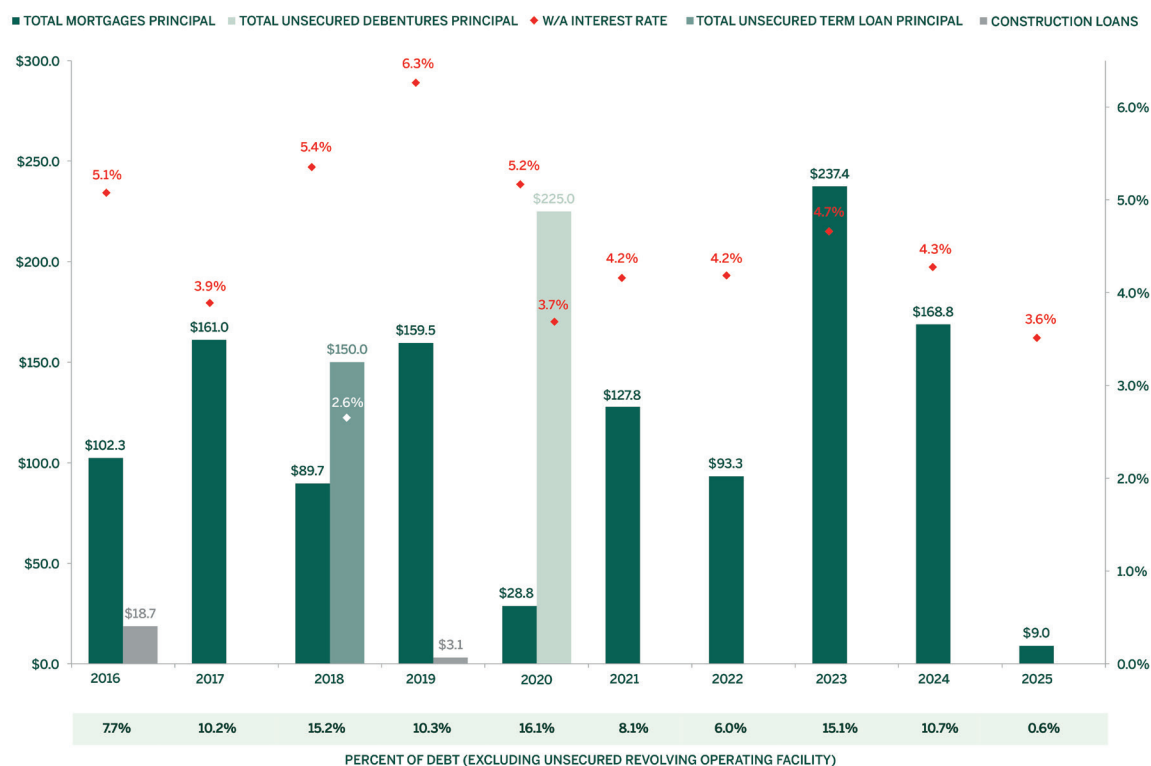
Total debt and net debt are non-IFRS financial measures and do not have any standard meaning prescribed by IFRS. As computed by Allied, total debt and net debt may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar 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 as at December 31, 2015 and December 31, 2014.

DECEMBER 31, 2015

DECEMBER 31, 2014

Mortgages payable	\$1,172,468	\$1,274,857
Construction loans payable	21,789	54,210
Unsecured revolving operating facility	19,598	—
Secured operating facility	—	24,336
Senior unsecured debentures	224,161	—
Unsecured term loan	149,487	—
Total debt	\$1,587,503	\$1,353,403
Less cash and cash equivalents	4,323	5,260
Net debt	\$1,583,180	\$1,348,143

The table below summarizes the maturities of principal in regards to Allied's various obligations as at December 31, 2015.



MORTGAGES PAYABLE

Mortgages payable as at December 31, 2015, totaled \$1,172,468. The following sets out the maturity schedule of Allied's mortgage debt and the weighted average interest rate on the maturing mortgages.

	PRINCIPAL REPAYMENTS	BALANCE DUE AT MATURITY	TOTAL PRINCIPAL	% OF TOTAL PRINCIPAL	W/A INTEREST RATE
2016	35,770	66,511	102,281	8.7%	5.1%
2017	33,731	127,314	161,045	13.7%	3.9%
2018	32,773	56,900	89,673	7.6%	5.4%
2019	30,141	129,365	159,506	13.5%	6.3%
2020	24,361	4,456	28,817	2.4%	5.2%
2021	23,454	104,344	127,798	10.9%	4.2%
2022	19,609	73,683	93,292	7.9%	4.2%
2023	16,421	220,957	237,378	20.2%	4.7%
2024	3,439	165,326	168,765	14.3%	4.3%
2025	172	8,787	8,959	0.8%	3.6%
	\$219,871	\$957,643	\$1,177,514	100.0%	4.7%
Net discount on assumed mortgages			568		
Net financing costs			(5,614)		
			\$1,172,468		

Interest rates on mortgage debt are between 2.0% and 6.9%, resulting in a weighted average interest rate of 4.7% (December 31, 2014 - 4.8%). The weighted average term of the mortgage debt is 5.6 years (December 31, 2014 - 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.

For the year ended December 31, 2015, Allied repaid 11 mortgages totaling \$78,347 with a weighted average interest rate of 4.9%.

CONSTRUCTION LOANS PAYABLE

On June 23, 2015, Allied provided its guarantee (limited to \$114,000) to a Canadian chartered bank to support a \$342,000 construction lending facility to assist with the financing of construction costs associated with the development of TELUS Sky, in which Allied has a 33.33% joint arrangement interest. The loan matures on August 31, 2019, and bears interest at bank prime plus 70 basis points or banker's acceptance rate plus 195 basis points. Allied's obligation of the balance outstanding under the facility as at December 31, 2015 was \$3,126 (December 31, 2014 - nil).

Allied has provided its guarantee (limited to 50%) to a Canadian chartered bank to support a \$45,740 construction lending facility to assist with the financing of construction costs associated with the development of the Breithaupt Block project, in which Allied has a 50% joint arrangement interest. The loan was originally set to mature December 31, 2015, but on December 10, 2015, the maturity was extended to March 31, 2016. The loan bears interest at bank prime plus 80 basis points or bankers' acceptance rate plus 180 basis points. Allied's obligation of the balance outstanding under the facility as at December 31, 2015, was \$18,663 (December 31, 2014 - \$12,110).

In May 2013, Allied secured a construction facility from a group of Canadian chartered banks to fund project construction costs for the development at QRC West, Phase I. In February 2015, Allied repaid the construction facility in full (December 31, 2014 - \$42,100)

UNSECURED REVOLVING OPERATING FACILITY AND SECURED OPERATING FACILITY

On January 18, 2015, Allied obtained an unsecured revolving operating facility ("Unsecured Facility") of \$200,000. The Unsecured Facility had a balance of \$19,598 outstanding at December 31, 2015 (December 31, 2014 - nil). The Unsecured Facility bears interest at bank prime plus 70 basis points or bankers' acceptance plus 170 basis points and matures on January 18, 2018. The Unsecured Facility contains a \$100,000 accordion feature, allowing Allied to increase the amount available under the facility to \$300,000. The Unsecured Facility replaced the \$100,000 secured operating facility which had a balance of \$24,336 outstanding at December 31, 2014.

SENIOR UNSECURED DEBENTURES

On May 13, 2015, Allied issued \$150,000 of 3.748% Series A unsecured debentures (the "Unsecured Debentures") due May 13, 2020, with semi-annual interest payments due on May 13 and November 13 of each year commencing November 13, 2015. Debt financing costs of \$1,001 were incurred and recorded against the principal owing.

Furthermore, on August 18, 2015, Allied issued an additional \$75,000 of 3.748% Series A unsecured debentures with the same terms and conditions as the May 13, 2015, issuance described above. Allied recognized a premium of \$731 on the secondary offering of the Unsecured Debentures. Debt financing costs of \$700 were incurred and recorded against the principal owing.

The respective financing costs are amortized using the effective interest method and recorded to Interest Expense.

Funds from the issuance were used to fund acquisitions, repay amounts drawn on the Unsecured Facility and for general working capital purposes.

	DATE OF ISSUE	DATE OF MATURITY	DECEMBER 31, 2015	DECEMBER 31, 2014
Series A, 3.748%, semi-annual interest payments due May 13 and November 13	May 13, 2015 and August 18, 2015	May 13, 2020	\$225,000	—
Net financing costs			(839)	—
			\$224,161	—

UNSECURED TERM LOAN

On December 14, 2015, Allied entered into a credit agreement with a Canadian chartered bank to obtain a \$150,000 unsecured term loan in the form of a revolving bankers' acceptance at prime plus 170 basis points which matures December 14, 2018 (the "Unsecured Term Loan"). Concurrently, with the closing of the Unsecured Term Loan, Allied entered into an interest rate swap agreement to fix the variable interest rate on the bankers' acceptance to 0.945%, resulting in a total fixed interest rate of 2.645% for the full term of the Unsecured Term Loan. The interest rate swap agreement has a notional value of \$150,000. Financing costs of \$522 were incurred and recorded against the principal owing. During 2015, Allied amortized \$9 (December 31, 2014 - nil) of financing costs using the effective interest method, recording it to Interest Expense. Funds from the Unsecured Term Loan were used to repay amounts drawn on the Unsecured Facility and for general working capital purposes.

FINANCIAL COVENANTS

The Unsecured Facility, Unsecured Term Loan and Senior Unsecured Debentures contain numerous financial covenants. Failure to comply with the covenants could result in a default, which, if not waived or cured, could result in adverse financial consequences. The covenants as they relate to the Unsecured Facility, Unsecured Term Loan and Senior Unsecured Debentures are as follows:

UNSECURED FACILITY AND UNSECURED TERM LOAN

The following outlines the calculation of debt covenants as defined in the agreements governing the Unsecured Facility and Unsecured Term Loan.

1) Indebtedness ratio

Allied is required to maintain its indebtedness ratio below 60%.

	DECEMBER 31, 2015
Total debt	\$1,587,503
Letters of credit	7,634
Consolidated indebtedness	\$1,595,137
Consolidated gross book value	\$4,455,946
Indebtedness ratio	35.8%

2) Secured indebtedness ratio

Allied is required to maintain its secured indebtedness ratio below 45%.

DECEMBER 31, 2015	
Consolidated indebtedness	\$1,595,137
Less:	
Unsecured Facility	(19,598)
Unsecured Debentures	(224,161)
Unsecured Term Loan	(149,487)
Consolidated secured indebtedness	\$1,201,891
Consolidated gross book value	\$4,455,946
Secured indebtedness ratio	27%

3) Debt service coverage ratio

On a twelve month rolling basis, Allied is required to maintain its consolidated adjusted EBITDA at more than 1.5 times of its debt service payments.

ROLLING 12 MONTHS DECEMBER 31, 2015	
Net income and comprehensive income	\$254,367
Interest expense	52,131
Capitalized interest	18,042
Amortization of leasing costs and other assets	8,230
Amortization of tenant improvements	14,176
IFRS value gain on investment properties	(117,438)
Fair value loss on derivative instruments	7,594
Loss on disposal of investment properties	148
Consolidated adjusted EBITDA	\$237,250
Total principal and interest payments (excluding principal payments on maturity)	\$107,590
Debt service coverage ratio	2.2x

4) Equity maintenance

Allied is required to maintain equity of at least \$1,250,000 plus 75% of future equity issuances.

DECEMBER 31, 2015	
Unitholders' equity	\$2,591,731
Initial requirement	\$1,250,000
75% of future equity issuances	61,761
Total required equity amount	\$1,311,761
Excess over required amount	\$1,279,970

5) Unencumbered property assets ratio

Allied is required to maintain its balance of unencumbered property assets at more than 1.4 times its total unsecured debt.

DECEMBER 31, 2015	
Total unencumbered properties	\$1,619,465
Unsecured Facility	\$19,598
Unsecured Debentures	224,161
Unsecured Term Loan	149,487
Total unsecured debt	\$393,246
Unencumbered property assets ratio	4.1x

6) Distribution payout ratio

On a twenty four month rolling basis, Allied is required to maintain distributions below 100% of its FFO.

ROLLING 24 MONTHS DECEMBER 31, 2015	
Distributions	\$214,262
FFO	\$317,396
Distribution payout ratio	67.5%

SENIOR UNSECURED DEBENTURES

The following outlines the calculation of debt covenants specified in the Trust indenture agreement with respect to the senior unsecured debentures.

1) Pro forma interest coverage ratio

Allied is required to maintain a 12-month rolling consolidated pro forma EBITDA of at least 1.65 times its pro forma interest expense.

	PRO FORMA 12 MONTHS DECEMBER 31, 2015
Net income and comprehensive income	\$252,058
Interest expense (net of capitalized interest)	56,459
Amortization of leasing costs and other assets	8,230
Amortization of tenant improvements	14,176
IFRS value (gain) loss on investment properties	(117,438)
Fair value loss on derivative instruments	7,594
Loss on disposal of investment properties	148
Consolidated pro forma EBITDA	\$221,227
Pro forma interest expense (including capitalized interest)	\$74,501
Pro forma interest coverage ratio	3.0x

2) Pro forma asset coverage test

Allied is required to maintain its net consolidated debt below 65% of the net aggregate assets on a pro forma basis.

	PRO FORMA DECEMBER 31, 2015
Total liabilities	\$1,864,215
Less:	
Accounts payable and other liabilities	(138,652)
Net consolidated debt	\$1,725,563
Total assets	4,455,946
Less:	
Cumulative capitalized interest	(64,413)
Add:	
Cumulative amortization of tenant improvements	49,355
Cumulative amortization of leasing costs and other assets	34,463
Net aggregate assets	\$4,475,351
Asset coverage test	38.6%

3) Equity maintenance covenant

Allied is required to maintain Unitholders' equity above \$300,000.

DECEMBER 31, 2015	
Unitholders' equity	\$2,591,731
Requirement	300,000
Excess over required amount	\$2,291,731

4) Pro forma unencumbered net aggregate adjusted asset ratio

Allied is required to maintain pro forma unencumbered net aggregate adjusted assets above 1.4 times consolidated unsecured indebtedness.

DECEMBER 31, 2015	
Total assets	\$4,455,946
Less:	
Investment properties with certain encumbrances	(2,577,812)
Cumulative capitalized interest	(64,413)
Add:	
Cumulative amortization of tenant improvements	49,355
Cumulative amortization of leasing costs and other assets	34,463
Total pro forma unencumbered net aggregate adjusted assets	\$1,897,539
Unsecured Facility	\$19,598
Unsecured Debentures	\$224,161
Unsecured Term Loan	149,487
Consolidated unsecured indebtedness	\$393,246
Pro forma unencumbered net aggregate adjusted asset ratio	4.8x

As of December 31, 2015, Allied was in compliance with the terms and covenants of the agreements governing the Unsecured Facility, the Unsecured Term Loan and the Senior Unsecured Debentures.

A number of other financial ratios are also monitored by Allied, including net debt to EBITDA, total debt as a percentage of investment properties and interest expense as a multiple of EBITDA. These ratios are presented in Section I—Overview.

UNITHOLDERS' EQUITY

Allied's change in Unitholders' equity for the period is summarized in the table below:

	DECEMBER 31, 2015	
	UNITS	AMOUNT
Units beginning of the year	75,068,912	\$1,754,576
Units issued pursuant to offering on February 2, 2015	2,213,750	82,348
Units issued under the Distribution Reinvestment Plan	1,028,659	35,195
Units issued under the Unit Option Plan	118,832	3,076
Net cash used to purchase and allocate Units to the Restricted Units Plan	—	(1,672)
Repayments of Long-term incentive plan installment loan receivable	—	18
Units as at December 31, 2015	78,430,153	\$1,873,541

The table below represents weighted average units outstanding for:

	THREE MONTHS ENDED		FOR THE YEARS ENDED	
	DECEMBER 31, 2015	DECEMBER 31, 2014	DECEMBER 31, 2015	DECEMBER 31, 2014
Basic	78,255,779	74,825,964	77,620,668	71,048,941
Unit option plan	82,989	207,654	136,015	246,388
LTIP	17,000	17,000	17,000	23,726
Fully diluted	78,355,768	75,050,618	77,773,683	71,319,055

In May of 2004, Allied adopted a long-term incentive plan ("LTIP") whereby its 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 Allied as security for payment of the LTIP Loan, and all distributions paid on the units are forwarded by the Custodian to Allied and applied first on account of interest on the LTIP Loan and then to reduce the outstanding balance of the LTIP Loan. In May 2010, Allied 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, 2015, and the date hereof, Allied had issued options to purchase 923,629 units outstanding, of which 440,417 had vested, and 17,000 units issued under the LTIP. At December 31, 2014, Allied had options to purchase 778,889 units outstanding, of which 353,371 had vested, and 17,000 units issued under the LTIP. In May 2015, the Unit Option Plan was amended so that non-employee trustees of the REIT are no longer eligible to be granted options under the Unit Option Plan.

For the Unit Option Plan, \$811 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) has been included in net income for the year ended December 31, 2015, and credited to Unitholders' equity (for the year ended December 31, 2014 - \$722).

In March 2010, Allied 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, 2015, Allied had 220,216 Restricted Units outstanding (December 31, 2014 - 178,755).

For the Restricted Unit Plan, a total of \$1,478 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) has been included in net income for the year ended December 31, 2015, and credited to Unitholders' equity (for the year ended December 31, 2014 - \$1,212).

DISTRIBUTIONS TO UNITHOLDERS

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

	MARCH, 2004	MARCH, 2005	MARCH, 2006	MARCH, 2007	MARCH, 2008	DECEMBER, 2012	DECEMBER, 2013	DECEMBER, 2014	DECEMBER, 2015
Annualized increase per unit	\$0.04	\$0.04	\$0.04	\$0.04	\$0.06	\$0.04	\$0.05	\$0.05	\$0.04
% increase	3.6%	3.5%	3.4%	3.3%	4.8%	3.0%	3.7%	3.5%	2.7%
Annualized distribution per unit	\$1.14	\$1.18	\$1.22	\$1.26	\$1.32	\$1.36	\$1.41	\$1.46	\$1.50

DISTRIBUTION REINVESTMENT PLAN (“DRIP”)

Allied has instituted a DRIP whereby Canadian Unitholders may elect to have their distributions automatically reinvested in additional units. Effective December 31, 2015, Unitholders who so elect to participate in the DRIP will receive no additional distribution of units for each distribution that was reinvested (December 31, 2014 - 5% bonus distribution of units). No commissions, service charges or brokerage fees are payable by participants in connection with the DRIP.

SOURCES OF DISTRIBUTIONS

During 2015, Allied declared \$113,674 in distributions (December 31, 2014 - \$100,588), and non-cash distributions of \$35,195 were provided under the DRIP (December 31, 2014 - \$28,227).

	THREE MONTHS ENDED		FOR THE YEAR ENDED	
	DECEMBER 31, 2015	DECEMBER 31, 2014	DECEMBER 31, 2015	DECEMBER 31, 2014
Distributions	\$28,836	\$26,716	\$113,674	\$100,588
Distributions reinvested through the DRIP	(10,348)	(7,099)	(35,195)	(28,227)
Net distributions declared	\$18,488	\$19,617	\$78,479	\$72,361
Net income	\$45,165	\$82,437	\$254,367	\$151,778
Cash flows provided by operating activities	\$47,855	\$37,612	\$189,302	\$126,796
AFFO	\$35,356	\$34,286	\$140,683	\$130,197
Excess of net income over net distributions declared	\$26,677	\$62,820	\$175,888	\$79,417
Excess of cash flows provided by operating activities over net distributions declared	\$29,367	\$17,995	\$110,823	\$54,435
Excess of cash provided by AFFO over net distributions declared	\$16,868	\$14,669	\$62,204	\$57,836

In determining the amount of distributions to be made to Unitholders, Allied’s Board of Trustees consider many factors, including provisions in its Declaration of Trust, macro-economic and industry specific environments, the overall financial condition of the Trust, future capital requirements, debt covenants, and taxable income. In accordance with Allied’s distribution policy, Management and the Board of Trustees regularly review Allied’s rate of distributions to ensure an appropriate level of cash and non-cash distributions. Management anticipates that distributions declared will, in the foreseeable future, continue to vary from net income as net income includes fair value adjustments and other non-cash items. While cash flows from operating activities are generally sufficient to cover distribution requirements, timing of expenses and seasonal fluctuations in non-cash working capital may result in a shortfall. These seasonal or short-term fluctuations shall be funded, if necessary, by the Unsecured Facility. As such, the cash distributions are not an economic return of capital, but a distribution of sustainable cash flow from operations. Based on current facts and assumptions, management does not anticipate cash distributions will be reduced or suspended in the foreseeable future.

As of December 31, 2015, at its meeting on December 9, 2015, the Board of Trustees reviewed and approved the current rate of distributions of \$1.50 per unit per annum.

COMMITMENTS

At December 31, 2015, Allied had future commitments as set out below:

	DECEMBER 31, 2015
Building renovations and maintenance capital expenditures	\$4,758
Revenue-enhancing capital expenditures	30,793
Operating expenses	1,363
Total	\$36,914

SECTION V

— Discussion of Operations

The following sets out summary information and financial results for the three months and year ended December 31, 2015, and the comparable periods in 2014.

	THREE MONTHS ENDED		FOR THE YEARS ENDED	
	DECEMBER 31, 2015	DECEMBER 31, 2014	DECEMBER 31, 2015	DECEMBER 31, 2014
Rental revenue from investment properties	\$94,024	\$88,524	\$365,401	\$337,545
Property operating costs	(40,818)	(36,835)	(152,728)	(138,763)
Net rental income	53,206	51,689	212,673	198,782
Interest expense	(11,497)	(13,922)	(52,131)	(53,674)
General and administrative expenses	(2,730)	(2,332)	(8,916)	(7,687)
Amortization of leasing costs and other assets	(2,441)	(1,555)	(8,230)	(6,501)
Interest income	351	—	1,275	—
Fair value gain on investment properties	8,234	52,446	117,438	31,442
Fair value gain (loss) on derivative instruments	190	(4,909)	(7,594)	(12,345)
Gain (loss) on disposal of investment properties	(148)	1,020	(148)	1,761
Net income and comprehensive income	45,165	82,437	\$254,367	\$151,778

NET OPERATING INCOME (“NOI”)

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 Allied, 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.

Allied operates in 10 urban markets in Canada—Québec City, Montréal, Ottawa, Toronto, Kitchener, Winnipeg, Calgary, Edmonton, Vancouver and Victoria. For the purposes of analysing NOI, Allied groups 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.

Over the past year, Allied’s real estate portfolio has grown through acquisitions and development activities which have positively contributed to the operating results for the year ended December 31, 2015, as compared to the same periods in the prior year.

	THREE MONTHS ENDED		FOR THE YEARS ENDED	
	DECEMBER 31, 2015	DECEMBER 31, 2014	DECEMBER 31, 2015	DECEMBER 31, 2014
Revenue from investment properties	\$94,024	\$88,524	\$365,401	\$337,545
Property operating costs	(40,818)	(36,835)	(152,728)	(138,763)
Net rental income	53,206	51,689	212,673	198,782
Amortization of tenant improvements	4,419	3,112	14,176	10,331
Amortization of straight-line rents	(2,351)	(1,228)	(11,397)	(5,482)
NOI	\$55,274	\$53,573	\$215,452	\$203,631

The following sets out the NOI by region and space type from the rental and development properties for the three months and year ended December 31, 2015, and comparable periods.

REGION	THREE MONTHS ENDED				CHANGE	
	DECEMBER 31, 2015		DECEMBER 31, 2014		\$	%
Eastern Canada	\$13,472	24.4%	\$12,423	23.2%	\$1,049	8.4%
Central Canada	32,559	58.9%	29,503	55.1%	3,056	10.4%
Western Canada	9,243	16.7%	11,647	21.7%	(2,404)	(20.6%)
NOI	\$55,274	100.0%	\$53,573	100.0%	\$1,701	3.2%

TYPE OF SPACE	THREE MONTHS ENDED				CHANGE	
	DECEMBER 31, 2015		DECEMBER 31, 2014		\$	%
Office	\$39,156	70.9%	\$37,292	69.6%	\$1,864	5.0%
Equipment	8,613	15.6%	8,938	16.7%	(325)	(3.6%)
Retail	4,994	9.0%	5,083	9.5%	(89)	(1.8%)
Parking	2,511	4.5%	2,260	4.2%	251	11.1%
NOI	\$55,274	100.0%	\$53,573	100.0%	\$1,701	3.2%

The increase in NOI for the three months ended December 31, 2015, was the result of acquisitions and occupancy of development projects, partially offset by turnover vacancy in Western Canada.

REGION	FOR THE YEARS ENDED				CHANGE	
	DECEMBER 31, 2015		DECEMBER 31, 2014		\$	%
Eastern Canada	\$50,072	23.2%	\$47,893	23.5%	\$2,179	4.5%
Central Canada	127,060	59.0%	112,653	55.3%	14,407	12.8%
Western Canada	38,320	17.8%	43,085	21.2%	(4,765)	(11.1%)
NOI	\$215,452	100.0%	\$203,631	100.0%	\$11,821	5.8%

TYPE OF SPACE	FOR THE YEARS ENDED				CHANGE	
	DECEMBER 31, 2015		DECEMBER 31, 2014		\$	%
Office	\$145,715	67.6%	\$141,891	69.7%	\$3,824	2.7%
Equipment	37,440	17.4%	29,809	14.6%	7,631	25.6%
Retail	22,348	10.4%	23,967	11.8%	(1,619)	(6.8%)
Parking	9,949	4.6%	7,964	3.9%	1,985	24.9%
NOI	\$215,452	100.0%	\$203,631	100.0%	\$11,821	5.8%

The increase in NOI for the year ended December 31, 2015, was the result of acquisitions, occupancy of development projects and \$6,000 of non-recurring front-end connection fees from a tenant at 250 Front West, partially offset by turnover vacancy in Western Canada.

SAME-ASSET NOI

Allied strives to maintain or increase same-asset NOI over time. Same-asset refers to those properties that Allied owned and operated for the entire period in question and for the same period in the prior year. The same-asset NOI development portfolio consists of QRC West, 5445 de Gaspé, 460 King, 250 Front, Breithaupt Block (Phase II), Adelaide & Duncan, 485 King, 189 Joseph, 180 John and 138 Portage.

The same-asset NOI in the table below refers to those investment properties that were owned by the Trust on October 1, 2014, and through out the remainder of 2014 and 2015.

	THREE MONTHS ENDED		CHANGE	
	DECEMBER 31, 2015	DECEMBER 31, 2014	\$	%
Eastern Canada	\$12,915	\$12,065	\$850	7.0%
Central Canada	28,000	28,622	(622)	(2.2%)
Western Canada	9,152	11,482	(2,330)	(20.3%)
Same Asset NOI - rental portfolio	50,067	52,169	(2,102)	(4.0%)
Same Asset NOI - development portfolio	4,075	1,283	2,792	217.6%
Same Asset NOI - total portfolio	\$54,142	\$53,452	\$690	1.3%
Acquisitions	783	—	783	—
Dispositions	58	86	(28)	(32.6%)
Lease termination fees & other	291	35	256	731.4%
NOI - cash basis	\$55,274	\$53,573	\$1,701	3.2%
Amortization of tenant improvements	(4,419)	(3,112)	(1,307)	42.0%
Step-rent adjustments	2,351	1,228	1,123	91.4%
Net rental income - accounting basis	\$53,206	\$51,689	\$1,517	2.9%

For the three months ended December 31, 2015, same-asset NOI of the total portfolio increased due to occupancy in the development portfolio, partially offset by turnover vacancy and less favourable recoveries in the rental portfolio.

The same-asset NOI in the table below refers to those investment properties that were owned by the Trust on January 1, 2014, and through out the remainder of 2014 and 2015.

	FOR THE YEARS ENDED		CHANGE	
	DECEMBER 31, 2015	DECEMBER 31, 2014	\$	%
Eastern Canada	\$46,384	\$45,214	\$1,170	2.6%
Central Canada	101,039	105,657	(4,618)	(4.4%)
Western Canada	35,579	39,699	(4,120)	(10.4%)
Same Asset NOI - rental portfolio	183,002	190,570	(7,568)	(4.0%)
Same Asset NOI - development portfolio	16,089	3,120	12,969	415.7%
Same Asset NOI - total portfolio	\$199,091	\$193,690	\$5,401	2.8%
Acquisitions	13,921	7,394	6,527	88.3%
Dispositions	13	738	(725)	(98.2%)
Lease termination fees & other	2,427	1,809	618	34.2%
NOI - cash basis	\$215,452	\$203,631	\$11,821	5.8%
Amortization of tenant improvements	(14,176)	(10,331)	(3,845)	37.2%
Step-rent adjustments	11,397	5,482	5,915	107.9%
Net rental income - accounting basis	\$212,673	\$198,782	\$13,891	7.0%

For the year ended December 31, 2015, same-asset NOI of the total portfolio increased due to occupancy and \$6,000 of non-recurring front-end connection fees generated in the development portfolio, partially offset by turnover vacancy and less favourable recoveries in the rental portfolio.

INTEREST EXPENSE

For the three months and year ended December 31, 2015, excluding capitalized interest, interest expense increased over the comparable periods in 2014 primarily due to higher levels of debt, although at more favourable interest rates. Capitalized interest in the three months ended December 31, 2015, includes year to date adjustments to reflect activity that took place earlier in the year. Interest may be capitalized on properties in either the development portfolio or the rental portfolio in connection with activity required to get the assets ready for their intended use. This would include upgrade work as well as work completed in relation to a future development, such as obtaining zoning approval, completing site approval plans, engineering and architectural drawings. Capitalized interest is expected to continue at the 2015 annual level through 2016 based on current development activity.

	THREE MONTHS ENDED		FOR THE YEARS ENDED	
	DECEMBER 31, 2015	DECEMBER 31, 2014	DECEMBER 31, 2015	DECEMBER 31, 2014
Interest on debt	\$17,009	\$16,246	\$65,142	\$62,063
Interest on freehold lease and land lease obligations	826	810	3,281	3,211
Amortization, premium (discount) on debt	38	(3)	170	(74)
Amortization, net financing costs	405	373	1,580	1,558
	\$18,278	\$17,426	\$70,173	\$66,758
Less: interest capitalized to qualifying investment properties	(6,781)	(3,504)	(18,042)	(13,084)
Interest expense	\$11,497	\$13,922	\$52,131	\$53,674

GENERAL AND ADMINISTRATIVE EXPENSES

For the three months and year ended December 31, 2015, general and administrative expenses increased by \$398 and \$1,229, respectively, over the comparable periods in 2014. The increase was primarily due to higher salary and benefit expenses and higher professional and legal expenses incurred.

	THREE MONTHS ENDED		FOR THE YEARS ENDED	
	DECEMBER 31, 2015	DECEMBER 31, 2014	DECEMBER 31, 2015	DECEMBER 31, 2014
Salaries and benefits	\$2,108	\$1,710	\$7,305	\$6,783
Professional and directors fees	941	909	2,616	2,293
Office and general expenses	375	361	1,309	1,086
	\$3,424	\$2,980	\$11,230	\$10,162
Capitalized to development and acquisitions	(694)	(648)	(2,314)	(2,475)
Total	\$2,730	\$2,332	\$8,916	\$7,687

NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income for the three months and year ended December 31, 2015, decreased by \$37,272 and increased by \$102,589, respectively, over the comparable periods in 2014. Excluding the effect of IFRS value changes on investment properties and derivative instruments, net income for the three months and year ended December 31, 2015, was up \$1,841 and \$11,842, as compared to the same period in the prior year primarily due to an increase in NOI and interest income, partially offset by higher interest expense and general and administrative expenses.

OTHER FINANCIAL PERFORMANCE MEASURES

FUNDS FROM OPERATIONS (FFO)

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. 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.

For the three months ended December 31, 2015, FFO totaled \$44,318 or \$0.57 per unit. As compared to the same period in the prior year, FFO increased by \$0.03 per unit or 5.6%. The increase in FFO for the three months ended December 31, 2015, was primarily due to the increase in NOI, an increase in interest income and decrease in interest expense, partially offset by general and administrative expenses.

For the year ended December 31, 2015, FFO totaled \$168,610 or \$2.17 per unit. As compared to the same periods in the prior year, FFO increased by \$0.07 per unit or 3.3%. The increase in FFO for the year ended December 31, 2015, was primarily due to the increase in NOI, an increase in interest income and decrease in interest expense, partially offset by higher amortization of equipment and other assets and general and administrative expenses.

To ensure sufficient cash is retained to meet capital improvement and leasing objectives, Allied strives to maintain an appropriate FFO pay-out ratio, which is the ratio of actual distributions to FFO in a given period. For the three months and year ended December 31, 2015, the FFO pay-out ratio was 65.1% and 67.4%, respectively.

ADJUSTED FUNDS FROM OPERATIONS (AFFO)

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 Allied, 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 regular maintenance capital expenditures and regular leasing expenditures while ignoring the impact of non-cash revenue. As regular 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.

For the three months ended December 31, 2015, AFFO totaled \$35,356 or \$0.45. This represents a decrease of \$0.01 per unit, or 2.2%, over the comparable period in the prior year. Including the changes in FFO, and excluding the effect of step-rent adjustments, the decrease in AFFO per unit is primarily due to higher regular leasing costs and the dilutive effect of equity issuance.

For the year ended December 31, 2015, AFFO totaled \$140,683 or \$1.81 per unit. This represents a decrease of \$0.02 per unit, or 1.1%, over the comparable period in the prior year. Including the changes in FFO, and excluding the effect of step-rent adjustments, the decrease in AFFO per unit is primarily due to higher regular leasing costs and the dilutive effect of equity issuance.

To ensure sufficient cash is retained to meet capital improvement and leasing objectives, Allied strives to maintain an appropriate AFFO pay-out ratio, the ratio of actual distributions to AFFO in a given period. For the three months and year ended December 31, 2015, the AFFO pay-out ratio was 81.6% and 80.8%, respectively.

RECONCILIATION OF FFO AND AFFO

The following table reconciles Allied's net income to FFO and AFFO for the three months ended December 31, 2015, and December 31, 2014.

	FOR THE THREE MONTHS ENDED		
	DECEMBER 31, 2015	DECEMBER 31, 2014	CHANGE
Net income and comprehensive income	\$45,165	\$82,437	\$(37,272)
IFRS value gain on investment properties	(8,234)	(52,446)	44,212
Fair value loss (gain) from derivative instruments	(190)	4,909	(5,099)
Gain (loss) on disposal of investment properties	148	(1,020)	1,168
Incremental leasing costs	884	1,808	(924)
Amortization of leasing costs and tenant improvements	6,545	4,586	1,959
FFO	\$44,318	\$40,274	\$4,044
Step-rent adjustments	(2,351)	(1,228)	(1,123)
Incremental leasing costs ⁽¹⁾	—	(1,808)	1,808
Regular leasing expenditures	(5,786)	(2,545)	(3,241)
Regular maintenance capital expenditures	(825)	(407)	(418)
AFFO	\$35,356	\$34,286	\$1,070
Per Unit - basic			
FFO	0.57	0.54	0.03
AFFO	0.45	0.46	(0.01)
Per Unit - diluted			
FFO	0.57	0.54	0.03
AFFO	0.45	0.46	(0.01)
Payout Ratio			
FFO	65.1%	66.3%	(1.2%)
AFFO	81.6%	77.9%	3.7%

(1) For the three months ended December 31, 2015, incremental leasing costs have been excluded for the calculation of AFFO as they are related to development projects and would have otherwise been capitalized to investment properties.

The following table reconciles Allied's net income to FFO and AFFO for the year ended December 31, 2015, and December 31, 2014.

	FOR THE YEARS ENDED		
	DECEMBER 31, 2015	DECEMBER 31, 2014	CHANGE
Net income and comprehensive income	\$254,367	\$151,778	\$102,589
IFRS value gain on investment properties	(117,438)	(31,442)	(85,996)
Fair value loss from derivative instruments	7,594	12,345	(4,751)
Gain (loss) on disposal of investment properties	148	(1,761)	1,909
Incremental leasing costs	2,611	1,808	803
Amortization of leasing costs and tenant improvements	21,328	16,058	5,270
FFO	\$168,610	\$148,786	\$19,824
Step-rent adjustments	(11,397)	(5,482)	(5,915)
Incremental leasing costs ⁽¹⁾	—	(1,808)	1,808
Regular leasing expenditures	(15,273)	(10,229)	(5,044)
Regular maintenance capital expenditures	(1,257)	(1,070)	(187)
AFFO	\$140,683	\$130,197	\$10,486
Per Unit - basic			
FFO	2.17	2.09	0.08
AFFO	1.81	1.83	(0.02)
Per Unit - diluted			
FFO	2.17	2.10	0.07
AFFO	1.81	1.83	(0.02)
Payout Ratio			
FFO	67.4%	67.6%	(0.2%)
AFFO	80.8%	77.3%	3.5%

(1) For the year end December 31, 2015, incremental leasing costs have been excluded for the calculation of AFFO as they are related to development projects and would have otherwise been capitalized to investment properties.

The following table reconciles AFFO to cash flows from operating activities for the periods ended as indicated:

	THREE MONTHS ENDED		FOR THE YEARS ENDED	
	DECEMBER 31, 2015	DECEMBER 31, 2014	DECEMBER 31, 2015	DECEMBER 31, 2014
Cash flows from operating activities	\$47,855	\$37,612	\$189,302	\$126,796
Add (deduct) impact of the following:				
Regular leasing expenditures	(5,786)	(2,545)	(15,273)	(10,229)
Regular maintenance capital expenditures	(825)	(407)	(1,257)	(1,070)
Incremental leasing costs	884	—	2,611	—
Amortization of equipment and other assets	(314)	(81)	(1,078)	(774)
Amortization, (premium) discount on assumed mortgages	(38)	3	(170)	74
Unit-compensation expense	(639)	(317)	(2,289)	(1,934)
Change in other non-cash financing items	(375)	(566)	(1,339)	(2,596)
Change in other non-cash operating items	(5,406)	587	(29,824)	19,930
AFFO	\$35,356	\$34,286	\$140,683	\$130,197

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.

Allied strives to maintain its properties in top physical condition. In the three months ended December 31, 2015, Allied incurred (i) \$825 in regular maintenance capital expenditures and (ii) \$5,786 in regular leasing expenditures or \$12.06 per leased square foot, above the historical range of \$7 to \$10. For the year ended December 31, 2015, Allied incurred (i) \$1,257 in regular maintenance capital expenditures and (ii) \$15,273 in regular leasing expenditures or \$7.89 per leased square foot, in line with the historical range of \$7 to \$10.

For the three months and the year ended December 31, 2015, Allied invested \$41,388 and \$188,833, respectively, of revenue enhancing capital into the rental portfolio to enhance its income-producing capability and in ongoing development activity.

	THREE MONTHS ENDED		FOR THE YEARS ENDED	
	DECEMBER 31, 2015	DECEMBER 31, 2014	DECEMBER 31, 2015	DECEMBER 31, 2014
Regular leasing expenditures	\$5,786	\$2,545	\$15,273	\$10,229
Regular leasing expenditures per leased square foot	12.06	8.28	7.89	7.16
Regular maintenance capital expenditures	\$825	\$407	\$1,257	\$1,070
Regular maintenance capital expenditures per portfolio square foot	0.08	0.04	0.12	0.11
Revenue-enhancing capital and development costs	\$41,388	\$14,770	\$188,833	\$98,805

SECTION VI

—*Quarterly History*

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

	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Rental revenue from investment properties	\$94,024	\$90,681	\$91,129	\$89,567	\$88,685	\$85,836	\$80,638	\$82,547
Property operating costs	(40,818)	(37,275)	(36,047)	(38,588)	(36,996)	(34,608)	(32,527)	(34,793)
Net rental income	\$53,206	\$53,406	\$55,082	\$50,979	\$51,689	\$51,228	\$48,111	\$47,754
Net income and comprehensive income	\$45,165	\$85,889	\$126,942	\$(3,629)	\$82,437	\$35,272	\$18,654	\$15,415
Weighted average units (diluted)	78,355,768	78,062,347	77,839,513	76,818,461	75,050,618	71,371,273	69,669,635	69,116,180
Distributions	\$28,836	\$28,453	\$28,404	\$27,981	\$26,716	\$25,093	\$24,498	\$24,281
FFO	\$44,318	\$42,915	\$41,959	\$39,418	\$40,274	\$38,229	\$35,273	\$35,010
FFO per unit (diluted)	\$0.57	\$0.55	\$0.54	\$0.51	\$0.54	\$0.54	\$0.51	\$0.51
FFO pay-out ratio	65.1%	66.3%	67.7%	71.0%	66.3%	65.6%	69.5%	69.4%
AFFO	\$35,356	\$34,975	\$33,332	\$35,293	\$34,286	\$34,161	\$29,886	\$31,864
AFFO per unit (diluted)	\$0.45	\$0.45	\$0.43	\$0.46	\$0.46	\$0.48	\$0.43	\$0.46
AFFO pay-out ratio	81.6%	81.4%	85.2%	79.3%	77.9%	73.5%	82.0%	76.2%
Investment properties	\$4,197,277	\$4,140,059	\$4,008,398	\$3,759,462	\$3,726,757	\$3,625,043	\$3,456,310	\$3,381,968
Total debt	\$1,587,503	\$1,555,264	\$1,506,858	\$1,339,493	\$1,359,461	\$1,332,052	\$1,353,948	\$1,264,399
Total debt as a % of investment properties	37.8%	37.6%	37.6%	35.6%	36.5%	36.7%	39.2%	37.4%
Total rental GLA	10,421	10,487	10,451	9,501	9,501	9,527	9,201	9,139
Leased rental GLA	9,516	9,523	9,461	8,681	8,742	8,726	8,358	8,319
% leased	91.3%	90.8%	90.5%	91.4%	92.0%	91.6%	90.8%	91.0%

Factors that cause variation from quarter to quarter, include but are not limited to, occupancy, cost of capital, same-asset NOI, acquisition activity, leasing expenditures and maintenance capital expenditures.

SECTION VII

—Accounting

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing Allied's consolidated financial statements and accompanying notes, it is necessary for Management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the period.

Within the context of Allied's consolidated financial statements, a judgment is a decision made by management in respect of the application of an accounting policy, a recognized or unrecognized financial statement amount and/or note disclosure, following an analysis of relevant information that may include estimates and assumptions. Estimates and assumptions are used mainly in determining the measurement of balances recognized or disclosed in the consolidated financial statements and are based on a set of underlying data that may include management's historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Management continually evaluates the estimates and judgments it uses.

The following are the accounting policies subject to judgments and key sources of estimation uncertainty that Allied believes could have the most significant impact on the amounts recognized in the consolidated financial statements. Allied's significant accounting policies are disclosed in note 2 of the consolidated financial statements.

INVESTMENT PROPERTIES

Judgments Made in Relation to Accounting Policies Applied - Judgment is applied in determining whether certain costs are additions to the carrying value of investment properties, identifying the point at which substantial completion of a development property occurs, and identifying the directly attributable borrowing costs to be included in the carrying value of the development property. Allied also applies judgment in determining whether the properties it acquires are considered to be asset acquisitions or business combinations. Allied considers all the properties it has acquired to date to be asset acquisitions.

Key Sources of Estimation - The fair value of investment properties is dependent on available comparable transactions, future cash flows over the holding period and discount rates and capitalization rates applicable to those assets. The review of anticipated cash flows involves assumptions relating to occupancy, rental rates and residual value. In addition to reviewing anticipated cash flows, management assesses changes in the business climate and other factors which may affect the ultimate value of the property. These assumptions may not ultimately be achieved.

JOINT ARRANGEMENTS

Judgments Made in Relation to Accounting Policies Applied - Judgment is applied in determining whether the Trust has joint control and whether the arrangements are joint operations or joint ventures. In assessing whether the joint arrangements are joint operations or joint ventures, management applies judgment to determine the Trust's rights and obligations in the arrangement based on factors such as the structure, legal form and contractual terms of the arrangement.

LEASES

Judgments Made in Relation to Accounting Policies Applied - 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. Pursuant to the long term contractual obligations in each, they are finance leases and accordingly they are classified as investment properties. All tenant leases where Allied is the lessor have been determined to be operating leases.

INCOME TAXES

Judgments Made in Relation to Accounting Policies Applied - Allied is a mutual fund trust and a REIT as defined in the Income Tax Act (Canada). Allied is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to Unitholders each year. Allied is a REIT if it meets the prescribed conditions under the Income Tax Act (Canada) relating to the REIT Conditions.

Allied uses judgment in reviewing the REIT Conditions and assessing its interpretation and application to the REIT's assets and revenue, and it has determined that it qualifies as a REIT for the current period.

Allied expects to continue to qualify as a REIT under the Income Tax Act (Canada), however, should it no longer qualify, it would not be able to flow its taxable income through to Unitholders and would therefore be subject to tax.

SIGNIFICANT ACCOUNTING POLICIES

Accounting policies and the respective changes are discussed in Allied's audited consolidated financial statements for the year ended December 31, 2015 and the notes contained therein. Furthermore, the future accounting policy changes as proposed by the International Accounting Standards Board (the "IASB") are discussed in Allied's audited consolidated financial statements for the year ended December 31, 2015 and notes contained therein.

SECTION VIII

— 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 (the “CEO”) and Chief Financial Officer (the “CFO”) 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, 2015 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. The CEO and CFO 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, 2015, using the COSO Internal Control - Independent Framework (2013), published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, the CEO and the CFO 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 year ended December 31, 2015, 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.

SECTION IX

— *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.

Allied's 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

Allied is 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, Allied strives to re-finance maturing loans with long-term fixed-rate debt and to stagger the maturities over time.

Interest rates on total Debt are between 2.0% and 6.9% with a weighted average interest rate of 4.4%. The weighted average term of our debt is 5.1 years. The aforementioned excludes the revolving Unsecured Facility, refer to Note 9 (c) of the annual consolidated financial statements for further details.

TENANT CREDIT RISK

Allied is subject to credit risk arising from the possibility that tenants may not be able to fulfill their lease obligations. Allied strives to mitigate this risk by maintaining a diversified tenant-mix and limiting exposure to any single tenant.

LEASE ROLL-OVER RISK

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

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 \$3,654 (approximately \$0.05 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, Allied is subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that Allied 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 Allied's ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims against Allied. Allied is not aware of any material non-compliance with environmental laws at any of the properties in its portfolio. Allied is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the properties in its portfolio or any pending or threatened claims relating to environmental conditions at the properties in its portfolio.

DEVELOPMENT RISK

As an owner of Properties Under Development, Allied is 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, Allied incurs 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 through Allied's Declaration, which states that the cost of development cannot exceed 15% of GBV.

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 Allied qualifies 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, Allied expects that it will qualify for the REIT exemption.

JOINT ARRANGEMENT RISK

Allied has entered into various joint arrangements and partnerships with different entities. If these joint arrangements or partnerships do not perform as expected or default on financial obligations, Allied has an associated risk. Allied reduces this risk by seeking to negotiate contractual rights upon default, by entering into agreements with financially stable partners and by working with partners who have a successful record of completing development projects.

SECTION X

—Property Table

DECEMBER 31, 2015 PROPERTIES	OFFICE GLA	RETAIL GLA	TOTAL GLA	%TOTAL GLA	OFFICE VACANT	RETAIL VACANT	TOTAL LEASED	LEASED %
32 Atlantic	50,434	—	50,434		—	—	50,434	100.0%
47 Jefferson	6,884	—	6,884		—	—	6,884	100.0%
905 King W	102,691	7,085	109,776		33,134	—	76,642	69.8%
College & Manning JV ⁽¹⁾	27,294	4,287	31,581		2,400	—	29,181	92.4%
The Castle	135,917	34,323	170,240		3,480	—	166,760	98.0%
King West	323,220	45,695	368,915	3.5%	39,014	—	329,901	89.4%
141 Bathurst	10,199	—	10,199		—	—	10,199	100.0%
159-161 Bathurst	3,500	—	3,500		—	—	3,500	100.0%
183 Bathurst	27,185	5,600	32,785		—	—	32,785	100.0%
241 Spadina	25,112	6,586	31,698		—	1,806	29,892	94.3%
379 Adelaide W	37,609	2,700	40,309		—	—	40,309	100.0%
383 Adelaide W	7,382	—	7,382		—	—	7,382	100.0%
420 Wellington W	33,813	3,137	36,950		—	—	36,950	100.0%
425 Adelaide W	75,113	3,940	79,053		4,602	—	74,451	94.2%
425-439 King W	79,812	16,643	96,455		—	16,643	79,812	82.7%
441-443 King W	8,415	3,065	11,480		—	—	11,480	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 ⁽²⁾	—	3,277	3,277		—	—	3,277	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%

DECEMBER 31, 2015
PROPERTIES

	OFFICE GLA	RETAIL GLA	TOTAL GLA	%TOTAL GLA	OFFICE VACANT	RETAIL VACANT	TOTAL LEASED	LEASED %
500-522 King W	80,722	43,079	123,801		—	—	123,801	100.0%
511-529 King W	37,709	11,375	49,084		—	—	49,084	100.0%
552-560 King W	8,019	16,696	24,715		—	—	24,715	100.0%
539 King W	12,750	—	12,750		—	—	12,750	100.0%
544 King W	17,006	—	17,006		—	—	17,006	100.0%
555 Richmond W	256,229	39,966	296,195		8,825	—	287,370	97.0%
57 Spadina ⁽³⁾	8,084	8,566	16,650		—	—	16,650	100.0%
579 Richmond W	28,866	—	28,866		—	—	28,866	100.0%
589-591 Richmond W	2,000	—	2,000		—	—	2,000	100.0%
662 King W	30,773	2,126	32,899		—	—	32,899	100.0%
80-82 Spadina	60,070	16,009	76,079		—	—	76,079	100.0%
96 Spadina	79,888	9,861	89,749		1,345	—	88,404	98.5%
The Well JV ⁽⁴⁾	96,038	5,145	101,183		—	—	101,183	100.0%
King & Portland JV ⁽¹⁾	25,362	17,276	42,638		1,913	750	39,975	93.8%
King West Central	1,247,337	261,132	1,508,469	14.5%	16,685	19,199	1,472,585	97.6%
116 Simcoe	15,637	—	15,637		1,556	—	14,081	90.0%
151 Front	266,385	6,000	272,385		4,649	6,000	261,736	96.1%
179 John	69,281	—	69,281		7,642	—	61,639	89.0%
185 Spadina	55,814	—	55,814		—	—	55,814	100.0%
200 Adelaide W	28,191	—	28,191		—	—	28,191	100.0%
208-210 Adelaide W	11,963	—	11,963		—	—	11,963	100.0%
217-225 Richmond W	32,433	23,466	55,899		3,349	—	52,550	94.0%
257 Adelaide W	46,350	—	46,350		—	—	46,350	100.0%
312 Adelaide W	63,204	8,015	71,219		—	—	71,219	100.0%
331-333 Adelaide W	20,085	3,210	23,295		—	—	23,295	100.0%
358-360 Adelaide W	53,430	—	53,430		—	—	53,430	100.0%
375-381 Queen W	21,791	10,648	32,439		—	—	32,439	100.0%
388 King W	28,500	15,012	43,512		4,077	—	39,435	90.6%
82 Peter	39,422	8,287	47,709		8,029	—	39,680	83.2%
99 Spadina	50,923	—	50,923		—	—	50,923	100.0%
Union Center	10,736	29,239	39,975		—	—	39,975	100.0%
Entertainment District	814,145	103,877	918,022	8.8%	29,302	6,000	882,720	96.2%
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	24,284	10,434	34,718		—	7,172	27,546	79.3%
35-39 Front E	36,310	17,850	54,160		—	—	54,160	100.0%
36-40 Wellington E	16,662	10,105	26,767		—	—	26,767	100.0%

DECEMBER 31, 2015
PROPERTIES

	OFFICE GLA	RETAIL GLA	TOTAL GLA	%TOTAL GLA	OFFICE VACANT	RETAIL VACANT	TOTAL LEASED	LEASED %
41-45 Front E	21,157	19,965	41,122		—	—	41,122	100.0%
45-55 Colborne	28,362	14,889	43,251		—	—	43,251	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	106,100	4,702	110,802		2,568	—	108,234	97.7%
184 Front E	81,126	6,489	87,615		11,675	—	75,940	86.7%
St. Lawrence Market	345,187	105,924	451,111	4.3%	14,243	7,172	429,696	95.3%
145 Berkeley	9,686	1,325	11,011		—	—	11,011	100.0%
204-214 King E	128,129	2,699	130,828		—	—	130,828	100.0%
230 Richmond E	73,767	—	73,767		—	—	73,767	100.0%
252-264 Adelaide E	47,607	—	47,607		—	—	47,607	100.0%
489 Queen E	32,251	—	32,251		—	—	32,251	100.0%
70 Richmond	35,118	—	35,118		—	—	35,118	100.0%
Dominion Square	110,606	—	110,606		15,749	—	94,857	85.8%
QRC East	183,776	35,349	219,125		—	—	219,125	100.0%
QRC South	43,403	—	43,403		3,458	—	39,945	92.0%
Queen Richmond	664,343	39,373	703,716	6.8%	19,207	—	684,509	97.3%
Total Toronto	3,428,581	572,319	4,000,900	38.4%	118,451	32,371	3,850,078	96.2%
72 Victoria	88,521	—	88,521		14,427	—	74,094	83.7%
Breithaupt Phase I ⁽⁵⁾	66,555	—	66,555		—	—	66,555	100.0%
The Tannery	257,192	74,451	331,643		—	—	331,643	100.0%
Total Kitchener	412,268	74,451	486,719	4.7%	14,427	—	472,292	97.0%
The Chambers	200,970	16,571	217,541		4,393	8,113	205,035	94.3%
Total Ottawa	200,970	16,571	217,541	2.1%	4,393	8,113	205,035	94.3%
3575 Saint-Laurent	166,963	18,400	185,363		17,720	—	167,643	90.4%
400 Atlantic	88,919	292	89,211		15,254	—	73,957	82.9%
425 Viger W	205,201	820	206,021		—	—	206,021	100.0%
4446 Saint-Laurent	73,280	7,353	80,633		7,942	—	72,691	90.2%
451-481 Saint-Catherine	22,480	8,475	30,955		—	—	30,955	100.0%
5455 Gaspé	506,005	750	506,755		166,116	—	340,639	67.2%
5505 Saint-Laurent	252,453	2,524	254,977		—	—	254,977	100.0%
6300 Parc	182,389	6,313	188,702		81,753	4,504	102,445	54.3%
645 Wellington	137,843	4,083	141,926		—	—	141,926	100.0%
85 Saint-Paul	79,821	—	79,821		3,714	—	76,107	95.3%
Cité Multimedia	940,796	14,025	954,821		17,218	4,557	933,046	97.7%
Total Montréal	2,656,150	63,035	2,719,185	26.1%	309,717	9,061	2,400,407	88.3%

DECEMBER 31, 2015
PROPERTIES

	OFFICE GLA	RETAIL GLA	TOTAL GLA	%TOTAL GLA	OFFICE VACANT	RETAIL VACANT	TOTAL LEASED	LEASED %
390 Charest	67,043	6,348	73,391		—	—	73,391	100.0%
410 Charest	3,229	21,508	24,737		—	—	24,737	100.0%
420 Charest	47,641	13,496	61,137		15,908	1,666	43,563	71.3%
605 Saint-Joseph	26,145	7,729	33,874		2,000	1,789	30,085	88.8%
622 Saint-Joseph	2,711	3,300	6,011		1,936	—	4,075	67.8%
633 Saint-Joseph	15,873	6,568	22,441		7,271	—	15,170	67.6%
Total Québec City	162,642	58,949	221,591	2.1%	27,115	3,455	191,021	86.2%
115 Bannatyne	39,906	—	39,906		—	—	39,906	100.0%
123 Bannatyne	20,536	—	20,536		4,296	—	16,240	79.1%
250 McDermot	42,286	12,482	54,768		22,027	6,077	26,664	48.7%
54-70 Arthur	113,651	8,818	122,469		26,611	—	95,858	78.3%
1500 Notre Dame	109,583	—	109,583		—	—	109,583	100.0%
Total Winnipeg	325,962	21,300	347,262	3.3%	52,934	6,077	288,251	83.0%
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	31,601	—	31,601		3,765	—	27,836	88.1%
1240-20th SE	46,124	—	46,124		—	—	46,124	100.0%
129-8th SW	2,339	5,034	7,373		—	5,034	2,339	31.7%
209-8th SW	26,474	5,022	31,496		5,495	—	26,001	82.6%
237-8th SE	65,667	10,035	75,702		3,801	8,788	63,113	83.4%
322-326 11th SW	199,526	15,606	215,132		28,931	2,778	183,423	85.3%
402-11th SE	39,187	—	39,187		—	—	39,187	100.0%
438-11th SE	52,601	—	52,601		4,514	—	48,087	91.4%
601-611 10th SW	46,913	2,592	49,505		16,346	—	33,159	67.0%
603-605 11th SW	22,035	29,207	51,242		—	—	51,242	100.0%
604-1st SW	66,816	21,048	87,864		1,328	8,148	78,388	89.2%
613-11th SW	—	3,163	3,163		—	—	3,163	100.0%
617-11th SW	2,986	6,071	9,057		—	3,000	6,057	66.9%
625-11th SW	33,277	1,409	34,686		15,475	—	19,211	55.4%
805-1st SW	8,910	18,634	27,544		2,812	2,069	22,663	82.3%
808-1st SW	17,325	30,244	47,569		—	2,311	45,258	95.1%
809-10th SW	35,853	—	35,853		—	—	35,853	100.0%
Demcor Building	39,769	—	39,769		9,599	—	30,170	75.9%
Total Calgary	834,708	148,065	982,773	9.4%	92,066	32,128	858,579	87.4%
10190-104 NW	16,822	5,767	22,589		14,924	—	7,665	33.9%
Boardwalk & Revillon Building	217,909	45,442	263,351		6,567	—	256,784	97.5%
Total Edmonton	234,731	51,209	285,940	2.7%	21,491	—	264,449	92.5%

DECEMBER 31, 2015
PROPERTIES

	OFFICE GLA	RETAIL GLA	TOTAL GLA	%TOTAL GLA	OFFICE VACANT	RETAIL VACANT	TOTAL LEASED	LEASED %
128 West Pender	75,504	1,693	77,197		—	—	77,197	100.0%
840 Cambie	91,520	—	91,520		—	—	91,520	100.0%
948-950 Homer	23,114	23,290	46,404		—	—	46,404	100.0%
1040 Hamilton	35,835	8,765	44,600		2,199	1,791	40,610	91.1%
1286 Homer	15,763	9,115	24,878		—	—	24,878	100.0%
Total Vancouver	241,736	42,863	284,599	2.7%	2,199	1,791	280,609	98.6%
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%
Rental Portfolio - before transfers from PUD in 2015	8,523,805	1,064,283	9,588,088	92.0%	642,793	92,996	8,852,299	92.3%
Add: Transfer from PUD in 2015								
460 King W	12,234	4,787	17,021		—	—	17,021	100.0%
QRC West Phase I	325,305	9,850	335,155		23,299	—	311,856	93.0%
5445 Gaspé	480,104	955	481,059		145,863	—	335,196	69.7%
Total Rental Portfolio	9,341,448	1,079,875	10,421,323		811,955	92,996	9,516,372	91.3%

(1) RioCan/Allied Co-ownership

(2) Lifetime/Allied Co-ownership

(3) Diamond Corp./Allied Co-ownership

(4) RioCan/Diamond Corp./Allied Co-ownership

(5) Perimeter/Allied Co-ownership

PROPERTIES UNDER DEVELOPMENT

CURRENT GLA

250 Front W, Toronto	173,800
485 King W, Toronto	13,239
The Breithaupt Block Phase II, Kitchener ⁽¹⁾	46,845
TELUS Sky, Calgary ⁽²⁾	—
Adelaide & Duncan, Toronto ⁽³⁾	30,930
College & Palmerston, Toronto ⁽⁴⁾	8,085
180 John, Toronto	36,173
189 Joseph, Kitchener	26,373
138 Portage East, Winnipeg	45,625
Total Development Portfolio	381,070

(1) Perimeter/Allied Joint Arrangement

(2) Telus/Westbank/Allied Joint Arrangement

(3) Westbank/Allied Joint Arrangement

(4) RioCan/Allied Joint Arrangement

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
539 King, Toronto	107
560 King, Toronto	171
478 King JV, Toronto ⁽⁵⁾	65
15 Brant, Toronto	203
105 George, Toronto	15
Total Parking	845

(5) Lifetime/Allied Co-ownership

CONSOLIDATED FINANCIAL
STATEMENTS
DECEMBER 31, 2015 AND 2014

MANAGEMENT’S STATEMENT OF 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 independent 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, 2015 and 2014, and the consolidated statements of unitholders' equity, income and comprehensive income and cash flows for each of 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, 2015 and 2014 and its financial performance and its cash flows for each of the years then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

CHARTERED PROFESSIONAL ACCOUNTANTS, LICENSED PUBLIC ACCOUNTANTS
TORONTO, ONTARIO | MARCH 1, 2016

**ALLIED PROPERTIES REIT
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2015 AND 2014**

(in thousands of Canadian dollars)

	NOTES	2015	2014
Assets			
Non-current assets			
Investment properties	5	\$4,197,277	\$3,726,757
Loans and notes receivable	6	22,245	2,127
Other assets	7	177,491	130,533
		4,397,013	3,859,417
Current assets			
Cash and cash equivalents	19	4,323	5,260
Loans and notes receivable	6	1,055	6,138
Accounts receivable, prepaid expenses and deposits	8	53,555	61,904
		58,933	73,302
Total assets		\$4,455,946	\$3,932,719
Liabilities			
Non-current liabilities			
Debt	9	\$1,446,916	\$1,215,780
Freehold lease and land lease obligations	10	130,648	128,758
		1,577,564	1,344,538
Current liabilities			
Debt	9	140,587	137,623
Freehold lease and land lease obligations	10	7,412	6,886
Accounts payable and other liabilities	11	138,652	113,641
		286,651	258,150
Total liabilities		1,864,215	1,602,688
Unitholders' equity		2,591,731	2,330,031
Total liabilities and unitholders' equity		\$4,455,946	\$3,932,719

Subsequent events (note 26)

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
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(in thousands of Canadian dollars,
except unit and per unit amounts)

	NOTES	2015	2014
Rental revenue from investment properties	17	\$365,401	\$337,545
Property operating costs	17	(152,728)	(138,763)
Net rental income		212,673	198,782
Interest expense	9 (f)	(52,131)	(53,674)
General and administrative expenses	18	(8,916)	(7,687)
Amortization of leasing costs and other assets	7	(8,230)	(6,501)
Interest income		1,275	—
Fair value gain on investment properties	5	117,438	31,442
Fair value loss on derivative instruments		(7,594)	(12,345)
Gain (loss) on disposal of investment properties	5	(148)	1,761
Net income and comprehensive income		\$254,367	\$151,778
Income per unit			
Basic		\$3.28	\$2.14
Diluted		\$3.27	\$2.13
Weighted average number of units	16		
Basic		77,620,668	71,048,941
Diluted		77,773,683	71,319,055

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

ALLIED PROPERTIES REIT
CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(in thousands of Canadian dollars)	NOTES	TRUST UNITS	RETAINED EARNINGS	CONTRIBUTED SURPLUS	TOTAL
Balance at January 1, 2014	13	\$1,545,387	\$517,524	\$5,803	\$2,068,714
Comprehensive income			151,778		151,778
Public offering	13	164,870			164,870
Distributions			(100,588)		(100,588)
Distribution reinvestment plan	13	28,227			28,227
Unit option plan – options exercised	14 (a)	17,436		(996)	16,440
Contributed surplus – unit option plan	14 (a)			722	722
Restricted unit plan	14 (b)	(1,367)		1,212	(155)
Long-term incentive plan	15	23			23
Balance at December 31, 2014		\$1,754,576	\$568,714	\$6,741	\$2,330,031

(in thousands of Canadian dollars)	NOTES	TRUST UNITS	RETAINED EARNINGS	CONTRIBUTED SURPLUS	TOTAL
Balance at January 1, 2015	13	\$1,754,576	\$568,714	\$6,741	\$2,330,031
Comprehensive income			254,367		254,367
Public offering	13	82,348			82,348
Distributions			(113,674)		(113,674)
Distribution reinvestment plan	13	35,195			35,195
Unit option plan – options exercised	14 (a)	3,076		(247)	2,829
Contributed surplus – unit option plan	14 (a)			811	811
Restricted unit plan	14 (b)	(1,672)		1,478	(194)
Long-term incentive plan	15	18			18
Balance at December 31, 2015		\$1,873,541	\$709,407	\$8,783	\$2,591,731

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

ALLIED PROPERTIES REIT
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(in thousands of Canadian dollars)	NOTES	2015	2014
Operating activities			
Net income for the year		\$254,367	\$151,778
Fair value gain on investment properties	5	(117,438)	(31,442)
Fair value loss on derivative instruments		7,594	12,345
Loss (gain) on disposal of investment properties		148	(1,761)
Amortization of equipment and other assets	7	1,078	774
Amortization of leasing commissions	7	7,152	5,727
Amortization of tenant improvement allowances	7	14,176	10,331
Amortization of straight-line rents		(11,397)	(5,482)
Amortization of premium (discount) on assumed mortgages	9 (f)	170	(74)
Unit-compensation expense	14	2,289	1,934
Change in other non-cash financing items		1,339	2,596
Change in other non-cash operating items		29,824	(19,930)
Cash provided by operating activities		189,302	126,796
Financing Activities			
Proceeds from new mortgages payable		—	268,575
Repayment of mortgages payable		(115,810)	(185,955)
Proceeds from senior unsecured debentures (net of financing costs)	9 (d)	224,030	—
Proceeds from unsecured term loan (net of financing costs)	9 (e)	149,478	—
Repayment of freehold lease and land lease obligations		—	(49)
Distributions paid to unitholders		(77,803)	(71,286)
Proceeds of public offering (net of financing costs)		82,348	164,870
Proceeds from exercise of unit options	14	2,829	16,440
Proceeds from units issued under the LTIP	15	18	23
Restricted unit plan (net of forfeitures)	15	(1,672)	(1,367)
Proceeds from annuity loan receivable		1,019	1,017
Proceeds from unsecured revolving operating line		19,598	—
Proceeds (repayment) of secured operating facility		(24,336)	24,336
Proceeds (repayment) of construction loan		(32,421)	35,539
Financing costs		(357)	(1,583)
Cash provided by financing activities		226,921	250,560
Investing activities			
Capital expenditures, rental properties and other assets acquired (net of assumed mortgages)		(224,419)	(298,601)

ALLIED PROPERTIES REIT
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 - continued

(in thousands of Canadian dollars)	NOTES	2015	2014
Capital expenditures, properties under development		(119,744)	(86,826)
Net proceeds on disposition of investment properties		6,127	13,374
Additions to equipment and other assets	7	(4,190)	(1,564)
Tenant leasing commissions	7	(12,410)	(8,465)
Tenant improvement allowances	7	(41,351)	(21,778)
Loans receivable issued to third-party	6 (a)	(21,173)	—
Cash used in investing activities		(417,160)	(403,860)
Increase (decrease) in cash and cash equivalents		(937)	(26,504)
Cash and cash equivalents, beginning of period		5,260	31,764
Cash and cash equivalents, end of period		\$4,323	\$5,260

Supplemental cash flow information (note 19)

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER UNIT AND UNIT AMOUNTS)**

1. NATURE OF OPERATIONS

Allied Properties Real Estate Investment Trust (“Allied” or the “Trust”) 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, 2015. 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 and are traded under the symbol “APUN”. Allied is the ultimate parent of its group of companies. The consolidated financial statements of Allied include the accounts of Allied and its consolidated subsidiaries.

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 is domiciled in Ontario, Canada. The address of Allied’s registered office and its principal place of business is 134 Peter Street, Suite 1700, Toronto, Ontario, M5V 2H2.

2. SIGNIFICANT ACCOUNTING POLICIES

(A) Statement of compliance

The consolidated financial statements of Allied for the year ending December 31, 2015 and 2014 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 note 2 and 3 below.

The consolidated financial statements for the year ended December 31, 2015 were approved and authorized for issue by the Board of Trustees on March 1, 2016.

(B) Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis except for the following items that were measured at fair value:

- investment properties as described in note 5; and
- interest rate swaps as described in note 2 (j).

The consolidated financial statements are presented in Canadian dollars, which is Allied’s functional currency, and all values are rounded to the nearest thousand, 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, interest rate derivative contracts, and allowances for doubtful accounts.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Allied and its subsidiaries.

Subsidiaries are all entities (including structural 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 exists when a parent company is exposed to, or has rights to, variable returns from 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Trust. 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.

(d) Investment properties

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

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

Investment properties include rental properties and properties under development that are owned by Allied, or leased by Allied as a lessee under a finance lease, to earn rental revenue and/or for capital appreciation. Investment properties are accounted for using the fair value model. Rental income and operating expenses from investment properties are reported within 'revenues' and 'expenses' respectively.

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 externally 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 judgment when reporting its properties under development. The cost of properties under development includes the acquisition cost of the property, direct development costs, realty taxes and borrowing costs attributable to the development.

(E) Joint Arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities relating to the arrangement, whereas a joint venture is a joint arrangement whereby the parties that have joint control only have rights to the net assets of the arrangement. Allied has reviewed its joint arrangement agreements and determined that the activities are jointly operated, therefore Allied recognizes its interests as joint operations and accounts for its share of assets held jointly, liabilities incurred jointly, revenue shared jointly and expenses incurred jointly.

(F) Revenue Recognition

Allied has retained substantially all of the risks and benefits of ownership of its investment properties and as such accounts for its leases with tenants as operating leases.

Rental revenue from investment properties include rents from tenants under leases, property tax and operating cost recoveries, percentage participation rents, lease cancellation fees, parking income and other income. Rents from tenants may include free rent periods and rental increases over the term of the lease and are recognized in revenue on a straight-line basis over the term of the lease. The difference between revenue recognized and the cash received is included in other assets as straight-line rents receivable.

Lease incentives provided to tenants are deferred and are amortized straight line against revenue over the term of the lease. Recoveries from tenants are recognized as revenue in the period in which the applicable costs are incurred. Percentage participation rents are recognized after the minimum sales level has been achieved with each lease. Lease cancellation fees are recognized as revenue once an agreement is completed with the tenant to terminate the lease and the collectibility is reasonably assured. Other income is recognized upon provision of goods or services when collectibility is reasonably assured.

(G) Borrowing Costs

Borrowing costs directly attributable to acquiring or constructing a qualifying investment property are capitalized. Capitalization commences when the activities necessary to prepare an asset for development or redevelopment begin, and ceases once the asset is substantially complete, or is suspended if the development of the asset is suspended. The amount of borrowing costs capitalized 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. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted.

(H) Equipment

Computer and office equipment is included in other assets and is stated at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Allied records amortization expense on a straight-line basis over the assets' estimated useful life which is generally three to seven years. The assets' residual values and useful lives are reviewed annually, and adjusted if appropriate.

When events and circumstances indicate an asset may be impaired, the carrying amount is written down immediately to its recoverable amount (defined as the higher of an asset's fair value less costs to sell and its value in use).

(I) Financial Instruments

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less.

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 costs, and the effective interest method of amortization is applied to the premiums, discounts and transaction costs.

ASSET/LIABILITY	CLASSIFICATION	MEASUREMENT
Loans and notes receivable	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable, prepaid expenses and deposits	Loans and receivables	Amortized cost
Investment in government bonds	Held to maturity	Amortized cost
Debt	Other financial liabilities	Amortized cost
Freehold lease and land lease obligations	Other financial liabilities	Amortized cost
Accounts payable and other liabilities	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 was classified as a held-to-maturity instrument. As at December 31, 2015, Allied had no investment in government bonds.

Allied had no available-for-sale financial assets as at December 31, 2015 and December 31, 2014.

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 debt, freehold lease and land lease obligations, and accounts payable and other liabilities, at amortized cost using the effective interest method. All interest-related charges are reported in profit or loss and are included within 'Interest expense', except for those interest-related charges capitalized to properties under development or 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 and the unsecured term loan. 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.

(j) Unitholders' Equity

Trust Units represents the initial 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.

(k) Distribution Reinvestment Plan (DRIP)

Allied has instituted a DRIP whereby Canadian Unitholders may elect to have their distributions automatically reinvested in additional units. Effective December 31, 2015, Unitholders who so elect to participate in the DRIP will receive no additional distribution of units for each distribution that was reinvested (December 31, 2014 - 5% bonus distribution of units on the reinvested cash distribution). No commissions, service charges or brokerage fees are payable by participants in connection with the DRIP.

(l) Short-Term Employee Benefits

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

(m) 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, the expense related to any unvested, forfeited Units recognized up to and including the date of the forfeiture is reversed.

(N) Provisions

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

(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, for which the installment loans are still outstanding, refer to note 15 for further details.

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 and Long Term Incentive Plan. 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 also includes those units issued under the Long Term Incentive Plan, for which the installment loans are still outstanding, refer to note 15 for further details.

(P) Future Accounting Standards

At the date of authorization of these consolidated 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 consolidated 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 consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements

On December 18, 2014 the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports (the “Disclosure Initiative”). The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. Allied intends to adopt these amendments in its financial statements for the period beginning on January 1, 2016.

The impact of adoption of the amendments is not considered to be material.

IFRS 9, Financial Instruments

On July 24, 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)).

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities.

It also amends the impairment model by introducing a new ‘expected credit loss’ model for calculating impairment.

IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

Allied intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018.

The extent of the impact of adoption of the standard has not yet been determined.

IFRS 15, Revenue from Contracts with Customers

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. Allied intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018.

The extent of the impact of adoption of the standard has not yet been determined.

IFRS 16, Leases

IFRS 16, Leases ("IFRS 16") was issued on January 13, 2016. The new standard will replace existing lease guidance in IFRS and related interpretations, and requires lessees to recognize most leases on the balance sheet. The financial reporting impact of adopting IFRS 16 is being assessed. The new standard is effective for years beginning on or after January 1, 2019. Early adoption will be permitted only if the entity has adopted IFRS 15, *Revenue from Contracts with Customers*.

The extent of the impact of adoption of the standard has not yet been determined.

(Q) Comparative figures

Certain comparative figures have been reclassified to conform with the consolidated financial statement presentation adopted in the current year.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires management to make judgments and estimates in applying Allied's accounting policies that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes.

Within the context of these consolidated financial statements, a judgment is a decision made by management in respect of the application of an accounting policy, a recognized or unrecognized financial statement amount and/or note disclosure, following an analysis of relevant information that may include estimates and assumptions. Estimates and assumptions are used mainly in determining the measurement of balances recognized or disclosed in the consolidated financial statements and are based on a set of underlying data that may include management's historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Management continually evaluates the estimates and judgments it uses.

The following are the accounting policies subject to judgments and key sources of estimation uncertainty that Allied believes could have the most significant impact on the amounts recognized in the consolidated financial statements. Allied's significant accounting policies are disclosed in note 2.

INVESTMENT PROPERTIES

Judgments Made in Relation to Accounting Policies Applied - Judgment is applied in determining whether certain costs are additions to the carrying value of investment properties, identifying the point at which substantial completion of a development property occurs, and identifying the directly attributable borrowing costs to be included in the carrying value of the development property. Allied also applies judgment in determining whether the properties it acquires are considered to be asset acquisitions or business combinations. Allied considers all the properties it has acquired to date to be asset acquisitions.

Key Sources of Estimation - The fair value of investment properties is dependent on available comparable transactions, future cash flows over the holding period and discount rates and capitalization rates applicable to those assets. The review of anticipated cash flows involves assumptions relating to occupancy, rental rates and residual value. In addition to reviewing anticipated cash flows, management assesses changes in the business climate and other factors which may affect the ultimate value of the property. These assumptions may not ultimately be achieved.

JOINT ARRANGEMENTS

Judgments Made in Relation to Accounting Policies Applied - Judgment is applied in determining whether the Trust has joint control and whether the arrangements are joint operations or joint ventures. In assessing whether the joint arrangements are joint operations or joint ventures, management applies judgment to determine the Trust's rights and obligations in the arrangement based on factors such as the structure, legal form and contractual terms of the arrangement.

LEASES

Judgments Made in Relation to Accounting Policies Applied - 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. Pursuant to the long term contractual obligations in each, they are finance leases and accordingly they are classified as investment properties. All tenant leases where Allied is the lessor have been determined to be operating leases.

INCOME TAXES

Judgments Made in Relation to Accounting Policies Applied - Allied is a mutual fund trust and a REIT as defined in the Income Tax Act (Canada). Allied is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to Unitholders each year. Allied is a REIT if it meets the prescribed conditions under the Income Tax Act (Canada) relating to the REIT Conditions.

Allied uses judgment in reviewing the REIT Conditions and assessing its interpretation and application to the REIT's assets and revenue, and it has determined that it qualifies as a REIT for the current period.

Allied expects to continue to qualify as a REIT under the Income Tax Act (Canada), however, should it no longer qualify, it would not be able to flow its taxable income through to Unitholders and would therefore be subject to tax.

4. ACQUISITIONS

During the year ended December 31, 2015, Allied completed the following acquisitions from third-parties:

LOCATION	DATE OF ACQUISITION	PROPERTY TYPE	INVESTMENT PROPERTY	OWNERSHIP
Toronto, ON	Feb. 20, 2015	Development	\$24,573	50%
Toronto, ON	Apr. 15, 2015	Office	8,581	100%
Toronto, ON	Jun. 29, 2015	Office, Retail	102,939	100%
Toronto, ON	Sep. 17, 2015	Office, Retail	28,342	100%
Toronto, ON	Oct. 13, 2015	Parking	399	100%
			\$164,834	

The net cash consideration paid to acquire the above noted properties was \$152,368 which included the assumption of other assets of \$177, mortgages payable of \$12,097 (net of a discount of \$312) and other liabilities of \$546.

During the year ended December 31, 2014, Allied completed the following acquisitions from third-parties:

LOCATION	DATE OF ACQUISITION	PROPERTY TYPE	INVESTMENT PROPERTY	OWNERSHIP
Montréal, QC	Feb. 13, 2014	Office	\$23,406	100%
Calgary, AB	Mar. 3, 2014	Office	21,204	100%
Calgary, AB	Mar. 3, 2014	Office	23,652	100%
Toronto, ON	Apr. 2, 2014	Office	12,161	100%
Toronto, ON	Apr. 2, 2014	Office	20,576	100%
Toronto, ON	Jun. 19, 2014	Parking	8,499	100%
Toronto, ON	Aug. 18, 2014	Office	15,002	100%
Toronto, ON	Aug. 28, 2014	Office	99,425	100%
Calgary, AB	Sept. 30, 2014	Development	2,368	33.33%
Toronto, ON	Nov. 14, 2014	Office	8,043	100%
Toronto, ON	Dec. 5, 2014	Development	604	50%
			\$234,940	

The net cash consideration paid to acquire the above noted properties was \$226,885 which included the assumption of other assets of \$123 and other liabilities of \$8,178.

5. INVESTMENT PROPERTIES

Changes to the carrying amounts of investment properties are summarized as follows:

	DECEMBER 31, 2015			DECEMBER 31, 2014		
	Rental Properties	Properties Under Development	Total	Rental Properties	Properties Under Development	Total
Balance, beginning of year	\$3,490,057	\$236,700	\$3,726,757	\$3,163,688	\$137,062	\$3,300,750
Additions:						
Acquisitions	140,261	24,573	164,834	208,709	26,231	234,940
Transfers from PUD	230,531	(230,531)	—	11,796	(11,796)	—
Transfers to PUD	(186,892)	186,892	—	(8,403)	8,403	—
Capital expenditures	72,363	115,859	188,222	82,727	71,661	154,388
Dispositions	(6,275)	—	(6,275)	(6,294)	(7,080)	(13,374)
Freehold lease and land leases	—	6,301	6,301	18,611	—	18,611
Fair value gain	114,031	3,407	117,438	19,223	12,219	31,442
Balance, end of year	\$3,854,076	\$343,201	\$4,197,277	\$3,490,057	\$236,700	\$3,726,757

Included in the amounts noted above is \$468,861 (December 31, 2014 - \$387,675) which represents the adjusted fair value of Allied's interest in four land leases as well as a 49 year, 173,800 square feet, freehold lease.

DISPOSITIONS OF INVESTMENT PROPERTIES DURING THE YEAR ENDED DECEMBER 31, 2015:

On November 5, 2015, Allied disposed of a property in Victoria, British Columbia for a selling price of \$6,275 and gross cash proceeds of \$6,127 (which were net of selling costs and other working capital amounts).

DISPOSITIONS OF INVESTMENT PROPERTIES DURING THE YEAR ENDED DECEMBER 31, 2014:

On May 21, 2014, Allied disposed of a property in Toronto, Ontario for a selling price of \$6,294 for cash proceeds of \$5,553 (which were net of selling costs and other working capital amounts).

On September 30, 2014, Allied contributed a parcel of land with a fair value \$7,080 to the TELUS Sky development project as consideration for its one-third interest in the joint arrangement.

The reconciliation between the valuation obtained for IFRS purposes and the adjusted valuation for the carrying amounts of investment properties is as follows:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Total fair value	\$4,369,013	\$3,854,664
Less:		
Tenant improvement allowances	(99,565)	(72,166)
Leasing commissions	(37,793)	(32,535)
Straight-line rents receivable	(34,378)	(23,206)
Adjusted fair value	\$4,197,277	\$3,726,757

VALUATION METHODOLOGY

The IFRS value of investment properties is determined using a combination of the following methodologies:

Discounted cash flow method - Under this approach, discount rates are applied to the projected annual operating cash flows, generally over a minimum term of ten years, including a terminal value of the properties based on a capitalization rate applied to the estimated net operating income ("NOI"), a non-GAAP measure, in the terminal year.

Discounted cash flow method, net of costs to complete - This approach is used primarily for properties under development, it is similar to the method described above, with the remaining costs to complete reduced from the estimated fair value of the project.

Direct income capitalization methodology - with this approach the stabilized NOI of each property is divided by an overall capitalization rate.

Comparable sales method - This approach compares a subject property's characteristics with those of comparable properties which have recently sold in similar transactions. The process uses one of several techniques to adjust the prices of the comparable transactions according to the presence, absence, or degree of characteristics which influence value.

Management verifies all major inputs to the valuations, analyzes the change in fair values at the end of each reporting period and reviews the results with the independent appraiser every quarter. There were no changes to the valuation techniques during the year.

SIGNIFICANT UNOBSERVABLE INPUTS

There are significant unobservable inputs used, such as capitalization rates, in determining the fair value of each investment property, thus all investment properties are classified as Level 3 assets. Fair values are most sensitive to changes in capitalization rates and stabilized or forecasted NOI. Generally, an increase in NOI will result in an increase in the fair value of investment properties and an increase in capitalization rate will result in a decrease in the fair value of investment properties. The capitalization rate magnifies the effect of a change in NOI, with a lower capitalization rate resulting in a greater impact of a change in NOI than a higher capitalization rate. Below are the rates used in the modeling process for valuations.

	WEIGHTED AVERAGE	
	DECEMBER 31, 2015	DECEMBER 31, 2014
Discount rate	7.1%	7.5%
Terminal capitalization rate	6.3%	6.7%
Overall capitalization rate	6.0%	6.2%
Discount horizon (years)	10	10

The analysis below shows the maximum impact on fair values of possible changes in capitalization rates, assuming no changes in NOI:

CHANGE IN CAPITALIZATION RATE OF	-0.50%	-0.25%	+0.25%	+0.50%
Increase (decrease) in fair value				
Rental properties ⁽¹⁾	\$343,780	\$169,940	\$(134,910)	\$(269,935)
Properties under development ⁽²⁾	\$23,790	\$11,460	\$(10,680)	\$(20,640)

⁽¹⁾ Includes properties valued using the discounted cash flow methodology.

⁽²⁾ Excludes properties under development valued using a land comparable sales method.

6. LOANS AND NOTES RECEIVABLE

Loans and notes receivable are as follows:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Loans receivable (a)	\$21,173	\$—
Notes receivable (b)	2,127	8,265
	\$23,300	\$8,265
Current	\$1,055	\$6,138
Non-current	22,245	2,127
	\$23,300	\$8,265

(A) In February 2015, Allied entered into a joint arrangement with Westbank and completed the acquisition of an undivided 50% interest in Adelaide & Duncan, advancing \$42,346 to the partnership between Allied and Westbank. The loan is secured by a first charge on the property and assignment of rents and leases. Interest on the loan is payable monthly at a rate of 6.2%. The loan is repayable when the partnership obtains external construction financing.

(B) 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 (with an interest rate of 1.5%) with various maturities to August 1, 2015 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. The government bonds were classified as a held to maturity financial asset. All government bonds have matured as of August 1, 2015 (December 31, 2014 - \$5,119) and proceeds were used to repay the defeased mortgage due on November 1, 2015.

Also included in notes receivable is an annuity loan receivable of \$2,127 (December 31, 2014 - \$3,146), bearing interest of 1.8% and maturing on December 1, 2017.

7. OTHER ASSETS

Other assets consist of the following:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Tenant improvement allowances ⁽¹⁾	\$99,565	\$72,166
Leasing commissions ⁽²⁾	37,793	32,535
Straight-line rents receivable	34,378	23,206
Equipment and other assets ⁽³⁾	5,738	2,626
Unsecured term loan interest swap asset	17	—
	\$177,491	\$130,533

(1) During the year ended December 31, 2015, Allied recorded amortization of tenant improvement allowances of \$14,176 (December 31, 2014 - \$10,331), which was netted against rental revenue.

(2) During the year ended December 31, 2015, Allied recorded amortization of leasing commissions of \$7,152 (December 31, 2014 - \$5,727).

(3) During the year ended December 31, 2015, Allied recorded amortization of equipment and other assets of \$1,078 (December 31, 2014 - \$774).

8. ACCOUNTS RECEIVABLE, PREPAID EXPENSES AND DEPOSITS

	DECEMBER 31, 2015	DECEMBER 31, 2014
Tenant trade receivables - net of allowance (a)	\$20,848	\$17,542
Other tenant receivables (b)	10,341	15,049
Miscellaneous receivables (c)	10,654	10,885
Prepaid expenses and deposits (d)	11,712	18,428
	\$53,555	\$61,904

(A) Tenant trade receivables

Tenant trade receivables include tenant rental payments that are due at the beginning of each month and annual common area maintenance ("CAM") and property tax recovery billings.

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:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Allowance for doubtful accounts, beginning of year	\$3,265	\$1,850
Additional provision recorded during the year	2,513	2,547
Reversal of previous provisions	(1,009)	(473)
Receivables written off during the year	(3,000)	(659)
Allowance for doubtful accounts, end of year	\$1,769	\$3,265

(B) Other tenant receivables

Other tenant receivables pertain to unbilled CAM and property tax recoveries and chargebacks.

(C) Miscellaneous receivables

Miscellaneous receivables consist primarily of property taxes recoverable from municipalities and insurance claims. As at December 31, 2015, there are no indicators that the debtors will not meet their payment obligations.

(D) Prepaid expenses and deposits

Prepaid expenses primarily relate to property operating expenses (realty taxes) and deposits relating to acquisitions.

9. DEBT

Debt consists of the following items:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Mortgages payable (a)	\$1,172,468	\$1,274,857
Construction loans payable (b)	21,789	54,210
Unsecured revolving operating facility (c)	19,598	—
Secured operating facility (c)	—	24,336
Senior unsecured debentures (d)	224,161	—
Unsecured term loan (e)	149,487	—
	\$1,587,503	\$1,353,403
Current	\$140,587	\$137,623
Non-current	1,446,916	1,215,780
	\$1,587,503	\$1,353,403

(A) *Mortgages payable*

Mortgages payable have a weighted average stated interest rate of 4.7% as at December 31, 2015 (December 31, 2014 - 4.8%). The mortgages are secured by a first registered charge over specific investment properties and first general assignments of leases, insurance and registered chattel mortgages.

The following table contains information on the remaining contractual mortgage maturities:

	PRINCIPAL REPAYMENTS	BALANCE DUE AT MATURITY	TOTAL
2016	\$35,770	\$66,511	\$102,281
2017	33,731	127,314	161,045
2018	32,773	56,900	89,673
2019	30,141	129,365	159,506
2020	24,361	4,456	28,817
2021	23,454	104,344	127,798
2022	19,609	73,683	93,292
2023	16,421	220,957	237,378
2024	3,439	165,326	168,765
2025	172	8,787	8,959
	\$219,871	\$957,643	\$1,177,514
Net discount on assumed mortgages			568
Net financing costs			(5,614)
			\$1,172,468

(B) *Construction loans payable*

On June 23, 2015, Allied provided its guarantee (limited to \$114,000) to a Canadian chartered bank to support a \$342,000 construction lending facility to assist with the financing of construction costs associated with the development of TELUS Sky, in which Allied has a 33.33% joint arrangement interest. The loan matures on August 31, 2019, and bears interest at bank prime plus 70 basis points or banker's acceptance rate plus 195 basis points. Allied's obligation of the balance outstanding under the facility as at December 31, 2015 was \$3,126 (December 31, 2014 - nil).

Allied has provided its guarantee (limited to 50%) to a Canadian chartered bank to support a \$45,740 construction lending facility to assist with the financing of construction costs associated with the development of the Breithaupt Block project, in which Allied has a 50% joint arrangement interest. The loan was originally set to mature December 31, 2015, but on December 10, 2015, the maturity was extended to March 31, 2016. The loan bears interest at bank prime plus 80 basis points or bankers' acceptance rate plus 180 basis points. Allied's obligation of the balance outstanding under the facility as at December 31, 2015, was \$18,663 (December 31, 2014 - \$12,110).

In May 2013, Allied secured a construction facility from a group of Canadian chartered banks to fund project construction costs for the development at QRC West, Phase I. In February 2015, Allied repaid the construction facility in full (December 31, 2014 - \$42,100).

(c) Unsecured revolving operating facility and secured operating facility

On January 18, 2015, Allied obtained an unsecured revolving operating facility (“Unsecured Facility”) of \$200,000. The Unsecured Facility had a balance of \$19,598 outstanding at December 31, 2015 (December 31, 2014 - nil). The Unsecured Facility bears interest at bank prime plus 70 basis points or bankers’ acceptance plus 170 basis points and matures on January 18, 2018. The Unsecured Facility contains a \$100,000 accordion feature, allowing Allied to increase the amount available under the facility to \$300,000. The Unsecured Facility replaced the \$100,000 secured operating facility which had a balance of \$24,336 outstanding at December 31, 2014.

(d) Senior unsecured debentures

On May 13, 2015, Allied issued \$150,000 of 3.748% Series A unsecured debentures (the “Unsecured Debentures”) due May 13, 2020, with semi-annual interest payments due on May 13 and November 13 of each year commencing November 13, 2015. Debt financing costs of \$1,001 were incurred and recorded against the principal owing.

Furthermore, on August 18, 2015, Allied issued an additional \$75,000 of 3.748% Series A unsecured debentures with the same terms and conditions as the May 13, 2015, issuance described above. Allied recognized a premium of \$731 on the secondary offering of the Unsecured Debentures. Debt financing costs of \$700 were incurred and recorded against the principal owing.

The respective financing costs are amortized using the effective interest method and recorded to Interest Expense (note 9 (f)). Funds from the issuance were used to fund acquisitions, repay amounts drawn on the Unsecured Facility and for general working capital purposes.

	DATE OF ISSUE	DATE OF MATURITY	DECEMBER 31, 2015	DECEMBER 31, 2014
Series A, 3.748%, semi-annual interest payments due May 13 and November 13	May 13, 2015 and August 18, 2015	May 13, 2020	\$225,000	—
Net financing costs			(839)	—
			\$224,161	—

(E) *Unsecured term loan*

On December 14, 2015, Allied entered into a credit agreement with a Canadian chartered bank to obtain a \$150,000 unsecured term loan in the form of a revolving bankers' acceptance at prime plus 170 basis points which matures December 14, 2018 (the "Unsecured Term Loan"). Concurrently, with the closing of the Unsecured Term Loan, Allied entered into an interest rate swap agreement to fix the variable interest rate on the bankers' acceptance to 0.945%, resulting in a total fixed interest rate of 2.645% for the full term of the Unsecured Term Loan. The interest rate swap agreement has a notional value of \$150,000. Financing costs of \$522 were incurred and recorded against the principal owing. During 2015, Allied amortized \$9 (December 31, 2014 - nil) of financing costs using the effective interest method, recording it to Interest Expense (note 9 (f)). Funds from the Unsecured Term Loan were used to repay amounts drawn on the Unsecured Facility and for general working capital purposes.

(F) *Interest expense*

Interest expense consists of the following:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Interest on debt	\$65,142	\$62,063
Interest on freehold lease and land lease obligations	3,281	3,211
Amortization, premium (discount) on debt	170	(74)
Amortization, net financing costs	1,580	1,558
	\$70,173	\$66,758
Less: interest capitalized to qualifying investment properties	(18,042)	(13,084)
Interest expense	\$52,131	\$53,674

Borrowing costs have been capitalized at a weighted average rate of 4.6% per annum (December 31, 2014 – 4.8%).

A description of Allied's risk management objectives and policies for financial instruments is provided in note 24.

10. FREEHOLD LEASE AND LAND LEASE OBLIGATIONS

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

	2016	2017 - 2020	THEREAFTER	DECEMBER 31, 2015	DECEMBER 31, 2014
Future minimum lease payments	\$7,411	\$35,708	\$486,687	\$529,806	\$537,179
Less: Amounts representing interest	(487)	(7,639)	(383,620)	(391,746)	(401,535)
Present value of lease payments	\$6,924	\$28,069	\$103,067	\$138,060	\$135,644

	DECEMBER 31, 2015	DECEMBER 31, 2014
Current	\$7,412	\$6,886
Non-current	130,648	128,758
	\$138,060	\$135,644

For the year ended December 31, 2015, minimum lease payments of \$7,129, were paid by Allied (December 31, 2014 - \$6,261). 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 options or purchase options, escalation clauses or restrictions concerning distributions, additional debt and further leasing.

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consists of the following:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Trade payable and other liabilities	\$77,651	\$66,207
Prepaid tenant rents and tenant deposits	29,891	25,353
Accrued interest payable	4,961	4,219
Distributions payable to Unitholders	9,804	9,128
Mortgage interest swap liability	16,345	8,734
	\$138,652	\$113,641

12. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of financial instruments is the amount for which an asset could be exchanged or liability settled between knowledgeable, willing parties in an arm's length transaction based on the current market for assets and liabilities with the same risks, principal and remaining maturity.

The carrying value of Allied's cash and cash equivalents and accounts receivable, as well as accounts payable and other liabilities, approximate their fair values due to their short-term nature. The fair value of loans and notes receivable, mortgages payable, construction loans payable, Unsecured Debentures, the Unsecured Term Loan, the secured operating facility and Unsecured Facility are estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

The fair value of Allied's financial instruments are summarized in the following table:

	DECEMBER 31, 2015		DECEMBER 31, 2014	
	Fair value through profit & loss	Loans receivables / other liabilities	Total	Total
Financial assets				
Loans and notes receivable	\$—	\$23,300	\$23,300	\$8,265
Unsecured Term Loan interest swap asset	17	—	17	—
Financial liabilities				
Mortgages payable	—	1,246,836	1,246,836	1,276,288
Construction loans payable	—	18,692	18,692	54,009
Secured operating facility	—	—	—	24,336
Unsecured Facility	—	19,598	19,598	—
Mortgage interest swap liability	16,345	—	16,345	8,734
Unsecured Debentures	—	225,144	225,144	—
Unsecured Term Loan	—	150,000	150,000	—

FAIR VALUE HIERARCHY

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 balance sheet 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 the fair value of Allied's financial assets and liabilities measured at fair value:

INTEREST RATE DERIVATIVE CONTRACTS

The fair value of Allied's interest rate derivative contracts which represent a net liability as at December 31, 2015, is \$16,328 as compared to a net liability as at December 31, 2014, of \$8,734. The fair value of the derivative contracts is determined using forward interest rates observable in the market (Level 2).

13. UNITHOLDERS' EQUITY

The following presents the number of Units issued and outstanding, and the related carrying value of Unit equity, for the year ended December 31, 2015, and December 31, 2014.

	DECEMBER 31, 2015		DECEMBER 31, 2014	
	UNITS	AMOUNT	UNITS	AMOUNT
Trust Units, beginning of year	75,068,912	1,754,576	68,542,410	1,545,387
Units issued under the DRIP	1,028,659	35,195	852,161	28,227
Net cash used to purchase and allocate Units to the Restricted Units Plan	—	(1,672)	—	(1,367)
Repayments of Long-term incentive plan installment loan receivable	—	18	—	23
Units issued under the unit based compensation arrangement	118,832	3,076	786,841	17,436
Units issued, net of issuance costs:				
September 3, 2014			4,887,500	164,870
February 2, 2015	2,213,750	82,348		
Trust Units, end of year	78,430,153	1,873,541	75,068,912	1,754,576

On February 2, 2015, Allied raised gross proceeds of \$86,336 through the issuance of 2,213,750 Units at a price of \$39 per unit. Costs relating to the issuance were \$3,988 and were applied against the gross proceeds of the issuance and charged against Unitholder's equity.

On September 3, 2014, Allied raised gross proceeds of \$172,529 through the issuance of 4,887,500 Units at a price of \$35.30 per unit. Costs relating to the issuance were \$7,659 and were applied against the gross proceeds of the issuance and charged against Unitholder's equity.

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

NORMAL COURSE ISSUED BID

In December 2015, Allied received approval from the Toronto Stock Exchange (“TSX”) for its normal course issuer bid (“NCIB”), which entitled Allied to purchase for cancellation up to 7,685,791 of its outstanding units, representing approximately 10% of its public float at December 15, 2015. The NCIB commenced December 24, 2015, and will terminate December 23, 2016 or such earlier date as the Trust completes its purchase pursuant to the NCIB. All purchases under the NCIB will be made on the open market through the facilities of the TSX or alternate trading systems in Canada at market prices prevailing at the time of purchase. Any units that are repurchased will either be cancelled or delivered to participants under Allied’s Restricted Unit Plan.

There were no repurchases through the NCIB during the year ended December 31, 2015 (December 31, 2014 - nil).

14. UNIT OPTION AND RESTRICTED UNIT PLANS

(A) Unit option plan

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 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 and vest evenly over three years from the date of grant. All options are settled in Units.

SUMMARY OF UNIT OPTION GRANTS:

Date granted	Expiry date	Units granted	Exercise price	Exercised to date	Forfeited to date	Net outstanding	Vested
March 31, 2011	March 31, 2016	293,295	\$21.91	(129,397)	(4,532)	159,366	159,366
March 6, 2012	March 6, 2017	226,132	\$26.51	(78,576)	(13,494)	134,062	134,062
March 5, 2013	March 5, 2018	209,235	\$34.25	(50,844)	(26,448)	131,943	81,805
March 4, 2014	March 4, 2019	266,174	\$33.29	(13,182)	(65,914)	187,078	62,359
May 6, 2014	May 6, 2019	8,474	\$34.59	—	—	8,474	2,825
March 3, 2015	March 3, 2020	302,706	\$40.60	—	—	302,706	—
		1,306,016		(271,999)	(110,388)	923,629	440,417

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, 2015		DECEMBER 31, 2014	
	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	\$21.91 - 40.60	2.57	\$19.39 - 34.59	2.62

	DECEMBER 31, 2015		DECEMBER 31, 2014	
	Number of units	Weighted average exercise price	Number of units	Weighted average exercise price
Balance at the beginning of the period	778,889	\$28.54	1,350,941	\$23.30
Granted during the period	302,706	40.60	274,648	33.33
Forfeited during the period	(39,134)	33.60	(59,859)	32.76
Exercised during the period	(118,832)	23.81	(786,841)	20.89
Balance at the end of the period	923,629	\$32.89	778,889	28.54
Units exercisable at the end of the period	440,417	\$27.29	353,371	\$23.69

The weighted average unit price for the year ended December 31, 2015, was \$36.54 (December 31, 2014 - \$35.01).

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

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

	DECEMBER 31, 2015	DECEMBER 31, 2014
Unit options granted	302,706	274,648
Unit option holding period (years)	5	5
Volatility rate	17.8%	20.5%
Distribution yield	3.6%	4.2%
Risk free interest rate	0.7%	1.6%
Value of options granted	\$1,062	\$972

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

For the Unit Option Plan, \$811 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) has been included in net income for the year ended December 31, 2015, and credited to Unitholders' equity (for the year ended December 31, 2014 - \$722).

(B) *Restricted unit plan*

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. The following is a summary of Allied's Restricted Unit Plan:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Outstanding Restricted Units, beginning of period	178,755	138,414
Granted	47,695	46,594
Forfeited	(6,234)	(6,253)
Outstanding Restricted Units, end of period	220,216	178,755

For the Restricted Unit Plan, a total of \$1,478 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) has been included in net income for the year ended December 31, 2015, and credited to Unitholders' equity (for the year ended December 31, 2014 - \$1,212).

15. LONG-TERM INCENTIVE PLAN

Officers and trustees of Allied have been granted the right to participate in a long-term incentive plan ("LTIP"), whereby the participants subscribe for units at a purchase price equal to the weighted average trading price of the units for five trading days preceding the date of the grant. The purchase price is payable as to 5% upon issuance and to the balance ("installment loan receivable") over a term not exceeding ten 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, 2015, and December 31, 2014, were \$537 and \$636, 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, 2015	FOR THE YEAR ENDED DECEMBER 31, 2015	CUMULATIVE AS AT DECEMBER 31, 2014
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	(1,083)	(7)	(1,076)
Distributions applied against installment loans receivable	3,617	25	3,592
Repayment of installment loans	3,283	—	3,283
	(151)	18	(169)
	\$6,605	\$18	\$6,587

16. WEIGHTED AVERAGE NUMBER OF UNITS

The weighted average number of units for the purpose of calculating basic and diluted income per unit is as follows:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Basic	77,620,668	71,048,941
Unit option plan	136,015	246,388
LTIP	17,000	23,726
Fully diluted	77,773,683	71,319,055

17. NET RENTAL INCOME

The following amounts were recognized in income:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Rental revenue from rental properties	\$348,129	\$333,445
Rental revenue from properties under development	17,272	4,100
	365,401	337,545
Property operating costs - rental properties	(149,184)	(135,173)
Property operating costs - properties under development	(3,544)	(3,590)
	\$(152,728)	\$(138,763)

Future minimum rental income is as follows:

	2016	2017 - 2020	THEREAFTER	TOTAL
Future minimum rental income	\$360,294	\$1,103,890	\$722,919	\$2,187,103

18. GENERAL AND ADMINISTRATIVE EXPENSES

	DECEMBER 31, 2015	DECEMBER 31, 2014
Salaries and benefits	\$7,305	\$6,783
Professional and directors fees	2,616	2,293
Office and general expenses	1,309	1,086
	\$11,230	\$10,162
Capitalized to development and acquisitions	(2,314)	(2,475)
Total	\$8,916	\$7,687

19. SUPPLEMENTAL CASH FLOW

Cash and cash equivalents include the following components:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Cash at bank and in hand	\$4,176	\$5,113
Short-term deposits	147	147
Total cash and cash equivalents	\$4,323	\$5,260

The following summarizes supplemental cash flow information and non-cash transactions:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Supplemental		
Interest paid on debt	\$64,501	\$62,168
Interest received	\$1,274	\$—
Non-cash transactions		
Units issued under DRIP	\$35,195	\$28,227
Freehold lease and land leases	\$2,416	\$15,512

20. JOINT ARRANGEMENTS

Properties under joint arrangements are accounted for as joint operations. The following table summarizes Allied's interest in the assets, liabilities, revenues and expenses for the joint operations in which it participates.

PROPERTIES	LOCATION	CURRENT STATUS	OWNERSHIP	
			2015	2014
Breithaupt Block	Kitchener, ON	Property Under Development	50%	50%
King & Portland	Toronto, ON	Rental Property	50%	50%
College and Manning	Toronto, ON	Property Under Development	50%	50%
478 King	Toronto, ON	Rental Property	50%	50%
The Well	Toronto, ON	Rental Property	40%	40%
57 Spadina	Toronto, ON	Rental Property	50%	50%
Adelaide & Duncan	Toronto, ON	Property Under Development	50%	50%
TELUS Sky	Calgary, AB	Property Under Development	33 1/3%	33 1/3%

	DECEMBER 31, 2015	DECEMBER 31, 2014
Total assets	\$238,288	\$168,084
Total liabilities	\$80,110	\$65,115

	DECEMBER 31, 2015	DECEMBER 31, 2014
Revenue	\$8,565	\$6,063
Expenses	(5,198)	(4,612)
Income before fair value gain on investment properties	3,367	1,451
Fair value gain on investment properties	15,184	3,893
Net income	\$18,551	\$5,344

21. SEGMENTED INFORMATION

To measure performance based on income from property operations, Management divides operations into three geographical locations consisting of 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 assets and liabilities are not included in the segmented information below.

Allied does not allocate interest expense to segments as debt is viewed by Management to be used for the purpose of acquisitions, development and improvements of the properties. Similarly, general and administration expenses, interest income and fair value of derivative 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, 2015	EASTERN CANADA	CENTRAL CANADA	WESTERN CANADA	SEGMENT TOTAL	OTHER	TOTAL
Rental revenue from investment properties	\$87,899	\$213,405	\$64,097	\$365,401	—	\$365,401
Property operating costs	(41,334)	(84,432)	(26,962)	(152,728)	—	(152,728)
Net rental income	46,565	128,973	37,135	212,673	—	212,673
Interest expense	—	—	—	—	(52,131)	(52,131)
General and administrative expenses	—	—	—	—	(8,916)	(8,916)
Amortization of leasing costs and other assets	(2,870)	(3,381)	(902)	(7,153)	(1,077)	(8,230)
Interest income	—	—	—	—	1,275	1,275
Fair value gain (loss) on investment properties	(18,350)	158,709	(22,921)	117,438	—	117,438
Fair value (loss) on derivative instruments	—	—	—	—	(7,594)	(7,594)
Loss on disposal of investment properties	—	—	(148)	(148)	—	(148)
Net income and comprehensive income	\$25,345	\$284,301	\$13,164	\$322,810	\$(68,443)	\$254,367

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
Rental revenue from investment properties	\$85,062	\$183,844	\$68,639	\$337,545	—	\$337,545
Property operating costs	(39,267)	(74,170)	(25,326)	(138,763)	—	(138,763)
Net rental income	45,795	109,674	43,313	198,782	—	198,782
Interest expense	—	—	—	—	(53,674)	(53,674)
General and administrative expenses	—	—	—	—	(7,687)	(7,687)
Amortization of leasing costs and other assets	(2,419)	(2,781)	(527)	(5,727)	(774)	(6,501)
Interest income	—	—	—	—	—	—
Fair value gain (loss) on investment properties	(17,652)	29,005	20,089	31,442	—	31,442
Fair value (loss) on derivative instruments	—	—	—	—	(12,345)	(12,345)
Gain on disposal of investment properties	—	741	1,020	1,761	—	1,761
Net income and comprehensive income	\$25,724	\$136,639	\$63,895	\$226,258	\$(74,480)	\$151,778

22. INCOME TAXES

Allied is taxed as a “Mutual Fund Trust” for income tax purposes. Pursuant to its Declaration of Trust, it 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.

23. 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 years ended December 31, 2015 and 2014, real estate service revenue earned from these properties was \$228 and \$235, respectively.

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 are summarized in the table below:

	DECEMBER 31, 2015	DECEMBER 31, 2014
Salary, bonus and other short-term employee benefits	\$3,445	\$3,688
Unit-based compensation	1,696	1,337
	\$5,141	\$5,025

24. RISK MANAGEMENT

(A) Capital management

Allied defines capital as the aggregate of Unitholders' equity, mortgages payable, construction loans payable, Unsecured Facility, Unsecured Debentures, Unsecured Term Loan and freehold lease and land lease obligations. 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% including convertible debentures, if any) 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, 2015, and December 31, 2014, debts having variable interest rates and debts having maturities of less than one year aggregated to 2.1% and 2.5% of gross book value, respectively.

On November 28, 2014, Allied filed a short form Base Shelf Prospectus allowing for the issuance, from time to time, of units and debt securities, or any combination there of having an aggregate offering price of up to \$1,000,000. This document is valid for a 25-month period.

Allied has certain key covenants in its Unsecured Debentures, Unsecured Facility and Unsecured Term Loan. The key financial covenants include debt service ratios and leverage ratios, as defined in the respective agreements. These ratios are measured by the Trust on an ongoing basis to ensure compliance with the agreements. Allied was in compliance with each of the key financial covenants under these agreements as at December 31, 2015, and December 31, 2014.

(B) *Market risk*

Market risk is the risk that the fair value or future cash flow of financial instruments 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 at December 31, 2015, 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. As fixed rate debt matures and as Allied utilizes additional floating rate debt under the Unsecured Facility, Allied will be further exposed to changes in interest rates. As at December 31, 2015, the Unsecured Facility, which is at floating interest rates and is exposed to changes in interest rates, has a balance of \$19,598 (December 31, 2014 - nil, Secured Operating Facility - \$24,336). 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 +/- 1.0%. 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.

AS AT DECEMBER 31, 2015	CARRYING AMOUNT	-1.0%	+1.0%
		INCOME IMPACT	INCOME IMPACT
Unsecured facility	19,598	196	(196)
Mortgages and construction loans payable maturing within one year	102,281	1,023	(1,023)

(C) *Credit risk*

Credit risk from tenant receivables arises from the possibility that tenants may experience financial difficulty and be unable to fulfil 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 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 an allowance for doubtful accounts and the amount of any loss is recognized in the consolidated statements of income and comprehensive income within property operating cost. As at December 31, 2015, and December 31, 2014, allowance for doubtful accounts \$1,769 and \$3,265, respectively.

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, 2015	DECEMBER 31, 2014
Less than 30 days	\$1,401	\$80
30 to 60 days	443	1,121
More than 60 days	19,004	16,341
Total	\$20,848	\$17,542

(D) *Liquidity risk*

Liquidity risk arises from the possibility of not having sufficient capital available to fund ongoing operations and refinance or meet obligations as they come due. Mitigation of liquidity risk is discussed above. 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, 2015, and December 31, 2014.

Allied has entered into interest rate derivative contracts to limit its exposure to fluctuations in the interest rates on approximately \$247,773 of its variable rate mortgages payable as at December 31, 2015 (December 31, 2014 - \$254,673). 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. For the year ended December 31, 2015, Allied recognized, as part of the change in fair value adjustment on derivative instruments, a net loss of \$7,594, (for the year ended December 31, 2014 – net loss of \$12,345 respectively).

25. 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, 2015 and December 31, 2014 were \$36,914 and \$16,184, respectively.

Allied is subject to legal and other claims in the normal course of business. Management and 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 the consolidated financial statements.

Allied, through a financial intermediary, has issued letters of credit in the amount of \$7,634 representing deposits on financing requirements (December 31, 2014 - \$798).

26. SUBSEQUENT EVENTS

On January 5, 2016, Allied repaid a mortgage on maturity amounting to \$8,979 with an interest rate of 5.43%.

On February 1, 2016, Allied repaid two mortgages on maturity amounting to \$6,701 and \$4,840, respectively. The interest rates on the aforementioned mortgages were 5.16%.

On February 17, 2016, Allied completed the disposal of a co-owned property in Toronto, Ontario for net proceeds of \$9,450.

On March 1, 2016, Allied and First Capital Realty Inc. completed the purchase of a property in Calgary, Alberta for a purchase price of \$21,000, with each of Allied and First Capital Realty acquiring an undivided 50% interest.



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