

ALLIED

Annual Report December 31, 2017

Building cities — one building at a time

02.14.18



2017

YOY SANOI GROWTH 5.2%

YOY OCCUPANCY GAIN 4.8%

YOY RENT GROWTH ON RENEWALS AND REPLACEMENTS 17.8%

YOY NAV/UNIT GROWTH 7.1%

DEBT RATIO AT YEAR-END 33.8%

UNENCUMBERED ASSETS AT YEAR-END \$2.9B

ALLIED

Annual Report

December 31, 2017

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Letter to Unitholders

Dear Fellow Unitholder:

Allied was successful in 2017. We achieved strong organic growth in our rental portfolio, completed our upgrade properties in Montréal, re-established leasing momentum at our cloud-hosting facility in Toronto, completed \$123 million in acquisitions, advanced \$67 million to Westbank in connection with a Vancouver development, sold 12 non-core properties for \$54 million and made significant progress in our development portfolio.

We're intent on remaining a preferred public vehicle through which to participate in the urban-intensification trend in Canada's major cities. Despite the strength and durability of this trend, we're equally intent on retaining an industry-leading balance sheet. In August last year, we completed a \$300 million bought-deal, effectively funding our entire capital program for the year with equity. This improved our already conservative balance-sheet metrics, and it will enhance our financial flexibility this year as our development program continues to accelerate. Our commitment to the balance sheet remains unwavering.

Looking forward, I expect our operating, acquisition and development environments to be generally favourable in 2018. Our internal forecast contemplates (i) solid mid-single-digit percentage growth in same-asset NOI, (ii) low-single-digit percentage growth in FFO per unit and (iii) high-single-digit growth in AFFO per unit as a material component of straight-line rent in 2017 converts to cash rent in 2018. I expect continued growth in NAV per unit in 2018, with significant contribution from development completions, ongoing rent escalation and ongoing cap-rate strength in Canada's major urban centres.

I remain confident in Allied's near-term and longer-term outlook. My confidence is predicated on the continued intensification of the urban core of Canada's major cities and the continued desire on the part of office and retail users to locate in distinctive urban environments. It is 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 loop at the top and a trailing flourish.

Michael Emory
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Management's Discussion and Analysis of Results of Operations and Financial Condition as at December 31, 2017

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, 2017. 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 February 14, 2018, and should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2017. 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.

NON-IFRS MEASURES

Readers are cautioned that certain terms used in the MD&A such as Funds from Operations ("FFO"), Normalized Funds from Operations ("Normalized FFO"), Adjusted Funds from Operations ("AFFO"), Net Operating Income ("NOI"), "Same Asset 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, 2017. 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".

FORWARD LOOKING STATEMENTS

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 FFO and AFFO 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 yield on cost of PUDs; estimated rental NOI and anticipated rental rates; lease up of our intensification projects; anticipated available square feet of leasable area; Management's plans to put additional buildings forward for certification; our ability to achieve risk-adjusted returns on intensification; 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, taxation and cybersecurity. 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 potentially 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— Overview and Section III—Asset Profile are qualified in their entirety by this forward-looking disclaimer. These statements are made as of February 14, 2018, 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 periods listed below:

	THREE MONTHS ENDED		YEAR ENDED		YEAR ENDED
(\$000's except per-square foot, per-unit and financial ratios)	DECEMBER 31, 2017	DECEMBER 31, 2016	DECEMBER 31, 2017	DECEMBER 31, 2016 ⁽¹⁾	DECEMBER 31, 2015
Portfolio					
Number of properties			147	155	148
Total rental GLA (000's of square feet)			11,268	11,843	10,421
Leased rental GLA (000's of square feet)			10,728	10,906	9,516
Leased area			95.2%	92.1%	91.3%
Occupied area			93.5%	88.7%	90.6%
Average in-place net rent per occupied square foot (period-end)			22.52	21.31	19.85
Renewal and replacement rate for leases maturing in the year			84.7%	85.3%	83.6%
Increase in net rent on maturing leases			17.8%	8.1%	5.5%
Investment properties			5,627,439	5,129,541	4,369,013
Total assets			5,823,632	5,213,854	4,455,946
Cost of PUD as % of GBV			6.5%	3.4%	4.7%
Unencumbered investment properties			2,925,135	2,306,215	1,619,465
Total debt			1,959,877	1,909,265	1,587,503
Net asset value			3,549,022	3,021,506	2,591,731
Annualized Adjusted EBITDA	260,884	243,132	252,753	232,399	219,208
Net debt	1,953,829	1,897,072	1,953,829	1,897,072	1,583,180
Annualized Adjusted EBITDA as a multiple of net debt	7.5x	7.8x	7.7x	8.2x	7.2x
Adjusted EBITDA	65,221	60,783	252,753	232,399	219,208
Interest expense	17,188	15,952	69,265	61,425	52,131
Adjusted EBITDA as a multiple of interest expense	3.8x	3.8x	3.6x	3.8x	4.2x
Rental revenue from investment properties	107,709	104,497	419,263	389,722	365,401
NOI	65,871	60,563	250,344	229,538	215,452
Same Asset NOI - rental portfolio	62,801	59,143	216,383	205,678	195,123
Same Asset NOI - total portfolio	63,137	59,656	229,589	216,067	202,544
Net income excluding loss on disposal and fair value adjustments	38,043	35,210	148,516	140,215	144,671
Net income	63,066	163,731	357,959	324,305	254,367

		THREE MONTHS ENDED		YEAR ENDED		YEAR ENDED
(\$000's except per-square foot, per-unit and financial ratios)		DECEMBER 31, 2017	DECEMBER 31, 2016	DECEMBER 31, 2017	DECEMBER 31, 2016 ⁽¹⁾	DECEMBER 31, 2015
FFO ⁽¹⁾		49,051	45,501	187,204	173,884	168,610
AFFO ⁽¹⁾		38,072	32,770	139,668	128,597	140,683
Distributions		35,754	31,984	135,177	121,880	113,674
Per unit:						
Net income excluding loss on disposal and fair value adjustments		0.41	0.42	1.69	1.73	1.86
Net income		0.68	1.93	4.07	4.01	3.27
FFO ⁽¹⁾		0.53	0.54	2.13	2.15	2.17
FFO payout ratio ⁽¹⁾		72.9%	70.3%	72.2%	70.1%	67.4%
AFFO ⁽¹⁾		0.41	0.39	1.59	1.59	1.81
AFFO payout ratio ⁽¹⁾		93.9%	97.6%	96.8%	94.8%	80.8%
Distributions		0.39	0.38	1.53	1.50	1.46
Net asset value				38.19	35.66	33.05
Actual Units outstanding				92,935,150	84,734,469	78,430,153
Weighted average diluted Units outstanding		93,027,626	84,826,679	88,006,010	80,939,463	77,773,683
Financial Ratios						
	ALLIED'S TARGETS					
Total indebtedness ratio	<40%			33.8%	36.7%	35.8%
Secured indebtedness ratio	<45%			17.4%	21.9%	27.0%
Debt service coverage ratio	>1.50x			2.0x	2.0x	2.2x
Unencumbered property asset ratio	>1.40x			3.1x	3.0x	4.1x
Interest-coverage ratio - including interest capitalized	>3.0x			2.8x	2.8x	3.1x

(1) Allied normalized FFO and AFFO in the third quarter of 2016 by excluding a one-time extraordinary item.

In the table above, AFFO has been presented in accordance with the "White Paper on Funds From Operations & Adjusted Funds From Operations for IFRS" published by REALpac in February of 2017.

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 from time to time, most recently May 12, 2016. Allied is governed by the laws of Ontario. Allied’s units (“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 distinctive urban workspace 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.

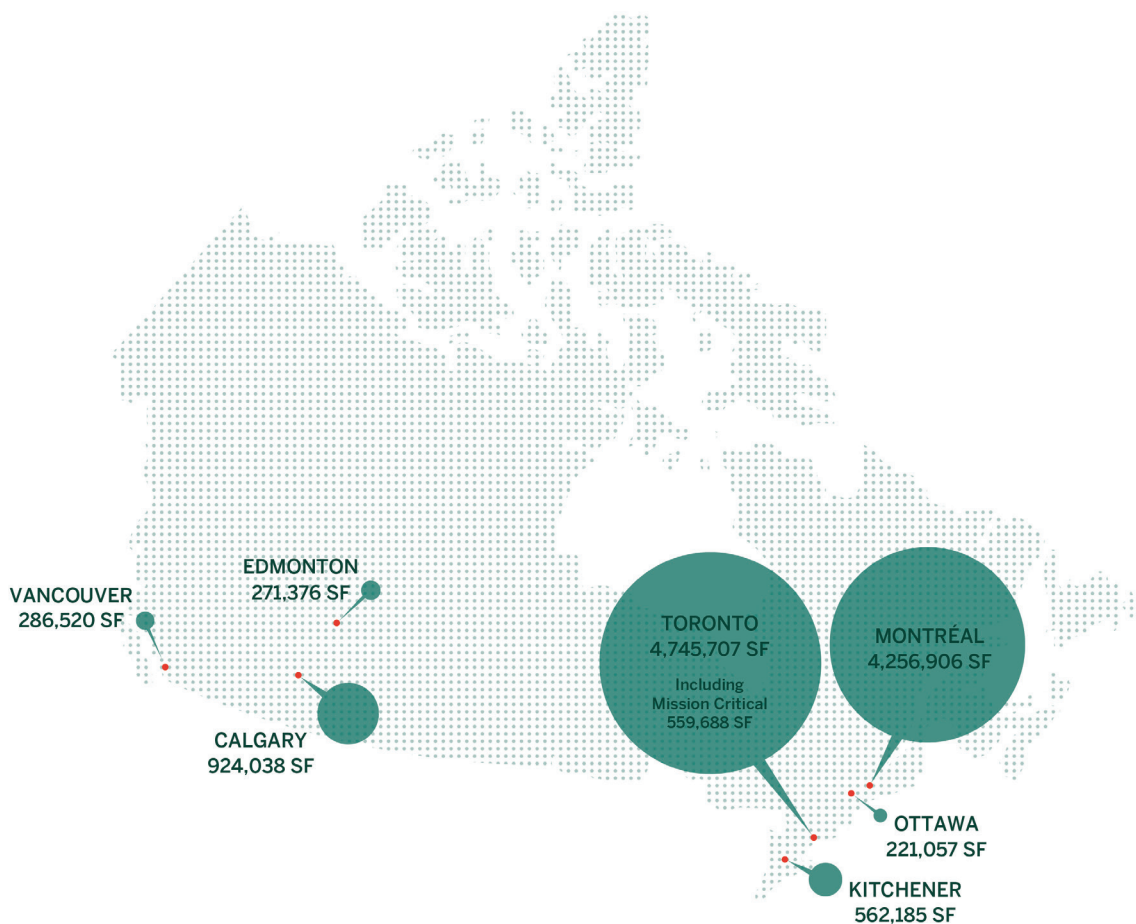
In addition to accommodating their employees in urban office space, many of Allied’s tenants utilize sophisticated and extensive telecommunication and computer equipment. This is often a mission-critical need for our tenants. In an effort to serve this related need, Allied established extensive capability in downtown Toronto through the acquisition of 151 Front Street West, the leading telecommunication interconnection point in Canada. Allied has since expanded its capability by retrofitting a portion of 905 King Street West and a portion of 250 Front Street West with a view to serving its tenants’ space requirements more fully.

PROPERTY MANAGEMENT

Allied's wholly owned subsidiary, Allied Properties Management Limited Partnership, provides property management and related services on a fee-for-services basis.

PROPERTY PORTFOLIO

Allied completed its initial public offering 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 of GLA. As of December 31, 2017, Allied had assets of \$5.8 billion, a market capitalization of \$3.9 billion and rental properties with 11.3 million square feet of GLA in seven cities across Canada. The illustration below depicts the geographic diversity of Allied's rental portfolio.



ACQUISITIONS AND DISPOSITIONS

During the year ended December 31, 2017, Allied acquired the following properties:

PROPERTY	ACQUISITION DATE	ACQUISITION COST ⁽¹⁾	OFFICE GLA	RETAIL GLA	TOTAL GLA
456 Wellington W, Toronto ⁽²⁾	January 5, 2017	\$5,393	1,939	—	1,939
387-391 Adelaide W, Toronto	January 17, 2017	8,646	5,000	6,500	11,500
56 The Esplanade, Toronto	June 20, 2017	62,466	56,537	19,575	76,112
The Well, Toronto ⁽³⁾	October 5, 2017	23,348	TBD	TBD	TBD
70 The Esplanade, Toronto	October 10, 2017	17,739	19,166	5,767	24,933
28 Atlantic, Toronto	November 16, 2017	5,271	10,065	—	10,065
Total		\$122,863	92,707	31,842	124,549

(1) Purchase price plus transaction costs.

(2) This property will form part of The Well, which is a 50/50 co-ownership between Allied and RioCan Real Estate Investment Trust ("RioCan").

(3) On October 5, 2017, Allied acquired an additional undivided 10% interest in the commercial component of The Well. Each of Allied and RioCan now own an undivided 50% interest in the commercial component of The Well.

During the year ended December 31, 2017, Allied disposed of the following properties:

PROPERTY	DISPOSITION DATE	SALE PRICE	OFFICE GLA	RETAIL GLA	TOTAL GLA
The Metals Building, 10190-104 Street NW, Edmonton	October 30, 2017	\$4,130	16,736	5,767	22,503
Winnipeg Portfolio ⁽¹⁾	December 20, 2017	25,900	322,369	20,714	343,083
Québec City Portfolio ⁽²⁾	December 27, 2017	24,000	163,575	60,599	224,174
Total		\$54,030	502,680	87,080	589,760

(1) The Winnipeg portfolio consisted of the following properties: 115 Bannatyne, 123 Bannatyne, 250 McDermot, 54-70 Arthur and 1500 Notre Dame.

(2) The Québec City portfolio consisted of the following properties: 390 Charest, 410 Charest, 420 Charest, 605 Saint-Joseph, 622 Saint-Joseph and 633 Saint-Joseph.

On January 18, 2018, Allied completed the purchase of 464 King Street West, Toronto, for \$7,000.

On January 25, 2018, Allied and First Capital entered into an agreement to purchase 812-11th Avenue, Calgary, for \$3,500, with each of Allied and First Capital acquiring an undivided 50% interest.

On January 30, 2018, Allied completed the purchase of 137 George Street, Toronto, for \$1,050.

On February 12, 2018, Allied and First Capital entered into an agreement to purchase 731-739 10th Avenue, Calgary, for \$11,940, with each of Allied and First Capital acquiring an undivided 50% interest.

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 considerably less impact on the environment than new construction of equivalent GLA. 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 five properties with Level 2 certification and 13 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 a practice of allocating 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

As at December 31, 2017, Allied operated in seven urban markets in Canada – Toronto, Kitchener, Ottawa, Montréal, Calgary, Edmonton and Vancouver.

The office inventory statistics are summarized in the table below:

	ESTIMATED OFFICE INVENTORY	ESTIMATED TARGET MARKET INVENTORY	ALLIED CURRENT GLA	PERIOD END ALLIED LEASED RATE	ALLIED'S ESTIMATED SHARE OF TARGET MARKET
Toronto	91,100,000	16,100,000	4,186,019	98.6%	26.0%
Kitchener	2,600,000	1,000,000	562,185	99.2%	56.2%
Ottawa	18,600,000	1,700,000	221,057	100.0%	13.0%
Montréal	47,700,000	17,500,000	4,256,906	94.5%	24.3%
Calgary	51,800,000	2,900,000	924,038	85.2%	31.9%
Edmonton	17,300,000	1,000,000	271,376	99.1%	27.1%
Vancouver	34,000,000	4,000,000	286,520	96.8%	7.2%
Total Office	263,100,000	44,200,000	10,708,101	95.8%	24.2%
Mission Critical			559,688	83.1%	
Total			11,267,789	95.2%	

Allied expects its operating, acquisition and development environments to be generally favourable in 2018. Allied's internal forecast contemplates solid mid-single-digit percentage growth in same-asset NOI, low-single-digit percentage growth in FFO per unit and high-single-digit growth in AFFO per unit as a material component of straight-line rent in 2017 converts to cash rent in 2018. Allied expects continued growth in NAV per unit in 2018, with significant contribution from development completions, ongoing rent escalation and ongoing cap-rate strength in Canada's major urban centres. Allied's internal forecast is predicated on the continued intensification of the urban core of Canada's major cities and the continued desire on the part of office and retail users to locate in distinctive urban office environments. 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, 2017, Allied's rental portfolio was 95.2% leased.

STATUS

Leasing status for the rental portfolio as at December 31, 2017, is summarized in the following table:

	GLA	AS A % OF TOTAL GLA ⁽¹⁾
Leased area (occupied & committed)		
December 31, 2016	10,905,612	92.1%
Vacancy committed for future leases	(401,678)	
Occupancy - December 31, 2016	10,503,934	88.7%
Previous committed vacant space now occupied	526,214	
New leases on vacant space	311,231	
Expansions into vacant space	7,983	
New vacancies during the period	(400,704)	
Surrender / early termination agreements	(57,125)	
Suite additions and removals	23,777	
Remeasurements	(909)	
Occupancy (pre acquisitions, dispositions, and transfers)	10,914,401	92.1%
Occupancy related to acquired properties	118,172	
Occupancy related to disposed properties	(414,529)	
Occupancy related to transfers from PUD	77,487	
Occupancy related to transfers to PUD	(156,827)	
Occupancy - December 31, 2017	10,538,704	93.5%
Vacancy committed for future leases	189,075	
Leased area (occupied & committed), December 31, 2017	10,727,779	95.2%

(1) Excludes properties under development

Of 11,267,789 square feet total GLA in Allied's rental portfolio, 10,538,704 square feet were occupied by tenants on December 31, 2017. Another 189,075 square feet were subject to contractual lease commitments with tenants whose leases commence subsequent to December 31, 2017, bringing the leased area to 10,727,779 square feet, which represents 95.2% of Allied's total rental portfolio GLA.

The table below outlines the timing of the contractual lease commitments by commencement of occupancy:

FIXTURING COMMENCEMENT (OCCUPANCY)	Q1 2018	Q2 2018	TOTAL
Lease commitments - GLA	188,575	500	189,075
% of lease commitments	99.7%	0.3%	100%

In most instances, occupancy commences with a rent-free fixturing period of two to four months. During the fixturing period, straight line rent revenue is recognized, and no recoverable costs are paid by the tenant. Thereafter, recoverable costs are paid by the tenant and recognized as rental revenue. In cases where interest and realty taxes were being capitalized prior to occupancy (in accordance with International Financial Reporting Standards), capitalization ends on occupancy, partially offsetting the impact of rent recognition.

The table below outlines the timing of the contractual lease commitments by commencement of rent payment:

RENT COMMENCEMENT (ECONOMIC OCCUPANCY)	Q1 2018	Q2 2018	Q3 2018	TOTAL
Lease commitments - GLA	6,124	63,292	119,659	189,075
% of lease commitments	4%	33%	63%	100%

Allied monitors the level of sub-lease space being marketed in its rental portfolio. Below is a summary of sub-lease space being marketed by city as at December 31, 2017 and December 31, 2016:

	DECEMBER 31, 2017	DECEMBER 31, 2016
Toronto	63,593	24,771
Kitchener	—	8,445
Ottawa	—	—
Montréal	76,349	48,855
Calgary	97,026	24,493
Edmonton	—	1,645
Vancouver	3,679	—
Total square feet	240,647	108,209
% of Total GLA	2.1%	0.9%

This level of marketed 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. When 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, 2017, 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, 2017, including re-measurement	946,743	425,103	44.9%	521,640
Vacancy transferred to PUD as at December 31, 2017	(36,780)	—	—	(36,780)
Vacancy transferred from PUD as at December 31, 2017	5,736	4,493	78.3%	1,243
Disposed vacancy as at December 31, 2017	(160,845)	(8,406)	5.2%	(152,439)
Acquired vacancy as at December 31, 2017	4,663	3,044	65.3%	1,619
Arranged and other vacancy as at December 31, 2017	130,524	40,945	31.4%	89,579
Maturities during the period ended December 31, 2017	754,671	639,523	84.7%	115,148
Total	1,644,712	1,104,702	67.2%	540,010

On January 1, 2017, 946,743 square feet of GLA was vacant. By the year ended December 31, 2017, Allied leased 425,103 square feet of this GLA, leaving 484,860 square feet unleased (net of vacancy transferred to PUD).

Leases for 754,671 square feet of GLA matured in the year ended December 31, 2017, at the end of which Allied renewed or replaced leases totaling 639,523 square feet of GLA, leaving 115,148 square feet unleased.

For the year ended December 31, 2017, the table below summarizes the rental rates achieved for the leases expiring in 2017 that were either renewed or replaced. Overall, this has resulted in an increase of 17.8% in the net rent per square foot from maturing leases. This unusually high increase stems for the most part from the material rent growth in Allied's primary target markets in Toronto.

LEASE RENEWALS/ REPLACEMENTS

FOR THE YEAR ENDED,
DECEMBER 31, 2017

	ABOVE IN- PLACE RENTS	AT IN-PLACE RENTS	BELOW IN- PLACE RENTS
% of Total Leased SF	68.3%	16.2%	15.5%
Maturing leases in 2017 - Weighted average rent	\$19.79	\$20.02	\$20.93
Renewals & Replacements - Weighted average rent	\$26.25	\$20.02	\$15.38

TENANT PROFILE

The following sets out Allied's tenant-mix on the basis of percentage of rental revenue for the year ended December 31, 2017:

CATEGORY	% OF RENTAL REVENUE DECEMBER 31, 2017
Business service and professional	29.8%
Telecommunications and information technology	28.1%
Media and entertainment	13.3%
Retail (head office and storefront)	11.7%
Parking & other	8.1%
Financial services	4.3%
Government	2.7%
Educational and institutional	2.0%
	100.0%

The following sets out the percentage of rental revenue from top 10 tenants by rental revenue for the year ended December 31, 2017:

TENANT	% OF RENTAL REVENUE DECEMBER 31, 2017	WEIGHTED AVERAGE REMAINING LEASE TERM (YEARS)	CREDIT RATING DBRS/S&P/MOODY'S
Equinix	2.8%	7.3	-/BB+/Ba3
Cloud Service Provider	2.6%	3.2	*-/AAA/Aaa
Ubisoft	2.4%	6.8	Not Rated
Desjardins	2.0%	3.7	AA/A+/Aa2
Cologix	1.6%	20.0	-/B/B3
National Capital Commission ("NCC"), a Canadian Crown Corporation	1.6%	17.6	Not Rated
Morgan Stanley	1.4%	2.8	AH/BBB+/A3
Entertainment One	1.3%	10.5	-/B+/Ba3
Allstream	1.3%	1.1	*-/B+/B2
Bell Canada	1.3%	2.6	BBBH/BBB+/Baa1
	18.3%		

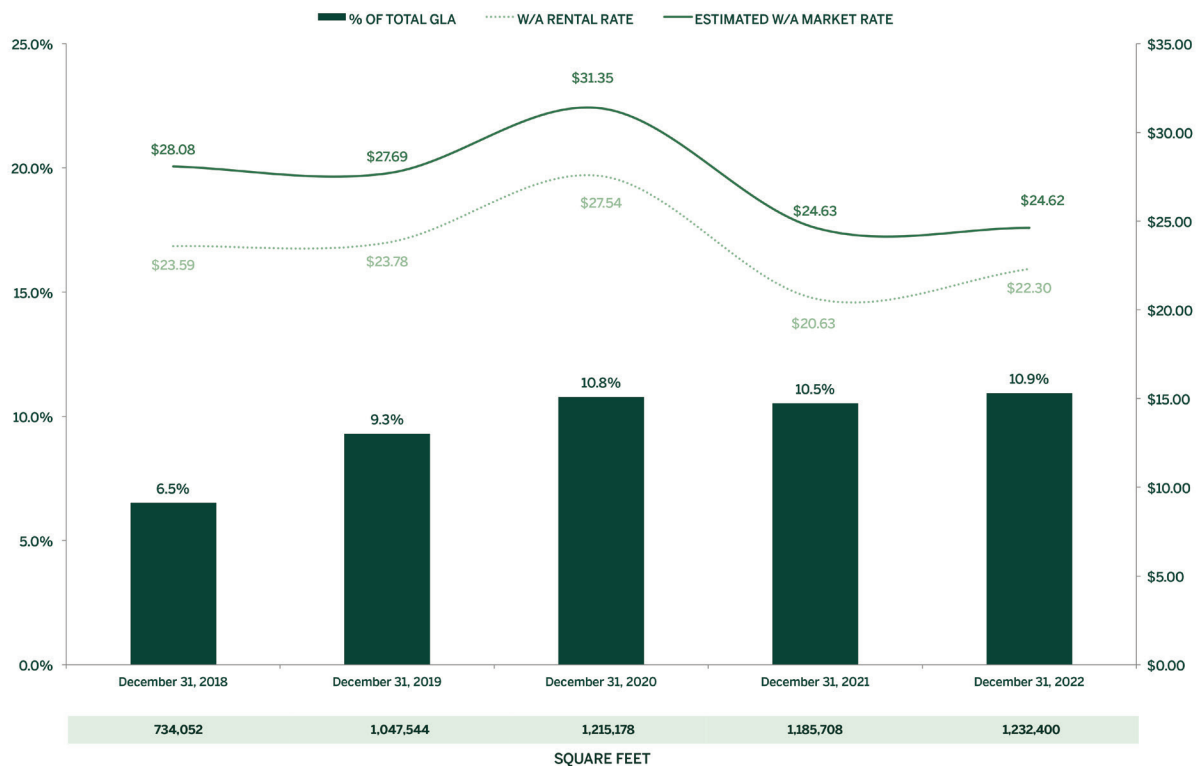
*Credit rating for parent company

LEASE MATURITY

As at December 31, 2017, 95.2% of the GLA in Allied's rental portfolio was leased. The weighted average term to maturity of Allied's leases at that time was 6.1 years. 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, retail and mission-critical leases that mature up to 2022, assuming tenants do not exercise renewal options, and the corresponding estimated weighted average market rental rate as at December 31, 2017:

TOTAL RENTAL PORTFOLIO	SQUARE FEET	% OF TOTAL GLA	WEIGHTED AVERAGE IN-PLACE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2018	734,052	6.5%	23.59	28.08
December 31, 2019	1,047,544	9.3%	23.78	27.69
December 31, 2020	1,215,178	10.8%	27.54	31.35
December 31, 2021	1,185,708	10.5%	20.63	24.63
December 31, 2022	1,232,400	10.9%	22.30	24.62



The following tables contain information on lease maturities by segment:

EASTERN CANADA	SQUARE FEET	% OF SEGMENT GLA	WEIGHTED AVERAGE IN-PLACE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2018	223,653	5.0%	14.96	14.96
December 31, 2019	363,011	8.1%	20.28	17.64
December 31, 2020	326,696	7.3%	16.35	16.38
December 31, 2021	545,621	12.2%	16.75	17.90
December 31, 2022	348,856	7.8%	17.73	17.62

CENTRAL CANADA	SQUARE FEET	% OF SEGMENT GLA	WEIGHTED AVERAGE IN-PLACE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2018	414,590	8.7%	20.58	28.64
December 31, 2019	461,109	9.7%	20.13	28.97
December 31, 2020	532,468	11.2%	18.84	23.82
December 31, 2021	442,576	9.3%	20.84	28.81
December 31, 2022	726,435	15.3%	21.09	25.38

WESTERN CANADA	SQUARE FEET	% OF SEGMENT GLA	WEIGHTED AVERAGE IN-PLACE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2018	60,093	4.1%	22.68	19.59
December 31, 2019	167,517	11.3%	23.37	17.55
December 31, 2020	230,995	15.6%	15.68	12.67
December 31, 2021	171,895	11.6%	21.91	21.98
December 31, 2022	128,364	8.7%	18.86	16.43

MISSION CRITICAL	SQUARE FEET	% OF SEGMENT GLA	WEIGHTED AVERAGE IN-PLACE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2018	35,716	6.4%	114.11	118.04
December 31, 2019	55,907	10.0%	77.84	112.80
December 31, 2020	125,019	22.3%	115.73	137.08
December 31, 2021	25,616	4.6%	90.94	113.38
December 31, 2022	28,745	5.1%	123.74	127.05

Section III

—Asset Profile

As at December 31, 2017, Allied's portfolio consisted of 147 investment properties (129 rental properties, eight development properties and ten ancillary parking facilities), with a fair value of \$5,627,439.

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

	THREE MONTHS ENDED DECEMBER 31, 2017			YEAR ENDED DECEMBER 31, 2017		
	RENTAL PROPERTIES	PROPERTIES UNDER DEVELOPMENT	TOTAL	RENTAL PROPERTIES	PROPERTIES UNDER DEVELOPMENT	TOTAL
Balance, beginning of year	\$5,131,817	\$402,188	\$5,534,005	\$4,948,043	\$181,498	\$5,129,541
Additions:						
Acquisitions	23,010	23,348	46,358	94,122	28,741	122,863
Tenant improvements	26,689	—	26,689	74,186	—	74,186
Leasing commissions	300	—	300	7,793	—	7,793
Capital expenditures	19,112	35,009	54,121	70,083	119,775	189,858
Dispositions	(54,030)	—	(54,030)	(54,030)	—	(54,030)
Transfers from PUD	—	—	—	46,360	(46,360)	—
Transfers to PUD	—	—	—	(177,508)	177,508	—
Transfers to Residential Inventory	—	—	—	—	(24,444)	(24,444)
Finance lease	576	—	576	2,880	—	2,880
Amortization of straight-line rent, tenant improvements and leasing commissions	(6,840)	—	(6,840)	(19,323)	—	(19,323)
Fair value gain (loss) on investment properties	27,987	(1,727)	26,260	176,015	22,100	198,115
Balance, end of year	\$5,168,621	\$458,818	\$5,627,439	\$5,168,621	\$458,818	\$5,627,439

For the year ended December 31, 2017, Allied capitalized a total of \$20,356 of borrowing costs, \$11,807 of which related to development activity, \$3,473 to rental properties going through intensification approval and \$5,076 to upgrade activity in the rental portfolio. The rental properties undergoing upgrade activity consist of 250 Front West, 905 King West, 5445-5455 de Gaspé, 6300 du Parc and 1751 Richardson.

The appraised fair value of investment properties is most commonly determined using the following methodologies:

Discounted cash flow method ("DCF method") - Under this approach, discount rates are applied to the projected annual operating cash flows, generally over a ten year period, 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. This method is primarily used to value the rental properties portfolio.

Comparable sales method - This approach compares a subject property's characteristics with those of comparable properties which have recently sold. The process uses one of several techniques to adjust the price of the comparable transactions according to the presence, absence, or degree of characteristics which influence value. These characteristics include the cost of construction incurred at a property under development. This method is primarily used to value the development portfolio and ancillary parking facilities.

Allied's entire portfolio is revalued by the external appraiser each quarter. 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 material changes to the valuation techniques during the year. For properties with a leasehold interest with a term less than 40 years, the resulting valuation methodology is now based upon a full-term discounted cash flow model.

In valuing the investment properties as at December 31, 2017, the independent appraiser compares the value derived using the DCF method to the value that would have been calculated by applying a capitalization rate to NOI. This is done to assess the reasonability of the value obtained under the DCF method. The corresponding portfolio weighted average overall capitalization rate used was 5.43%, detailed in the table below:

OVERALL CAPITALIZATION RATE	DECEMBER 31, 2017		DECEMBER 31, 2016	
	RANGE %	WEIGHTED AVERAGE %	RANGE %	WEIGHTED AVERAGE %
Eastern Canada	5.25% - 7.75%	6.03%	5.25% - 8.00%	6.27%
Central Canada	4.00% - 6.00%	4.84%	4.00% - 6.50%	5.06%
Western Canada	4.00% - 7.00%	5.25%	4.00% - 7.50%	5.33%
Mission Critical	6.00% - 6.50%	6.33%	5.75% - 6.75%	6.65%
Rental Properties	4.00% - 7.75%	5.42%	4.00% - 8.00%	5.68%
Properties Under Development	5.00% - 6.75%	5.63%	—	—
Total Investment Properties	4.00% - 7.75%	5.43%	4.00% - 8.00%	5.68%

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 OFFICE RENTAL PROPERTIES

Listed below are Allied's top 10 office rental properties measured by Normalized Last Quarter Annualized ("LQA") NOI. Normalized LQA NOI is a non-IFRS measure, which represents the normalized results for the most recently completed quarter (excluding straight-line rent) multiplied by four. These properties represent 30.6% of total annualized NOI for the period ended December 31, 2017.

PROPERTY NAME	NORMALIZED LQA NOI	APPRAISED FAIR VALUE	CAP RATE	PRINCIPAL TENANTS
Cité Multimédia, Montréal	\$21,559	\$348,760	5.50%	Desjardins, Morgan Stanley, SAP Canada
QRC West, Toronto	11,285	246,740	4.25%	eOne, Sapient Canada
Le Nordelec, Montréal	7,985	163,270	6.49%	Babel Games, Groupe Gsoft, Yellow Pages Media
555 Richmond West, Toronto	7,368	131,780	4.75%	Good Life, Sentinelle, Synaptive
The Chambers, Ottawa ⁽¹⁾	6,184	138,170	—	National Capital Commission
Vintage I & II, Calgary	5,769	92,550	5.25%	Royal & Sun Alliance
5455 de Gaspé Avenue, Montreal	5,598	104,800	6.25%	Attraction Media, Framestore, Ubisoft
Boardwalk Revillon, Edmonton	5,354	76,170	6.25%	Edmonton Public School Board, Legal Aid
The Tannery, Kitchener	5,337	89,120	6.00%	Communitech Corp., Desire 2 Learn
QRC East, Toronto	4,159	102,270	4.50%	Publicis Canada, St. Joseph Media
Total	\$80,598	\$1,493,630	5.36%	

(1) The Chambers is a leasehold interest property and the resulting valuation methodology is based upon a full-term discounted cash flow model as there are less than 40 years remaining on the land lease.

MISSION CRITICAL FACILITIES

Allied has three mission-critical facilities in Downtown Toronto 151 Front West (the “Internet Hub”), 905 King West (the “Colocation Facility”) and 250 Front West (the “Cloud Facility”).

Listed below are Allied's mission-critical facilities measured by Normalized LQA NOI. These properties represent 18.0% of total annualized NOI for the period ended December 31, 2017.

PROPERTY NAME	NORMALIZED LQA NOI	APPRAISED FAIR VALUE	CAP RATE	PRINCIPAL TENANTS
151 Front West, Toronto	\$29,722	\$426,910	6.25%	Allstream, Bell, Cologix, Equinix, Telus
250 Front West, Toronto	14,672	271,000	6.50%	Cloud Service Provider, Equinix
905 King West, Toronto	2,938	104,660	6.17%	Beanfield, Cologix
Total	\$47,332	\$802,570	6.33%	

Allied owns the Internet Hub. It is an important internet hub in Canada and is fully leased. The Cloud Facility and the Colocation Facility are connected to the Internet Hub via a multi-layered, diverse infrastructure of high-density fibre, providing to users a varied configuration of exchange and carrier networks.

Allied leases 173,000 square feet of GLA at the Cloud Facility pursuant to a long-term lease that expires on February 28, 2061. As a result of substantial capital improvements completed by Allied, the Cloud Facility has become an important interconnected cloud-hosting facility in Canada, providing retail, wholesale and managed services.

Allied also owns the Colocation Facility. As a result of very substantial capital improvements completed by Allied, 56,814 square feet of GLA at the property has become a leading third-party colocation facility in Downtown Toronto. The mission-critical area of the Colocation Facility is 93% leased.

Allied has two basic sources of rental revenue from the Cloud Facility. The largest source, direct rental revenue, derives from subleasing the GLA in the Cloud Facility to ultimate users. Allied has subleased 60% of the total GLA, primarily to global providers of cloud infrastructure. A smaller but material source, ancillary rental revenue, derives from fiber cross-connects at the Cloud Facility. Cross-connects enable different types of users to interconnect with low-latency and redundancy, reducing network costs and improving network security and performance. Cloud infrastructure providers achieve this by deploying cross-connects to their cloud infrastructure within the Cloud Facility. These cloud interconnect nodes function as major on-ramps to the cloud.

Allied expects that cross-connects at the Cloud Facility will give rise to recurring ancillary rental revenue that will be phased in over a 24-month period. Cross-connects utilize the existing infrastructure at the Cloud Facility without occupying any of the unleased GLA or requiring additional capital expenditure by Allied.

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 began tracking the intensification potential inherent in the Toronto portfolio in the fourth quarter of 2007 (see our MD&A dated March 7, 2008, for the quarter and year ended December 31, 2007). At the time, the 46 properties in Toronto comprised 2.4 million square feet of GLA and were situated on 780,000 square feet (17.8 acres) of underutilized land immediately east and west of the Downtown Core. The 83 properties in Toronto (including properties in the development portfolio) now comprise 4.8 million square feet of GLA and are situated on 1.9 million square feet (44 acres) of underutilized land immediately east and west of the Downtown Core. With achievable rezoning, the underlying land in our Toronto portfolio could permit up to 11 million square feet of GLA, 6.2 million square feet more than currently is in place. Less than half of the potential value of this buildable area is reflected in the appraised fair values.

Allied entered the Montréal market in April of 2005. The 17 properties in Montréal now comprise 4.3 million square feet of GLA. As they are much larger buildings on average than those comprising the Toronto portfolio, the 1.4 million square feet (32 acres) of land on which they sit (immediately south, east and north east of the Downtown Core) is more fully utilized than the land in the Toronto portfolio. Nevertheless, the underlying land in the Montréal portfolio could permit up to 5.4 million square feet of GLA, 1.1 million square feet more than currently is in place. For the most part, the potential value of this buildable area is not reflected in the appraised fair value.

Allied's Toronto portfolio will be the focal point of ongoing intensification activity in the near-term and longer-term. The Montréal portfolio also has significant intensification potential. While Allied will begin to realize that potential at 425 Viger West in the next few years, Montréal will remain more the focal point of upgrade activity in the near-and longer-term while Toronto will remain the focal point of intensification activity.

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

PROPERTY NAME	NORMALIZED LQA NOI	APPRAISED FAIR VALUE	REZONING APPROVAL STATUS	USE	CURRENT GLA	ESTIMATED GLA ON COMPLETION	ESTIMATED COMPLETION
College & Manning ⁽¹⁾	\$628	\$14,690	Completed	Office, limited retail, residential	31,356	56,500	2020
QRC West, Phase II ⁽²⁾	1,199	31,180	Completed	Office, retail	32,752	90,000	Unscheduled
King & Peter ⁽³⁾	2,038	81,230	Completed	Office, limited retail	91,246	790,000	Unscheduled
King & Spadina ⁽⁴⁾	2,977	153,980	In Progress	Office, retail, residential	106,891	650,000	Unscheduled
Union Centre	965	91,680	Completed	Office, limited retail	40,571	1,129,000	Unscheduled
Adelaide & Spadina ⁽⁵⁾	3,238	72,190	In Progress	Office, retail	149,766	350,554	Unscheduled
King & Brant ⁽⁶⁾	421	20,850	Completed	Office, retail	17,006	130,000	Unscheduled
Total	\$11,466	\$465,800			469,588	3,196,054	

(1) Equal two-way co-ownership with RioCan, total estimated GLA is 113,000 square feet.

(2) QRC West, Phase II is composed of the 375-381 Queen W properties.

(3) King & Peter is composed of the following properties: 82 Peter and 388 King W.

(4) Allied plans to redevelop this project with its current joint-arrangement partner Westbank. Allied will own an undivided 50% interest of the proposed joint arrangement. The figures listed in the table above are currently at 100% ownership. King & Spadina is composed of the following properties: 489 King W, 495 King W, 511-529 King W and 539 King W.

(5) Adelaide & Spadina is composed of the following properties: 383 Adelaide W, 379 Adelaide W, 387 Adelaide W and 96 Spadina.

(6) Allied has received permission to intensify 544 King Street W and 7-9 Morrison. The approval permits approximately 120,000 square feet of office space and 10,000 square feet of retail space. Allied is exploring the opportunity to increase the permitted leasable area.

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

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 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, 2017, the cost of Allied's Properties Under Development was 6.5% of GBV (December 31, 2016 - 3.4%). 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.

As at December 31, 2017, Allied has the following eight Properties Under Development:

	USE	ESTIMATED GLA ON COMPLETION (SF)	% OF COMMERCIAL DEVELOPMENT LEASED
642 King W, Toronto ^{(1) (2)}	Office, retail	13,750	36%
TELUS Sky, Calgary ^{(1) (3)}	Office, retail, residential	223,000	32%
College & Palmerston, Toronto ⁽¹⁾	Office, retail	12,500	34%
King Portland Centre, Toronto ^{(1) (4)}	Office, retail	134,500	92%
Adelaide & Duncan, Toronto ^{(1) (5)}	Office, retail, residential	228,000	87%
The Well, Toronto ^{(1) (6)}	Office, retail, residential	1,550,000	—
Le Nordelec - Development, Montréal	Office, retail, residential	TBD	—
The Loughheed (604-1st SW), Calgary ⁽⁷⁾	TBD	92,600	—
Total		2,254,350	

(1) These properties are co-owned, reflected in the table above at Allied's ownership.

(2) The GLA components (in square feet) at our 50% share are as follows: 6,330 of office and 7,420 of retail.

(3) The GLA components (in square feet) at our 33.33% 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.

(4) The GLA components (in square feet) at our 50% share are as follows: 128,000 of office and 6,500 of retail. This excludes the GLA from the portion of King Portland Centre that is currently in the Rental Portfolio.

(5) The GLA components (in square feet) at our 50% share are as follows: 144,000 of residential, 73,000 of office and 11,000 of retail. 87% of the commercial space is leased, representing 32% of GLA.

(6) On October 5, 2017, Allied acquired an additional undivided 10% interest in the commercial component of The Well. Each of Allied and RioCan now own an undivided 50% interest in the commercial component of The Well with an estimated total GLA of 3,100,000 square feet. Approximately one half of this estimated GLA has been sold by the co-ownership as previously announced, with closing expected to occur in 2021.

(7) The Loughheed in Calgary was added to Properties Under Development in the second quarter of 2017. Allied is working to reposition the property to a different use, one to which it is well suited.

The following table sets out the fair value of Allied's Properties Under Development, as at December 31, 2017, as well as Management's estimates with respect to the financial outcome on completion:

	TRANSFER TO RENTAL PORTFOLIO	APPRAISED VALUE	ESTIMATED ANNUAL NOI	ESTIMATED TOTAL COST	ESTIMATED YIELD ON COST	ESTIMATED COST TO COMPLETE
642 King W, Toronto ⁽¹⁾	Q1 2018	\$14,790	635 - 800	\$17,175	3.7% - 4.7%	\$3,070
College & Palmerston, Toronto ⁽¹⁾	Q4 2018	10,450	410 - 450	10,900	3.8% - 4.1%	1,010
TELUS Sky, Calgary ⁽¹⁾	Q1 2019	71,453	7,650 - 8,310	133,000	5.8% - 6.3%	60,870
King Portland Centre, Toronto ⁽¹⁾⁽²⁾	Q1 2019	44,040	4,380 - 4,630	65,000	6.7% - 7.1%	25,970
Adelaide & Duncan, Toronto ⁽¹⁾	Q3 2020	45,955	9,000 - 10,750	164,200	5.6% - 6.7%	126,500
The Well, Toronto ⁽¹⁾	Q3 2021	210,505	TBD	TBD	TBD	TBD
Le Nordelec - Development, Montréal	Unscheduled	40,380	TBD	TBD	TBD	TBD
The Lougheed (604-1st SW), Calgary	Unscheduled	21,240	TBD	TBD	TBD	TBD
Total		\$458,813				

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

(2) Excludes the portion of King Portland Centre that is currently in the rental portfolio, 602 King W.

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 and realty taxes 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. Estimated annual NOI is based on 100% economic 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 is that the office leasing market in the relevant markets remains stable. Estimated total cost includes acquisition cost, estimated total construction, financing costs and realty taxes. 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.

RESIDENTIAL INVENTORY

Residential inventory consists of assets that are developed by Allied for sale in the ordinary course of business. Allied may transfer an investment property to residential inventory based on a change in use, as evidenced by the commencement of development activities with the intention to sell. Alternatively, a transfer from residential inventory to investment property would be evidenced by the commencement of leasing activity.

On September 19, 2017, Allied with its partner RioCan, announced that they had finalized plans that would allow the co-owners to improve the return on the development of King Portland Centre. The co-owners had originally intended to develop the residential portion of the project as rental apartments and now intend to sell the residential portion as condominium units, comprising of approximately 133 units. The residential condominium units have been fully sold, subject to customary closing conditions.

The following table sets out the fair value of Allied's Residential Inventory as at December 31, 2017, as well as Management's estimates with respect to the financial outcome on completion:

RESIDENTIAL CONDOMINIUM INVENTORY	ESTIMATED COMPLETION	ESTIMATED GROSS PROCEEDS (\$)	ESTIMATED GROSS MARGIN (\$)	ESTIMATED TOTAL COST	ESTIMATED GROSS MARGIN (%)	ESTIMATED COST TO COMPLETE
King Portland Centre, Toronto ⁽¹⁾	Q1 2019	\$40,000 - \$45,000	\$10,000 - \$15,000	\$30,000	33.3% - 50.0%	\$14,000

(1) This property is co-owned, reflected in the table above at Allied's ownership percentage of assets and liabilities.

DEVELOPMENT COMPLETIONS

QRC WEST, TORONTO

This was a pioneering, large-scale intensification project that involved the integration of two restored heritage buildings with a new, mid-rise office structure. The project commenced in 2010 and was completed in 2015. It is comprised of 347,561 square feet of GLA and is fully leased.

DEVELOPMENT ECONOMICS

	INVESTMENT					
Land Costs	\$11,000					
Hard & Soft Costs	104,000		UNLEVERED			VALUE
Capitalized Interest & Operating Costs	15,000	STABILIZED	YIELD ON	FAIR VALUE	VALUE	CREATION AS %
		NOI	COST		CREATION	OF COST
Total Development Costs	\$130,000	\$11,200	8.6%	\$247,000	\$117,000	90.0%

The fair value is provided by our external appraiser, which is calculated based on the discounted cash flow method.

THE BREITHAUPT BLOCK, KITCHENER

Allied acquired an undivided 50% interest in the property in 2010 and immediately put it into development, completing the first phase in 2014 and the second phase in mid-2016. The property is an equal two-way joint arrangement between Allied and Perimeter Development Corporation. It is comprised of 133,118 square feet of GLA (Allied's share 66,559 square feet) and is fully leased.

DEVELOPMENT ECONOMICS

	INVESTMENT					
Land Costs	\$4,000					
Hard & Soft Costs	21,000	STABILIZED	UNLEVERED		VALUE	VALUE
Capitalized Interest & Operating Costs	1,000	NOI	YIELD ON	FAIR VALUE	CREATION	CREATION AS %
			COST			OF COST
Total Development Costs	\$26,000	\$1,700	6.5%	\$44,000	\$18,000	69.2%

The fair value is provided by our external appraiser, which is calculated based on the discounted cash flow method.

180 JOHN, TORONTO

Allied acquired the property in 2015. The property was redeveloped and leased in its entirety to Regus. The project was completed in 2017. It is comprised of 45,653 square feet of GLA and is fully leased.

DEVELOPMENT ECONOMICS

	INVESTMENT					
Land Costs	\$8,700					
Hard & Soft Costs	17,500	STABILIZED	UNLEVERED		VALUE	VALUE
Capitalized Interest & Operating Costs	1,300	NOI	YIELD ON	FAIR VALUE	CREATION	CREATION AS %
			COST			OF COST
Total Development Costs	\$27,500	\$1,600	5.8%	\$30,000	\$2,500	9.1%

The fair value is provided by our external appraiser, which is calculated based on the discounted cash flow method.

189 JOSEPH, KITCHENER

189 Joseph was purchased as part of The Tannery in 2012. The building stood vacant, and was slated to be demolished before Allied proposed the redevelopment and secured Deloitte as the tenant. The project commenced in late-2015 and was completed in mid-2017. It is comprised of 26,373 square feet of GLA and is fully leased.

DEVELOPMENT ECONOMICS

	INVESTMENT					
Land Costs	\$230					
Hard & Soft Costs	10,890	STABILIZED	UNLEVERED			VALUE
Capitalized Interest & Operating Costs	240	NOI	YIELD ON	FAIR VALUE	CREATION	CREATION AS %
			COST			OF COST
Total Development Costs	\$11,360	\$720	6.3%	\$13,000	\$1,640	14.4%

The fair value is provided by our external appraiser, which is calculated based on the discounted cash flow method

LOANS RECEIVABLE

As of December 31, 2017, total loans receivable outstanding is \$88,316 (December 31, 2016 - \$21,173).

In February 2015, Allied entered into a joint arrangement with Westbank and completed the acquisition of an undivided 50% interest in Adelaide & Duncan. Allied advanced a total of \$42,346 to the joint arrangement. Allied's portion of the loan outstanding as at December 31, 2017, is \$21,173 (December 31, 2016 - \$21,173) and 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 6.17% per annum. The loan is repayable when the joint arrangement obtains external permanent financing.

On August 1, 2017, Allied entered into an arrangement with Westbank to provide a credit facility of up to \$100,000, plus interest, for the land acquisition and the initial pre-development costs of 400 West Georgia in Vancouver. The credit facility bears interest at rates between 5.00% to 6.75% per annum in year one and 6.75% per annum in each year thereafter until maturity. The credit facility matures August 31, 2022, and has a one year extension option to August 31, 2023. Subject to placement of permanent financing, Allied intends to acquire a 50% undivided interest in 400 West Georgia based on total development costs. The loan outstanding as at December 31, 2017 is \$67,143 (December 31, 2016 - nil).

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 unsecured term loans. 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 equity market, unsecured debenture market, unsecured loans and growing the pool of unencumbered assets, which totals \$2.9 billion as at December 31, 2017.

DEBT

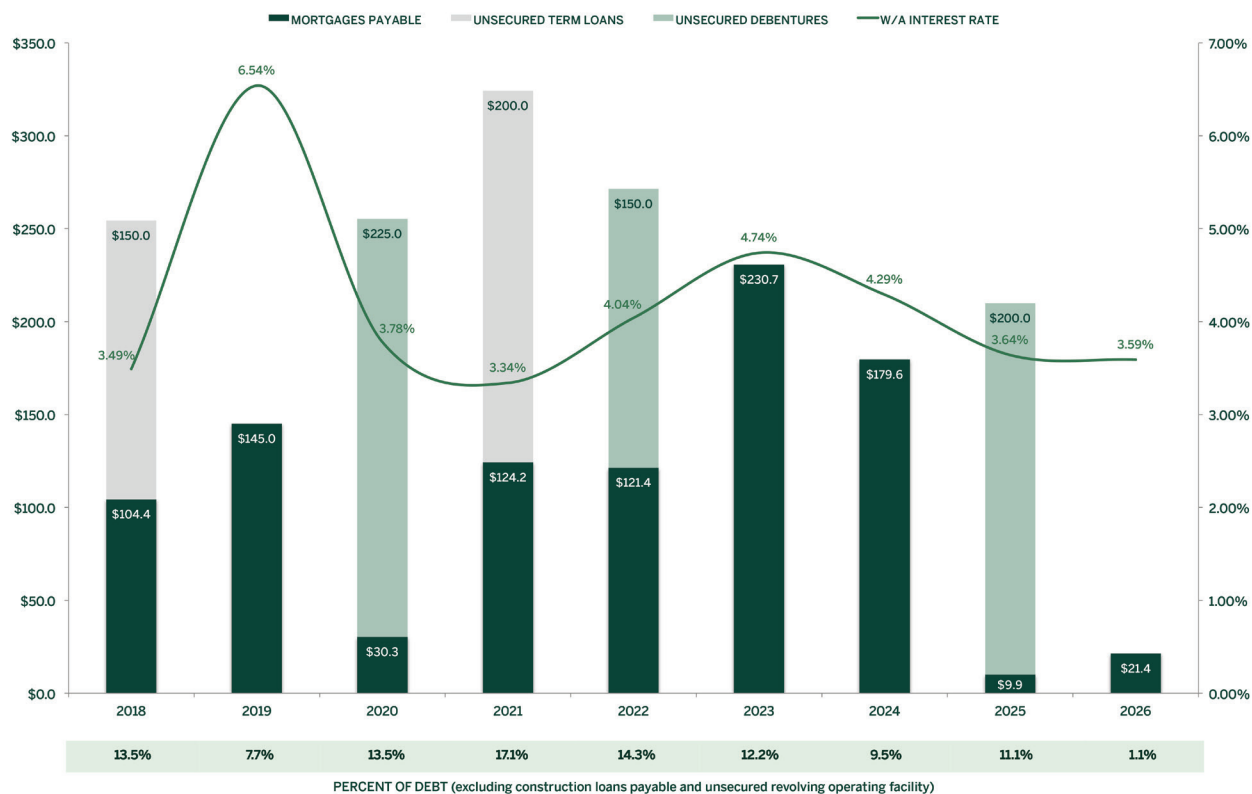
Total debt and net debt are non-IFRS financial measures and do not have any standard meaning prescribed by IFRS. As computed by Allied, total debt and net debt may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar 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, 2017, and December 31, 2016:

	DECEMBER 31, 2017	DECEMBER 31, 2016
Mortgages payable	\$965,832	\$1,118,551
Construction loans payable	46,758	21,056
Unsecured Facility	25,000	47,000
Unsecured Debentures	572,849	373,596
Unsecured Term Loans	349,438	349,062
Total debt	\$1,959,877	\$1,909,265
Less cash and cash equivalents	6,048	12,193
Net debt	1,953,829	\$1,897,072

The table below summarizes the scheduled principal maturity for Allied's Mortgages payable, Unsecured Debentures and Unsecured Term Loans:

	MORTGAGES PAYABLE	W/A INTEREST RATE	SENIOR UNSECURED DEBENTURES	W/A INTEREST RATE	UNSECURED TERM LOANS	W/A INTEREST RATE	TOTAL	CONSOLIDATED W/A INTEREST RATE
2018	\$104,351	5.21%	\$—	—	\$150,000	2.65%	\$254,351	3.49%
2019	145,047	6.54%	—	—	—	—	145,047	6.54%
2020	30,312	5.21%	225,000	3.75%	—	—	255,312	3.78%
2021	124,215	4.17%	—	—	200,000	2.86%	324,215	3.34%
2022	121,428	4.18%	150,000	3.93%	—	—	271,428	4.04%
2023	230,689	4.74%	—	—	—	—	230,689	4.74%
2024	179,551	4.29%	—	—	—	—	179,551	4.29%
2025	9,934	3.63%	200,000	3.64%	—	—	209,934	3.64%
2026	21,367	3.59%	—	—	—	—	21,367	3.59%
	\$966,894	4.73%	\$575,000	3.76%	\$350,000	2.77%	\$1,891,894	4.07%

The chart below summarizes the maturities of principal in regards to Allied's various obligations as at December 31, 2017:



MORTGAGES PAYABLE

As of December 31, 2017, mortgages payable, net of financing costs, totaled \$965,832 and have a weighted average stated interest rate of 4.73% (December 31, 2016 - 4.66%). The weighted average term of the mortgage debt is 4.7 years (December 31, 2016 - 5.2 years). 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	DECEMBER 31, 2017	DECEMBER 31, 2016
2018	\$33,673	\$70,678	\$104,351	
2019	31,278	113,769	145,047	
2020	25,856	4,456	30,312	
2021	25,136	99,079	124,215	
2022	21,326	100,102	121,428	
2023	17,334	213,355	230,689	
2024	4,691	174,860	179,551	
2025	1,146	8,788	9,934	
2026	924	20,443	21,367	
Mortgages, principal	\$161,364	\$805,530	\$966,894	\$1,120,426
Net premium on assumed mortgages			2,599	2,924
Net financing costs			(3,661)	(4,799)
			\$965,832	\$1,118,551

For the year ended December 31, 2017, in addition to regularly scheduled principal payments, Allied repaid (including mortgages transferred on disposition) fifteen mortgages totaling \$128,345 with a weighted average interest rate of 3.85%.

CONSTRUCTION LOANS PAYABLE

As of December 31, 2017 and December 31, 2016, Allied's obligation of the balance outstanding under the construction loans are:

JOINT ARRANGEMENT	OWNERSHIP	ALLIED'S GUARANTEE LIMIT	DATE OF MATURITY	DECEMBER 31, 2017	DECEMBER 31, 2016
TELUS Sky	33.33%	\$114,000	August 31, 2019	\$46,758	\$21,056

The construction loans payable for the TELUS Sky joint arrangement bears interest at bank prime plus 70 basis points or banker's acceptance rate plus 195 basis points.

UNSECURED REVOLVING OPERATING FACILITY

Allied has access to an unsecured revolving operating facility (the "Unsecured Facility") of \$250,000 with a maturity date of January 29, 2019. The Unsecured Facility contains a \$100,000 accordion feature, allowing Allied to increase the amount available under the facility to \$350,000. The Unsecured Facility bears interest at bank prime plus 70 basis points or bankers' acceptance plus 170 basis points. The Unsecured Facility had a balance of \$25,000 outstanding at December 31, 2017 (December 31, 2016 - \$47,000).

	DECEMBER 31, 2017	DECEMBER 31, 2016
Unsecured Facility limit	\$250,000	\$250,000
Amounts drawn under the Unsecured Facility	(25,000)	(47,000)
Letters of credit outstanding under the Unsecured Facility	(5,551)	(2,348)
Remaining unused balance under the Unsecured Facility	\$219,449	\$200,652

SENIOR UNSECURED DEBENTURES

On April 21, 2017, Allied issued \$200,000 of 3.636% Series C unsecured debentures (the "Series C Debentures") due April 21, 2025, with semi-annual interest payments due on April 21 and October 21 of each year commencing October 21, 2017. Debt financing costs of \$1,175 were incurred and recorded against the principal owing.

On May 12, 2016, Allied issued \$150,000 of 3.934% Series B unsecured debentures (the "Series B Debentures") due November 14, 2022, with semi-annual interest payments due on May 14 and November 14 of each year commencing November 14, 2016. Debt financing costs of \$801 were incurred and recorded against the principal owing.

Proceeds from the Series B and Series C Debentures were used to fund acquisitions, repay amounts drawn on the Unsecured Facility and for general working capital purposes.

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

SERIES	INTEREST RATE	DATE OF MATURITY	INTEREST PAYMENT DATE	DECEMBER 31, 2017	DECEMBER 31, 2016
Series A	3.748%	May 13, 2020	May 13 and November 13	\$225,000	\$225,000
Series B	3.934%	November 14, 2022	May 14 and November 14	150,000	150,000
Series C	3.636%	April 21, 2025	April 21 and October 21	200,000	—
Unsecured Debentures, principal				575,000	375,000
Net premium on Unsecured Debentures				369	522
Net financing costs				(2,520)	(1,926)
				\$572,849	\$373,596

The Series A, Series B, and Series C Debentures are collectively referred to as the "Unsecured Debentures".

UNSECURED TERM LOANS

In 2016, Allied entered into an unsecured term facility of \$200,000 with a Canadian chartered bank for a term of five years, bearing interest at a floating rate of CDOR plus 1.70% per year (the "Unsecured Term Facility"). Subsequently, Allied entered into interest rate swap agreements with a notional amount of \$200,000 to fix the variable interest rate over the term of the Unsecured Term Facility. A deferred financing cost totaling to \$700 was incurred and recorded against the principal owing.

Allied drew down on the Unsecured Term Facility in two tranches as follows:

- \$100,000 on March 16, 2016, the interest rate swap agreement fixed the interest rate to 2.83%; and
- \$100,000 on May 25, 2016, the interest rate swap agreement fixed the interest rate to 2.89%.

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

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

	INTEREST RATE	DATE OF MATURITY	FREQUENCY OF INTEREST PAYMENT	DECEMBER 31, 2017	DECEMBER 31, 2016
Unsecured Term Loan	2.645%	December 14, 2018	Monthly	\$150,000	\$150,000
Unsecured Term Facility					
Tranche 1	2.830%	March 16, 2021	Quarterly	100,000	100,000
Tranche 2	2.890%	March 16, 2021	Quarterly	100,000	100,000
Unsecured Term Loans, principal				350,000	350,000
Net financing costs				(562)	(938)
				\$349,438	\$349,062

The Unsecured Term Loan and Unsecured Term Facility are collectively referred to as the "Unsecured Term Loans".

CREDIT RATING

Allied's credit rating for the Unsecured Debentures is summarized below:

DEBT	RATING AGENCY	LONG-TERM CREDIT RATING	TREND
Unsecured Debentures	DBRS	BBB (low)	Stable

Long-term ratings assigned by DBRS Limited ("DBRS") provide the opinion of DBRS on the risk of default; that is, the risk that an issuer will fail to satisfy its financial obligations in accordance with the terms under which an obligation has been issued.

DBRS' long-term credit ratings scale ranges from "AAA" (typically assigned to obligations of the highest credit quality) to "D" (typically assigned to obligations when the issuer has filed under any applicable bankruptcy, insolvency or winding up statute or there is a failure to pay or satisfy an obligation after the exhaustion of grace periods where DBRS believes the default will subsequently be general in nature and include all obligations). A long-term obligation rated "BBB" by DBRS is the fourth highest-rated obligation after those rated "AAA", "AA" and "A" and is, in DBRS' view, of adequate credit quality. The capacity for the payment of financial obligations is considered acceptable. DBRS indicates that "BBB" rated obligations may be vulnerable to future events. All DBRS rating categories other than "AAA" and "D" also contain subcategories "(high)" and "(low)". The addition of either a "(high)" or "(low)" designation indicates the relative standing within a rating category.

DBRS uses "rating trends" for its ratings in, among other areas, the real estate investment trust sector. DBRS' rating trends provide guidance in respect of DBRS' opinion regarding the outlook for the rating in question, with rating trends falling into one of three categories: "Positive", "Stable" or "Negative". The rating trend indicates the direction in which DBRS considers the rating is headed should present circumstances continue, or in some cases, unless challenges are addressed. In general, DBRS assigns rating trends based primarily on an evaluation of the issuing entity or guarantor itself, but may also include consideration of the outlook for the industry or industries in which the issuing entity operates. A "Positive" or "Negative" trend assigned by DBRS is not an indication that a rating change is imminent, but represents an indication that there is a greater likelihood that the rating could change in the future than would be the case if a "Stable" trend was assigned.

The above-mentioned rating assigned to the Unsecured Debentures is not a recommendation to buy, sell or hold any securities of Allied and may be subject to revision or withdrawal at any time by DBRS.

Allied has paid customary rating fees to DBRS in connection with the above-mentioned rating. There can be no assurance that a rating will remain in effect for any given period of time or that a rating will not be lowered, withdrawn or revised by the rating agency if in its judgment circumstances so warrant.

FINANCIAL COVENANTS

The Unsecured Facility, Unsecured Term Loans and 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 related covenants are as follows:

UNSECURED FACILITY AND UNSECURED TERM LOANS

The following outlines the requirements of covenants as defined in the agreements governing the Unsecured Facility and Unsecured Term Loans.

1. Indebtedness ratio

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

	DECEMBER 31, 2017	DECEMBER 31, 2016
Total debt	\$1,959,877	\$1,909,265
Letters of credit	5,691	3,040
Consolidated indebtedness	\$1,965,568	\$1,912,305
Consolidated gross book value	\$5,823,632	\$5,213,854
Indebtedness ratio	33.8%	36.7%

2. Secured indebtedness ratio

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

	DECEMBER 31, 2017	DECEMBER 31, 2016
Consolidated indebtedness	\$1,965,568	\$1,912,305
Less:		
Unsecured letters of credit	(5,551)	—
Unsecured Facility	(25,000)	(47,000)
Unsecured Debentures	(572,849)	(373,596)
Unsecured Term Loans	(349,438)	(349,062)
Consolidated secured indebtedness	\$1,012,730	\$1,142,647
Consolidated gross book value	\$5,823,632	\$5,213,854
Secured indebtedness ratio	17.4%	21.9%

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, 2017	ROLLING 12 MONTHS DECEMBER 31, 2016
Net income and comprehensive income	\$357,959	\$324,305
Interest expense (net of capitalized interest)	69,265	61,425
Amortization of leasing costs and other assets	10,513	10,043
Amortization of tenant improvements	24,459	20,716
Fair value (gain) on investment properties	(198,115)	(179,303)
Fair value (gain) on derivative instruments	(13,889)	(5,874)
Loss on disposal of investment properties	2,561	1,087
Consolidated adjusted EBITDA	\$252,753	\$232,399
Total principal and interest payments (excluding principal payments on maturity)	\$125,143	\$118,985
Debt service coverage ratio	2.0x	2.0x

4. Equity maintenance

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

	DECEMBER 31, 2017	DECEMBER 31, 2016
Unitholders' equity	\$3,549,022	\$3,021,506
Initial requirement	\$1,250,000	\$1,250,000
75% of future equity issuances	443,112	227,036
Total required equity amount	\$1,693,112	\$1,477,036
Excess over required amount	\$1,855,910	\$1,544,470

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, 2017	DECEMBER 31, 2016
Total unencumbered properties	\$2,925,135	\$2,306,215
Unsecured Facility	\$25,000	\$47,000
Unsecured Debentures	572,849	373,596
Unsecured Term Loans	349,438	349,062
Total unsecured debt	\$947,287	\$769,658
Unencumbered property assets ratio	3.1x	3.0x

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, 2017	ROLLING 24 MONTHS DECEMBER 31, 2016
Distributions	\$257,056	\$235,554
FFO	\$361,088	\$341,360
Distribution payout ratio	71.2%	69.0%

SENIOR UNSECURED DEBENTURES

The following outlines the requirements of covenants specified in the Trust indenture agreement with respect to the 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, 2017	PRO FORMA 12 MONTHS DECEMBER 31, 2016
Net income and comprehensive income	\$359,098	\$327,842
Interest expense (net of capitalized interest)	67,924	64,047
Amortization of leasing costs and other assets	10,513	10,043
Amortization of tenant improvements	24,459	20,716
Fair value (gain) on investment properties	(198,115)	(179,303)
Fair value (gain) on derivative instruments	(13,890)	(5,874)
Loss on disposal of investment properties	2,561	1,087
Consolidated pro forma EBITDA	\$252,550	\$238,558
Pro forma interest expense (including capitalized interest)	\$91,160	\$85,132
Pro forma interest coverage ratio	2.8x	2.8x

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, 2017	PRO FORMA DECEMBER 31, 2016
Total debt	\$1,959,877	\$1,909,265
Total assets	\$5,823,632	\$5,213,854
Less:		
Cumulative capitalized interest	(105,854)	(85,498)
Add:		
Cumulative amortization of tenant improvements	65,585	50,496
Cumulative amortization of leasing costs and other assets	28,770	25,131
Net aggregate assets	\$5,812,133	\$5,203,983
Asset coverage test	33.7%	36.7%

3. Equity maintenance covenant

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

	DECEMBER 31, 2017	DECEMBER 31, 2016
Unitholders' equity	\$3,549,022	\$3,021,506
Requirement	300,000	300,000
Excess over required amount	\$3,249,022	\$2,721,506

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, 2017	DECEMBER 31, 2016
Total assets	\$5,823,632	\$5,213,854
Less:		
Investment properties with certain encumbrances	(2,702,304)	(2,616,986)
Cumulative capitalized interest	(105,854)	(85,498)
Add:		
Cumulative amortization of tenant improvements	65,585	50,496
Cumulative amortization of leasing costs and other assets	28,770	25,131
Total pro forma unencumbered net aggregate adjusted assets	\$3,109,829	\$2,586,997
Unsecured Facility	\$25,000	\$47,000
Unsecured Debentures	572,849	373,596
Unsecured Term Loans	349,438	349,062
Consolidated unsecured indebtedness	\$947,287	\$769,658
Pro forma unencumbered net aggregate adjusted asset ratio	3.3x	3.4x

As of December 31, 2017, Allied was in compliance with the terms and covenants of the agreements governing the Unsecured Facility, the Unsecured Term Loans and the Unsecured Debentures.

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

UNITHOLDERS' EQUITY

The following represents the number of Units issued and outstanding, and the related carrying value of Unitholders' equity, for the year ended December 31, 2017, and for the year ended December 31, 2016.

	DECEMBER 31, 2017		DECEMBER 31, 2016	
	UNITS	AMOUNT	UNITS	AMOUNT
Trust Units, beginning of year	84,734,469	\$2,098,267	78,430,153	\$1,873,541
Distribution reinvestment plan ("DRIP")	—	—	168,014	5,839
Restricted unit plan (net of forfeitures)	—	(2,173)	—	(1,022)
Long-term incentive plan	—	72	—	74
Unit option plan - options exercised	507,044	15,948	162,302	3,570
Public offering	7,695,000	287,701	6,089,250	220,367
Purchase of Units under normal course issuer bid for cancellation	(1,363)	(47)	(115,250)	(4,102)
Trust Units, end of year	92,935,150	\$2,399,768	84,734,469	\$2,098,267

As at February 14, 2018, 92,942,276 Trust Units and 1,049,958 options were issued and outstanding.

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

The table below represents weighted average Units outstanding for:

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2017	DECEMBER 31, 2016	DECEMBER 31, 2017	DECEMBER 31, 2016
Basic	92,850,893	84,718,085	87,864,560	80,815,747
Unit Option Plan	176,733	104,094	140,353	113,130
LTIP	—	4,500	1,097	10,586
Fully diluted	93,027,626	84,826,679	88,006,010	80,939,463

NORMAL COURSE ISSUER BID

During the year ended December 31, 2017, Allied purchased 65,580 Units for \$2,283 at a weighted average price of \$34.81 per Unit under its NCIB program, of which 64,217 were purchased for delivery to participants under the Trust's Restricted Unit Plan and 1,363 were purchased for cancellation.

On December 19, 2016, Allied received approval from the Toronto Stock Exchange ("TSX") for the renewal of its normal course issuer bid ("NCIB"), which entitled Allied to purchase up to 8,306,955 of its outstanding Units, representing approximately 10% of its public float as at December 7, 2016. The NCIB commenced December 22, 2016, and expired on December 21, 2017, in accordance with its terms. All purchases under the NCIB were 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 or to employees pursuant to Allied's employee programs.

UNIT OPTION AND RESTRICTED UNIT PLANS

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 2014, Allied adopted the Unit Option Plan and amended 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 2,800,545 Units, representing 3.0% of the issued and outstanding Units as at December 31, 2017 and the date hereof. At December 31, 2017, Allied had no Units issued and outstanding under the LTIP (December 31, 2016 - 4,500 Units).

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 term of the options may not exceed ten years. Options granted prior to February 22, 2017 vest evenly over three years; options granted subsequently vest evenly over four years from the date of grant. All options are settled in Units.

At December 31, 2017, Allied had issued options to purchase 1,057,084 Units outstanding, of which 345,491 had vested. At December 31, 2016, Allied had options to purchase 1,296,191 Units outstanding, of which 499,801 had vested. In May 2015, the Unit Option Plan was amended so that non-employee trustees of Allied are no longer eligible to be granted options under the Unit Option Plan.

For the year ended December 31, 2017, Allied recorded share-based payment expense of \$1,466 in general and administrative expense in the consolidated statement of income and comprehensive income (for the year ended December 31, 2016 - \$1,430).

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 Board of 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 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, 2017, Allied had 241,557 Restricted Units outstanding (December 31, 2016 – 223,717).

For the year ended December 31, 2017, Allied recorded share-based payment expense of \$1,767 in general and administrative expense in the consolidated statement of income and comprehensive income (for the year ended December 31, 2016 - \$1,194).

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	DECEMBER, 2016	DECEMBER, 2017
Annualized increase per unit	\$0.04	\$0.04	\$0.04	\$0.04	\$0.06	\$0.04	\$0.05	\$0.05	\$0.04	\$0.03	\$0.03
% increase	3.6%	3.5%	3.4%	3.3%	4.8%	3.0%	3.7%	3.5%	2.7%	2.0%	2.0%
Annualized distribution per unit	\$1.14	\$1.18	\$1.22	\$1.26	\$1.32	\$1.36	\$1.41	\$1.46	\$1.50	\$1.53	\$1.56

SOURCES OF DISTRIBUTIONS

For the three months and year ended December 31, 2017, Allied declared \$35,754 and \$135,177 in distributions (three months and year ended December 31, 2016 - \$31,984 and \$121,880), and non-cash distributions of nil were provided under the DRIP (three months and year ended December 31, 2016 - \$979 and \$5,839).

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2017	DECEMBER 31, 2016	DECEMBER 31, 2017	DECEMBER 31, 2016
Distributions declared	\$35,754	\$31,984	\$135,177	\$121,880
Net income	\$63,066	\$163,731	\$357,959	\$324,305
Cash flows provided by operating activities	\$50,037	\$50,631	\$198,926	\$164,109
AFFO	\$38,072	\$32,770	\$139,668	\$128,597
Excess of net income over distributions declared	\$27,312	\$131,747	\$222,782	\$202,425
Excess of cash flows provided by operating activities over distributions declared	\$14,283	\$18,647	\$63,749	\$42,229
Excess of cash provided by AFFO over distributions declared	\$2,318	\$786	\$4,491	\$6,717

In the table above, AFFO has been presented in accordance with the "White Paper on Funds From Operations & Adjusted Funds From Operations for IFRS" published by REALpac in February of 2017.

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.

The current rate of distribution amounts to \$1.56 per unit per annum (December 31, 2016 - \$1.53 per unit per annum).

COMMITMENTS

At December 31, 2017, Allied had future commitments as set out below:

	DECEMBER 31, 2017
Capital expenditures	\$77,609

Section V

—Discussion of Operations

The following sets out summary information and financial results for the three months and year ended December 31, 2017, and the comparable period in 2016.

NET INCOME AND COMPREHENSIVE INCOME

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2017	DECEMBER 31, 2016	DECEMBER 31, 2017	DECEMBER 31, 2016
Rental revenue from investment properties	\$107,709	\$104,497	\$419,263	\$389,722
Property operating costs	(46,419)	(47,939)	(179,548)	(169,203)
Net rental income	61,290	56,558	239,715	220,519
Interest expense	(17,188)	(15,952)	(69,265)	(61,425)
General and administrative expenses	(4,785)	(2,736)	(14,436)	(10,381)
Amortization of leasing costs and other assets	(2,677)	(3,074)	(10,513)	(10,043)
Interest income	1,403	414	3,015	1,545
Fair value gain on investment properties	26,260	116,749	198,115	179,303
Fair value gain on derivative instruments	1,324	11,808	13,889	5,874
Loss on disposal of investment properties	(2,561)	(36)	(2,561)	(1,087)
Net income and comprehensive income	\$63,066	\$163,731	\$357,959	\$324,305

Net income and comprehensive income for the three months ended decreased by \$100,665 and for the year ended December 31, 2017 increased by \$33,654, respectively, over the comparable period in 2016. Excluding the effect of the fair value changes on investment properties, derivative instruments, and loss on sale of investment properties, net income for the three months and year ended December 31, 2017, was up \$2,833 and \$8,301 respectively, as compared to the same period in the prior year primarily due to an increase in net rental income, interest income, decrease of amortization of leasing costs and other assets, partially offset by higher interest expense and general and administrative expenses.

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

Allied operated in nine urban markets in 2017 — Québec, Montréal, Ottawa, Toronto, Kitchener, Winnipeg, Calgary, Edmonton and Vancouver. For the purpose of analyzing NOI, Allied grouped Québec City with Montréal and Ottawa as Eastern Canada, Toronto with Kitchener as Central Canada, Winnipeg with Calgary, Edmonton, and Vancouver as Western Canada, and mission-critical facilities as Mission Critical. On December 20 and 27, 2017, Allied disposed of its Winnipeg and Québec City properties.

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, 2017, as compared to the same period in the prior year.

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2017	DECEMBER 31, 2016	DECEMBER 31, 2017	DECEMBER 31, 2016
Revenue from investment properties	\$107,709	\$104,497	\$419,263	\$389,722
Property operating costs	(46,419)	(47,939)	(179,548)	(169,203)
Net rental income	61,290	56,558	239,715	220,519
Amortization of tenant improvements	7,312	6,547	24,459	20,716
Amortization of straight-line rents	(2,731)	(2,542)	(13,830)	(11,697)
NOI	\$65,871	\$60,563	\$250,344	\$229,538

The following tables set out the NOI by segment and space type from the rental and development properties for the year ended December 31, 2017, and the comparable period.

SEGMENT	THREE MONTHS ENDED				CHANGE	
	DECEMBER 31, 2017		DECEMBER 31, 2016		\$	%
Office						
Eastern Canada	\$15,854	24.1%	\$15,211	25.1%	\$643	4.2%
Central Canada	29,500	44.8%	25,701	42.5%	3,799	14.8%
Western Canada	8,910	13.5%	9,270	15.3%	(360)	(3.9)%
Office - Total	54,264	82.4%	50,182	82.9%	4,082	8.1%
Mission Critical	11,607	17.6%	10,381	17.1%	1,226	11.8%
NOI	\$65,871	100.0%	\$60,563	100.0%	\$5,308	8.8%

TYPE OF SPACE	THREE MONTHS ENDED				CHANGE	
	DECEMBER 31, 2017		DECEMBER 31, 2016		\$	%
Office	\$46,872	71.2%	\$42,722	70.5%	\$4,150	9.7%
Mission Critical	11,607	17.6%	10,381	17.1%	1,226	11.8%
Retail	4,522	6.9%	4,644	7.7%	(122)	(2.6)%
Parking	2,870	4.3%	2,816	4.7%	54	1.9%
NOI	\$65,871	100.0%	\$60,563	100.0%	\$5,308	8.8%

The increase in NOI for the three months ended December 31, 2017, was primarily the result of acquisitions, rent growth in Toronto and occupancy gain in 250 Front.

SEGMENT	YEAR ENDED				CHANGE	
	DECEMBER 31, 2017		DECEMBER 31, 2016		\$	%
Office						
Eastern Canada	\$62,839	25.1%	\$57,107	24.9%	\$5,732	10.0%
Central Canada	110,725	44.2%	99,453	43.3%	11,272	11.3%
Western Canada	33,989	13.6%	34,693	15.1%	(704)	(2.0)%
Office - Total	207,553	82.9%	191,253	83.3%	16,300	8.5%
Mission Critical	42,791	17.1%	38,285	16.7%	4,506	11.8%
NOI	\$250,344	100.0%	\$229,538	100.0%	\$20,806	9.1%

TYPE OF SPACE	YEAR ENDED				CHANGE	
	DECEMBER 31, 2017		DECEMBER 31, 2016		\$	%
Office	\$177,042	70.6%	\$162,029	70.6%	\$15,013	9.3%
Mission Critical	42,791	17.1%	38,285	16.7%	4,506	11.8%
Retail	18,319	7.3%	18,112	7.9%	207	1.1%
Parking	12,192	5.0%	11,112	4.8%	1,080	9.7%
NOI	\$250,344	100.0%	\$229,538	100.0%	\$20,806	9.1%

The increase in NOI for the year ended ended December 31, 2017, was primarily the result of acquisitions, rent growth in Toronto, occupancy gain in 250 Front, and rent growth and occupancy gain in Montréal.

SAME ASSET NOI

Same asset NOI is a non-IFRS measure and refers to the NOI for those properties that Allied owned and operated for the entire period in question and for the same period in the prior year. Allied strives to maintain or increase same asset NOI over time.

The same asset NOI in the table below refers to those investment properties that were owned by Allied from October 1, 2016, to December 31, 2017. The same asset NOI of the development portfolio for the three months ended December 31, 2017, consists of 180 John Street, 189 Joseph, Nordelec, The Well, TELUS Sky, Adelaide & Duncan, College & Palmerston, King Portland Centre (including 642 King), 47 Front and The Lougheed (604-1st SW).

	THREE MONTHS ENDED		CHANGE	
	DECEMBER 31, 2017	DECEMBER 31, 2016	\$	%
Office				
Eastern Canada	\$14,629	\$15,150	\$(521)	(3.4)%
Central Canada	28,305	25,376	2,929	11.5%
Western Canada	8,261	8,235	26	0.3%
Office	51,195	48,761	2,434	5.0%
Mission Critical	11,606	10,382	1,224	11.8%
Rental Portfolio - Same Asset NOI	62,801	59,143	3,658	6.2%
Office	336	513	(177)	(34.5%)
Mission Critical	—	—	—	—
Development Portfolio - Same Asset NOI	336	513	(177)	(34.5%)
Total Portfolio - Same Asset NOI	\$63,137	\$59,656	\$3,481	5.8%
Acquisitions	784	—	784	
Dispositions	703	335	368	
Non-recurring items	1,247	572	675	
NOI	\$65,871	\$60,563	\$5,308	8.8%
Amortization of tenant improvements	(7,312)	(6,547)	(765)	
Amortization of straight-line rents	2,731	2,542	189	
Net rental income	\$61,290	\$56,558	\$4,732	8.4%

Same asset NOI of the total portfolio increased by 5.8% for the three months ended December 31, 2017. Same asset NOI of the rental portfolio increase by 6.2% as a result of rent growth in Toronto and occupancy gain in 250 Front. Same asset NOI of the development portfolio decreased by 34.5% as a result of development commencement at The Well and The Lougheed (604-1st SW).

The same asset NOI in the table below refers to those investment properties that were owned by Allied from January 1, 2016, to December 31, 2017. The same asset NOI of the development portfolio for the year ended December 31, 2017, consists of 180 John Street, 189 Joseph, 250 Front West, 485 King West, Breithaupt Block (Phase II), The Well, TELUS Sky, Adelaide & Duncan, College & Palmerston, King Portland Centre and the Lougheed (604-1st SW).

	YEAR ENDED		CHANGE	
	DECEMBER 31, 2017	DECEMBER 31, 2016	\$	%
Office				
Eastern Canada	\$50,769	\$48,704	\$2,065	4.2%
Central Canada	102,347	94,843	7,504	7.9%
Western Canada	31,608	31,500	108	0.3%
Office	184,724	175,047	9,677	5.5%
Mission Critical	31,659	30,631	1,028	3.4%
Rental Portfolio - Same Asset NOI	216,383	205,678	10,705	5.2%
Office	2,074	2,735	(661)	(24.2)%
Mission Critical	11,132	7,654	3,478	45.4%
Development Portfolio - Same Asset NOI	13,206	10,389	2,817	27.1%
Total Portfolio - Same Asset NOI	\$229,589	\$216,067	\$13,522	6.3%
Acquisitions	17,351	9,882	7,469	
Dispositions	1,823	3,531	(1,708)	
Non-recurring items	1,581	58	1,523	
NOI	\$250,344	\$229,538	\$20,806	9.1%
Amortization of tenant improvements	(24,459)	(20,716)	(3,743)	
Amortization of straight-line rents	13,830	11,697	2,133	
Net rental income	\$239,715	\$220,519	\$19,196	8.7%

Same asset NOI of the total portfolio increased by 6.3% for the year ended December 31, 2017. Same asset NOI of the rental portfolio increased by 5.2% as a result of rent growth in Toronto, occupancy gain and rent growth in Montréal and 151 Front, and occupancy gain in Vancouver. Same asset NOI of the development portfolio increased by 27.1% as a result of occupancy gain at 250 Front, partially offset by development commencement at The Well.

INTEREST EXPENSE

For the three months and year ended December 31, 2017, excluding capitalized interest, interest expense increased over the comparable periods in 2016 primarily due to higher levels of debt used to fund acquisitions and development activities, although these were at more favourable interest rates.

For the three months and year ended December 31, 2017, capitalized interest decreased over the comparable period in 2016 due to the completion of development and upgrade activities across the portfolio.

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2017	DECEMBER 31, 2016	DECEMBER 31, 2017	DECEMBER 31, 2016
Interest on debt:				
Mortgages payable	\$11,712	\$13,319	\$49,050	\$53,525
Construction loans payable	395	43	1,050	248
Unsecured Facility	264	245	1,622	1,459
Unsecured Debentures	5,416	3,598	19,477	12,217
Unsecured Term Loans	2,405	2,422	9,679	7,982
Interest on finance lease obligations	1,980	1,472	7,288	5,024
Amortization, premium (discount) on debt	(257)	(88)	(471)	60
Amortization, net financing costs	451	515	1,926	1,995
	\$22,366	\$21,526	\$89,621	\$82,510
Less: interest capitalized to qualifying investment properties	(5,178)	(5,574)	(20,356)	(21,085)
Interest expense	\$17,188	\$15,952	\$69,265	\$61,425

In accordance with IAS 23 - *Borrowing Costs*, interest may be capitalized on properties in connection with activity required to get the assets ready for their intended use (refer to note 2 (g) in Allied's consolidated financial statements for the year ended December 31, 2017, for further details). 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. On completion of upgrade and development activity, the ability to capitalize interest expense ends, partially offsetting the positive impact of occupancy commencement.

GENERAL AND ADMINISTRATIVE EXPENSES

For the three months and year ended December 31, 2017, general and administrative expenses increased by \$2,049 and \$4,055, respectively, over the comparable periods in 2016. The increase for the three months and year ended December 31, 2017, is mainly due to higher salaries and benefits partially offset by lower professional fees.

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2017	DECEMBER 31, 2016	DECEMBER 31, 2017	DECEMBER 31, 2016
Salaries and benefits	\$4,178	\$1,845	\$13,705	\$8,203
Professional and directors fees	629	884	2,443	3,065
Office and general expenses	973	742	2,927	2,772
	\$5,780	\$3,471	\$19,075	\$14,040
Capitalized to qualifying investment properties	(995)	(735)	(4,639)	(3,659)
Total	\$4,785	\$2,736	\$14,436	\$10,381

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. 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, 2017, FFO totaled \$0.53 per unit. This is a decrease of \$0.01 per unit, or 1.9% with the same period FFO in the prior year. The decrease was due to higher interest expense and dilution from Allied's equity offering completed in August 2017, partially offset by an increase in NOI and interest income.

For the year ended December 31, 2017, FFO totaled \$2.13 per unit. This is a decrease of \$0.02 per unit, or 0.9%, as compared to the same period Normalized FFO in the prior year. The decrease was due to higher interest expense and dilution from Allied's equity offering completed in August 2017, partially offset by an increase in NOI and interest income.

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, 2017, the FFO pay-out ratio was 72.9% and 72.2%, 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. The Real Property Association of Canada ("REALpac") established a standardized definition of AFFO in its February 2017 white paper. Management considers AFFO to be a useful measure of recurring economic earnings. 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. With the adoption of the February 2017 white paper, Allied added recoverable maintenance capital expenditures and incremental leasing costs related to regular leasing in order to comply with the white paper. 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, 2017, AFFO totaled \$0.41 per unit. This represents an increase of \$0.02 per unit, or 5.1%, over the comparable period in the prior year. Including the changes in FFO discussed above, AFFO per unit increased due to lower regular leasing expenditures and regular maintenance capital expenditures, partially offset by higher recoverable maintenance capital expenditures.

For the year ended December 31, 2017, AFFO totaled \$1.59 per unit, consistent with the comparable period in the prior year.

To ensure sufficient cash is retained to meet capital improvement and leasing objectives, Allied strives to maintain an appropriate AFFO pay-out ratio, which is the ratio of actual distributions to AFFO in a given period. For the three months and year ended December 31, 2017, the AFFO pay-out ratio was 93.9% and 96.8%, respectively.

RECONCILIATION OF FFO AND AFFO

	THREE MONTHS ENDED		
	DECEMBER 31, 2017	DECEMBER 31, 2016	CHANGE
Net income and comprehensive income	\$63,066	\$163,731	\$(100,665)
Adjustment to fair value of investment properties	(26,260)	(116,749)	90,489
Adjustment to fair value of derivative instruments	(1,324)	(11,808)	10,484
Loss on disposal of investment properties	2,561	36	2,525
Incremental leasing costs	1,437	1,112	325
Amortization of leasing costs and tenant improvements	9,571	9,179	392
FFO	\$49,051	\$45,501	\$3,550
Amortization of straight-line rents	(2,731)	(2,542)	(189)
Regular leasing expenditures	(3,945)	(6,099)	2,154
Regular maintenance capital expenditures	(310)	(1,054)	744
Incremental leasing (related to regular leasing expenditures)	(1,006)	(778)	(228)
Recoverable maintenance capital expenditures	(2,987)	(2,258)	(729)
AFFO	\$38,072	\$32,770	\$5,302
Weighted average number of Units			
Basic	92,850,893	84,718,085	8,132,808
Diluted	93,027,626	84,826,679	8,200,947
Per Unit - basic			
FFO	\$0.53	\$0.54	\$(0.01)
AFFO	\$0.41	\$0.39	\$0.02
Per Unit - diluted			
FFO	\$0.53	\$0.54	\$(0.01)
AFFO	\$0.41	\$0.39	\$0.02
Payout Ratio			
FFO	72.9%	70.3%	2.6%
AFFO	93.9%	97.6%	(3.7%)

The following table reconciles Allied's net income to FFO and AFFO for the year ended December 31, 2017, and December 31, 2016.

	YEAR ENDED		
	DECEMBER 31, 2017	DECEMBER 31, 2016	CHANGE
Net income and comprehensive income	\$357,959	\$324,305	\$33,654
Adjustment to fair value of investment properties	(198,115)	(179,303)	(18,812)
Adjustment to fair value of derivative instruments	(13,889)	(5,874)	(8,015)
Loss on disposal of investment properties	2,561	1,087	1,474
Incremental leasing costs	5,535	3,367	2,168
Amortization of leasing costs and tenant improvements	33,153	29,167	3,986
FFO	\$187,204	\$172,749	\$14,455
One-time extraordinary item ⁽¹⁾	—	1,135	(1,135)
Normalized FFO	\$187,204	\$173,884	\$13,320
Amortization of straight-line rents	(13,830)	(11,697)	(2,133)
Regular leasing expenditures	(17,956)	(17,452)	(504)
Regular maintenance capital expenditures	(3,173)	(2,123)	(1,050)
Incremental leasing (related to regular leasing expenditures)	(3,875)	(2,357)	(1,518)
Recoverable maintenance capital expenditures	(8,702)	(11,658)	2,956
AFFO	\$139,668	\$128,597	\$11,071
Weighted average number of Units			
Basic	87,864,560	80,815,747	7,048,813
Diluted	88,006,010	80,939,463	7,066,547
Per Unit - basic			
FFO	\$2.13	\$2.14	\$(0.01)
Normalized FFO	\$2.13	\$2.15	\$(0.02)
AFFO	\$1.59	\$1.59	\$—
Per Unit - diluted			
FFO	\$2.13	\$2.13	\$—
Normalized FFO	\$2.13	\$2.15	\$(0.02)
AFFO	\$1.59	\$1.59	\$—
Payout Ratio			
FFO	72.2%	70.6%	1.6%
Normalized FFO	72.2%	70.1%	2.1%
AFFO	96.8%	94.8%	2.0%

(1) In Q3 2016, as a result of an unfavourable decision by the Supreme Court of Canada, Allied reversed heritage-grant revenue recorded following a favourable decision by the Alberta Court of Appeal in 2014 with respect to Allied's entitlement. This was a one-time, extraordinary item.

In the tables above, AFFO has been presented in accordance with the "White Paper on Funds From Operations & Adjusted Funds From Operations for IFRS" published by REALpac in February of 2017.

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

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2017	DECEMBER 31, 2016	DECEMBER 31, 2017	DECEMBER 31, 2016
Cash flows from operating activities	\$50,037	\$50,631	\$198,926	\$164,109
Add (deduct) impact of the following:				
Amortization of equipment and other assets	(419)	(442)	(1,819)	(1,592)
Amortization of straight-line rents	2,731	2,542	13,830	11,697
Amortization, (premium) discount on assumed debt	257	88	471	(60)
Amortization of finance lease obligations	(111)	199	190	(2,869)
Non-cash interest expense	5,264	3,255	(2,472)	(2,557)
Unit-compensation expense	(810)	(733)	(3,233)	(2,624)
Change in other non-cash financing items	(549)	(283)	(2,094)	(3,907)
Change in other non-cash operating items	(12,581)	(10,868)	(25,925)	7,185
Additions to residential inventory	3,795	—	3,795	3,795
Incremental leasing costs	1,437	1,112	5,535	3,367
FFO	\$49,051	\$45,501	\$187,204	\$172,749
Add (deduct) impact of the following:				
One-time extraordinary item ⁽¹⁾	—	—	—	1,135
Amortization of straight-line rents	(2,731)	(2,542)	(13,830)	(11,697)
Regular leasing expenditures	(3,945)	(6,099)	(17,956)	(17,452)
Regular maintenance capital expenditures	(310)	(1,054)	(3,173)	(2,123)
Incremental leasing (related to regular leasing expenditures)	(1,006)	(778)	(3,875)	(2,357)
Recoverable maintenance capital expenditures	(2,987)	(2,258)	(8,702)	(11,658)
AFFO	\$38,072	\$32,770	\$139,668	\$128,597

(1) In Q3 2016, as a result of an unfavourable decision by the Supreme Court of Canada, Allied reversed heritage-grant revenue recorded following a favourable decision by the Alberta Court of Appeal in 2014 with respect to Allied's entitlement. This was a one-time, extraordinary item.

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.

For three months ended December 31, 2017, Allied incurred (i) \$3,945 in regular leasing expenditures or \$15.96 per leased square foot, (ii) \$310 in regular maintenance capital expenditures and (iii) \$2,987 of recoverable maintenance capital expenditures.

For year ended December 31, 2017, Allied incurred (i) \$17,956 in regular leasing expenditures or \$14.38 per leased square foot, (ii) \$3,173 in regular maintenance capital expenditures and (iii) \$8,702 of recoverable maintenance capital expenditures.

For the year ended December 31, 2017, Allied invested \$50,824 and \$177,983, respectively, of revenue enhancing capital into the rental portfolio to enhance its income-producing capability and in ongoing development activity.

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2017	DECEMBER 31, 2016	DECEMBER 31, 2017	DECEMBER 31, 2016
Regular leasing expenditures	\$3,945	\$6,099	\$17,956	\$17,452
Regular maintenance capital expenditures	\$310	\$1,054	\$3,173	\$2,123
Recoverable maintenance capital expenditures	\$2,987	\$2,258	\$8,702	\$11,658
Revenue-enhancing capital and development costs	\$50,824	\$57,308	\$177,983	\$209,882

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA")

EBITDA is a non-IFRS measure that is comprised of earnings before interest expense, income taxes, depreciation expense and amortization expense. Adjusted EBITDA, as defined by Allied, is a non-IFRS measure that is comprised of net earnings before interest expense, income taxes, depreciation expense and amortization expense, as well as gains and losses on disposal of investment properties and the fair value changes associated with investment properties and financial instruments.

EBITDA 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 fair value changes and gains and losses on investment property dispositions.

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 fair value changes and gains and losses on investment property dispositions do not impact cash flow, which is a critical part of the measure.

The following table reconciles Allied's net income and comprehensive income to Adjusted EBITDA for the year ended December 31, 2017, and December 31, 2016.

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2017	DECEMBER 31, 2016	DECEMBER 31, 2017	DECEMBER 31, 2016
Net income and comprehensive income for the period	\$63,066	\$163,731	\$357,959	\$324,305
Interest expense	17,188	15,952	69,265	61,425
Amortization of equipment and other assets	419	442	1,819	1,592
Amortization of leasing commissions	2,259	2,632	8,694	8,451
Amortization of tenant improvement allowances	7,312	6,547	24,459	20,716
Fair value (gain) on investment properties	(26,260)	(116,749)	(198,115)	(179,303)
Fair value (gain) loss on derivative instruments	(1,324)	(11,808)	(13,889)	(5,874)
Loss on disposal of investment properties	2,561	36	2,561	1,087
Adjusted EBITDA	\$65,221	\$60,783	\$252,753	\$232,399

Section VI

—*Historical Performance*

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

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016 ⁽¹⁾	Q2 2016	Q1 2016
Rental revenue from investment properties	\$107,709	\$106,309	\$103,134	\$102,111	\$104,497	\$96,712	\$94,700	\$93,813
Property operating costs	(46,419)	(45,277)	(43,493)	(44,359)	(47,939)	(41,064)	(39,566)	(40,634)
Net rental income	\$61,290	\$61,032	\$59,641	\$57,752	\$56,558	\$55,648	\$55,134	\$53,179
Net income and comprehensive income	\$63,066	\$101,945	\$113,081	\$79,867	\$163,731	\$53,961	\$69,145	\$37,468
Weighted average units (diluted)	93,027,626	88,936,173	85,073,714	84,868,429	84,826,679	81,620,796	78,717,035	78,566,949
Distributions	\$35,754	\$34,489	\$32,506	\$32,428	\$31,984	\$30,996	\$29,467	\$29,433
FFO	\$49,051	\$47,799	\$45,624	\$44,730	\$45,501	\$43,855	\$42,466	\$42,062
FFO per unit (diluted)	\$0.53	\$0.54	\$0.54	\$0.53	\$0.54	\$0.54	\$0.54	\$0.54
FFO pay-out ratio	72.9%	72.2%	71.2%	72.5%	70.3%	70.7%	69.4%	70.0%
AFFO	\$38,072	\$33,897	\$33,587	\$34,112	\$32,770	\$31,813	\$32,431	\$31,583
AFFO per unit (diluted)	\$0.41	\$0.38	\$0.39	\$0.40	\$0.39	\$0.39	\$0.41	\$0.40
AFFO pay-out ratio	93.9%	101.7%	96.8%	95.1%	97.6%	97.4%	90.9%	93.2%
Investment properties	\$5,627,439	\$5,534,005	\$5,444,426	\$5,237,400	\$5,129,541	\$4,939,585	\$4,796,178	\$4,475,162
Total debt	\$1,959,877	\$1,989,815	\$2,062,989	\$1,944,204	\$1,909,265	\$1,909,720	\$1,949,110	\$1,675,026
Total rental GLA	11,268	11,818	11,805	11,747	11,843	11,849	11,639	10,512
Leased rental GLA	10,728	11,027	11,000	10,879	10,906	10,839	10,593	9,691
Leased area %	95.2%	93.3%	93.2%	92.6%	92.1%	91.5%	91.0%	92.2%

(1) Allied normalized FFO and AFFO in the third quarter of 2016 by excluding a one-time extraordinary item.

In the table above, AFFO has been presented in accordance with the “White Paper on Funds From Operations & Adjusted Funds From Operations for IFRS” published by REALpac in February of 2017.

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 Estimates and Assumptions*

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.

Critical accounting estimates and assumptions are discussed in Allied's audited consolidated financial statements for the year ended December 31, 2017, and the notes contained therein.

SIGNIFICANT ACCOUNTING POLICIES

Accounting policies and any respective changes are discussed in Allied's audited consolidated financial statements for the year ended December 31, 2017, 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 consolidated financial statements for the year ended December 31, 2017, and notes contained therein.

Section VIII

—Disclosure Controls and Internal Controls

Management maintains appropriate information systems, procedures and controls to provide reasonable assurance 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, 2017 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, 2017, 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, 2017, 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 seven 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 2.00% to 6.88% with a weighted average interest rate of 4.07%. The weighted average term of our debt is 4.15 years. The aforementioned excludes the revolving Unsecured Facility, refer to Note 10(c) of the audited consolidated financial statements for further details.

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.

As Allied has invested in mortgages to facilitate acquisitions, further credit risks arise in the event that borrowers default on the repayment of their mortgages to Allied. Allied's mortgage investments will typically be subordinate to prior ranking mortgage or charges. Not all of Allied's financing activities will translate into acquisitions. As at December 31, 2017 and as at the date of this MD&A, Allied had \$88,316 in loans receivable and advances to developer, loaned to affiliates of a single private company. In the event of a large commercial real estate market correction, the fair market value of an underlying property may be unable to support the mortgage investment. Allied mitigates this risk by obtaining corporate guarantees and/or registered mortgage charges.

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 \$4,192 (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 AND CLIMATE CHANGE 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. Allied is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the properties or any pending or threatened claims relating to environmental conditions at the properties.

Allied will make the necessary capital and operating expenditures to ensure compliance with environmental laws and regulations. Although there can be no assurances, Allied does not believe that costs relating to environmental matters will have a material adverse effect on the Allied's business, financial condition or results of operation. However, environmental laws and regulations may change and Allied may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have an adverse effect on Allied's business, financial condition or results of operation. It is Allied's operating policy to obtain a Phase I environmental assessment conducted by an independent and experienced environmental consultant prior to acquiring a property. Phase I environmental assessments have been performed in respect of all properties.

Natural disasters and severe weather such as floods, blizzards and rising temperatures may result in damage to the properties. The extent of Allied's casualty losses and loss in operating income in connection with such events is a function of the severity of the event and the total amount of exposure in the affected area. Allied is also exposed to risks associated with inclement winter weather, including increased need for maintenance and repair of the REIT's buildings. In addition, climate change, to the extent it causes changes in weather patterns, could have effects on Allied's business by increasing the cost of property insurance, and/or energy at the properties. As a result, the consequences of natural disasters, severe weather and climate change could increase Allied's costs and reduce Allied's cash flow.

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.

CYBERSECURITY RISK

The efficient operation of Allied's business is dependent on computer hardware and software systems. Information systems are vulnerable to cybersecurity incidents. A cybersecurity incident is considered to be any material adverse event that threatens the confidentiality, integrity or availability of Allied's information resources. A cybersecurity incident is an intentional attack or an unintentional event including, but not limited to, malicious software, attempts to gain unauthorized access to data or information systems, and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information and corruption of data. Allied's primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to its reputation, damage to its business relationships with tenants, the disclosure of confidential information including personally identifiable information, potential liability to third parties, loss of revenue, additional regulatory scrutiny and fines, as well as litigation and other costs and expenses. Allied takes data privacy and protection seriously and has implemented processes, procedures and controls to help mitigate these risks. Access to personal data is controlled through physical security and IT security mechanisms. For information stored with or processed by third parties, Allied undertakes due diligence prior to working with them and uses contractual means to ensure compliance to standards set by Allied. Additionally, Allied monitors and assesses risks surrounding collection, usage, storage, protection, and retention/destruction practices of personal data. These measures, as well as its increased awareness of a risk of a cyber incident, do not guarantee that its financial results will not be negatively impacted by such an incident.

Section X

—Property Table

DECEMBER 31, 2017 PROPERTIES	Office GLA	Retail GLA	Mission Critical GLA	Total GLA	% Total GLA	Total Vacant	Total Leased	Leased %
28 Atlantic	10,065	—	—	10,065		—	10,065	100.0%
32 Atlantic	50,434	—	—	50,434		—	50,434	100.0%
47 Jefferson	6,884	—	—	6,884		—	6,884	100.0%
64 Jefferson	78,820	—	—	78,820		—	78,820	100.0%
College & Manning ⁽¹⁾	27,069	4,287	—	31,356		2,400	28,956	92.3%
The Castle	129,474	35,628	—	165,102		17,761	147,341	89.2%
King West	302,746	39,915	—	342,661	3.0%	20,161	322,500	94.1%
141 Bathurst	10,271	—	—	10,271		—	10,271	100.0%
159-161 Bathurst	4,000	—	—	4,000		—	4,000	100.0%
183 Bathurst	27,185	5,600	—	32,785		—	32,785	100.0%
241 Spadina	26,494	6,675	—	33,169		—	33,169	100.0%
379 Adelaide W	36,339	4,300	—	40,639		—	40,639	100.0%
383 Adelaide W	7,382	—	—	7,382		—	7,382	100.0%
387 Adelaide W	5,000	6,500	—	11,500		—	11,500	100.0%
420 Wellington W	33,813	3,137	—	36,950		—	36,950	100.0%
425 Adelaide W	71,139	4,301	—	75,440		—	75,440	100.0%
425-439 King W	88,440	7,855	—	96,295		—	96,295	100.0%
441-443 King W	8,415	3,065	—	11,480		—	11,480	100.0%
445-455 King W	28,144	22,335	—	50,479		—	50,479	100.0%
460 King W	12,934	4,787	—	17,721		—	17,721	100.0%
461 King W	43,771	37,320	—	81,091		—	81,091	100.0%
468 King W	65,027	—	—	65,027		—	65,027	100.0%

DECEMBER 31, 2017 PROPERTIES	Office GLA	Retail GLA	Mission Critical GLA	Total GLA	% Total GLA	Total Vacant	Total Leased	Leased %
469 King W	65,339	11,676	—	77,015		—	77,015	100.0%
478 King W ⁽²⁾	—	3,277	—	3,277		—	3,277	100.0%
485 King W	8,304	4,035	—	12,339		—	12,339	100.0%
489 King W	21,421	4,850	—	26,271		—	26,271	100.0%
495 King W	10,684	—	—	10,684		—	10,684	100.0%
499 King W	—	8,400	—	8,400		—	8,400	100.0%
500-522 King W	82,133	43,079	—	125,212		—	125,212	100.0%
511-529 King W	37,309	11,477	—	48,786		6,679	42,107	86.3%
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	254,838	41,580	—	296,418		—	296,418	100.0%
579 Richmond W	28,515	—	—	28,515		—	28,515	100.0%
589-591 Richmond W	2,000	—	—	2,000		—	2,000	100.0%
662 King W	31,042	2,126	—	33,168		—	33,168	100.0%
80-82 Spadina	60,102	16,009	—	76,111		—	76,111	100.0%
96 Spadina	80,309	9,936	—	90,245		—	90,245	100.0%
King Portland Centre, 602 King W ⁽¹⁾	18,811	12,768	—	31,579		250	31,329	99.2%
King West Central	1,206,936	291,784	—	1,498,720	13.3%	6,929	1,491,791	99.5%
116 Simcoe	15,637	—	—	15,637		—	15,637	100.0%
179 John	69,843	—	—	69,843		—	69,843	100.0%
185 Spadina	55,814	—	—	55,814		—	55,814	100.0%
200 Adelaide W	26,685	—	—	26,685		—	26,685	100.0%
208-210 Adelaide W	11,592	—	—	11,592		—	11,592	100.0%
217-225 Richmond W	31,820	21,987	—	53,807		—	53,807	100.0%
257 Adelaide W	46,018	—	—	46,018		—	46,018	100.0%
312 Adelaide W	62,825	8,015	—	70,840		—	70,840	100.0%
331-333 Adelaide W	19,632	3,724	—	23,356		—	23,356	100.0%
358-360 Adelaide W	52,405	—	—	52,405		—	52,405	100.0%
375-381 Queen W	22,104	10,648	—	32,752		—	32,752	100.0%
388 King W	28,659	15,012	—	43,671		2,270	41,401	94.8%
82 Peter	39,288	8,287	—	47,575		—	47,575	100.0%
99 Spadina	51,708	—	—	51,708		—	51,708	100.0%
Union Center	11,332	29,239	—	40,571		3,736	36,835	90.8%
QRC West Phase I	336,203	11,358	—	347,561		—	347,561	100.0%
Entertainment District	881,565	108,270	—	989,835	8.8%	6,006	983,829	99.4%

DECEMBER 31, 2017 PROPERTIES	Office GLA	Retail GLA	Mission Critical GLA	Total GLA	% Total GLA	Total Vacant	Total Leased	Leased %
193 Yonge	34,349	16,318	—	50,667		—	50,667	100.0%
Downtown	34,349	16,318	—	50,667	0.4%	—	50,667	100.0%
56 Esplanade	57,381	19,575	—	76,956		1,619	75,337	97.9%
70 Esplanade	19,166	5,767	—	24,933		—	24,933	100.0%
106 Front E	24,347	10,373	—	34,720		4,066	30,654	88.3%
35-39 Front E	39,216	13,804	—	53,020		—	53,020	100.0%
36-40 Wellington E	16,642	9,893	—	26,535		—	26,535	100.0%
41-45 Front E	28,503	14,079	—	42,582		—	42,582	100.0%
45-55 Colborne	28,571	13,986	—	42,557		2,048	40,509	95.2%
49 Front E	9,370	10,441	—	19,811		—	19,811	100.0%
50 Wellington E	22,001	11,049	—	33,050		—	33,050	100.0%
60 Adelaide E	106,724	4,608	—	111,332		331	111,001	99.7%
184 Front E	81,166	6,489	—	87,655		—	87,655	100.0%
St. Lawrence Market	433,087	120,064	—	553,151	4.9%	8,064	545,087	98.5%
204-214 King E	126,375	2,699	—	129,074		4,041	125,033	96.9%
230 Richmond E	72,787	—	—	72,787		—	72,787	100.0%
252-264 Adelaide E	48,002	—	—	48,002		—	48,002	100.0%
489 Queen E	32,434	—	—	32,434		—	32,434	100.0%
70 Richmond	35,201	—	—	35,201		—	35,201	100.0%
Dominion Square	111,649	—	—	111,649		2,850	108,799	97.4%
QRC East	185,463	35,349	—	220,812		7,757	213,055	96.5%
QRC South	44,024	—	—	44,024		—	44,024	100.0%
Queen Richmond	655,935	38,048	—	693,983	6.2%	14,648	679,335	97.9%
Toronto	3,514,618	614,399	—	4,129,017	36.6%	55,808	4,073,209	98.6%
72 Victoria	91,421	—	—	91,421		2,324	89,097	97.5%
Breithaupt Phase I ⁽³⁾	66,559	—	—	66,559		—	66,559	100.0%
Breithaupt Phase II ⁽³⁾	46,846	—	—	46,846		—	46,846	100.0%
The Tannery	257,207	73,779	—	330,986		2,440	328,546	99.3%
Kitchener	462,033	73,779	—	535,812	4.8%	4,764	531,048	99.1%
Central Canada	3,976,651	688,178	—	4,664,829	41.4%	60,572	4,604,257	98.7%
The Chambers	208,834	12,223	—	221,057		—	221,057	100.0%

DECEMBER 31, 2017
PROPERTIES

	Office GLA	Retail GLA	Mission Critical GLA	Total GLA	% Total GLA	Total Vacant	Total Leased	Leased %
Ottawa	208,834	12,223	—	221,057	2.0%	—	221,057	100.0%
3510 Saint-Laurent	85,977	16,223	—	102,200		5,964	96,236	94.2%
3575 Saint-Laurent	167,954	18,410	—	186,364		30,491	155,873	83.6%
400 Atlantic	86,582	292	—	86,874		12,338	74,536	85.8%
425 Viger W	205,201	820	—	206,021		820	205,201	99.6%
4446 Saint-Laurent	73,206	7,281	—	80,487		7,700	72,787	90.4%
451-481 Saint-Catherine	22,341	8,475	—	30,816		3,167	27,649	89.7%
480 Saint-Laurent	46,682	7,165	—	53,847		21,781	32,066	59.6%
5445 Gaspé	479,457	955	—	480,412		20,627	459,785	95.7%
5455 Gaspé	487,364	750	—	488,114		17,499	470,615	96.4%
5505 Saint-Laurent	252,453	2,524	—	254,977		—	254,977	100.0%
6300 Parc	181,207	673	—	181,880		17,099	164,781	90.6%
645 Wellington	137,773	3,773	—	141,546		—	141,546	100.0%
740 Saint-Maurice	67,967	—	—	67,967		25,919	42,048	61.9%
8 Place du Commerce	40,702	16,521	—	57,223		3,338	53,885	94.2%
85 Saint-Paul	80,203	—	—	80,203		1,480	78,723	98.2%
Cité Multimédia	939,739	14,225	—	953,964		37,280	916,684	96.1%
Le Nordelec	784,097	19,914	—	804,011		29,921	774,090	96.3%
Montréal	4,138,905	118,001	—	4,256,906	37.8%	235,424	4,021,482	94.5%
Eastern Canada	4,347,739	130,224	—	4,477,963	39.7%	235,424	4,242,539	94.7%
100-6th SW	34,242	—	—	34,242		—	34,242	100.0%
119-6th SW	63,064	—	—	63,064		—	63,064	100.0%
1207-1215 13th SE	32,738	—	—	32,738		—	32,738	100.0%
1240-20th SE	45,157	—	—	45,157		—	45,157	100.0%
129-8th SW	3,068	4,591	—	7,659		—	7,659	100.0%
209-8th SW	26,872	5,022	—	31,894		10,515	21,379	67.0%
237-8th SE	67,215	8,581	—	75,796		4,182	71,614	94.5%
322-326 11th SW	198,830	15,660	—	214,490		21,997	192,493	89.7%
402-11th SE	40,116	—	—	40,116		11,237	28,879	72.0%
438-11th SE	52,489	—	—	52,489		—	52,489	100.0%
601-611 10th SW	47,096	2,592	—	49,688		5,365	44,323	89.2%
603-605 11th SW	22,050	29,207	—	51,257		14,722	36,535	71.3%
613-11th SW	—	3,163	—	3,163		—	3,163	100.0%
617-11th SW	2,986	6,306	—	9,292		636	8,656	93.2%

DECEMBER 31, 2017 PROPERTIES	Office GLA	Retail GLA	Mission Critical GLA	Total GLA	% Total GLA	Total Vacant	Total Leased	Leased %
625-11th SW	33,992	1,410	—	35,402		19,148	16,254	45.9%
805-1st SW	11,709	18,767	—	30,476		5,103	25,373	83.3%
808-1st SW	17,224	30,244	—	47,468		9,949	37,519	79.0%
809-10th SW	35,742	—	—	35,742		5,316	30,426	85.1%
816-838 11th SW ⁽⁴⁾	9,990	13,993	—	23,983		2,140	21,843	91.1%
Demcor Building	39,922	—	—	39,922		26,382	13,540	33.9%
Calgary	784,502	139,536	—	924,038	8.2%	136,692	787,346	85.2%
Boardwalk & Revillon Building	225,934	45,442	—	271,376		2,405	268,971	99.1%
Edmonton	225,934	45,442	—	271,376	2.4%	2,405	268,971	99.1%
128 West Pender	78,224	1,693	—	79,917		9,149	70,768	88.6%
840 Cambie	91,824	—	—	91,824		—	91,824	100.0%
948-950 Homer	34,473	10,399	—	44,872		—	44,872	100.0%
1040 Hamilton	36,108	8,765	—	44,873		—	44,873	100.0%
1286 Homer	15,919	9,115	—	25,034		—	25,034	100.0%
Vancouver	256,548	29,972	—	286,520	2.5%	9,149	277,371	96.8%
Western Canada	1,266,984	214,950	—	1,481,934	13.2%	148,246	1,333,688	90.0%
Total Office and Retail	9,591,374	1,033,352	—	10,624,726	94.3%	444,242	10,180,484	95.8%
905 King W	—	—	110,979	110,979		23,369	87,610	78.9%
151 Front W	—	—	275,709	275,709		2,156	273,553	99.2%
250 Front W	—	—	173,000	173,000		69,000	104,000	60.1%
Mission Critical Facilities	—	—	559,688	559,688	5.0%	94,525	465,163	83.1%
Total Rental Portfolio, Excluding PUD Transfers	9,591,374	1,033,352	559,688	11,184,414	99.3%	538,767	10,645,647	95.2%
180 John	39,269	6,384	—	45,653		—	45,653	100.0%
47 Front E	7,356	3,993	—	11,349		1,243	10,106	89.0%
189 Joseph	26,373	—	—	26,373		—	26,373	100.0%
Total Rental Portfolio, Including PUD Transfers	9,664,372	1,043,729	559,688	11,267,789	100%	540,010	10,727,779	95.2%

(1) RioCan/Allied Joint Arrangement

(2) Lifetime/Allied Joint Arrangement

(3) Perimeter/Allied Joint Arrangement

(4) First Capital/Allied Joint Arrangement

PROPERTIES UNDER DEVELOPMENT

ESTIMATED GLA ON
COMPLETION (SF)

642 King W, Toronto ⁽¹⁾	13,750
TELUS Sky, Calgary ⁽²⁾	223,000
College & Palmerston , Toronto ⁽¹⁾	12,500
King Portland Centre, Toronto ⁽¹⁾	134,500
Adelaide & Duncan, Toronto ⁽³⁾	228,000
The Well, Toronto ⁽⁴⁾	1,550,000
Le Nordelec - Development, Montréal	TBD
The Lougheed (604-1st SW), Calgary	92,600
Total Development Portfolio	2,254,350

(1) RioCan/Allied Joint Arrangement

(2) Telus/Westbank/Allied Joint Arrangement

(3) Westbank/Allied Joint Arrangement

(4) RioCan/Allied Joint Arrangement. Allied acquired an additional undivided 10% interest in the commercial component of The Well. Each of Allied and RioCan now own an undivided 50% interest in the commercial component of The Well.

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
533 King, Toronto	107
560 King, Toronto	171
478 King, Toronto ⁽¹⁾	65
15 Brant, Toronto	203
105 George, Toronto	15
Total Parking	845

(1) Lifetime/Allied Joint Arrangement

Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016

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.

Deloitte 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
EXECUTIVE 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 sheet as at December 31, 2017, and the consolidated statement of income and comprehensive income, consolidated statement of unitholder's equity and consolidated statement of cash flows for the year 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 as issued by the International Accounting Standards Board, 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 audit. We conducted our audit 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 and fair presentation 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 overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit 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, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

OTHER MATTER

The consolidated financial statements of Allied Properties Real Estate Investment Trust for the year ended December 31, 2016 (including the reclassified 2016 comparative figures in Note 2(s) and 22), were audited by another auditor who expressed an unmodified opinion on those statements on February 22, 2017.

The image shows a handwritten signature in blue ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

CHARTERED PROFESSIONAL ACCOUNTANTS, LICENSED PUBLIC ACCOUNTANTS
TORONTO, ONTARIO | FEBRUARY 14, 2018

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 sheet as at December 31, 2016 and the consolidated statements of unitholders' equity, income and comprehensive income and cash flows for the year 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 audit. We conducted our audit 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 and fair presentation 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 overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit 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, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

CHARTERED PROFESSIONAL ACCOUNTANTS, LICENSED PUBLIC ACCOUNTANTS
TORONTO, ONTARIO | FEBRUARY 22, 2017

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2017 AND DECEMBER 31, 2016**

(in thousands of Canadian dollars) NOTES DECEMBER 31, 2017 DECEMBER 31, 2016

Assets			
Non-current assets			
Investment properties	5	\$5,627,439	\$5,129,541
Residential inventory	6	28,239	—
Loans and notes receivable	7	90,613	23,686
Other assets	8	12,593	8,487
		5,758,884	5,161,714
Current assets			
Cash and cash equivalents	20	6,048	12,193
Loans and notes receivable	7	11,628	1,073
Accounts receivable, prepaid expenses and deposits	9	47,072	38,874
		64,748	52,140
Total assets		\$5,823,632	\$5,213,854
Liabilities			
Non-current liabilities			
Debt	10	\$1,705,526	\$1,763,370
Finance lease obligations	11	154,871	152,204
		1,860,397	1,915,574
Current liabilities			
Debt	10	254,351	145,895
Accounts payable and other liabilities	12	159,862	130,879
		414,213	276,774
Total liabilities		2,274,610	2,192,348
Unitholders' equity		3,549,022	3,021,506
Total liabilities and unitholders' equity		\$5,823,632	\$5,213,854

Commitments and Contingencies (note 26)

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



Gordon Cunningham
TRUSTEE



Michael R. Emory
TRUSTEE

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

(in thousands of Canadian dollars, except unit and per unit amounts)	NOTES	YEAR ENDED	
		DECEMBER 31, 2017	DECEMBER 31, 2016
Rental revenue from investment properties		\$419,263	\$389,722
Property operating costs		(179,548)	(169,203)
Net rental income		239,715	220,519
Interest expense	10 (f)	(69,265)	(61,425)
General and administrative expenses	19	(14,436)	(10,381)
Amortization of leasing costs and other assets	5 & 8	(10,513)	(10,043)
Interest income		3,015	1,545
Fair value gain on investment properties	5	198,115	179,303
Fair value gain on derivative instruments	25 (d)	13,889	5,874
Loss on disposal of investment properties	4	(2,561)	(1,087)
Net income and comprehensive income		\$357,959	\$324,305
Income per unit			
Basic		\$4.07	\$4.01
Diluted		\$4.07	\$4.01
Weighted average number of Units	17		
Basic		87,864,560	80,815,747
Diluted		88,006,010	80,939,463

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

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

(in thousands of Canadian dollars)	NOTES	TRUST UNITS	RETAINED EARNINGS	CONTRIBUTED SURPLUS	TOTAL
Balance at January 1, 2016	14	\$1,873,541	\$709,407	\$8,783	\$2,591,731
Net income and comprehensive income		—	324,305	—	324,305
Public offering (net of issuance costs)	14	220,367	—	—	220,367
Distributions		—	(121,880)	—	(121,880)
Distribution reinvestment plan ("DRIP")	14	5,839	—	—	5,839
Unit option plan – options exercised	15 (a)	3,570	—	—	3,570
Contributed surplus – unit option plan	15 (a)	—	—	1,430	1,430
Restricted unit plan (net of forfeitures)	15 (b)	(1,022)	—	1,194	172
Long-term incentive plan		74	—	—	74
Purchase of Units under normal course issuer bid for cancellation	14	(4,102)	—	—	(4,102)
Balance at December 31, 2016		\$2,098,267	\$911,832	\$11,407	\$3,021,506

(in thousands of Canadian dollars)	NOTES	TRUST UNITS	RETAINED EARNINGS	CONTRIBUTED SURPLUS	TOTAL
Balance at January 1, 2017	14	\$2,098,267	\$911,832	\$11,407	\$3,021,506
Net income and comprehensive income		—	357,959	—	357,959
Public offering (net of issuance costs)	14	287,701	—	—	287,701
Distributions		—	(135,177)	—	(135,177)
Unit option plan – options exercised	15 (a)	15,948	—	—	15,948
Contributed surplus – unit option plan	15 (a)	—	—	1,466	1,466
Restricted unit plan (net of forfeitures)	15 (b)	(2,173)	—	1,767	(406)
Long-term incentive plan	16	72	—	—	72
Purchase of Units under normal course issuer bid for cancellation	14	(47)	—	—	(47)
Balance at December 31, 2017		\$2,399,768	\$1,134,614	\$14,640	\$3,549,022

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

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

(in thousands of Canadian dollars)	NOTES	YEAR ENDED	
		DECEMBER 31, 2017	DECEMBER 31, 2016
Operating activities			
Net income for the year		\$357,959	\$324,305
Fair value (gain) loss on investment properties	5	(198,115)	(179,303)
Fair value (gain) loss on derivative instruments	25 (d)	(13,889)	(5,874)
Loss on disposal of investment properties	4	2,561	1,087
Interest Expense	10 (f)	69,265	61,425
Interest Paid (excluding capitalized interest)	20, 5	(66,793)	(58,868)
Amortization of equipment and other assets	8	1,819	1,592
Amortization of leasing commissions	5	8,694	8,451
Amortization of tenant improvement allowances	5	24,459	20,716
Amortization of straight-line rents	5	(13,830)	(11,697)
Amortization of premium (discount) on debt	10 (f)	(471)	60
Amortization of finance lease obligations		(190)	2,869
Unit-compensation expense	15	3,233	2,624
Additions to residential inventory	6	(3,795)	—
Change in other non-cash financing items		2,094	3,907
Change in other non-cash operating items	20	25,925	(7,185)
Cash provided by operating activities		198,926	164,109
Financing activities			
Proceeds from new mortgages payable		—	29,000
Repayment of mortgages payable		(155,685)	(135,587)
Proceeds from senior unsecured debentures (net of financing costs)	10 (d)	198,825	149,199
Proceeds from unsecured term loan (net of financing costs)	10 (e)	—	199,300
Principal payments of finance lease obligations		(22)	(21)
Distributions paid to Unitholders		(133,900)	(115,041)
Proceeds of public offering (net of issuance costs)	14	287,701	220,367
Proceeds from exercise of Unit options	14	15,948	3,570
Proceeds from Units issued under the LTIP	14	72	74
Purchase of Units under normal course issuer bid for cancellation	14	(47)	(4,102)
Restricted unit plan (net of forfeitures)	14	(2,173)	(1,022)
Proceeds from annuity loan receivable		1,073	1,054
Drawings from Unsecured Revolving Operating Facility	10 (c)	167,000	261,138

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016 - *continued*

(in thousands of Canadian dollars)	NOTES	YEAR ENDED	
		DECEMBER 31, 2017	DECEMBER 31, 2016
Repayments of Unsecured Revolving Operating Facility	10 (c)	(189,000)	(233,736)
Proceeds from construction loan	10 (b)	25,702	(733)
Financing costs		—	(369)
Loan receivable issued to third-party	7 (a)	(67,143)	—
Cash provided by financing activities		148,351	373,091
Investing activities			
Acquisition of investment properties	4	(111,700)	(321,123)
Additions to investment properties (including capitalized interest)	5	(189,858)	(180,544)
Net proceeds on disposition of investment properties	4	30,710	26,450
Additions to equipment and other assets	8	(595)	(2,077)
Leasing commissions	5	(7,793)	(15,481)
Tenant improvement allowances	5	(74,186)	(36,555)
Cash used in investing activities		(353,422)	(529,330)
Increase (decrease) in cash and cash equivalents		(6,145)	7,870
Cash and cash equivalents, beginning of year		12,193	4,323
Cash and cash equivalents, end of year		\$6,048	\$12,193

Supplemental cash flow information (note 20)

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

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016
(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 12, 2016. 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 "AP.UN".

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 years ending December 31, 2017 and 2016 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, 2017, were approved and authorized for issue by the Board of Trustees on February 14, 2018.

(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 2 (d) and note 5; and
- interest rate swaps as described in note 2 (i).

The consolidated financial statements are presented in Canadian dollars, which is Allied's functional currency, and all amounts 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 over which Allied has control, where control is defined as the power to direct the relevant activities 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 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.

(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.

Where Allied has concluded an acquisition of an asset the Trust 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 reported in the consolidated balance sheets at their fair values. Fair value is based on valuations prepared by a nationally recognized and qualified independent professional appraiser 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 in the Consolidated Statement of Income and Comprehensive Income. 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 appraiser engaged by Allied predominantly 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. For further details on methods used, refer to Note 5. Valuations of investment properties are most sensitive to changes in discount rates and capitalization rates.

Allied has applied judgment based on the extent that costs are incurred to enhance the service potential of the property in determining whether certain costs are additions to the carrying amount of investment properties or will be expensed.

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. See 2 (g) below for further information regarding Allied's accounting for borrowing costs.

(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. A joint operation usually results from direct interests in the assets and liabilities of an investee rather than through the establishment of a separate legal entity. None of the parties involved have unilateral control of a joint operation. Allied accounts for its joint arrangements as joint operations wherein it records its share of the assets, liabilities, revenue and expenses of the joint arrangements.

(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 investment properties as straight-line rents receivable.

Lease incentives provided to tenants are deferred and amortized on a straight-line basis 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, where applicable. 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. Where borrowings are associated with specific developments, the amount capitalized is the gross costs incurred on those borrowings. 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 or if expectations differ from previous estimates, 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).

(1) *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.

The following table describes Allied's classification and measurement of its financial assets and liabilities:

ASSET/LIABILITY	CLASSIFICATION	MEASUREMENT
Loans and notes receivable	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	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 or loss	Fair value

Allied designated its accounts receivable, loans and notes receivable, and cash and cash equivalents as loans and receivables; its debt, freehold lease and land lease obligations, and accounts payable and other liabilities as other financial liabilities. All derivatives, including embedded derivatives, are classified as at fair value through profit or loss and are recorded on the consolidated balance sheet at fair value.

At the end of each reporting period, the Trust will reassess categorization between levels in the hierarchy to determine whether transfers have occurred. The reassessment is based on the lowest level input that is significant to the fair value measurement in its entirety.

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. Financial assets classified as loans and receivables are measured at amortized cost.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, with the exception of those classified as at fair value through profit or loss, are accounted for as part of the respective asset or liability's carrying value at inception and amortized over the expected life of the financial instrument using the effective interest method. Transaction costs directly attributable to the acquisition or issuance of financial assets or liabilities classified as at fair value through profit or loss are recognized immediately in net income.

Allied had no held-to-maturity or available-for-sale financial assets as at December 31, 2017 and December 31, 2016.

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 or loss is impaired. An impairment loss, which is the excess of the carrying amount over the fair value, is recognized if the present value of estimated future cash flows discounted at the original effective interest rate inherent in the loan is less than its carrying value and is measured as the difference between the two amounts. Impairments 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 the Consolidated Statements of Income and Comprehensive Income and are included within 'Interest expense', except for those interest-related charges capitalized to qualifying properties under development or rental 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 unsecured term loans. 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 and declared prior to the reporting date, but have yet to be paid.

(K) Distribution Reinvestment Plan (DRIP)

Allied instituted a DRIP whereby Canadian Unitholders may elect to have their distributions automatically reinvested in additional Units. Effective December 31, 2015, Unitholders who so elected to participate in the DRIP received no additional distribution of Units for each distribution that was reinvested. Effective November 21, 2016, Allied suspended its DRIP until further notice. 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. Allied utilizes the Black-Scholes Model for the valuation of unit options with no performance criteria, see note 15 for assumptions used.

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 are subject to forfeiture until the participant has held his or her position with Allied for a specified period of time. Full vesting of Unit Options and Restricted Units may not occur until the participant has remained employed by Allied for three years from the date of grant. Upon forfeiture of Unit Options and Restricted Units by an employee or trustee of Allied, the expense related to any unvested, forfeited Unit Options and Restricted 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) Residential Inventories

Residential inventory are assets that are developed by Allied for sale in the ordinary course of business and is recorded at the lower of cost and estimated net realizable value. Impairment is reviewed at each reporting date, with any losses recognized in net income when the carrying value of the property exceeds its net realizable value. The net realizable value is defined as the entity-specific future selling price, including any development plans, in the ordinary course of business less estimated costs of completion and selling costs.

The cost of residential inventory includes any costs that are directly attributable to bring the projects to a state of active development, which includes borrowing costs. Borrowing costs are accounted under IAS 23 similarly to Allied's policies for capitalization to qualifying assets. Residential inventory is presented separately on the consolidated balance sheets as non-current assets.

(Q) Accounting standards implemented in 2017

DISCLOSURE INITIATIVE - AMENDMENTS TO IAS 7, "STATEMENT OF CASH FLOWS"

In January 2016, the IASB issued the amendments to IAS 7, "Statement of Cash Flows", effective for annual periods beginning January 1, 2017. The IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. Allied adopted these amendments in the annual consolidated financial statements for the year ended December 31, 2017 with comparative figures adjusted accordingly.

(R) *Future accounting standards*

IFRS 15 - REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers (“IFRS 15”) which replaces IAS 18 and IAS 11 effective January 1, 2018. The objective of IFRS 15 is to establish the principles that the Trust will apply to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The Trust has elected to apply the standard on a modified retrospective basis using certain practical expedients. Under this approach, the 2017 comparative period will not be restated and a cumulative transitional adjustment to the opening deficit balance will be recognized at the date of initial application.

The Trust is in the final stages of its evaluation of the impact of this standard on its consolidated financial statements. As the Trust’s most material revenue stream of rental revenue is outside the scope of the new standard, the adoption of the new standard is not expected to have a material impact to the consolidated statements of income and comprehensive income. The Trust has determined that the relevant impact as a result of the adoption of IFRS 15 will be the separation of lease and non-lease components within its lease arrangements to identify revenue streams that fall under the scope of IFRS 15. Specifically, the recovery of costs related to the provision of services is considered a non-lease component and as such would be within the scope of IFRS 15. In respect of such recovery of services revenue, the Trust has concluded that the pattern of revenue recognition will remain unchanged. However, the Trust will be required to disclose the separate components of each revenue stream, including those included within gross leases.

No impact on the consolidated statements of cash flow is expected from adoption.

IFRS 9 - FINANCIAL INSTRUMENTS

In July 2014, the IASB issued IFRS 9, Financial Instruments (“IFRS 9”) which replaces IAS 39 effective January 1, 2018. IFRS 9 provides new guidance on the classification and measurement, impairment and hedge accounting for financial instruments in addition to new guidance for the treatment of term modifications for financial liabilities. IFRS 9 is required to be adopted retrospectively with certain available transition provisions which allow the Trust to elect not to restate prior period comparative information.

The Trust is in the final stages of its evaluation of the impact of this standard on its consolidated financial statements. The Trust will adopt IFRS 9 for the annual period beginning January 1, 2018 and will apply the standard on a retrospective basis using the available transitional provisions. Under this approach, the 2017 comparative period will not be restated and a cumulative transitional adjustment to the opening deficit balance will be recognized at January 1, 2018.

Classification and measurement:

IFRS 9 requires a new approach for the classification and measurement of financial assets based on the Trust's business models for managing these financial assets and their contractual cash flow characteristics, this is summarized as follows:

- Assets held for the purpose of collecting contractual cash flows that represent solely payments of principal and interest will be measured at amortized cost.
- Assets held within a business model where assets are both held for the purpose of collecting contractual cash flows or sold prior to maturity and the contractual cash flows represent solely payments of principal and interest will be measured at fair value through other comprehensive income ("FVTOCI").
- Assets held within another business model or assets that do not have contractual cash flow characteristics that are solely payments of principal and interest will be measured at fair value through profit or loss ("FVTPL").

The Trust has completed its review of all financial instruments held and has performed cash flow and business model assessments on the Trust's financial assets, the expected impact is summarized as follows:

- The Trust's cash and cash equivalents, accounts receivable, and loans and notes receivable currently measured at amortized costs will continue to be measured at amortized cost;
- The Trust's derivative asset and liability instruments will continue to be measured at FVTPL.

Impairment:

IFRS 9 introduces a new expected credit loss ("ECL") impairment model for all financial assets measured at amortized cost or debt instruments measured at FVTOCI. The new ECL model will result in an allowance for expected credit losses being recorded regardless of whether or not there has been an actual loss event.

The ECL model is forward looking and requires the use of a reasonable and supportable forecast of future conditions in the determination of whether or not there has been a significant increase in credit risk since origination and measurement of the ECL. The Trust continues to refine certain aspects of the expected credit loss modelling process leading up to its March 31, 2018 first quarter reporting, the expected impact is summarized as follows:

- The Trust does not expect to record a material ECL allowance against loans and notes receivable as historical experience of loss on these balances is insignificant which supports low credit risk at the time of adoption as well as forecasted credit risk over the lifetime of these financial assets. The Trust will continue to assess the valuation of these instruments.
- The Trust does not expect to record a material ECL allowances against accounts receivable and has determined that current internal processes of evaluating each receivable on a specific basis for collectability, would appropriately trigger significant credit losses through monthly bad debt and aging analysis.

Hedge accounting:

IFRS 9 also introduces a new hedge accounting model that expands the scope of hedge items and risks eligible for hedge accounting and 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.

Financial Liabilities:

Generally, IFRS 9 does not introduce changes to the classification of financial liabilities. The Trust will continue to measure its financial liabilities at amortized cost.

In regards to term modifications for financial liabilities, IFRS 9 requires that when a financial liability measured at amortized cost is modified or exchanged, and such modification or exchange does not result in derecognition, the adjustment to the amortized cost of the financial liability is recognized in profit or loss.

IFRS 16 - LEASES

On January 13, 2016 the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning January 1, 2019. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Trust has commenced the issue identification phase and impact assessment of the transition project. As a landlord, lessor accounting is substantially unchanged between IAS 17 and IFRS 16. The Trust does not expect the standard to have a substantial impact as lessor accounting is scoped out of IFRS 16, and therefore, leases with tenants are to be accounted for as operating leases in a consistent manner with the current accounting treatment. Allied has reviewed all lease contracts in which it is a lessee, and has noted that any material impact is in relation to land leases, which are recorded as finance leases, and as such, no impacts will be noted; the remainder of leases are considered immaterial.

IAS 40 - INVESTMENT PROPERTY

On December 8, 2016, the IASB issued an amendment to IAS 40 that requires an asset to be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. Allied will adopt these amendments and clarifications in its financial statements for the annual period beginning on January 1, 2018.

(s) *Comparative figures*

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

Allied combined the historic balances for tenant improvement allowances, leasing commissions and straight-line rents receivable with investment properties (note 5) rather than disclosing them separately in other assets (note 8). These balances are an integral part of the fair value of investment properties.

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 has determined through the appropriate analysis that 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. For further details, see note 5. 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. In order to determine the classification, Allied considers judgments and estimates related to lease terms, incremental borrowing rates, and contingent rent and fixed payments. 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 AND DISPOSITIONS

ACQUISITIONS

During the year ended December 31, 2017, Allied completed the following property acquisitions from third-parties:

LOCATION	DATE OF ACQUISITION	PROPERTY TYPE	INVESTMENT PROPERTY	OWNERSHIP
456 Wellington W, Toronto ⁽¹⁾	January 5, 2017	Development	\$5,393	40%
387-391 Adelaide W, Toronto	January 17, 2017	Office	8,646	100%
56 The Esplanade, Toronto	June 20, 2017	Office, Retail	62,466	100%
The Well, Toronto ⁽²⁾	October 5, 2017	Development	23,348	50%
70 The Esplanade, Toronto	October 10, 2017	Office, Retail	17,739	100%
28 Atlantic, Toronto	November 16, 2017	Office	5,271	100%
			\$122,863	

(1) This property will form part of The Well, which is a 50/50 co-ownership between Allied and RioCan Real Estate Investment Trust ("RioCan").

(2) In 2017, Allied acquired an additional undivided 10% interest in the commercial component of The Well. Each of Allied and RioCan now own an undivided 50% interest in the commercial component of The Well.

The net cash consideration paid to acquire the above noted properties was \$111,700, which included the assumption of other liabilities of \$834, and mortgages payable of \$10,329.

During the year ended December 31, 2016, Allied completed the following property acquisitions from third-parties:

LOCATION	DATE OF ACQUISITION	PROPERTY TYPE	INVESTMENT PROPERTY	OWNERSHIP
816-838 11th SW, Calgary	February 29, 2016	Office, Retail	\$10,534	50%
64 Jefferson, Toronto	March 29, 2016	Office	32,396	100%
Le Nordelec Portfolio (Rental and Development), Montréal	May 31, 2016	Office, Retail, Development	172,986	100%
Redbourne Portfolio, Montréal	May 31, 2016	Office, Retail	56,607	100%
47 Front E, Toronto	July 28, 2016	Development	6,542	100%
642 King W, Toronto	August 31, 2016	Development	12,923	50%
461 King W, Toronto	August 31, 2016	Office, Retail	84,696	100%
			\$376,684	

The net cash consideration paid to acquire the above noted properties was \$321,123, which included the assumption of other assets of \$1,258, mortgages payable of \$49,498 (net of a discount of \$2,143) and other liabilities of \$7,321.

DISPOSITIONS

During the year ended December 31, 2017, Allied completed the following dispositions of investment properties to third-parties:

LOCATION	DATE OF DISPOSITION	PROPERTY TYPE	SELLING PRICE
The Metals Building, 10190-104 Street NW, Edmonton	October 30, 2017	Office, Retail	\$4,130
Winnipeg Portfolio ⁽¹⁾	December 20, 2017	Office, Retail	25,900
Québec City Portfolio ⁽²⁾	December 27, 2017	Office, Retail	24,000
Total selling price			\$54,030
Net selling costs			(2,561)
Working capital adjustments			(1,013)
Mortgage transfer			\$(19,746)
Net cash consideration received			\$30,710

(1) The Winnipeg portfolio consisted of the following properties: 115 Bannatyne, 123 Bannatyne, 250 McDermot, 54-70 Arthur, and 1500 Notre Dame.

(2) The Québec City portfolio consisted of the following properties: 390 Charest, 410 Charest, 420 Charest, 605 Saint-Joseph, 622 Saint-Joseph and 633 Saint-Joseph.

During the year ended December 31, 2016, Allied completed the following dispositions of investment properties to third-parties:

LOCATION	DATE OF DISPOSITION	PROPERTY TYPE	SELLING PRICE
57 Spadina, Toronto	February 17, 2016	Office, Retail	\$9,615
138 Portage, Winnipeg	July 15, 2016	Development	2,550
145 Berkeley, Toronto	July 19, 2016	Office, Retail	3,300
535 Yates, Victoria	August 5, 2016	Office, Retail	3,954
754 Fort, Victoria	August 5, 2016	Office, Retail	8,146
Total selling price			\$27,565
Net selling costs			(1,087)
Working capital adjustments			(28)
Net cash consideration received			\$26,450

5. INVESTMENT PROPERTIES

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

	DECEMBER 31, 2017			DECEMBER 31, 2016		
	RENTAL PROPERTIES	PROPERTIES UNDER DEVELOPMENT	TOTAL	RENTAL PROPERTIES	PROPERTIES UNDER DEVELOPMENT	TOTAL
Balance, beginning of year	\$4,948,043	\$181,498	\$5,129,541	\$4,023,048	\$345,965	\$4,369,013
Additions:						
Acquisitions	94,122	28,741	122,863	322,651	54,033	376,684
Tenant improvements	74,186	—	74,186	36,555	—	36,555
Leasing commissions	7,793	—	7,793	15,481	—	15,481
Capital expenditures	70,083	119,775	189,858	97,344	83,200	180,544
Dispositions	(54,030)	—	(54,030)	(25,015)	(2,550)	(27,565)
Transfers from PUD	46,360	(46,360)	—	289,543	(289,543)	—
Transfers to PUD	(177,508)	177,508	—	(10,992)	10,992	—
Transfers to Residential Inventory	—	(24,444)	(24,444)	—	—	—
Finance lease	2,880	—	2,880	1,046	15,950	16,996
Amortization of straight-line rent, tenant improvements and leasing commissions	(19,323)	—	(19,323)	(17,470)	—	(17,470)
Fair value gain (loss) on investment properties	176,015	22,100	198,115	215,852	(36,549)	179,303
Balance, end of year	\$5,168,621	\$458,818	\$5,627,439	\$4,948,043	\$181,498	\$5,129,541

For the year ended December 31, 2017, Allied capitalized a total of \$20,356 of borrowing costs to qualifying investment properties (for the year ended December 31, 2016 - \$21,085).

Included in the Rental Properties amounts noted above are investment properties with a fair value of \$472,010 (December 31, 2016 - \$460,075) which represents the fair value of Allied's interest in five investment properties with corresponding finance leases. The finance leases maturities range from 26.8 years to 84.5 years from year end. The finance lease obligation was increased in 2016 to reflect the additional square footage leased subsequent to the inception of the lease.

VALUATION METHODOLOGY

The appraised fair value of investment properties is most commonly determined using the following methodologies:

(A) Discounted cash flow method - Under this approach, discount rates are applied to the projected annual operating cash flows, generally over a ten year period, 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. This method is primarily used to value the rental properties portfolio.

(B) Comparable sales method - This approach compares a subject property’s characteristics with those of comparable properties which have recently sold. The process uses one of several techniques to adjust the price of the comparable transactions according to the presence, absence, or degree of characteristics which influence value. These characteristics include the cost of construction incurred at a property under development. This method is primarily used to value the development portfolio and ancillary parking facilities.

In accordance with its policy, the Trust generally measures and records its investment properties using valuations under the supervision of Management with the support of an independent external appraiser. Allied’s entire portfolio is revalued by the external appraiser each quarter. 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 material changes to the valuation techniques during the year. For properties with a leasehold interest with a term less than 40 years, the resulting valuation methodology is now based upon a full-term discounted cash flow model.

SIGNIFICANT INPUTS

There are significant unobservable inputs used, such as capitalization rates, in determining the fair value of each investment property. Accordingly, all investment properties are measured in accordance with the fair value measurement hierarchy levels and the inputs for investment properties comprise Level 3 unobservable inputs, reflecting Management’s best estimate of what market participants would use in pricing the asset at the measurement date. 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 rates will result in a decrease in the fair value of investment properties. Below are the rates used in the modeling process for valuations.

	WEIGHTED AVERAGE	
	DECEMBER 31, 2017	DECEMBER 31, 2016
Discount rate	6.93%	6.89%
Terminal capitalization rate	5.86%	6.06%
Overall capitalization rate	5.43%	5.68%
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				
Investment Properties	\$570,734	\$271,595	\$(247,687)	\$(474,489)

6. RESIDENTIAL INVENTORY

Residential inventory consists of assets that are developed by Allied for sale in the ordinary course of business. Allied may transfer an investment property to residential inventory based on a change in use, as evidenced by the commencement of development activities with the intention to sell. Alternatively, a transfer from residential inventory to investment property would be evidenced by the commencement of leasing activity.

On September 19, 2017, Allied with its partner RioCan, announced that they had finalized plans that would allow the co-owners to improve the return on the development of King Portland Centre. The co-owners had originally intended to develop the residential portion of the project as rental apartments and now intend to sell the residential portion as condominium units, comprising of approximately 133 units. The residential condominium units have been fully sold, subject to customary closing conditions.

As at December 31, 2017, the residential inventory balance is \$28,239 (December 31, 2016 - nil).

7. LOANS AND NOTES RECEIVABLE

Loans and notes receivable are as follows:

	DECEMBER 31, 2017	DECEMBER 31, 2016
Loans receivable (a)	\$88,316	\$21,173
Notes and other receivables (b)	13,925	3,586
	\$102,241	\$24,759
Current	\$11,628	\$1,073
Non-current	90,613	23,686
	\$102,241	\$24,759

(A) In February 2015, Allied entered into a joint arrangement with Westbank and completed the acquisition of an undivided 50% interest in Adelaide & Duncan. Allied advanced a total of \$42,346 to the joint arrangement (refer to note 21 for further details). Allied's portion of the loan outstanding as at December 31, 2017, is \$21,173 (December 31, 2016 - \$21,173) and 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 6.17% per annum. The loan is repayable when the joint arrangement obtains external permanent financing.

On August 1, 2017, Allied entered into an arrangement with Westbank to provide a credit facility of up to \$100,000, plus interest, for the land acquisition and the initial pre-development costs of 400 West Georgia in Vancouver. The credit facility bears interest at rates between 5.00% to 6.75% per annum in year one and 6.75% per annum in each year thereafter until maturity. The credit facility matures August 31, 2022, and has a one year extension option to August 31, 2023. Subject to placement of permanent financing, Allied intends to acquire a 50% undivided interest in 400 West Georgia based on total development costs. The loan outstanding as at December 31, 2017, is \$67,143 (December 31, 2016 - nil).

(B) As at December 31, 2017, the amount included in notes and other receivables as an annuity loan receivable is nil (December 31, 2016 - \$1,073), bearing interest of 1.80% and matured on December 1, 2017. The balance additionally includes \$11,542 of mortgage receivables due from the purchaser of the Trust's Québec City portfolio as the mortgage transfer was not executed by December 31, 2017. The remaining balance is made up of individually insignificant notes receivable.

8. OTHER ASSETS

Other assets consist of the following:

	DECEMBER 31, 2017	DECEMBER 31, 2016
Equipment and other assets ⁽¹⁾	\$5,084	\$6,308
Unsecured term loan interest swap asset	7,509	2,179
	\$12,593	\$8,487

(1) During the year ended December 31, 2017, Allied recorded amortization of equipment and other assets of \$1,819 (December 31, 2016 - \$1,592).

9. ACCOUNTS RECEIVABLE, PREPAID EXPENSES AND DEPOSITS

	DECEMBER 31, 2017	DECEMBER 31, 2016
Tenant trade receivables - net of allowance (a)	\$4,697	\$8,763
Other tenant receivables (b)	6,982	5,986
Miscellaneous receivables (c)	15,830	9,484
Prepaid expenses and deposits (d)	19,563	14,641
	\$47,072	\$38,874

(A) *Tenant trade receivables*

Tenant trade receivables include minimum rent, annual common area maintenance (“CAM”), property tax recovery billings and other recoverable charges.

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:

	YEAR ENDED	
	DECEMBER 31, 2017	DECEMBER 31, 2016
Allowance for doubtful accounts, beginning of year	\$1,686	\$1,769
Additional provision recorded during the year	2,622	1,819
Reversal of previous provisions	(601)	(370)
Receivables written off during the year	(1,365)	(1,532)
Allowance for doubtful accounts, end of year	\$2,342	\$1,686

(B) *Other tenant receivables*

Other tenant receivables pertain to unbilled operating costs such as common area maintenance 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, 2017, 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 (mainly realty taxes and insurance) and deposits relating to acquisitions.

10. DEBT

Debt consists of the following items:

	DECEMBER 31, 2017	DECEMBER 31, 2016
Mortgages payable (a)	\$965,832	\$1,118,551
Construction loans payable (b)	46,758	21,056
Unsecured revolving operating facility (c)	25,000	47,000
Senior unsecured debentures (d)	572,849	373,596
Unsecured term loans (e)	349,438	349,062
	\$1,959,877	\$1,909,265
Current	\$254,351	\$145,895
Non-current	1,705,526	1,763,370
	\$1,959,877	\$1,909,265

(A) Mortgages payable

Mortgages payable have a weighted average stated interest rate of 4.73% as at December 31, 2017 (December 31, 2016 - 4.66%). The mortgages are secured by a first registered charge over specific investment properties and first general assignments of leases, insurance and registered chattel mortgages.

	PRINCIPAL REPAYMENTS	BALANCE DUE AT MATURITY	DECEMBER 31, 2017	DECEMBER 31, 2016
2018	\$33,673	\$70,678	\$104,351	
2019	31,278	113,769	145,047	
2020	25,856	4,456	30,312	
2021	25,136	99,079	124,215	
2022	21,326	100,102	121,428	
2023	17,334	213,355	230,689	
2024	4,691	174,860	179,551	
2025	1,146	8,788	9,934	
2026	924	20,443	21,367	
Mortgages, principal	\$161,364	\$805,530	\$966,894	\$1,120,426
Net premium on assumed mortgages			2,599	2,924
Net financing costs			(3,661)	(4,799)
			\$965,832	\$1,118,551

(B) *Construction loans payable*

As of December 31, 2017, and December 31, 2016, Allied's obligation of the balance outstanding under the construction loans are:

JOINT ARRANGEMENT	OWNERSHIP	ALLIED'S GUARANTEE LIMIT	DATE OF MATURITY	DECEMBER 31, 2017	DECEMBER 31, 2016
TELUS Sky	33.33%	\$114,000	August 31, 2019	\$46,758	\$21,056

The construction loans payable for the TELUS Sky joint arrangement bears interest at bank prime plus 70 basis points or banker's acceptance rate plus 195 basis points.

(c) *Unsecured revolving operating facility*

Allied has access to an unsecured revolving operating facility (the "Unsecured Facility") of \$250,000 with a maturity date of January 29, 2019. The Unsecured Facility contains a \$100,000 accordion feature, allowing Allied to increase the amount available under the facility to \$350,000. The Unsecured Facility bears interest at bank prime plus 70 basis points or bankers' acceptance plus 170 basis points. The Unsecured Facility had a balance of \$25,000 outstanding at December 31, 2017 (December 31, 2016 - \$47,000).

	DECEMBER 31, 2017	DECEMBER 31, 2016
Unsecured Facility limit	\$250,000	\$250,000
Amounts drawn under the Unsecured Facility	(25,000)	(47,000)
Letters of credit outstanding under the Unsecured Facility	(5,551)	(2,348)
Remaining unused balance under the Unsecured Facility	\$219,449	\$200,652

(D) *Senior unsecured debentures*

On April 21, 2017, Allied issued \$200,000 of 3.636% Series C unsecured debentures (the "Series C Debentures") due April 21, 2025, with semi-annual interest payments due on April 21 and October 21 of each year commencing October 21, 2017. Debt financing costs of \$1,175 were incurred and recorded against the principal owing.

On May 12, 2016, Allied issued \$150,000 of 3.934% Series B unsecured debentures (the "Series B Debentures") due November 14, 2022, with semi-annual interest payments due on May 14 and November 14 of each year commencing November 14, 2016. Debt financing costs of \$801 were incurred and recorded against the principal owing.

Proceeds from the Series B and Series C Debentures were used to fund acquisitions, repay amounts drawn on the Unsecured Facility and for general working capital purposes.

The respective financing costs and premium recognized are amortized using the effective interest method and recorded to Interest Expense (note 10 (f)).

SERIES	INTEREST RATE	DATE OF MATURITY	INTEREST PAYMENT DATE	DECEMBER 31, 2017	DECEMBER 31, 2016
Series A	3.748%	May 13, 2020	May 13 and November 13	\$225,000	\$225,000
Series B	3.934%	November 14, 2022	May 14 and November 14	150,000	150,000
Series C	3.636%	April 21, 2025	April 21 and October 21	200,000	—
Unsecured Debentures, principal				575,000	375,000
Net premium on Unsecured Debentures				369	522
Net financing costs				(2,520)	(1,926)
				\$572,849	\$373,596

Hereafter, the Series A, B and C Debentures are collectively referred to as the "Unsecured Debentures".

(E) *Unsecured term loans*

In 2016, Allied entered into an unsecured term facility of \$200,000 with a Canadian chartered bank for a term of five years, bearing interest at a floating rate of CDOR plus 1.70% per year (the "Unsecured Term Facility"). Subsequently, Allied entered into interest rate swap agreements with a notional amount of \$200,000 to fix the variable interest rate over the term of the Unsecured Term Facility. A deferred financing cost totaling to \$700 was incurred and recorded against the principal owing.

Allied drew down on the Unsecured Term Facility in two tranches as follows:

- \$100,000 on March 16, 2016, the interest rate swap agreement fixed the interest rate to 2.83%; and
- \$100,000 on May 25, 2016, the interest rate swap agreement fixed the interest rate to 2.89%.

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

The respective financing costs are amortized using the effective interest method and recorded to Interest Expense (note 10 (f)).

	INTEREST RATE	DATE OF MATURITY	FREQUENCY OF INTEREST PAYMENT	DECEMBER 31, 2017	DECEMBER 31, 2016
Unsecured Term Loan	2.645%	December 14, 2018	Monthly	\$150,000	\$150,000
Unsecured Term Facility					
Tranche 1	2.830%	March 16, 2021	Quarterly	100,000	100,000
Tranche 2	2.890%	March 16, 2021	Quarterly	100,000	100,000
Unsecured Term Loans, principal				350,000	350,000
Net financing costs				(562)	(938)
				\$349,438	\$349,062

Hereafter, the Unsecured Term Loan and Unsecured Term Facility are collectively referred to as the "Unsecured Term Loans".

(F) *Interest expense*

Interest expense consists of the following:

	YEAR ENDED	
	DECEMBER 31, 2017	DECEMBER 31, 2016
Interest on debt:		
Mortgages payable	\$49,050	\$53,525
Construction loans payable	1,050	248
Unsecured Facility	1,622	1,459
Unsecured Debentures	19,477	12,217
Unsecured Term Loans	9,679	7,982
Interest on finance lease obligations	7,288	5,024
Amortization, premium (discount) on debt	(471)	60
Amortization, net financing costs	1,926	1,995
	\$89,621	\$82,510
Less: interest capitalized to qualifying investment properties	(20,356)	(21,085)
Interest expense	\$69,265	\$61,425

Borrowing costs have been capitalized to qualifying investment properties, where applicable, at a weighted average rate of 4.07% per annum (December 31, 2016 – 4.23%).

(G) *Schedule of principal repayments*

The table below summarizes the scheduled principal maturity for Allied's Mortgages payable, Construction loans payable, Unsecured Facility, Unsecured Debentures and Unsecured Term Loans.

	2018	2019	2020	2021	2022	THEREAFTER	TOTAL
Mortgages payable, principal repayments	\$33,673	\$31,278	\$25,856	\$25,136	\$21,326	\$24,095	\$161,364
Mortgages payable, balance due at maturity	70,678	113,769	4,456	99,079	100,102	417,446	805,530
Construction loans payable	—	46,758	—	—	—	—	46,758
Unsecured Facility	—	25,000	—	—	—	—	25,000
Unsecured Debentures	—	—	225,000	—	150,000	200,000	575,000
Unsecured Term Loans	150,000	—	—	200,000	—	—	350,000
Total	\$254,351	\$216,805	\$255,312	\$324,215	\$271,428	\$641,541	\$1,963,652

A description of Allied's risk management objectives and policies for financial instruments is provided in note 25.

II. FINANCE LEASE OBLIGATIONS

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

	2018 ⁽¹⁾	2019 - 2022 ⁽¹⁾	THEREAFTER	DECEMBER 31, 2017	DECEMBER 31, 2016
Future minimum lease payments	\$9,287	\$38,952	\$487,008	\$535,247	\$543,103
Interest accrued on lease obligations	1,003	2,638	—	3,641	5,229
Less: amounts representing interest payments	(10,290)	(41,590)	(332,137)	(384,017)	(396,128)
Present value of lease payments	\$—	\$—	\$154,871	\$154,871	\$152,204

(1) The future minimum lease payments prior to 2022 are less than the effective interest on the finance lease obligations.

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. The finance lease agreements contain renewal options, purchase options, escalation clauses, additional debt and further leasing clauses. For the year ended December 31, 2017, minimum lease payments of \$7,552, were paid by Allied (December 31, 2016 - \$7,348).

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consists of the following:

	DECEMBER 31, 2017	DECEMBER 31, 2016
Trade payables and other liabilities	\$89,627	\$64,411
Prepaid tenant rents and tenant deposits	47,705	37,616
Accrued interest payable	6,374	5,415
Distributions payable to Unitholders	12,082	10,804
Mortgage interest swap liability	4,074	12,633
	\$159,862	\$130,879

13. FAIR VALUE MEASUREMENTS

The classification, measurement basis, and related fair value for disclosures of the financial assets and liabilities are summarized in the following table:

		DECEMBER 31, 2017		DECEMBER 31, 2016	
	CLASSIFICATION/ MEASUREMENT	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Financial Assets:					
Loans and notes receivable and advances to developer (note 7)	Amortized cost	102,241	102,241	24,759	24,759
Cash and cash equivalents (note 20)	Amortized cost	6,048	6,048	12,193	12,193
Accounts receivable, prepaid expenses and deposits (note 9)	Amortized cost	47,072	47,072	38,874	38,874
Unsecured term loan interest swap asset (note 8)	FVTPL	7,509	7,509	2,179	2,179
Financial Liabilities:					
Debt (note 10)					
Mortgages	Amortized cost	965,832	993,774	1,118,551	1,164,661
Construction loans payable	Amortized cost	46,758	46,758	21,056	21,056
Unsecured Facility	Amortized cost	25,000	25,000	47,000	47,000
Unsecured Debentures	Amortized cost	572,849	578,267	373,596	383,134
Unsecured Term Loans	Amortized cost	349,438	344,149	349,062	347,821
Mortgage interest swap liability (note 12)	FVTPL	4,074	4,074	12,633	12,633
Finance lease obligations (note 11 and note 5)	Amortized cost	154,871	158,090	152,204	156,779
Accounts payable and other liabilities (note 12)	Amortized cost	155,788	155,788	118,246	118,246

Allied uses various methods in estimating the fair value of assets and liabilities that are measured on a recurring or non-recurring basis in the Consolidated 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 table presents the hierarchy of assets and liabilities:

	DECEMBER 31, 2017			DECEMBER 31, 2016		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial Assets:						
Loans and notes receivable and advances to developer (note 7)	—	102,241	—	—	24,759	—
Cash and cash equivalents (note 20)	6,048	—	—	12,193	—	—
Accounts receivable, prepaid expenses and deposits (note 9)	—	47,072	—	—	38,874	—
Unsecured term loan interest swap asset (note 8)	—	7,509	—	—	2,179	—
Financial Liabilities:						
Debt (note 10)						
Mortgages	—	993,774	—	—	1,164,661	—
Construction loans payable	—	46,758	—	—	21,056	—
Unsecured Facility	—	25,000	—	—	47,000	—
Unsecured Debentures	—	578,267	—	—	383,134	—
Unsecured Term Loans	—	344,149	—	—	347,821	—
Mortgage interest swap liability (note 12)	—	4,074	—	—	12,633	—
Finance lease obligations (note 11 and note 5)	—	—	158,090	—	—	156,779
Accounts payable and other liabilities (note 12)	—	155,788	—	—	118,246	—

The carrying value of Allied's financial assets and liabilities approximates the fair value except for debt (note 10) and finance lease obligations (note 11).

There were no transfers between levels of the fair value hierarchy during the periods.

Other than as described in investment properties (note 5), 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 represents a net asset as at December 31, 2017, is \$3,435 as compared to a net liability as at December 31, 2016 of \$10,454. The fair value of the derivative contracts is determined using forward interest rates observable in the market (Level 2).

	DECEMBER 31, 2017	DECEMBER 31, 2016
Unsecured term loan interest swap asset (note 8)	\$7,509	\$2,179
Mortgage interest swap liability (note 12)	(4,074)	(12,633)
Net asset (liability)	\$3,435	\$(10,454)

DEBT

The fair value of debt is determined by discounting the cash flows of these financial instruments using period end market rates for instruments of similar terms and credit risks that are observable in the market (Level 2).

FINANCE LEASE OBLIGATIONS

The fair value of finance lease obligations is measured using applicable Level 3 inputs based on Allied's assumptions of interest rates and the residual lease term.

14. UNITHOLDERS' EQUITY

The following represents the number of Units issued and outstanding, and the related carrying value of Unitholders' equity, for the year ended December 31, 2017, and for the year ended December 31, 2016.

	DECEMBER 31, 2017		DECEMBER 31, 2016	
	UNITS	AMOUNT	UNITS	AMOUNT
Trust Units, beginning of year	84,734,469	\$2,098,267	78,430,153	\$1,873,541
Distribution reinvestment plan ("DRIP")	—	—	168,014	5,839
Restricted unit plan (net of forfeitures) (note 15(b))	—	(2,173)	—	(1,022)
Long-term incentive plan (note 16)	—	72	—	74
Unit option plan - options exercised (note 15(a))	507,044	15,948	162,302	3,570
Public offering	7,695,000	287,701	6,089,250	220,367
Purchase of Units under normal course issuer bid for cancellation	(1,363)	(47)	(115,250)	(4,102)
Trust Units, end of year	92,935,150	\$2,399,768	84,734,469	\$2,098,267

On August 17, 2017, Allied raised gross proceeds of \$300,105 through the issuance of 7,695,000 Units at a price of \$39.00 per unit. Costs relating to the issuance totaled \$12,404 and were applied against the gross proceeds of the issuance and charged against Unitholder's equity.

On August 19, 2016, Allied raised gross proceeds of \$230,174 through the issuance of 6,089,250 Units at a price of \$37.80 per unit. Costs relating to the issuance totaled \$9,807 and were applied against the gross proceeds of the issuance and charged against Unitholder's equity.

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

CASH DISTRIBUTIONS

The current rate of distribution amounts to \$1.56 per unit per annum (December 31, 2016 - \$1.53 per unit per annum).

NORMAL COURSE ISSUER BID

During the year ended December 31, 2017, Allied purchased 65,580 Units for \$2,283 at a weighted average price of \$34.81 per Unit under its NCIB program, of which 64,217 were purchased for delivery to participants under the Trust's Restricted Unit Plan and 1,363 were purchased for cancellation.

On December 19, 2016, Allied received approval from the Toronto Stock Exchange ("TSX") for the renewal of its normal course issuer bid ("NCIB"), which entitled Allied to purchase up to 8,306,955 of its outstanding Units, representing approximately 10% of its public float as at December 7, 2016. The NCIB commenced December 22, 2016, and expired on December 21, 2017, in accordance with its terms. All purchases under the NCIB were 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 or to employees pursuant to Allied's employee programs.

During the year ended December 31, 2016, Allied purchased 147,244 Units for \$5,162 at a weighted average price of \$35.06 per Unit under its NCIB program, of which 115,250 Units were purchased for cancellation, 30,994 Units were purchased for delivery to participants under the Trust's Restricted Unit Plan and 1,000 Units were purchased for certain long term employee anniversary grants.

15. 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. Options granted prior to February 22, 2017 vest evenly over three years and options granted subsequently vest evenly over four 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 - life to date	Forfeited - life to date	Net outstanding	Vested
March 5, 2013	March 5, 2018	209,235	\$34.25	(161,651)	(26,448)	21,136	21,136
March 4, 2014	March 4, 2019	266,174	\$33.29	(178,436)	(65,914)	21,824	21,824
May 6, 2014	May 6, 2019	8,474	\$34.59	(8,474)	—	—	—
March 3, 2015	March 3, 2020	302,706	\$40.60	—	—	302,706	201,804
March 1, 2016	March 1, 2026	540,480	\$31.56	(91,383)	(17,333)	431,764	100,727
February 22, 2017	February 22, 2027	279,654	\$35.34	—	—	279,654	—
		1,606,723		(439,944)	(109,695)	1,057,084	345,491

	YEAR ENDED		YEAR ENDED	
	DECEMBER 31, 2017		DECEMBER 31, 2016	
	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 year	\$31.56-40.60	6.41	\$26.51-40.60	4.99

	YEAR ENDED		YEAR ENDED	
	DECEMBER 31, 2017		DECEMBER 31, 2016	
	Number of Units	Weighted average exercise price	Number of units	Weighted average exercise price
Balance at the beginning of the year	1,296,191	\$33.70	923,629	\$32.89
Granted during the year	279,654	35.34	540,480	31.56
Forfeited during the year	(11,717)	31.56	(5,616)	31.56
Exercised during the year	(507,044)	31.46	(162,302)	21.99
Balance at the end of the year	1,057,084	\$35.24	1,296,191	\$33.70
Units exercisable at the end of the year	345,491	\$37.11	499,801	\$33.24

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.

Allied utilizes the Black-Scholes Model for the valuation of unit options with no performance criteria.

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

	YEAR ENDED	YEAR ENDED
	DECEMBER 31, 2017	DECEMBER 31, 2016
Unit options granted	279,654	540,480
Unit option holding period (years)	10	10
Volatility rate	25.08%	25.74%
Distribution yield	4.33%	4.75%
Risk free interest rate	1.69%	1.14%
Value of options granted	\$1,423	\$2,140

The underlying expected volatility was determined by reference to historical data of Allied's Units over 10 years.

For the year ended December 31, 2017, Allied recorded share-based payment expense of \$1,466 in general and administrative expense in the consolidated statement of income and comprehensive income (for the year ended December 31, 2016 - \$1,430).

(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. One third of the Restricted Units vest on each of the first, second and third anniversaries from the date of grant. 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 the activity of Allied's Restricted Unit Plan:

	YEAR ENDED	YEAR ENDED
	DECEMBER 31, 2017	DECEMBER 31, 2016
Restricted Units, beginning of year	223,717	220,216
Granted	64,217	30,994
Expiration of restriction period	(44,769)	(27,329)
Forfeited	(1,608)	(164)
Restricted Units, end of year	241,557	223,717

For the year ended December 31, 2017, Allied recorded share-based payment expense of \$1,767 in general and administrative expense in the consolidated statement of income and comprehensive income (for the year ended December 31, 2016 - \$1,194).

16. 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. 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.

During the year ended December 31, 2017, the remaining loan balances were repaid in full and all Units have been released to the participants. The values of these Units held by the Custodian as at December 31, 2017, and December 31, 2016, were nil and \$162, respectively.

UNITS ISSUED UNDER THE LTIP	CUMULATIVE AS AT DECEMBER 31, 2017	YEAR ENDED DECEMBER 31, 2017	CUMULATIVE AS AT DECEMBER 31, 2016
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	(1,089)	(1)	(1,088)
Distributions applied against installment loans receivable	3,635	2	3,633
Repayment of installment loans	3,422	71	3,351
	—	72	(72)
	\$6,756	\$72	\$6,684

17. 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:

	YEAR ENDED	
	DECEMBER 31, 2017	DECEMBER 31, 2016
Basic	87,864,560	80,815,747
Unit Option Plan	140,353	113,130
LTIP	1,097	10,586
Fully diluted	88,006,010	80,939,463

18. FUTURE MINIMUM RENT

Future minimum rental income is as follows:

	2018	2019 - 2022	THEREAFTER	TOTAL
Future minimum rental income	\$227,231	\$580,938	\$875,425	\$1,683,594

19. GENERAL AND ADMINISTRATIVE EXPENSES

	YEAR ENDED	
	DECEMBER 31, 2017	DECEMBER 31, 2016
Salaries and benefits	\$13,705	\$8,203
Professional and directors fees	2,443	3,065
Office and general expenses	2,927	2,772
	\$19,075	\$14,040
Capitalized to qualifying investment properties	(4,639)	(3,659)
Total	\$14,436	\$10,381

20. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents include the following components:

	DECEMBER 31, 2017	DECEMBER 31, 2016
Cash	\$4,717	\$11,546
Short-term deposits	1,331	647
Total cash and cash equivalents	\$6,048	\$12,193

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

	YEAR ENDED	
	DECEMBER 31, 2017	DECEMBER 31, 2016
Supplemental		
Interest paid on debt (including capitalized interest)	\$87,149	\$79,953
Interest received	\$3,015	\$1,534
Non-cash transactions		
Units issued under DRIP	\$—	\$5,839
Freehold lease and land leases	\$—	\$14,144

The following summarizes the change in non-cash operating items:

	YEAR ENDED	
	DECEMBER 31, 2017	DECEMBER 31, 2016
Net change in accounts receivable, prepaid expenses and deposits	\$(8,198)	\$14,681
Less: Prepaid expenses and deposits	—	(5,699)
Less: Loans and notes receivable	—	(2,513)
Add back: Amounts from disposed properties	1,013	1,258
Add back: Amounts from acquired properties	—	(104)
Net change in loans receivables	152	—
Net change in accounts payable and other liabilities	28,983	(7,773)
Less: Non-cash interest	(2,472)	(2,557)
Less: Distributions payable to Unitholders	(1,278)	(1,000)
Less: Unsecured Term Loan interest swap liability	—	—
Less: Mortgage interest swap liability	8,559	3,711
Less: Amounts from disposed properties	—	132
Less: Amounts from acquired properties	(834)	(7,321)
Change in non-cash operating items	\$25,925	\$(7,185)

21. JOINT ARRANGEMENTS

The Trust has investments in properties under joint arrangements which are accounted for as joint operations. The following tables summarize Allied's ownership interests in joint operations and its share of the rights to the assets, obligations with respect to liabilities, and its share of revenues and expenses for the joint operations in which it participates.

PROPERTIES	LOCATION	CURRENT STATUS	OWNERSHIP	
			DECEMBER 31, 2017	DECEMBER 31, 2016
478 King W	Toronto, ON	Rental Property	50%	50%
642 King W	Toronto, ON	Property Under Development	50%	50%
816-838 11th SW	Calgary, AB	Rental Property	50%	50%
Adelaide & Duncan	Toronto, ON	Property Under Development	50%	50%
Breithaupt Block I & II	Kitchener, ON	Rental Property	50%	50%
College & Manning	Toronto, ON	Rental Property	50%	50%
College & Palmerston	Toronto, ON	Property Under Development	50%	50%
King Portland Centre	Toronto, ON	Rental Property and Property Under Development	50%	50%
TELUS Sky	Calgary, AB	Property Under Development	33.33%	33.33%
The Well	Toronto, ON	Property Under Development	50%	40%

	DECEMBER 31, 2017	DECEMBER 31, 2016
Total assets	\$533,734	\$367,442
Total liabilities	\$167,371	\$131,000

	YEAR ENDED	
	DECEMBER 31, 2017	DECEMBER 31, 2016
Revenue	\$7,321	\$9,527
Expenses	(4,339)	(6,692)
Income before fair value adjustment on investment properties	2,982	2,835
Fair value gain on investment properties	25,511	69,588
Net income	\$28,493	\$72,423

2.2. SEGMENTED INFORMATION

IFRS 8, *Operating Segments*, requires operating segments to be determined based on internal reports that are regularly reviewed by the chief operating decision maker (“CODM”) for the purpose of allocating resources to the segment and assessing its performance. The Trust has determined that its CODM is the Chief Executive Officer. The Trust’s operating segments are managed by use of properties and geographical locations. Mission Critical Facilities are comprised of properties operating similar to data centers. The urban office properties are managed by geographical area consisting of three geographical locations comprising Eastern Canada (Montréal, Québec City and Ottawa), Central Canada (Toronto and Kitchener) and Western Canada (Winnipeg, Calgary, Edmonton, Vancouver and Victoria). On December 20 and 27, 2017, Allied disposed of its Winnipeg and Québec City properties. On August 5, 2016, Allied disposed of two properties in Victoria, British Columbia. These disposals are consistent with Allied’s previously disclosed business strategy of exiting these three markets.

The CODM measures and evaluates performance of the Trust’s operating segments based on net rental income.

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 improvement of all the properties. Similarly, general and administration expenses, interest income and fair value of derivative instruments are not allocated to operating segments. These are presented in the tables below within the “Other” column.

The following summary tables present a reconciliation of net rental income to net income for the years ended December 31, 2017 and 2016.

SEGMENTED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Year ended December 31, 2017	EASTERN CANADA	CENTRAL CANADA	WESTERN CANADA	MISSION CRITICAL	OTHER	TOTAL
Rental revenue from investment properties	\$113,961	\$176,138	\$54,532	\$74,632	\$—	\$419,263
Property operating costs	(55,993)	(70,132)	(24,347)	(29,076)	—	(179,548)
Net rental income	57,968	106,006	30,185	45,556	—	239,715
Interest expense	—	—	—	—	(69,265)	(69,265)
General and administrative expenses	—	—	—	—	(14,436)	(14,436)
Amortization of leasing costs and other assets	(3,172)	(3,973)	(1,024)	(526)	(1,818)	(10,513)
Interest income	—	—	—	—	3,015	3,015
Fair value gain (loss) on investment properties	5,069	241,679	(63,950)	15,317	—	198,115
Fair value gain on derivative instruments	—	—	—	—	13,889	13,889
Loss on disposal of investment properties	(948)	—	(1,613)	—	—	(2,561)
Net income (loss) and comprehensive income (loss)	\$58,917	\$343,712	\$(36,402)	\$60,347	\$(68,615)	\$357,959

SEGMENTED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Year ended December 31, 2016	EASTERN CANADA	CENTRAL CANADA	WESTERN CANADA	MISSION CRITICAL	OTHER	TOTAL
Rental revenue from investment properties	\$100,979	\$162,992	\$57,892	\$67,859	\$—	\$389,722
Property operating costs	(49,067)	(68,001)	(25,816)	(26,319)	—	(169,203)
Net rental income	51,912	94,991	32,076	41,540	—	220,519
Interest expense	—	—	—	—	(61,425)	(61,425)
General and administrative expenses	—	—	—	—	(10,381)	(10,381)
Amortization of leasing costs and other assets	(2,911)	(4,148)	(960)	(432)	(1,592)	(10,043)
Interest income	—	—	—	—	1,545	1,545
Fair value gain (loss) on investment properties	(14,687)	239,915	(11,141)	(34,784)	—	179,303
Fair value gain on derivative instruments	—	—	—	—	5,874	5,874
Loss on disposal of investment properties	—	(1,087)	—	—	—	(1,087)
Net income (loss) and comprehensive income (loss)	\$34,314	\$329,671	\$19,975	\$6,324	\$(65,979)	\$324,305

23. 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.

24. 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, board of trustees, and their close family members.

Allied engages in third-party property management business, including the provision of services for properties in which certain trustees of Allied have an ownership interest. For the year ended December 31, 2017, real estate service revenue earned from these properties was \$297 (for the year ended December 31, 2016 - \$171).

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:

	YEAR ENDED	
	DECEMBER 31, 2017	DECEMBER 31, 2016
Salary, bonus and other short-term employee benefits	\$4,034	\$3,054
Unit-based compensation	2,664	2,184
	\$6,698	\$5,238

25. 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 Loans and finance 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 activities 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, 2017, the debt to gross book value ratio was 33.7% (December 31, 2016 - 36.6%) and debts having variable interest rates or maturities of less than one year aggregated to 4.8% of gross book value (December 31, 2016 - 3.7%).

On December 15, 2016, Allied filed a short form Base Shelf Prospectus allowing for the issuance, from time to time, of Units and debt securities, or any combination thereof having an aggregate offering price of up to \$1,000,000. This document is valid for a 25-month period.

Allied has certain key financial covenants in its Unsecured Debentures, Unsecured Facility and Unsecured Term Loans. The key financial covenants include debt service ratios and leverage ratios, as defined in the respective agreements. These ratios are evaluated 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, 2017, and December 31, 2016.

(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 as at December 31, 2017, 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, 2017, the Unsecured Facility, which is at a floating interest rate and is exposed to changes in interest rates, has a balance of \$25,000 (December 31, 2016 - \$47,000). 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.

		-1.0%	+1.0%
AS AT DECEMBER 31, 2017	CARRYING MOUNT	INCOME IMPACT	INCOME IMPACT
Unsecured Facility	25,000	250	(250)
Unsecured Term Loans maturing within one year	\$150,000	\$1,500	\$(1,500)
Mortgages payable maturing within one year	\$104,351	\$1,044	\$(1,044)

(c) *Credit risk*

As Allied has provided loans and advances to facilitate property development, further credit risks arise in the event that borrowers default on the repayment of their amounts owing to Allied. Allied's loans and advances will be subordinate to prior ranking mortgages or charges. Not all of Allied's financing activities will translate into acquisitions. As at December 31, 2017, Allied had \$88,316 outstanding in loans receivable and advances to developer. In the event of a large commercial real estate market correction, the fair market value of an underlying property may be unable to support the loan and advances value. Allied mitigates this risk by obtaining corporate guarantees and/or registered mortgage charges.

Credit risk from tenant receivables arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments, resulting in Allied incurring a financial loss. Allied manages credit risk to mitigate exposure to financial loss by staggering lease maturities, diversifying revenue sources over a large tenant base, ensuring no individual tenant contributes 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 costs. As at December 31, 2017, and December 31, 2016, allowance for doubtful accounts totals \$2,342 and \$1,686, 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. An aging of trade receivables, including trade receivables past due but not impaired can be shown as follows:

	DECEMBER 31, 2017	DECEMBER 31, 2016
Less than 30 days	\$1,556	\$719
30 to 60 days	659	1,029
More than 60 days	2,482	7,015
Total	\$4,697	\$8,763

(D) Liquidity Risk

Liquidity risk arises from the possibility of not having sufficient capital available to fund ongoing operations or the ability to refinance or meet obligations as they come due. Mitigation of liquidity risk is also managed through credit risk as 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, 2017, and December 31, 2016.

As at December 31, 2017, Allied has entered into interest rate derivative contracts to limit its exposure to fluctuations in interest rates on \$215,827 of its variable rate mortgages payable and \$350,000 of its variable rate Unsecured Term Loans (December 31, 2016 - \$238,378 and \$350,000, respectively). 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, 2017, Allied recognized as part of the change in fair value adjustment on derivative instruments a net gain of \$13,889 (for the year ended December 31, 2016 – a net gain of \$5,874).

Liquidity and capital availability risks are mitigated by maintaining appropriate levels of liquidity, diversifying Allied's sources of funding, maintaining a well-staggered debt maturity profile and actively monitoring market conditions.

(E) Maturity Analysis

The un-discounted future principal and interest payments on Allied's debt instruments are as follows:

	2018	2019	2020	2021	2022	THEREAFTER	TOTAL
Mortgages payable	\$147,199	\$183,697	\$60,949	\$152,074	\$144,119	\$464,847	\$1,152,885
Construction loans payable	1,557	47,796	—	—	—	—	49,353
Unsecured Facility	975	25,081	—	—	—	—	26,056
Unsecured Debentures	21,606	21,606	246,606	13,173	163,173	221,816	687,980
Unsecured Term Loans	159,334	5,720	5,720	200,000	—	—	370,774
Total	\$330,671	\$283,900	\$313,275	\$365,247	\$307,292	\$686,663	\$2,287,048

26. COMMITMENTS AND CONTINGENCIES

Allied has entered into commitments for acquisitions, building renovations with respect to leasing activities and development costs. The commitments as at December 31, 2017, and December 31, 2016, were \$77,609 and \$107,121, 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 \$5,691 representing deposits on financing requirements (December 31, 2016 - \$3,040).

27. SUBSEQUENT EVENTS

On January 2, 2018, Allied repaid a mortgage on maturity amounting to \$5,460 with an interest rate of 5.74%.

On January 18, 2018, Allied completed the purchase of 464 King Street West, Toronto, for \$7,000.

On January 25, 2018, Allied and First Capital entered into an agreement to purchase 812-11th Avenue, Calgary, for \$3,500, with each of Allied and First Capital acquiring an undivided 50% interest.

On January 26, 2018, Allied amended the Unsecured Facility agreement by extending the maturity date to January 29, 2021 at a more favourable rate. The Unsecured Facility will bear interest at bank prime plus 45 basis points or bankers' acceptance plus 145 basis points, subject to certain conditions being met. In the event that these conditions are not met, the unsecured facility will bear interest at bank prime plus 70 basis points or bankers' acceptance plus 170 basis points.

On January 30, 2018, Allied completed the purchase of 137 George Street, Toronto, for \$1,050.

On February 12, 2018, Allied and First Capital entered into an agreement to purchase 731-739 10th Avenue, Calgary, for \$11,940, with each of Allied and First Capital acquiring an undivided 50% interest.

2018 Outlook

SOLID MID-SINGLE-DIGIT % GROWTH IN SANOI

LOW-SINGLE-DIGIT % GROWTH IN FFO/UNIT

HIGH-SINGLE-DIGIT % GROWTH IN AFFO/UNIT

CONTINUED GROWTH IN NAV/UNIT

CONTINUED STRONG DEBT-METRICS

CONTINUED GROWTH IN UNENCUMBERED ASSETS

ALLIED PROPERTIES REIT

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