ALLIED

Annual Report December 31, 2018

Urban environments for creativity and connectivity

02.13.19

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2018

YOY SANOI GROWTH 9.6%

YOY OCCUPANCY GAIN 2.8%

YOY RENT GROWTH ON RENEWALS AND REPLACEMENTS 17.8%

YOY NAV/UNIT GROWTH 10.3%

DEBT RATIO AT YEAR-END 29.4%

UNENCUMBERED ASSETS AT YEAR-END $4.3B

ALLIED

Annual Report

December 31, 2018

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Letter to Unitholders

Dear Fellow Unitholder:

Favourable fundamentals, intense focus on operations and years of deliberate capital allocation made for an active and successful 2018. We propelled strong organic growth in our rental portfolio and made excellent progress on our development portfolio, materially reducing construction, leasing and funding risk going forward.

OPERATIONS AND LEASING

Our same-asset NOI was up 10% in 2018, underpinning 13% growth in our AFFO per unit, with urban-data-centre space up 15%, driven largely by occupancy gain at 250 Front West in Toronto, and urban workspace up 8%, driven largely by occupancy gain in Montréal and rent growth in Toronto. Our NAV per unit was up 10% in 2018, primarily as a result of development completions, rent growth and cap-rate compression at 151 Front West in Toronto.

Over the course of 2018, we increased the occupied area of our rental portfolio by 280 basis points to 96.3% and increased the leased area by 150 basis points to 96.7%. We also renewed or replaced leases for 91% of the space that matured in the year. This resulted in an overall increase of 18% in net rent per square foot from the affected space.

Our urban-data-centre space was 85.1% leased at year-end, leaving room for continued occupancy gain in 2019. Our urban workspace was 97.4% leased, leaving little room for future occupancy gain. We do, however, expect our urban workspace to benefit from continued rent growth in 2019, particularly in Toronto.

DEVELOPMENT

We expect to allocate $830 million to our urban development program in the next four years, with approximately $300 million being allocated this year, $230 million in each of 2020 and 2021 and $70 million in 2022. We now expect to complete 10 urban development projects within that timeframe with aggregate GLA (at our share) of approximately 2.3 million square feet, 175,000 of which will be in Vancouver, 311,000 in Calgary, 300,000 in Montréal and the balance (approximately 1.53 million) in Toronto.

Our overriding development priority for 2018 was to pre-lease a significant portion of the office component of The Well in Toronto, a 50/50 joint venture with RioCan. It's now 71% leased with completion scheduled for 2022. Another important priority was to pre-lease a significant portion of 400 West Georgia in Vancouver, a Westbank development financed by Allied. It's now 82% leased with completion scheduled for 2020. Yet another important priority was to pre-lease a portion of 425 Viger in Montréal, a top-tier Class I property that we're expanding and retrofitting. It's now 36% leased with completion scheduled for 2020. A final priority was to continue the lease-up of TELUS Sky in Calgary. With the finalization of lease commitments for 25,500 square feet of GLA adding to TELUS' commitment, the office space is now 41% leased with completion scheduled for late 2019.

We initiated condominium pre-sales at KING Toronto, a 50/50 joint venture with Westbank, in the fourth quarter. The first three phases sold well, and we plan to release the fourth and final phase shortly. We incurred $1.5 million (at our share) of non-recurring marketing costs in connection with the pre-sales activity. (Marketing costs associated with merchant development are expensed when incurred.) We expect to initiate construction by year-end.

I expect our development environment to remain favourable in the near term. While we're unlikely to initiate a large new development in the next four years, we do expect to initiate one or two smaller ones, such as Phase II of QRC West (90,000 square feet of GLA) and Adelaide & Spadina (245,000 square feet of GLA).

OUTLOOK

Allied is 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. At the end of 2018, our total indebtedness ratio was 29%, our net debt as a multiple of EBITDA was 7.2:1 and our pool of unencumbered properties was $4.3 billion. Our commitment to the balance sheet will remain unwavering.

Looking forward, I expect our operating, acquisition and development environments to remain favourable in 2019. Our internal forecast contemplates (i) low- to mid-single-digit percentage growth in same-asset NOI, (ii) low- to mid-single-digit percentage growth in FFO per unit and (iii) low- to mid-single-digit percentage growth in AFFO per unit. I expect continued growth in NAV per unit in 2019, with significant contribution from development completions, ongoing rent growth and ongoing cap-rate strength in Canada's major urban centres.

I remain confident in our 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 knowledge-based organizations to locate in distinctive urban environments for creativity and connectivity. 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,

Michael Emory
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Management's Discussion and Analysis of Results of Operations and Financial Condition as at December 31, 2018

Section I
—Overview

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 on 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*.

This Management's Discussion and Analysis ("MD&A") of results of operations and financial condition relates to the year ended December 31, 2018. Unless the context indicates otherwise, all references to "Allied", "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 13, 2019, and should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2018. 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"), Normalized Adjusted Funds from Operations ("Normalized 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, 2018. 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", Section IV—Liquidity and Capital Resources and Section IX - Risks and Uncertainties, 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 normalized FFO and normalized 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 13, 2019, 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:

($000's except per-square foot, per-unit and financial ratios)	THREE MONTHS ENDED		YEAR ENDED		YEAR ENDED
	DECEMBER 31, 2018	DECEMBER 31, 2017	**DECEMBER 31, 2018**	DECEMBER 31, 2017	DECEMBER 31, 2016
Portfolio					
Number of properties [1][2][3][4][5]			**151**	147	155
Total rental GLA (000's of square feet)			**11,192**	11,268	11,843
Leased rental GLA (000's of square feet)			**10,826**	10,728	10,906
Leased area			**96.7%**	95.2%	92.1%
Occupied area			**96.3%**	93.5%	88.7%
Average in-place net rent per occupied square foot (period-end)			**22.64**	22.52	21.31
Renewal and replacement rate for leases maturing in the period			**90.6%**	84.7%	85.3%
Increase in net rent on maturing leases			**17.8%**	17.8%	8.1%
Investment properties			**6,257,647**	5,627,439	5,129,541
Total assets			**6,706,271**	5,823,632	5,213,854
Cost of PUD as % of GBV			**8.9%**	6.5%	3.4%
Unencumbered investment properties			**4,266,900**	2,925,135	2,306,215
Total debt			**1,957,611**	1,959,877	1,909,265
Net asset value			**4,374,663**	3,549,022	3,021,506
Annualized Adjusted EBITDA	**273,984**	260,884	**267,550**	252,753	232,399
Net debt	**1,939,250**	1,953,829	**1,939,250**	1,953,829	1,897,072
Net debt as a multiple of Annualized Adjusted EBITDA	**7.1x**	7.5x	**7.2x**	7.7x	8.2x
Adjusted EBITDA	**68,496**	65,221	**267,550**	252,753	232,399
Interest expense [6]	**14,125**	17,188	**59,783**	69,265	61,425
Adjusted EBITDA as a multiple of interest expense	**4.8x**	3.8x	**4.5x**	3.6x	3.8x
Rental revenue from investment properties	**112,889**	107,709	**436,396**	419,263	389,722
NOI	**70,371**	65,871	**272,285**	250,344	229,538
Same Asset NOI - rental portfolio	**68,062**	62,239	**260,926**	238,166	205,678
Same Asset NOI - total portfolio	**68,727**	63,204	**265,412**	243,374	216,067
Net income excluding gain (loss) on disposal and fair value adjustments	**46,223**	38,043	**169,890**	148,516	140,215
Net income	**137,270**	63,066	**540,276**	357,959	324,305
FFO	**55,657**	49,051	**204,695**	187,204	173,884

($000's except per-square foot, per-unit and financial ratios)		THREE MONTHS ENDED		YEAR ENDED		YEAR ENDED
		DECEMBER 31, 2018	DECEMBER 31, 2017	**DECEMBER 31, 2018**	DECEMBER 31, 2017	DECEMBER 31, 2016
Normalized FFO [6]		**55,657**	49,051	**212,197**	187,204	173,884
Normalized AFFO [6]		**45,186**	38,072	**175,645**	139,668	128,597
Distributions		**40,817**	35,754	**153,855**	135,177	121,880
Per unit:						
Net income excluding gain (loss) on disposal and fair value adjustments		**0.44**	0.41	**1.73**	1.69	1.73
Net income		**1.32**	0.68	**5.51**	4.07	4.01
FFO		**0.535**	0.527	**2.089**	2.127	2.150
Normalized FFO [6]		**0.535**	0.527	**2.166**	2.127	2.150
Normalized FFO payout ratio [6]		**73.3%**	72.9%	**72.5%**	72.2%	70.1%
Normalized AFFO [6]		**0.434**	0.409	**1.793**	1.587	1.590
Normalized AFFO payout ratio [6]		**90.3%**	93.9%	**87.6%**	96.8%	94.8%
Distributions		**0.39**	0.39	**1.56**	1.53	1.50
Net asset value				**42.12**	38.19	35.66
Actual Units outstanding				**103,861,945**	92,935,150	84,734,469
Weighted average diluted Units outstanding		**104,062,567**	93,027,626	**97,965,711**	88,006,010	80,939,463
Financial Ratios	ALLIED'S TARGETS					
Total indebtedness ratio	**<35%**			**29.4%**	33.8%	36.7%
Secured indebtedness ratio	**<45%**			**12.5%**	17.4%	21.9%
Debt service coverage ratio	**>1.50x**			**2.2x**	2.0x	2.0x
Unencumbered property asset ratio	**>1.40x**			**3.8x**	3.1x	3.0x
Interest-coverage ratio - including interest capitalized	**>3.0x**			**3.2x**	2.8x	2.8x

(1) During Q1 2018, KING Toronto, which is comprised of six properties (489 King W, 495 King W, 499 King W, 511-529 King W, 533 King W and 539 King W), was transferred to properties under development ("PUD") as one property.
(2) During Q1 2018, 1700 St Patrick was transferred out of PUD and is now included with 1655 and 1751 Richardson as part of Le Nordelec.
(3) The GLA of 905 King W is reflected in the property table in two areas due to its urban workspace and urban data centre components, although it only represents one property in our property count.
(4) During Q3 2018, College & Manning, 547-549 College, was transferred to PUD and College & Manning, 555 College, remained as a rental property, representing two properties.
(5) During Q1 and Q4 2018, Allied and First Capital acquired 812-11th SW, Calgary and 802-11th SW, Calgary, which contribute to the Glenbow assembly, now consisting of 802-838 11th SW, Calgary. This assembly represents one property in our property count.
(6) Allied normalized FFO and AFFO in Q2 2018 by excluding a one-time extraordinary item.

BUSINESS OVERVIEW AND STRATEGY

Allied is a leading owner, manager and developer of (i) distinctive urban workspace in Canada's major cities and (ii) network-dense urban data centres in Toronto that form Canada's hub for global connectivity. Allied's business is providing knowledge-based organizations with distinctive urban environments for creativity and connectivity.

URBAN WORKSPACE

Allied was known initially for its leading role in the emergence of Class I workspace in Toronto, a format created through the adaptive re-use of light industrial structures in the Downtown East and Downtown West submarkets. This format typically features high ceilings, abundant natural light, exposed structural frames, interior brick and hardwood floors. When restored and retrofitted to high standards, Class I workspace can satisfy the needs of the most demanding office and retail users. When operated in a coordinated manner, this workspace becomes a vital part of the urban fabric and contributes meaningfully to a sense of community.

Allied went public in 2003 for the express purpose of consolidating Class I workspace that was centrally located, distinctive and cost-effective. The consolidation that ensued was continuous, enabling Allied to evolve into a leading owner, manager and developer of urban workspace in Canada's major cities.

Allied's experience guided it to the future of workspace. Office users today value light, air and an open-plan. Abundant natural light and fresh air contribute enormously to human wellness and productivity. An open-plan improves collaboration and creativity. When people can move around and freely connect with one another, communication is improved, along with mutual understanding, and sparks of ingenuity occur.

Technology has contributed to the future of workspace. Light harvesting has made great strides, as has fresh air delivery. Raised-floor systems have made aesthetic and practical contributions in recent years. Aesthetically, they declutter the workspace and obviate the need for drop-ceilings. Practically, they improve air circulation by pressurizing the underfloor area and de-pressurizing the actual work environment. All this can be delivered to workspace users in an environmentally sustainable manner.

Thanks to building technology, developers no longer have to destroy the old to create the new. They can restore and retrofit older structures worthy of preservation and integrate them with new ones, as Allied has done at QRC West and King Portland Centre in Toronto. New-format office space that successfully integrates old and new is a big part of the future of workspace.

Allied's experience with Class I workspace put it at the forefront of creating workspace for the knowledge-based economy. This led Allied to place ever-greater emphasis on the ongoing relationship between the user and provider of workspace. Put differently, it led Allied to understand the need for a partnership-like relationship between itself and workspace users. The days of the dominant landlord and subservient tenant are over.

The most important element of Allied's business environment is urban intensification. Canadians are living, working, learning and playing downtown in greater numbers than ever before. Not only does this anchor Allied's investment and operating focus, it provides the context within which it captures and creates value for its unitholders.

Urban intensification has had a three-fold impact on Allied. One, it has increased Allied's sensitivity to design. Two, it has expanded Allied's investment and operating focus from purely Class I properties to urban mixed-use properties. And three, it has induced Allied to enter into collaborative relationships with best-in-class real estate organizations having complementary expertise.

NETWORK-DENSE URBAN DATA CENTRES

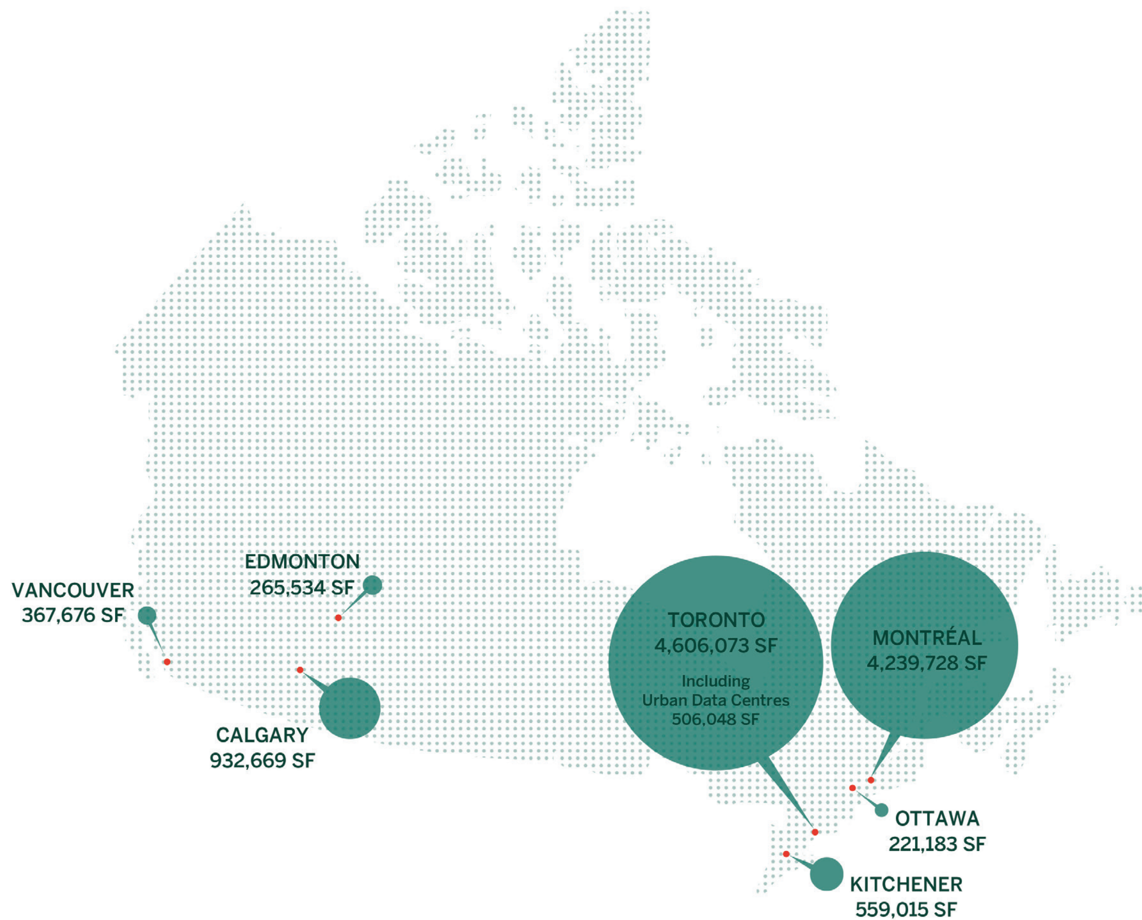
In addition to providing urban workspace, Allied provides network-dense data centre space in Downtown Toronto. Allied established this capability in 2009 through the acquisition of 151 Front W, the largest internet exchange point in Canada and the fifth largest in North America. Allied has since expanded this capability by retrofitting a portion of 905 King W and a portion of 250 Front W. Just as Allied's workspace does, this space provides knowledge-based businesses with distinctive urban environments for creativity and connectivity. Allied's deep expertise in adaptively re-using urban structures has contributed meaningfully to its success in operating network-dense data centre space in Downtown Toronto.

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, 2018, Allied had assets of $6.7 billion, a market capitalization of $4.6 billion and rental properties with 11.2 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, 2018, Allied acquired the following properties from third parties:

PROPERTY	ACQUISITION DATE	ACQUISITION COST (1)	OFFICE GLA	RETAIL GLA	TOTAL GLA
464 King W, Toronto (2)	January 18, 2018	**$7,529**	—	—	—
812-11th SW, Calgary (3)	January 25, 2018	**1,750**	—	5,482	5,482
137 George, Toronto	January 30, 2018	**1,110**	750	750	1,500
731-10th SW, Calgary (3)	February 12, 2018	**5,970**	—	10,433	10,433
305 Joseph, Kitchener (4)	June 21, 2018	**888**	—	—	—
1220 Homer, Vancouver	October 15, 2018	**18,072**	21,708	—	21,708
802-11th SW, Calgary (3)(5)	October 15, 2018	**2,287**	—	3,660	3,660
151 West Hastings, Vancouver	November 30, 2018	**40,061**	38,512	—	38,512
668 King W, Toronto	November 30, 2018	**12,547**	2,010	2,973	4,983
342 Water, Vancouver	December 3, 2018	**20,074**	18,338	2,886	21,224
644 Courcelle, Montréal	December 19, 2018	**33,108**	149,709	4,355	154,064
Total		**$143,396**	**231,027**	**30,539**	**261,566**

(1) Purchase price plus transaction costs.
(2) 464 King W is a parking lot containing 12 spaces.
(3) These properties form a 50/50 co-ownership with First Capital.
(4) 305 Joseph is 50/50 co-owned with Perimeter. The property is a parking lot containing 75 spaces.
(5) 802-11th SW has a parking lot component, containing 19 spaces.

On February 1, 2019, Allied completed the purchase of 145 George, Toronto, for $1,300.

During the year ended December 31, 2018, Allied completed the following dispositions of investment properties to third-parties:

LOCATION	DATE OF DISPOSITION	PROPERTY TYPE	SELLING PRICE
KING Toronto	November 30, 2018	Residential, Retail	**$67,030**

Allied entered into a joint arrangement with Westbank to develop KING Toronto. As part of the arrangement, Allied sold a 50% undivided interest to Westbank. KING Toronto is comprised of the following properties: 489 King W, 495 King W, 499 King W, 511-529 King W, 533 King W and 539 King W.

The purchase price was comprised of $63,225 and working capital adjustments of $3,805.

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) through things like embodied carbon and the reuse of materials. Equally, Allied's commitment to revitalizing neighborhoods strives to cultivate vibrant communities.

As a community builder, Allied has a responsibility to ensure its practices and operations create and leave a positive impact. A commitment to, and implementation of this is expressed and executed through Allied's Sustainable Wellbeing Program. The program is designed to incorporate Allied's business, from design to construction to operations and overall management. The program also incorporates the most important aspect of Allied's business — the people that serve, service and occupy Allied's buildings. This commitment means that Allied's Sustainable Wellbeing Program is not only core to the decision making process, but is being acted on every day.

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 buildings also affects the physical environment. Allied is committed to obtaining BOMA BEST certification for its existing buildings where possible. Certification is based on an independent assessment of key areas of environmental performance and management.

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 users 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. An innovative initiative in the program is the installation of Romeo's Museum in the industrial staircases at 5445-5455 de Gaspé. In this case, 24 artists were tasked with painting a mural, transforming the unusual space into Canada's first "Urban Art" museum, which is free and open to all 24/7. Allied sees these examples as an important part of its corporate social responsibility.

BUSINESS ENVIRONMENT AND OUTLOOK

As at December 31, 2018, Allied operated in seven urban markets in Canada – Toronto, Kitchener, Ottawa, Montréal, Calgary, Edmonton and Vancouver.

Allied expects its operating, acquisition and development environments to remain favourable in 2019. Allied's internal forecast contemplates (i) low- to mid-single-digit percentage growth in same-asset NOI, (ii) low- to mid-single-digit percentage growth in FFO per unit and (iii) low- to mid-single-digit percentage growth in AFFO per unit. Allied expects continued growth in NAV per unit in 2019, with significant contribution from development completions, ongoing rent growth 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 knowledge-based organizations to locate in distinctive urban environments for creativity and connectivity. 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.

Section II

—Leasing

Allied strives to maintain high levels of occupancy and leased area. At December 31, 2018, Allied's rental portfolio was 96.7% leased.

STATUS

Leasing status for the rental portfolio as at December 31, 2018, is summarized in the following table:

	GLA	AS A % OF TOTAL GLA [1]
Leased area (occupied & committed)		
December 31, 2017	**10,727,779**	**95.2%**
Vacancy committed for future leases	(189,075)	
Occupancy - December 31, 2017	**10,538,704**	**93.5%**
Previous committed vacant space now occupied	188,512	
New leases and expansions on vacant space	478,013	
New vacancies during the period	(199,548)	
Surrender / early termination agreements	(63,892)	
Suite additions, remeasurements and removals	(127,993)	
Occupancy (pre acquisitions, dispositions and transfers)	**10,813,796**	**96.7%**
Occupancy related to acquired properties	247,016	
Occupancy related to transfers from PUD	20,879	
Occupancy related to transfers to PUD	(307,704)	
Occupancy - December 31, 2018	**10,773,987**	**96.3%**
Vacancy committed for future leases	52,374	
Leased area (occupied & committed) December 31, 2018	**10,826,361**	**96.7%**

(1) Excludes properties under development.

Of 11,191,878 square feet total GLA in Allied's rental portfolio, 10,773,987 square feet were occupied by users on December 31, 2018. Another 52,374 square feet were subject to contractual lease commitments with users whose leases commence subsequent to December 31, 2018, bringing the leased area to 10,826,361 square feet, which represents 96.7% 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 2019	Q2 2019	TOTAL
Lease commitments - GLA	48,014	4,360	52,374
% of lease commitments	91.7%	8.3%	100%

In most instances, occupancy commences with a rent-free fixturing period prior to rent commencement. During the fixturing period, straight-line rent revenue is recognized, and no recoverable costs are paid by the user. Thereafter, recoverable costs are paid by the user 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 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	TOTAL
Lease commitments - GLA	4,022	30,121	3,292	3,173	11,766	52,374
% of lease commitments	7.7%	57.5%	6.3%	6.1%	22.4%	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, 2018, and December 31, 2017:

	DECEMBER 31, 2018	DECEMBER 31, 2017
Toronto	**35,271**	63,593
Kitchener	**1,429**	—
Montréal	**35,670**	76,349
Calgary	**131,712**	97,026
Vancouver	**—**	3,679
Total square feet	**204,082**	240,647
% of Total GLA	**1.8%**	2.1%

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 user retention, as the cost of retention is typically lower than the cost of securing new users. When retention is neither possible nor desirable, Allied strives for high-quality replacement users.

Leasing activity in connection with the rental portfolio as at December 31, 2018, 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, 2018, including re-measurement	604,735	384,383	63.6%	220,352
Vacancy transferred to PUD as at December 31, 2018	(7,499)	—	—	(7,499)
Vacancy transferred from PUD as at December 31, 2018	33,673	17,448	51.8%	16,225
Acquired vacancy as at December 31, 2018	20,032	—	—	20,032
Arranged and other vacancy as at December 31, 2018	86,104	31,902	37.1%	54,202
Maturities during the period ended December 31, 2018	662,404	600,199	90.6%	62,205
Total	1,399,449	1,033,932	73.9%	365,517

On January 1, 2018, 604,735 square feet of GLA was vacant. By December 31, 2018, Allied leased 384,383 square feet of this GLA, leaving 212,853 square feet unleased (net of vacancy transferred to PUD).

Leases for 662,404 square feet of GLA matured in the year ended December 31, 2018, at the end of which Allied renewed or replaced leases totaling 600,199 square feet of GLA, leaving 62,205 square feet unleased.

For the year ended December 31, 2018, the table below summarizes the rental rates achieved for the leases expiring in 2018 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 from the material rent growth in Allied's primary target markets in Toronto.

LEASE RENEWALS/ REPLACEMENTS	FOR THE YEAR ENDED, DECEMBER 31, 2018		
	ABOVE IN-PLACE RENTS	AT IN-PLACE RENTS	BELOW IN-PLACE RENTS
% of Total leased SF	64.5%	14.8%	20.7%
Maturing leases in 2018 - Weighted average rent	$20.76	$34.63	$20.87
Renewals & Replacements - Weighted average rent	$28.73	$34.63	$15.72

USER PROFILE

The following sets out Allied's user-mix on the basis of percentage of rental revenue for the year ended December 31, 2018:

CATEGORY	% OF RENTAL REVENUE DECEMBER 31, 2018
Business service and professional	32.8%
Telecommunications and information technology	26.8%
Media and entertainment	14.0%
Retail (head office and storefront)	10.9%
Parking & other	8.2%
Financial services	2.8%
Government	2.7%
Educational and institutional	1.8%
	100.0%

The following sets out the percentage of rental revenue from top 10 users by rental revenue for the year ended December 31, 2018:

USER	% OF RENTAL REVENUE DECEMBER 31, 2018	WEIGHTED AVERAGE REMAINING LEASE TERM (YEARS)	CREDIT RATING DBRS/S&P/MOODY'S
Cloud Service Provider	3.6%	2.2	*-/AAA/Aaa
Ubisoft	2.8%	5.8	Not Rated
Equinix	2.6%	6.3	-/BB+/Ba3
Cologix	2.4%	19.0	-/B/B3
National Capital Commission, a Canadian Crown Corporation	1.5%	16.6	Not Rated
Morgan Stanley	1.3%	9.3	AH/BBB+/A3
Cogeco Data Services Inc.	1.3%	4.8	*BBH/BB+/-
Allstream	1.2%	3.4	*-/B+/B2
Entertainment One	1.2%	9.5	-/B+/Ba3
Bell Canada	1.2%	1.6	BBBH/BBB+/Baa1
	19.1%		

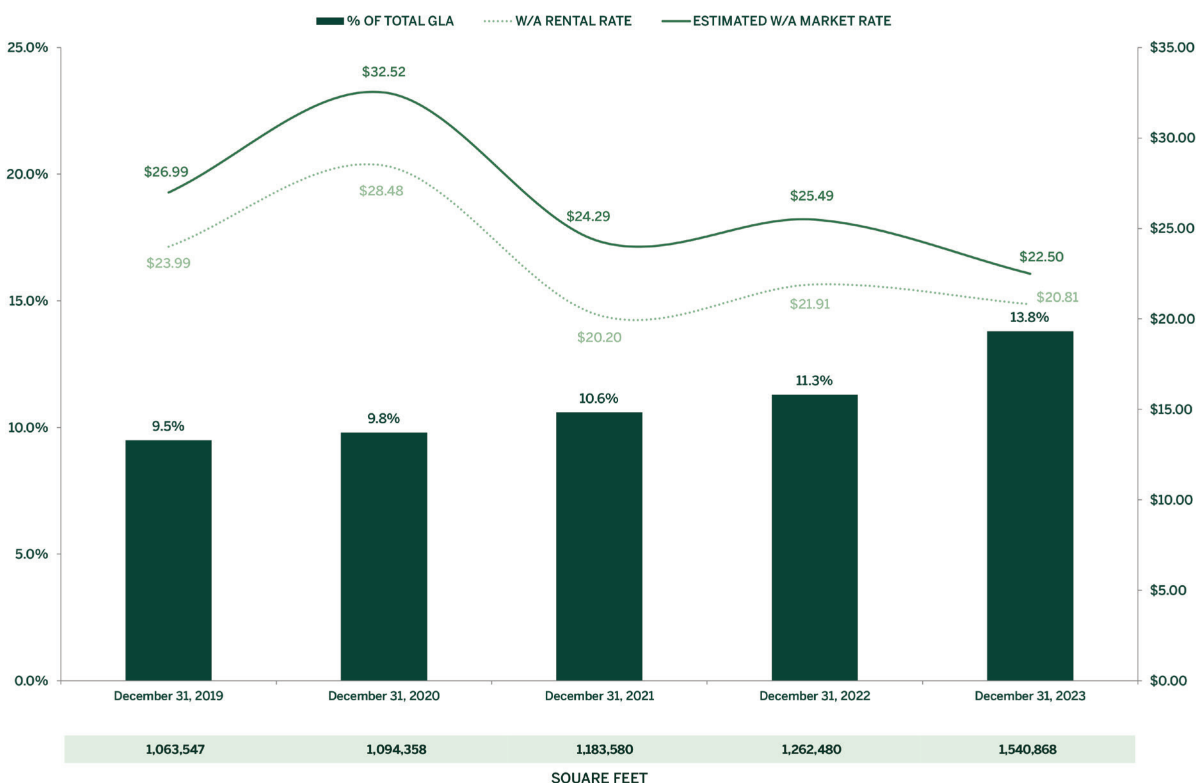
**Credit rating for parent company*

LEASE MATURITY

As at December 31, 2018, 96.7% of the GLA in Allied's rental portfolio was leased. The weighted average term to maturity of Allied's leases at that time was 5.8 years. The 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 urban data centre leases that mature up to 2023 and the corresponding estimated weighted average market rental rate as at December 31, 2018:

TOTAL RENTAL PORTFOLIO	SQUARE FEET	% OF TOTAL GLA	WEIGHTED AVERAGE IN-PLACE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2019	1,063,547	9.5%	23.99	26.99
December 31, 2020	1,094,358	9.8%	28.48	32.52
December 31, 2021	1,183,580	10.6%	20.20	24.29
December 31, 2022	1,262,480	11.3%	21.91	25.49
December 31, 2023	1,540,868	13.8%	20.81	22.50



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, 2019	475,635	10.7%	19.01	16.94
December 31, 2020	260,727	5.8%	14.59	14.89
December 31, 2021	588,903	13.2%	16.74	18.23
December 31, 2022	303,289	6.8%	16.91	16.99
December 31, 2023	672,049	15.1%	14.11	15.60

CENTRAL CANADA	SQUARE FEET	% OF SEGMENT GLA	WEIGHTED AVERAGE IN-PLACE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2019	379,522	8.1%	21.25	29.98
December 31, 2020	474,289	10.2%	18.94	25.12
December 31, 2021	386,731	8.3%	19.91	28.55
December 31, 2022	783,709	16.8%	21.24	27.28
December 31, 2023	582,524	12.5%	23.15	29.48

WESTERN CANADA	SQUARE FEET	% OF SEGMENT GLA	WEIGHTED AVERAGE IN-PLACE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2019	146,339	9.3%	22.76	17.01
December 31, 2020	234,323	15.0%	15.21	11.31
December 31, 2021	182,330	11.6%	22.00	22.28
December 31, 2022	146,987	9.4%	18.35	13.90
December 31, 2023	266,364	17.0%	24.30	17.00

URBAN DATA CENTRES	SQUARE FEET	% OF SEGMENT GLA	WEIGHTED AVERAGE IN-PLACE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2019	62,051	12.3%	81.88	109.35
December 31, 2020	125,019	24.7%	118.50	137.08
December 31, 2021	25,616	5.1%	91.23	113.38
December 31, 2022	28,495	5.6%	111.75	126.58
December 31, 2023	19,931	3.9%	131.65	124.23

Section III

—Asset Profile

As at December 31, 2018, Allied's portfolio consisted of 151 investment properties (132 rental properties, eight development properties and 11 ancillary parking facilities), with a fair value of $6,257,647.

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

	THREE MONTHS ENDED DECEMBER 31, 2018			YEAR ENDED DECEMBER 31, 2018		
	RENTAL PROPERTIES	PROPERTIES UNDER DEVELOPMENT	TOTAL	RENTAL PROPERTIES	PROPERTIES UNDER DEVELOPMENT	TOTAL
Balance, beginning of year	$5,393,420	$647,405	$6,040,825	$5,168,621	$458,818	$5,627,439
Additions:						
Acquisitions	126,149	—	126,149	143,396	—	143,396
Improvement allowances	14,220	83	14,303	48,607	5,417	54,024
Leasing commissions	6,380	2,604	8,984	13,823	7,200	21,023
Capital expenditures	14,808	82,567	97,375	40,091	204,119	244,210
Dispositions	—	(3,805)	(3,805)	—	(67,030)	(67,030)
Transfers from PUD	—	—	—	67,180	(67,180)	—
Transfers to PUD	—	—	—	(185,770)	185,770	—
Transfers to residential inventory	—	(103,690)	(103,690)	—	(103,690)	(103,690)
Transfers to other assets	(17,631)	—	(17,631)	(17,631)	—	(17,631)
Finance lease	470	—	470	1,884	—	1,884
Amortization of straight-line rent and improvement allowances	(6,438)	1,031	(5,407)	(23,287)	1,460	(21,827)
Fair value gain on investment properties	60,838	39,236	100,074	335,302	40,547	375,849
Balance, end of year	$5,592,216	$665,431	$6,257,647	$5,592,216	$665,431	$6,257,647

For the year ended December 31, 2018, Allied capitalized a total of $23,397 of borrowing costs, $20,362 of which related to development activity, $1,009 to rental properties going through intensification approval and $2,026 to upgrade activity in the rental portfolio. The rental properties undergoing upgrade activity consist of 250 Front W and 905 King W.

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 based upon a full-term discounted cash flow model.

In valuing the investment properties as at December 31, 2018, 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 5.13%, detailed in the table below:

OVERALL CAPITALIZATION RATE	DECEMBER 31, 2018			DECEMBER 31, 2017		
	RANGE %	WEIGHTED AVERAGE %	FAIR VALUE $	RANGE %	WEIGHTED AVERAGE %	FAIR VALUE $
Eastern Canada	5.00% - 7.25%	5.55%	$1,298,019	5.25% - 7.75%	6.03%	$1,127,690
Central Canada	4.00% - 6.00%	4.67%	2,747,929	4.00% - 6.00%	4.84%	2,615,526
Western Canada	4.00% - 7.00%	5.23%	655,998	4.00% - 7.00%	5.25%	622,835
Urban Data Centres	5.50% - 6.25%	5.83%	890,270	6.00% - 6.50%	6.33%	802,570
Rental Properties	4.00% - 7.25%	5.13%	$5,592,216	4.00% - 7.75%	5.42%	$5,168,621
Properties Under Development	4.25% - 7.00%	5.01%	665,431	5.00% - 6.75%	5.63%	458,818
Total Investment Properties	4.00% - 7.25%	5.13%	$6,257,647	4.00% - 7.75%	5.43%	$5,627,439

RENTAL PROPERTIES

Allied's rental portfolio was built by consolidating the ownership of urban office properties and network-dense urban data centres. Scale within each city of focus proved to be important as Allied grew. It enabled Allied to provide users with greater expansion flexibility, more parking and better human and digital connectivity than its direct competitors. Scale across the country also proved to be important. It enabled Allied to serve national and global users better, to expand its growth opportunities and to achieve meaningful geographic diversification.

URBAN WORKSPACE

Allied has evolved into a leading owner, manager and developer of urban workspace in Canada's major cities. It currently owns 129 rental properties in seven Canadian cities. 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 31.8% of total annualized NOI for the year ended December 31, 2018.

PROPERTY NAME	NORMALIZED LQA NOI	APPRAISED FAIR VALUE	CAP RATE	PRINCIPAL USERS
Cité Multimédia, Montréal	$22,456	$378,880	5.21%	Desjardins, Morgan Stanley, SAP Canada
QRC West, Toronto	12,387	257,330	4.25%	eOne, Sapient Canada
Le Nordelec, Montréal	11,965	215,940	5.76%	Babel Games, Gsoft, Yellow Pages Media
5455 de Gaspé, Montréal	7,682	119,940	5.75%	Attraction Media, Framestore, Ubisoft
555 Richmond W, Toronto	7,453	143,900	4.75%	Good Life, Sentinelle, Synaptive
The Chambers, Ottawa (1)	6,451	140,580	—	National Capital Commission
Vintage I & II, Calgary	5,722	75,300	5.75%	Royal & Sun Alliance
The Tannery, Kitchener	5,191	91,170	5.75%	Communitech Corp., Desire 2 Learn
5445 de Gaspé, Montréal	5,148	85,890	6.00%	Sun Life, Ubisoft
Boardwalk Revillon, Edmonton	5,113	71,900	6.25%	Edmonton Public School Board, Legal Aid
Total	$89,568	$1,580,830	5.28%	

(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.

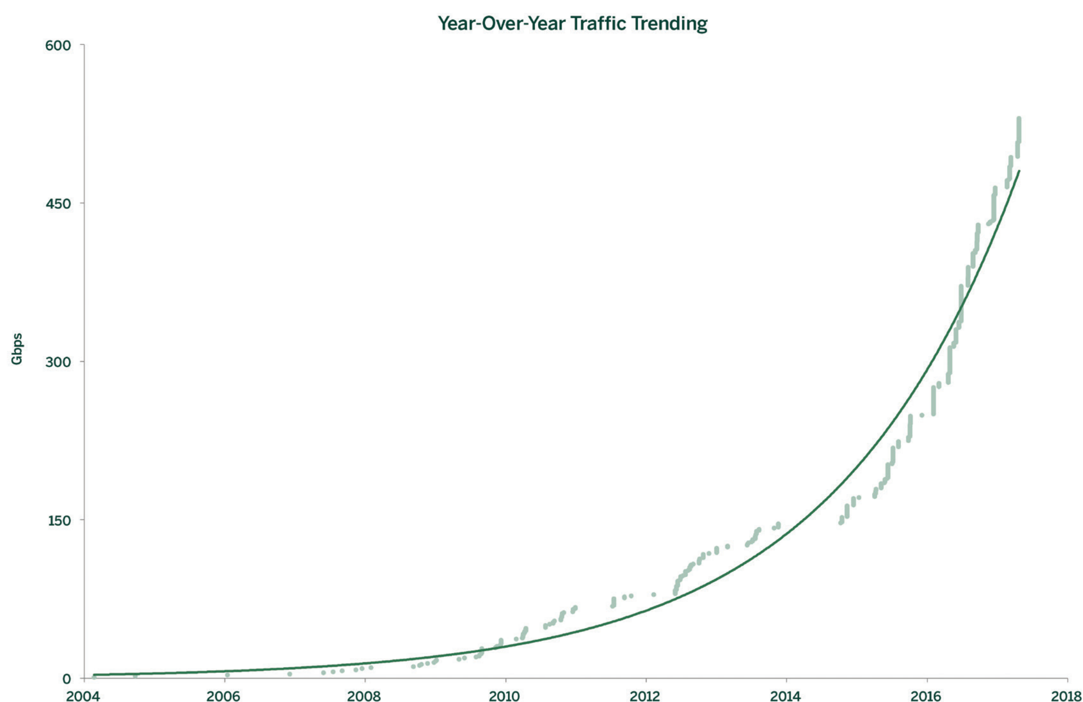
NETWORK-DENSE URBAN DATA CENTRES

Allied operates three network-dense urban data centres in downtown Toronto: 151 Front W ("151"), 250 Front W ("250") and 905 King W ("905"). Listed below are Allied's urban data centres measured by Normalized LQA NOI. These properties represent 17.7% of total annualized NOI for the year ended December 31, 2018.

PROPERTY NAME	NORMALIZED LQA NOI	APPRAISED FAIR VALUE	CAP RATE	PRINCIPAL USERS
151 Front W, Toronto	$32,038	$500,200	5.50%	Bell, Telus, Rogers, Zayo, TorIX, Equinix, Cologix
250 Front W, Toronto	14,146	300,310	6.25%	Cloud Service Provider, AWS
905 King W, Toronto	3,510	89,760	6.25%	Cloud Service Provider, Beanfield, Cologix
Total	$49,694	$890,270	5.83%	

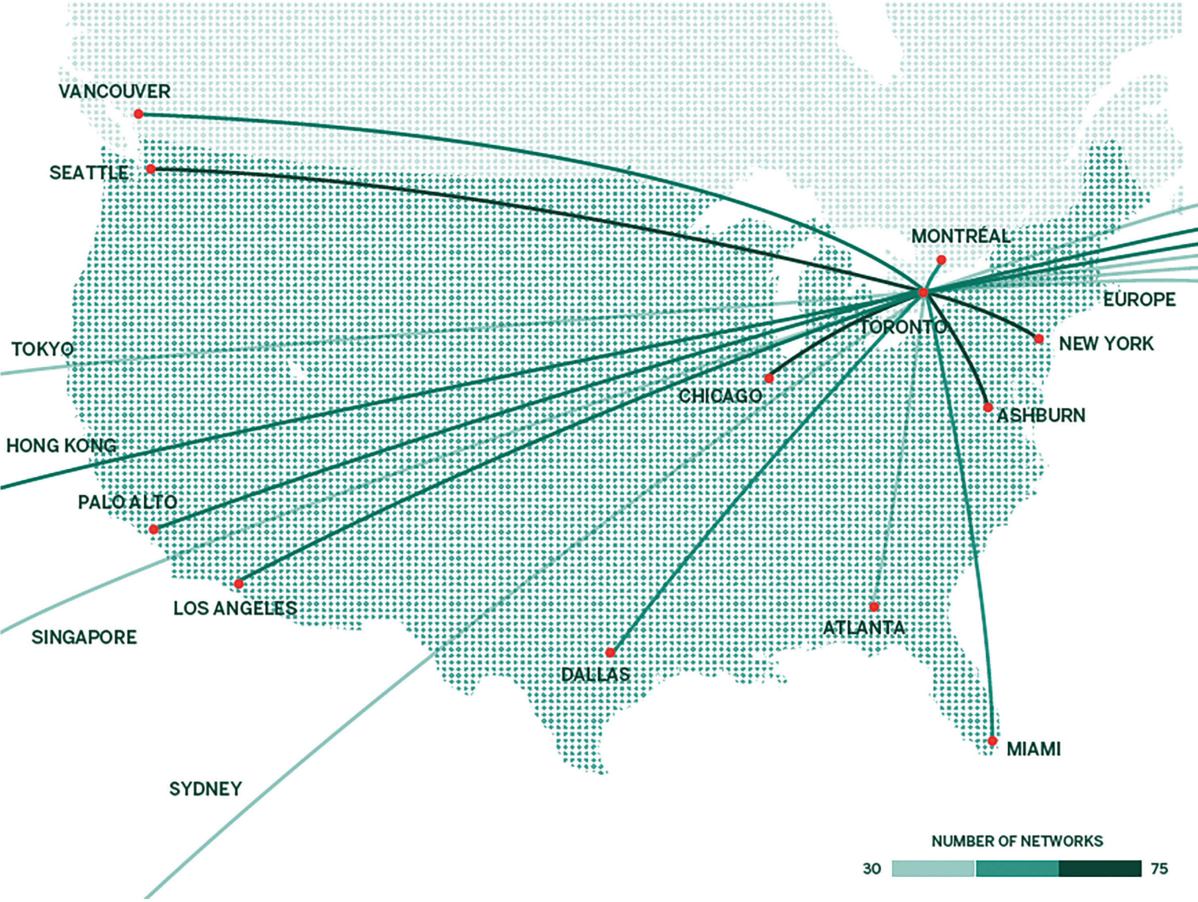
Allied acquired 151 in 2009 and has operated it very successfully since acquisition. 250 and 905 are connected to 151 via a multi-layered, diverse infrastructure of high-density fibre that Allied owns.

151 is the largest internet exchange point (IXP) in Canada and the fifth largest in North America. It houses Toronto Internet Exchange (TorIX), a not-for-profit organization that enables internet networks to connect and exchange traffic. With over 230 peers connecting, TorIX has experienced a steady and dramatic increase in traffic since 2009, with traffic in 2018 exceeding 530 gigabits per second. The traffic growth is illustrated below:



Source: TorIX Website

151 is a carrier-neutral facility. With a critical mass of carrier networks, TorIX and numerous other networks, 151 is Canada's hub for global connectivity and is the gateway to Canada for all major North American cities and numerous major international cities. This is illustrated below:



Source: PeeringDB.com

As a critical component of Canada's communications infrastructure, 151 is a network-dense urban data centre, distinct from conventional suburban data centres. The latter are analogous to interchanges on small highways. While valuable, they are relatively easy to replicate. 151 is analogous to a massive interchange on an intersecting series of super-highways. It is exceptionally valuable and very difficult to replicate.

151 has not historically generated ancillary rental revenue in the form of interconnection fees, even though there are 26,480 cross-connects in the two existing meet-me rooms. With 151 becoming the landing point for Crosslake Fibre's new fibre connection between Toronto and Buffalo, Allied will create a new meet-me room at 151, enabling it to generate ancillary rental revenue in the form of interconnection fees charged on a recurring monthly basis for cross-connects to the Crosslake's fibre.

Allied leases 173,000 square feet of GLA at 250 pursuant to a long-term lease that expires on February 28, 2061. As a result of substantial capital improvements completed by Allied, including high-density fibre connections to 151, 250 has become an important interconnected cloud-hosting facility in Canada, providing retail, wholesale and managed services.

Allied has two basic sources of rental revenue from 250. The largest source, direct rental revenue, derives from subleasing space to ultimate users. A smaller but material source, ancillary rental revenue, derives from interconnection fees charged on a recurring monthly basis for cross-connects that enable different types of users to interconnect with low-latency and redundancy, reducing network costs and improving network security and performance.

Allied expects that cross-connects at 250 will give rise to recurring ancillary rental revenue. Cross-connects utilize the existing infrastructure at 250 without occupying any of the unleased GLA or requiring additional capital expenditure by Allied.

Allied also owns 905. As a result of substantial capital improvements completed by Allied, including high-density fibre connections to 151, 57,339 square feet of GLA at the property has become an important urban data centre.

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, Edmonton, 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 81 properties in Toronto (including properties in the development portfolio) now comprise 4.1 million square feet of GLA and are situated on 37 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 10.4 million square feet of GLA, 6.3 million square feet more than currently is in place.

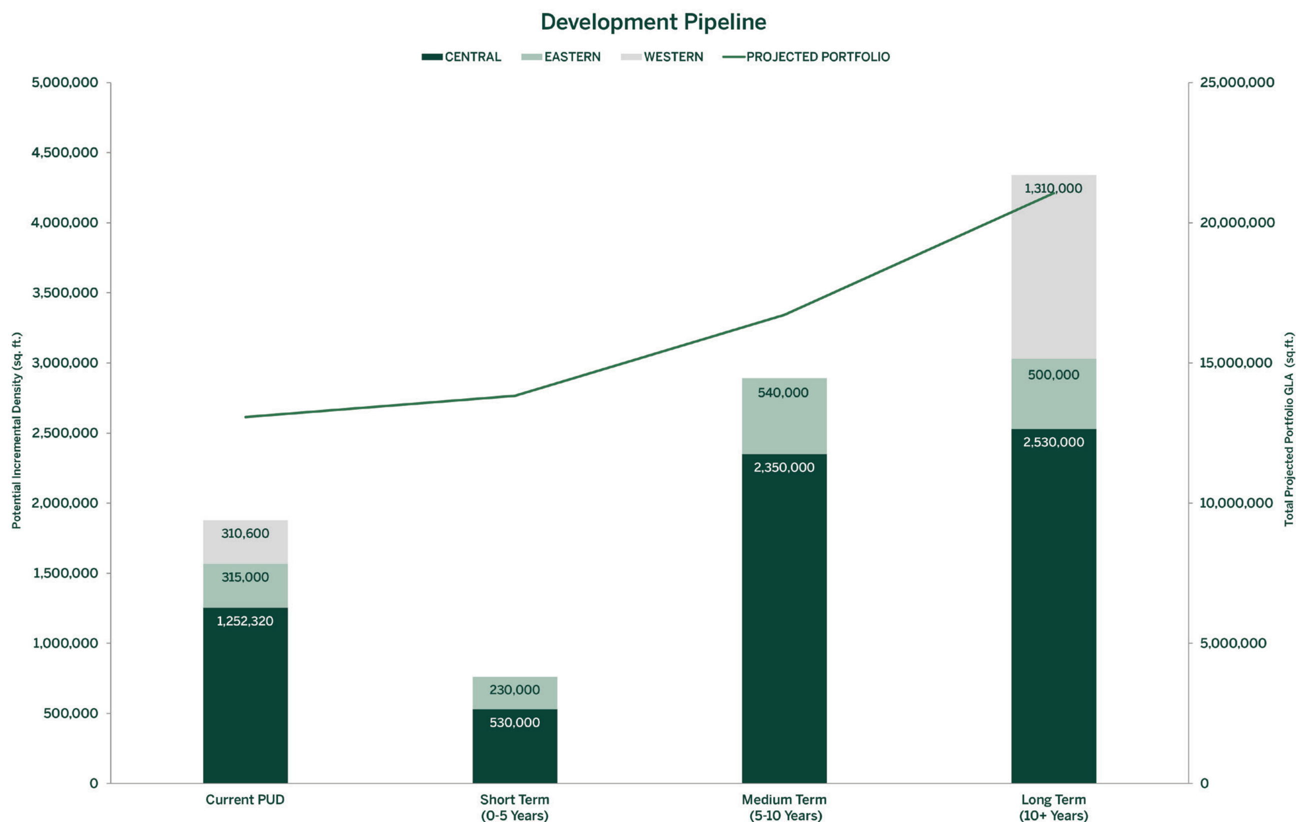
Allied entered the Montréal market in April of 2005. The 18 properties in Montréal now comprise 4.3 million square feet of GLA. As they are much larger buildings on average than those comprising the Toronto portfolio, the 32 acres of land on which they sit (immediately south, east and north east of the 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 5.8 million square feet of GLA, 1.5 million square feet more than currently is in place.

There is similar potential inherent in the rest of Allied's portfolio, which is quantified in the chart below. Across Canada on a portfolio-wide basis, there is 9.9 million square feet of potential incremental density, of which 1.9 million square feet is currently in PUD, and the remaining 8.0 million square feet is potential incremental density. Of the 8.0 million square feet of potential incremental density, 2.5 million square feet is currently reflected in the appraised fair values and the remaining 5.5 million square feet is not reflected in the appraised fair values.

Potential Incremental Density (in sq.ft.) - Geographic Breakdown

CITY	CURRENT GLA	CURRENT PUD (ESTIMATED ON COMPLETION)	POTENTIAL INCREMENTAL DENSITY	TOTAL POTENTIAL GLA
Toronto	4,100,025	1,252,320	5,030,000	10,382,345
Kitchener	559,015	—	380,000	939,015
Total Central	**4,659,040**	**1,252,320**	**5,410,000**	**11,321,360**
Toronto Urban Data Centres	506,048	—	—	506,048
Total Urban Data Centres	**506,048**	**—**	**—**	**506,048**
Montréal	4,239,728	315,000	1,270,000	5,824,728
Ottawa	221,183	—	—	221,183
Total Eastern	**4,460,911**	**315,000**	**1,270,000**	**6,045,911**
Calgary	932,669	310,600	1,040,000	2,283,269
Edmonton	265,534	—	260,000	525,534
Vancouver	367,676	—	10,000	377,676
Total Western	**1,565,879**	**310,600**	**1,310,000**	**3,186,479**
Total	**11,191,878**	**1,877,920**	**7,990,000**	**21,059,798**

The timing of development for the 8.0 million square feet of potential incremental density is impossible to predict with precision, however the chart below provides a reasonable estimate of when the potential could begin to be realized. One factor is our self-imposed limitation on development activity. The focus in the short-term and the long-term remains on the Toronto portfolio.



Allied has initiated the intensification approval process for five rental properties in Toronto, one rental property in Kitchener, and one rental property in Montréal, six of which are owned in their entirety and one of which is co-owned with a partner. 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
King & Peter (1)	$1,979	$82,650	Completed	Office, limited retail	86,889	790,000	Unscheduled
QRC West, Phase II (2)	1,201	32,540	Completed	Office, retail	32,189	90,000	Unscheduled
Union Centre	781	102,460	Completed	Office, limited retail	39,975	1,129,000	Unscheduled
King & Brant (3)	432	20,850	Completed	Office, retail	17,006	130,000	2022
Adelaide & Spadina (4)	313	11,520	In Progress	Office, retail	10,963	245,000	Unscheduled
Le Nordelec	7	29,300	In Progress	Office	—	230,000	Unscheduled
Breithaupt Phase III (5)	—	5,800	Completed	Office	—	145,000	Unscheduled
Total	$4,713	$285,120			187,022	2,759,000	

(1) King & Peter is comprised of the following properties: 82 Peter and 388 King W.
(2) QRC West, Phase II is comprised of 375-381 Queen W.
(3) Allied has received permission to intensify 544 King 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.
(4) Adelaide & Spadina is comprised of 383-387 Adelaide W. 96 Spadina and 379 Adelaide W were previously included, but will now remain in the rental portfolio during future development activity.
(5) This property is co-owned, reflected in the table above at Allied's ownership.

Estimated GLA is based on applicable standards of area measurement and the expected or actual outcome of rezoning. 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 users 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 of Trust, the cost of Properties Under Development cannot exceed 15% of GBV. At the end of December 31, 2018, the cost of Allied's Properties Under Development was 8.9% of GBV (December 31, 2017 - 6.5%). 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, 2018, Allied has the following eight Properties Under Development:

PROPERTY NAME	USE	ESTIMATED GLA ON COMPLETION (SF)	% OF OFFICE DEVELOPMENT LEASED
King Portland Centre, Toronto [1][2]	Office, retail	136,320	100%
TELUS Sky, Calgary [1][3]	Office, retail, residential	218,000	33%
425 Viger, Montréal [4]	Office, retail	315,000	36%
The Lougheed (604-1st SW), Calgary [5]	Office, retail	92,600	—
College & Manning, 547-549 College, Toronto [1]	Retail, residential	27,000	—
Adelaide & Duncan, Toronto [1][6]	Office, retail, residential	228,000	100%
The Well, Toronto [1][7]	Office, retail	746,000	71%
KING Toronto, Toronto [1][8]	Office, retail	115,000	—
Total		1,877,920	

(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: 128,600 of office and 7,720 of retail. This excludes the GLA from the portion of King Portland Centre that is currently in the Rental Portfolio.

(3) The GLA components (in square feet) at our 33.33% share are as follows: 143,000 of office, 70,000 of residential and 5,000 of retail.

(4) The GLA components (in square feet) are as follows: 305,000 of office and 10,000 of retail.

(5) While initially working toward repositioning this property for a different use, Allied is now working toward restoring and retrofitting the property to the highest possible standards for workspace in the creative economy.

(6) 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.

(7) Each of Allied and RioCan own an undivided 50% interest with an estimated total GLA of 3,100,000 square feet. The GLA components (in square feet) at our 50% share will be as follows: approximately 534,000 of office, 212,000 of retail, and the remaining is related to residential air rights. The air rights were sold by the co-ownership as previously announced, with closing expected to occur by 2021.

(8) Allied entered into a joint arrangement with Westbank to develop KING Toronto. As part of the arrangement, Allied sold a 50% undivided interest to Westbank. KING Toronto is comprised of the following properties: 489 King W, 495 King W, 499 King W, 511-529 King W, 533 King W and 539 King W. The GLA components (in square feet) at our 50% share will be as follows: 30,000 of office and 85,000 of retail.

The following table sets out the fair value of Allied's Properties Under Development as at December 31, 2018, as well as Management's estimates with respect to the financial outcome on completion:

PROPERTY NAME	TRANSFER TO RENTAL PORTFOLIO	APPRAISED VALUE	ESTIMATED ANNUAL NOI	ESTIMATED TOTAL COST	ESTIMATED YIELD ON COST	ESTIMATED COST TO COMPLETE
King Portland Centre, Toronto [(1)(2)]	Q1 2019	$98,850	$4,600 - 4,750	$59,775	7.7% - 7.9%	$4,845
TELUS Sky, Calgary [(1)]	Q4 2019	95,191	7,650 - 8,310	138,000	5.5% - 6.0%	39,080
425 Viger, Montréal	Q1 2020	53,920	6,000 - 7,000	98,699	6.1% - 7.1%	44,400
The Lougheed (604-1st SW), Calgary	Q4 2020	17,920	TBD	TBD	TBD	TBD
College & Manning, 547-549 College, Toronto [(1)]	Q1 2021	5,610	975 - 1,125	29,986	3.3% - 3.8%	23,200
Adelaide & Duncan, Toronto [(1)]	Q2 2021	65,470	9,000 - 10,750	170,300	5.3% - 6.3%	118,200
The Well, Toronto [(1)]	Q1 2022	301,810	37,000 - 43,250	619,000	6.0% - 7.0%	393,600
KING Toronto, Toronto [(1)(3)]	Q1 2023	26,660	5,000 - 6,000	64,854	8.0% - 11.0%	45,400
Total		$665,431				

(1) These properties are co-owned, reflected in the table above at Allied's ownership percentage of assets and liabilities.
(2) The appraised value relates to the commercial component. The estimated total cost is net of the estimated gross proceeds from the sale of the residential inventory of $42,000 - $43,000.
(3) Allied entered into a joint arrangement with Westbank to develop KING Toronto. As part of the arrangement, Allied sold a 50% undivided interest to Westbank. KING Toronto is comprised of the following properties: 489 King W, 495 King W, 499 King W, 511-529 King W, 533 King W and 539 King W. The appraised value relates to the commercial component. The estimated total cost is net of the estimated gross proceeds from the sale of the residential inventory of $270,000 - $280,000.

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 then decided to sell the residential portion as condominium units, comprised of 132 units. The residential condominium units have been fully sold, subject to customary closing conditions. Management expects the condominium sales to close in Q4 2019.

On November 30, 2018, Allied entered into a joint arrangement with Westbank to develop KING Toronto. KING Toronto is a mixed-used property comprised of office, retail, and residential uses. As part of the arrangement, Allied sold a 50% undivided interest to Westbank. The residential component will be developed and sold as condominiums. The sale of the residential units commenced in October 2018 and totals 210,000 square feet of GLA. Management expects the condominium sales to close in 2023.

Residential inventory is as follows:

	DECEMBER 31, 2018	DECEMBER 31, 2017
King Portland Centre	$36,612	$28,239
KING Toronto	103,690	—
	$140,302	$28,239
Current	$36,612	$—
Non-current	103,690	28,239
	$140,302	$28,239

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 346,643 square feet of GLA and is fully leased.

DEVELOPMENT ECONOMICS

	INVESTMENT	STABILIZED NOI	UNLEVERED YIELD ON COST	FAIR VALUE	VALUE CREATION	VALUE CREATION AS % OF COST
Land Costs	$11,000					
Hard & Soft Costs	104,000					
Capitalized Interest & Operating Costs	15,000					
Total Development Costs	**$130,000**	**$12,380**	**9.5%**	**$257,330**	**$127,330**	**97.9%**

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 226,810 square feet of GLA (Allied's share 113,405 square feet) and is fully leased.

DEVELOPMENT ECONOMICS	INVESTMENT	STABILIZED NOI	UNLEVERED YIELD ON COST	FAIR VALUE	VALUE CREATION	VALUE CREATION AS % OF COST
Land Costs	$4,000					
Hard & Soft Costs	$18,470					
Capitalized Interest & Operating Costs	2,550					
Total Development Costs	**$25,020**	**$1,950**	**7.8%**	**$45,030**	**$20,010**	**80.0%**

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 Spaces. The project was completed in 2017. It is comprised of 45,631 square feet of GLA and is fully leased.

DEVELOPMENT ECONOMICS	INVESTMENT	STABILIZED NOI	UNLEVERED YIELD ON COST	FAIR VALUE	VALUE CREATION	VALUE CREATION AS % OF COST
Land Costs	$8,700					
Hard & Soft Costs	17,500					
Capitalized Interest & Operating Costs	1,300					
Total Development Costs	**$27,500**	**$1,600**	**5.8%**	**$29,870**	**$2,370**	**8.6%**

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 user. 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	STABILIZED NOI	UNLEVERED YIELD ON COST	FAIR VALUE	VALUE CREATION	VALUE CREATION AS % OF COST
Land Costs	$230					
Hard & Soft Costs	10,890					
Capitalized Interest & Operating Costs	240					
Total Development Costs	**$11,360**	**$720**	**6.3%**	**$13,160**	**$1,800**	**15.8%**

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, 2018, total loans receivable outstanding is $200,289 (December 31, 2017 - $88,316).

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 $21,173 to Westbank. As at December 31, 2018, the loan receivable outstanding is $21,173 (December 31, 2017 - $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 on August 31, 2022, and has a one year extension option to August 31, 2023. On 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, 2018, is $112,086 (December 31, 2017 - $67,143).

On November 30, 2018, Allied entered into a joint arrangement with Westbank to develop KING Toronto. As part of the arrangement, Allied advanced a total of $67,030 to Westbank for its purchase of a 50% undivided interest in the property. As at December 31, 2018, the loan receivable outstanding is $67,030 and bears interest at a rate of 7.00% per annum. The loan is repayable at the earlier of November 23, 2023, or the closing of the condominium units.

	DECEMBER 31, 2018	DECEMBER 31, 2017
Adelaide & Duncan	$21,173	$21,173
400 West Georgia	112,086	67,143
KING Toronto	67,030	—
	$200,289	$88,316

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 $4.3 billion as at December 31, 2018.

DEBT

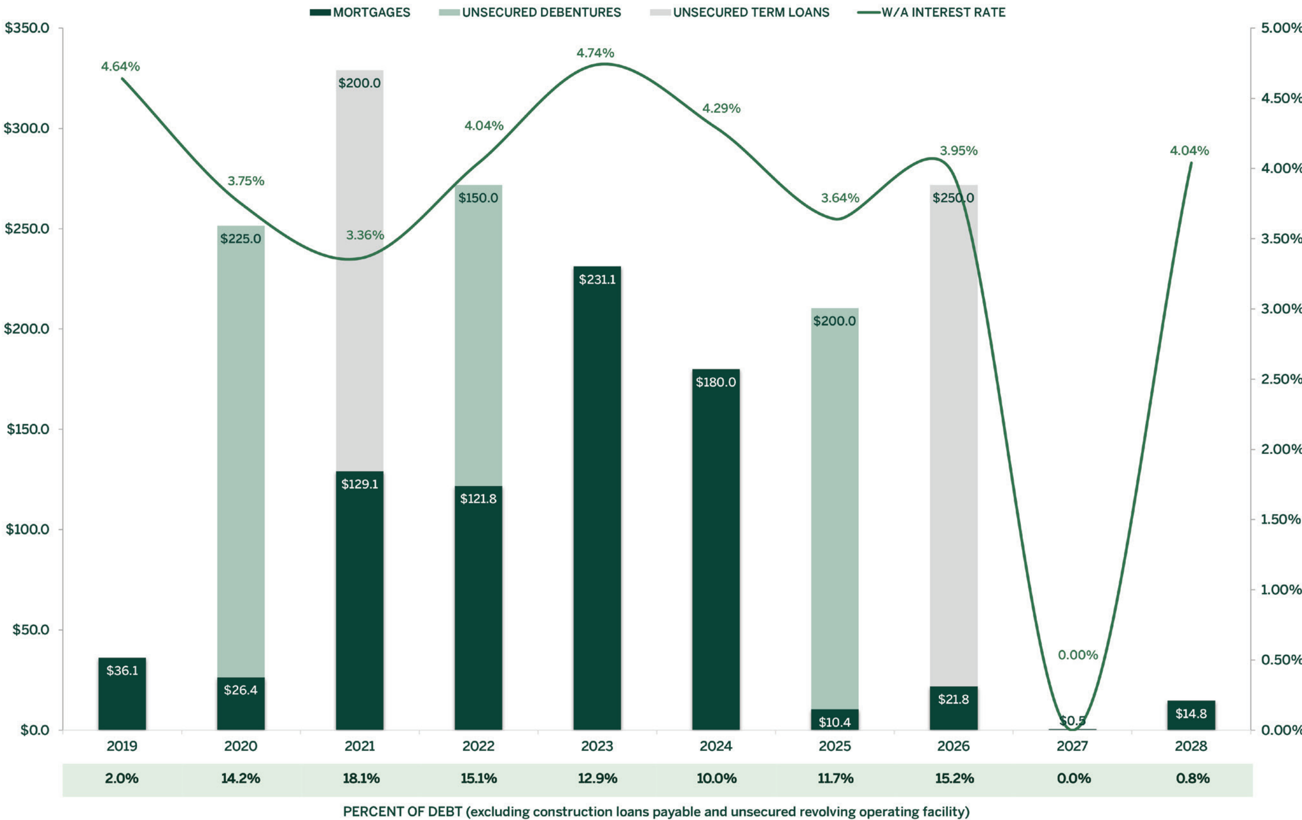
Total debt and net debt are non-IFRS financial measures and do not have any standard meaning prescribed by IFRS. As computed by Allied, total debt and net debt may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar 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 (net of transaction costs) and net debt as at December 31, 2018, and December 31, 2017:

	DECEMBER 31, 2018	DECEMBER 31, 2017
Mortgages payable	**$769,473**	$965,832
Construction loans payable	**70,909**	46,758
Unsecured Facility	**95,000**	25,000
Unsecured Debentures	**573,320**	572,849
Unsecured Term Loans	**448,909**	349,438
Total debt	**$1,957,611**	$1,959,877
Less cash and cash equivalents	**18,361**	6,048
Net debt	**$1,939,250**	$1,953,829

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 OF MATURING MORTGAGES	SENIOR UNSECURED DEBENTURES	W/A INTEREST RATE	UNSECURED TERM LOANS	W/A INTEREST RATE	TOTAL	CONSOLIDATED W/A INTEREST RATE OF MATURING DEBT
2019	$36,082	4.64%	$—	—	$—	—	$36,082	4.64%
2020	26,411	5.50%	225,000	3.75%	—	—	251,411	3.75%
2021	129,054	4.21%	—	—	200,000	2.86%	329,054	3.36%
2022	121,827	4.18%	150,000	3.93%	—	—	271,827	4.04%
2023	231,104	4.74%	—	—	—	—	231,104	4.74%
2024	179,983	4.29%	—	—	—	—	179,983	4.29%
2025	10,384	3.63%	200,000	3.64%	—	—	210,384	3.64%
2026	21,834	3.59%	—	—	250,000	3.99%	271,834	3.95%
2027	487	—	—	—	—	—	487	—
2028	14,750	4.04%	—	—	—	—	14,750	4.04%
	$771,916	4.38%	$575,000	3.76%	$450,000	3.49%	$1,796,916	3.96%

The chart below summarizes the maturities of principal in regards to Allied's various obligations as at December 31, 2018:



MORTGAGES PAYABLE

As of December 31, 2018, mortgages payable, net of financing costs, totaled $769,473 and have a weighted average stated interest rate of 4.38% (December 31, 2017 - 4.73%). The weighted average term of the mortgage debt is 4.6 years (December 31, 2017 - 4.7 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, 2018	DECEMBER 31, 2017
2019	$25,115	$10,967	$36,082	
2020	26,411	—	26,411	
2021	25,519	103,535	129,054	
2022	21,725	100,102	121,827	
2023	17,749	213,355	231,104	
2024	5,123	174,860	179,983	
2025	1,596	8,788	10,384	
2026	1,391	20,443	21,834	
2027	487	—	487	
2028	293	14,457	14,750	
Mortgages, principal	$125,409	$646,507	$771,916	$966,894
Net premium on assumed mortgages			924	2,599
Net financing costs			(3,367)	(3,661)
			$769,473	$965,832

For the year ended December 31, 2018, in addition to regularly scheduled principal payments, Allied repaid eight mortgages totaling $183,396 with a weighted average interest rate of 6.13%.

CONSTRUCTION LOANS PAYABLE

As of December 31, 2018, and December 31, 2017, Allied's obligation under the construction loan is:

JOINT ARRANGEMENT	OWNERSHIP	GUARANTEE LIMIT	DATE OF MATURITY	DECEMBER 31, 2018	DECEMBER 31, 2017
TELUS Sky	33.33%	$114,000	August 31, 2019	$70,909	$46,758

The construction loan 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.

On January 31, 2019, Allied and Westbank obtained a $270,000 construction lending facility from a syndicate of Canadian banks for the Adelaide & Duncan joint arrangement, in which Allied's 50% share is $135,000. The loan matures on July 31, 2023, and bears interest at bank prime plus 35 basis points or banker's acceptance rate plus 135 basis points. Allied provided a joint and several guarantee to support the facility to assist with the financing of construction costs associated with the development of Adelaide & Duncan.

UNSECURED REVOLVING OPERATING FACILITY

On November 30, 2018, Allied amended the Unsecured Facility to increase the limit to $400,000 and extended the maturity to January 29, 2022. Prior to the amendment, Allied had access to $250,000 maturing on January 29, 2021. The Unsecured Facility will bear interest at bank prime plus 45 basis points or bankers' acceptance plus 145 basis points with a standby fee of 29 basis points, subject to certain conditions being met (December 31, 2017 - maturity of January 29, 2019, interest rate at bank prime plus 70 basis points or bankers' acceptance plus 170 basis points with a standby fee of 34 basis points). 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 with a standby fee of 34 basis points. The Unsecured Facility contains a $100,000 accordion feature, allowing Allied to increase the amount available under the facility to $500,000. The Unsecured Facility had a balance of $95,000 outstanding at December 31, 2018 (December 31, 2017 - $25,000).

	DECEMBER 31, 2018	DECEMBER 31, 2017
Unsecured Facility limit	**$400,000**	$250,000
Amounts drawn under the Unsecured Facility	**(95,000)**	(25,000)
Letters of credit outstanding under the Unsecured Facility	**(14,404)**	(5,551)
Remaining unused balance under the Unsecured Facility	**$290,596**	$219,449

SENIOR UNSECURED DEBENTURES

As of December 31, 2018, and December 31, 2017, Allied's obligation of the balance outstanding under the senior unsecured debentures is summarized in the table below:

SERIES	INTEREST RATE	DATE OF MATURITY	INTEREST PAYMENT DATE	DECEMBER 31, 2018	DECEMBER 31, 2017
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**	200,000
Unsecured Debentures, principal				**$575,000**	$575,000
Net premium on Unsecured Debentures				**216**	369
Net financing costs				**(1,896)**	(2,520)
				$573,320	$572,849

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

Proceeds from the 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.

UNSECURED TERM LOANS

As of December 31, 2018, and December 31, 2017, Allied's obligation of the balance outstanding under the unsecured term loans is summarized in the table below:

	INTEREST RATE	DATE OF MATURITY	FREQUENCY OF INTEREST PAYMENT	DECEMBER 31, 2018	DECEMBER 31, 2017
Unsecured Term Loan	3.992%	January 14, 2026	Monthly	**$250,000**	$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				**$450,000**	$350,000
Net financing costs				**(1,091)**	(562)
				$448,909	$349,438

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

On December 14, 2018, Allied entered into a new Unsecured Term Loan with a financial institution for $250,000 at a rate of 3.992%, due on January 14, 2024, with two one-year extensions to January 14, 2026. The proceeds from the loan were used to repay the $150,000 maturing term loan due on December 14, 2018, at a rate of 2.645% and the balance was used to reduce amounts drawn on the Unsecured Facility. Debt financing costs of $810 were incurred and recorded against the principal owing.

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

CREDIT RATINGS

Allied's credit ratings for the Unsecured Debentures are summarized below:

DEBT	RATING AGENCY	LONG-TERM CREDIT RATING	TREND/OUTLOOK
Unsecured Debentures	DBRS	BBB (low)	Stable
Unsecured Debentures	Moody's Investor Services	Baa3	Stable

Dominion Bond Rating Services ("DBRS") provides credit ratings of debt securities for commercial issuers that indicate the risk associated with a borrower's capabilities to fulfill its obligations. The minimum investment grade rating is "BBB (low)," with the highest rating being "AAA." Allied's unsecured debentures are rated "BBB (low)," with a stable trend by DBRS at December 31, 2018.

On June 25, 2018, Moody's Investors Services ("Moody's") assigned Allied an issuer and an unsecured debt rating of "Baa3," with a stable rating outlook. The minimum investment grade rating is "Baa3," with the highest rating being "Aaa."

With these two ratings, Allied's ability to access the debt capital markets on favourable financial terms will be enhanced. Allied expects the ratings to be particularly helpful as Allied continues to fortify the balance sheet with a view to bringing added financial flexibility and discipline to the urban development program.

The above-mentioned ratings assigned to the Unsecured Debentures are not recommendations to buy, sell or hold any securities of Allied. Allied has paid customary rating fees to DBRS and Moody's in connection with the above-mentioned ratings. There can be no assurance that any 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.

RATIO	THRESHOLD	DECEMBER 31, 2018	DECEMBER 31, 2017
Indebtedness ratio	Below 60%	**29.4%**	33.8%
Secured indebtedness ratio	Below 45%	**12.5%**	17.4%
Debt service coverage ratio	Consolidated adjusted EBITDA to be more than 1.5 times debt service payments	**2.2x**	2.0x
Equity maintenance	At least $1,250,000 plus 75% of future equity issuances	**4,374,663**	3,549,022
Unencumbered property assets value ratio	Unencumbered property assets to be more than 1.4 times total unsecured debt	**3.8x**	3.1x
Distribution payout ratio	Maintain distributions below 100% of FFO	**72.4%**	71.2%

SENIOR UNSECURED DEBENTURES

The following outlines the requirements of covenants specified in the trust indenture with respect to the Unsecured Debentures.

RATIO	THRESHOLD	DECEMBER 31, 2018	DECEMBER 31, 2017
Pro forma interest coverage ratio	Maintain a 12-month rolling consolidated forma EBITDA of at least 1.65 times pro forma interest expense	**2.9x**	2.8x
Pro forma asset coverage test	Maintain net consolidated debt below 65% of net aggregate assets on a pro forma basis	**29.3%**	33.7%
Equity maintenance covenant	Maintain Unitholders' equity above $300,000	**4,374,663**	3,549,022
Pro forma unencumbered net aggregate adjusted asset ratio	Maintain pro forma unencumbered net aggregate adjusted assets above 1.4 times consolidated unsecured indebtedness	**4.2x**	3.3x

As of December 31, 2018, 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, 2018, and for the year ended December 31, 2017.

	DECEMBER 31, 2018		DECEMBER 31, 2017	
	UNITS	AMOUNT	UNITS	AMOUNT
Trust Units, beginning of year	**92,935,150**	**$2,399,768**	84,734,469	$2,098,267
Restricted Unit plan (net of forfeitures)	—	**(2,584)**	—	(2,173)
Long-term incentive plan	—	—	—	72
Unit option plan - options exercised	**84,595**	**3,043**	507,044	15,948
Unit offering	**10,842,200**	**435,168**	7,695,000	287,701
Purchase of Units under normal course issuer bid for cancellation	—	—	(1,363)	(47)
Trust Units, end of year	**103,861,945**	**$2,835,395**	92,935,150	$2,399,768

As at February 13, 2019, 103,861,945 Trust Units and 1,169,497 options to purchase units were issued and outstanding.

On September 26, 2018, Allied raised gross proceeds of $155,264 through the issuance of 3,548,900 Units at a price of $43.75 per unit. Costs relating to the issuance totaled $6,760 and were applied against the gross proceeds of the issuance and charged against Unitholders' equity.

On June 22, 2018, Allied raised gross proceeds of $299,025 through the issuance of 7,293,300 Units at a price of $41.00 per unit. Costs relating to the issuance totaled $12,361 and were applied against the gross proceeds of the issuance and charged against Unitholders' equity.

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, 2018	DECEMBER 31, 2017	**DECEMBER 31, 2018**	DECEMBER 31, 2017
Basic	**103,859,370**	92,850,893	**97,785,091**	87,864,560
Unit Option Plan	**203,197**	176,733	**180,620**	140,353
LTIP	**—**	—	**—**	1,097
Fully diluted	**104,062,567**	93,027,626	**97,965,711**	88,006,010

NORMAL COURSE ISSUER BID

On February 20, 2018, Allied received approval from the Toronto Stock Exchange ("TSX") for the renewal of its normal course issuer bid ("NCIB"), which entitles Allied to purchase up to 9,114,825 of its outstanding Units, representing approximately 10% of its public float as at February 14, 2018. The NCIB commenced February 22, 2018, and will expire on February 21, 2019, or such earlier date as Allied completes its purchases pursuant to the NCIB. All purchases under the NCIB will be made on the open market through the facilities of the TSX or alternate trading systems in Canada at market prices prevailing at the time of purchase. Any Units that are repurchased will either be cancelled or delivered to participants under Allied's Restricted Unit Plan or to employees pursuant to Allied's employee programs.

During the year ended December 31, 2018, Allied purchased 62,044 Units for $2,598 at a weighted average price of $41.87 per unit under its NCIB program, of which 61,733 units were purchased for delivery to participants under Allied's Restricted Unit Plan and 311 Units were purchased for certain employee rewards outside of Allied's Restricted Unit Plan.

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 units were purchased for delivery to participants under Allied's Restricted Unit Plan and 1,363 were purchased for cancellation.

UNIT OPTION AND RESTRICTED UNIT PLANS

Allied adopted a Unit Option Plan providing for the issuance, from time to time, at the discretion of the trustees, of options to purchase Units for cash. Participation in the Unit Option Plan is restricted to 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, 2018, Allied had issued options to purchase 1,169,497 Units outstanding, of which 596,331 had vested. At December 31, 2017, Allied had options to purchase 1,057,084 Units outstanding, of which 345,491 had vested.

For the year ended December 31, 2018, Allied recorded a share-based payment expense related to options of $1,346 in general and administrative expense in the consolidated statements of income and comprehensive income (for the year ended December 31, 2017 - $1,466).

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, 2018, Allied had 267,420 Restricted Units outstanding (December 31, 2017 – 241,557).

For the year ended December 31, 2018, Allied recorded a share-based payment expense related to restricted units of $2,247 in general and administrative expense in the consolidated statements of income and comprehensive income (for the year ended December 31, 2017 - $1,767).

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
Annualized increase per unit	$0.04	$0.04	$0.04	$0.04	$0.06	$0.04
% increase	3.6%	3.5%	3.4%	3.3%	4.8%	3.0%
Annualized distribution per unit	$1.14	$1.18	$1.22	$1.26	$1.32	$1.36

	DECEMBER, 2013	DECEMBER, 2014	DECEMBER, 2015	DECEMBER, 2016	DECEMBER, 2017	DECEMBER, 2018
Annualized increase per unit	$0.05	$0.05	$0.04	$0.03	$0.03	$0.04
% increase	3.7%	3.5%	2.7%	2.0%	2.0%	2.6%
Annualized distribution per unit	$1.41	$1.46	$1.50	$1.53	$1.56	$1.60

SOURCES OF DISTRIBUTIONS

For the three months and year ended December 31, 2018, Allied declared $40,817 and $153,855 in distributions, respectively (three months and year ended December 31, 2017 - $35,754 and $135,177, respectively).

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017	**DECEMBER 31, 2018**	DECEMBER 31, 2017
Distributions declared	**$40,817**	$35,754	**$153,855**	$135,177
Net income	**$137,270**	$63,066	**$540,276**	$357,959
Cash flows provided by operating activities	**$70,810**	$50,037	**$239,381**	$198,926
Normalized AFFO	**$45,186**	$38,072	**$175,645**	$139,668
Excess of net income over distributions declared	**$96,453**	$27,312	**$386,421**	$222,782
Excess of cash flows provided by operating activities over distributions declared	**$29,993**	$14,283	**$85,526**	$63,749
Excess of cash provided by Normalized AFFO over distributions declared	**$4,369**	$2,318	**$21,790**	$4,491

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 Allied, 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 will 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 $1.60 per unit per annum (December 31, 2017 - $1.56 per unit per annum).

COMMITMENTS

At December 31, 2018, Allied had future commitments as set out below:

	DECEMBER 31, 2018
Capital expenditures	$402,525

Section V
—Discussion of Operations

The following sets out summary information and financial results for the three months and year ended December 31, 2018, and the comparable period in 2017.

NET INCOME AND COMPREHENSIVE INCOME

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017	**DECEMBER 31, 2018**	DECEMBER 31, 2017
Rental revenue from investment properties	**$112,889**	$107,709	**$436,396**	$419,263
Property operating costs	**(47,925)**	(46,419)	**(185,938)**	(179,548)
Net rental income	**64,964**	61,290	**250,458**	239,715
Interest expense	**(14,125)**	(17,188)	**(67,285)**	(69,265)
General and administrative expenses	**(5,220)**	(4,785)	**(17,059)**	(14,436)
Condominium marketing expenses	**(1,609)**	—	**(1,609)**	—
Amortization of other assets and leasing costs	**(360)**	(2,677)	**(1,556)**	(10,513)
Interest income	**2,573**	1,403	**6,941**	3,015
Fair value gain on investment properties	**100,074**	26,260	**375,849**	198,115
Fair value (loss) gain on derivative instruments	**(10,034)**	1,324	**(6,470)**	13,889
Gain (loss) on disposal of investment properties	**1,007**	(2,561)	**1,007**	(2,561)
Net income and comprehensive income	**$137,270**	$63,066	**$540,276**	$357,959

Net income and comprehensive income for the three months and year ended December 31, 2018, increased by $74,204 and $182,317, respectively, over the comparable periods in 2017. Excluding the effect of the yield maintenance cost, fair value changes on investment properties, derivative instruments, and the gain on disposal of investment properties, net income for the three months and year ended December 31, 2018, increased by $8,180 and $28,876, respectively, from the same periods in the prior year. This was primarily due to an increase in net rental and interest income, lower interest expense due to lower mortgages payable, and a decrease in amortized other assets and leasing costs, partially offset by higher 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 operates in seven urban markets — Montréal, Ottawa, Toronto, Kitchener, Calgary, Edmonton and Vancouver. For the purpose of analyzing NOI, Allied grouped Montréal with Québec City and Ottawa as Eastern Canada, Toronto with Kitchener as Central Canada, Winnipeg with Calgary, Edmonton and Vancouver as Western Canada, and Urban Data Centres. 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, 2018, as compared to the same period in the prior year.

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017	**DECEMBER 31, 2018**	DECEMBER 31, 2017
Revenue from investment properties	**$112,889**	$107,709	**$436,396**	$419,263
Property operating costs	**(47,925)**	(46,419)	**(185,938)**	(179,548)
Net rental income	**64,964**	61,290	**250,458**	239,715
Amortization of improvement allowances	**7,788**	7,312	**28,819**	24,459
Amortization of straight-line rents	**(2,381)**	(2,731)	**(6,992)**	(13,830)
NOI	**$70,371**	$65,871	**$272,285**	$250,344

The following tables set out the NOI by segment and space type from the rental and development properties for the year ended December 31, 2018, and the comparable period.

	THREE MONTHS ENDED				CHANGE	
SEGMENT	DECEMBER 31, 2018		DECEMBER 31, 2017		$	%
Urban Workspace						
Eastern Canada	$17,486	24.8%	$15,857	24.1%	$1,629	10.3%
Central Canada	31,573	44.9%	29,491	44.8%	2,082	7.1%
Western Canada	8,776	12.5%	8,910	13.5%	(134)	(1.5)%
Urban Workspace - Total	57,835	82.2%	54,258	82.4%	3,577	6.6%
Urban Data Centres	12,536	17.8%	11,613	17.6%	923	7.9%
NOI	$70,371	100.0%	$65,871	100.0%	$4,500	6.8%

	THREE MONTHS ENDED				CHANGE	
TYPE OF SPACE	DECEMBER 31, 2018		DECEMBER 31, 2017		$	%
Urban Workspace - Office	$49,303	70.1%	$46,866	71.1%	$2,437	5.2%
Urban Data Centres	12,536	17.8%	11,613	17.6%	923	7.9%
Urban Workspace - Retail	5,238	7.4%	4,522	6.9%	716	15.8%
Urban Workspace - Parking	3,294	4.7%	2,870	4.4%	424	14.8%
NOI	$70,371	100.0%	$65,871	100.0%	$4,500	6.8%

The increase in NOI for the three months ended December 31, 2018, was primarily the result of occupancy growth in Montréal and rent and occupancy growth in Toronto.

	YEAR ENDED				CHANGE	
SEGMENT	DECEMBER 31, 2018		DECEMBER 31, 2017		$	%
Urban Workspace						
Eastern Canada	$68,555	25.2%	$62,842	25.1%	$5,713	9.1%
Central Canada	122,410	45.0%	110,928	44.3%	11,482	10.4%
Western Canada	32,182	11.8%	33,989	13.6%	(1,807)	(5.3)%
Urban Workspace - Total	223,147	82.0%	207,759	83.0%	15,388	7.4%
Urban Data Centres	49,138	18.0%	42,585	17.0%	6,553	15.4%
NOI	$272,285	100.0%	$250,344	100.0%	$21,941	8.8%

TYPE OF SPACE	YEAR ENDED DECEMBER 31, 2018		YEAR ENDED DECEMBER 31, 2017		CHANGE $	CHANGE %
Urban Workspace - Office	**$188,629**	**69.4%**	$177,248	70.8%	$11,381	6.4%
Urban Data Centres	**49,138**	**18.0%**	42,585	17.0%	6,553	15.4%
Urban Workspace - Retail	**21,629**	**7.9%**	18,319	7.3%	3,310	18.1%
Urban Workspace - Parking	**12,889**	**4.7%**	12,192	4.9%	697	5.7%
NOI	**$272,285**	**100.0%**	$250,344	100.0%	$21,941	8.8%

The increase in NOI for the year ended December 31, 2018, was primarily the result of increased occupancy in Montréal, rent and occupancy growth in Toronto, increased occupancy in the urban data centre properties (250 Front W and 905 King W), as well as contributions from recent acquisitions.

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, 2017, to December 31, 2018. The same asset NOI of the development portfolio for the three months ended December 31, 2018, consists of 425 Viger, Adelaide & Duncan, College & Palmerston (including 547 College), King Portland Centre (including 642 King), KING Toronto, The Lougheed (604-1st SW), Le Nordelec, TELUS Sky, and The Well.

	THREE MONTHS ENDED		CHANGE	
	DECEMBER 31, 2018	DECEMBER 31, 2017	$	%
Urban Workspace				
Eastern Canada	**$17,277**	$14,248	$3,029	21.3%
Central Canada	**30,004**	28,118	1,886	6.7%
Western Canada	**8,244**	8,261	(17)	(0.2)%
Urban Workspace	**55,525**	50,627	4,898	9.7%
Urban Data Centres	**12,537**	11,612	925	8.0%
Rental Portfolio - Same Asset NOI	**68,062**	62,239	5,823	9.4%
Urban Workspace	**665**	965	(300)	(31.1%)
Development Portfolio - Same Asset NOI	**665**	965	(300)	(31.1%)
Total Portfolio - Same Asset NOI	**$68,727**	$63,204	$5,523	8.7%
Acquisitions	**781**	123	658	
Dispositions	**251**	1,143	(892)	
Non-recurring items and other	**612**	1,401	(789)	
NOI	**$70,371**	$65,871	$4,500	6.8%
Amortization of improvement allowances	**(7,788)**	(7,312)	(476)	
Amortization of straight-line rents	**2,381**	2,731	(350)	
Net rental income	**$64,964**	$61,290	$3,674	6.0%

Same asset NOI of the total portfolio increased by 8.7% for the three months ended December 31, 2018. Same asset NOI of the rental portfolio increased by 9.4% primarily as a result of occupancy growth in Montréal, and rent and occupancy growth in Toronto. Same asset NOI of the development portfolio decreased by 31.1%, primarily as a result of the 50% disposition of KING Toronto.

The same asset NOI in the table below refers to those investment properties that were owned by Allied from January 1, 2017, to December 31, 2018. The same asset NOI of the development portfolio for the year ended December 31, 2018, consists of 180 John, 189 Joseph, 425 Viger, 47 Front, Adelaide & Duncan, College & Palmerston (including 547 College), King Portland Centre (including 642 King), KING Toronto, The Lougheed (604-1st SW), Le Nordelec, TELUS Sky, and The Well.

	YEAR ENDED		CHANGE	
	DECEMBER 31, 2018	DECEMBER 31, 2017	$	%
Urban Workspace				
Eastern Canada	**$68,073**	$58,150	$9,923	17.1%
Central Canada	**112,289**	105,301	6,988	6.6%
Western Canada	**31,426**	32,130	(704)	(2.2)%
Urban Workspace	**211,788**	195,581	16,207	8.3%
Urban Data Centres	**49,138**	42,585	6,553	15.4%
Rental Portfolio - Same Asset NOI	**260,926**	238,166	22,760	9.6%
Urban Workspace	**4,486**	5,208	(722)	(13.9)%
Development Portfolio - Same Asset NOI	**4,486**	5,208	(722)	(13.9)%
Total Portfolio - Same Asset NOI	**$265,412**	$243,374	$22,038	9.1%
Acquisitions	**3,840**	1,351	2,489	
Dispositions	**1,181**	3,398	(2,217)	
Non-recurring items and other	**1,852**	2,221	(369)	
NOI	**$272,285**	$250,344	$21,941	8.8%
Amortization of improvement allowances	**(28,819)**	(24,459)	(4,360)	
Amortization of straight-line rents	**6,992**	13,830	(6,838)	
Net rental income	**$250,458**	$239,715	$10,743	4.5%

Same asset NOI of the total portfolio increased by 9.1% for the year ended December 31, 2018. Same asset NOI of the rental portfolio increased by 9.6% as a result of occupancy growth in Montréal and rent growth in Toronto, Ottawa and Kitchener. Same asset NOI of the development portfolio decreased by 13.9% primarily as a result of the 50% disposition of KING Toronto.

INTEREST EXPENSE

For the three months and year ended December 31, 2018, excluding capitalized interest and the yield maintenance cost, interest expense decreased over the comparable period in 2017 due to a lower balance of mortgages payable.

For the three months and year ended December 31, 2018, capitalized interest increased over the comparable period in 2017 with the continuation of development and upgrade activities across the portfolio.

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017	**DECEMBER 31, 2018**	DECEMBER 31, 2017
Interest on debt:				
Mortgages payable	**$8,206**	$11,712	**$38,452**	$49,050
Construction loans payable	**697**	395	**2,187**	1,050
Unsecured Facility	**581**	264	**2,779**	1,622
Unsecured Debentures	**5,466**	5,416	**21,714**	19,477
Unsecured Term Loans	**2,652**	2,405	**9,838**	9,679
Interest on finance lease obligations	**2,065**	1,980	**8,292**	7,288
Amortization, premium (discount) on debt	**(98)**	(257)	**(1,828)**	(471)
Amortization, net financing costs	**423**	451	**1,746**	1,926
	$19,992	$22,366	**$83,180**	$89,621
Less: Interest capitalized to qualifying investment properties and residential inventory	**(5,867)**	(5,178)	**(23,397)**	(20,356)
Interest expense excluding yield maintenance cost	**$14,125**	$17,188	**$59,783**	$69,265
Adjustment for yield maintenance cost due to early repayment	**—**	—	**7,502**	—
Interest expense	**$14,125**	$17,188	**$67,285**	$69,265

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, 2018, 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, 2018, general and administrative expenses increased by $435 and $2,623, respectively, from the comparable periods in 2017. The increase is mainly due to higher salaries and related expenses.

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017	**DECEMBER 31, 2018**	DECEMBER 31, 2017
Salaries and benefits	**$4,870**	$4,178	**$15,277**	$13,705
Professional and directors fees	**814**	629	**2,801**	2,443
Office and general expenses	**566**	973	**2,823**	2,927
	$6,250	$5,780	**$20,901**	$19,075
Capitalized to qualifying investment properties	**(1,030)**	(995)	**(3,842)**	(4,639)
Total general and administrative expenses	**$5,220**	$4,785	**$17,059**	$14,436

OTHER FINANCIAL PERFORMANCE MEASURES

FUNDS FROM OPERATIONS AND NORMALIZED FUNDS FROM OPERATIONS ("FFO" AND "NORMALIZED 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. Normalized FFO starts with the standardized definition of FFO and removes the effects of a one-time extraordinary item totaling $7,502 of yield maintenance cost incurred on the early repayment of the first mortgage on 151 Front W, Toronto.

For the three months ended December 31, 2018, FFO totaled $0.535 per unit. This is an increase of $0.008 per unit, or 1.5%, over the comparable period in the prior year. The increase was primarily due to an increase in NOI, interest income, and a reduction in interest expense.

For the year ended December 31, 2018, excluding a one-time extraordinary item of yield maintenance cost, Normalized FFO totaled $2.166 per unit. This is an increase of $0.039 per unit, or 1.8%, over the comparable period in the prior year. The increase was primarily due to an increase in NOI, interest income, and a reduction in interest expense.

Allied initiated condominium pre-sales at KING Toronto, a 50/50 joint venture with Westbank, in the fourth quarter. The first three phases sold well, and the JV plans to release the fourth and final phase shortly. Allied incurred $1.5 million (at its share) of non-recurring marketing costs in connection with the pre-sales activity. (Marketing costs associated with merchant development are expensed when incurred.) The JV expects to initiate construction by year-end 2019.

To ensure sufficient cash is retained to meet capital improvement and leasing objectives, Allied strives to maintain an appropriate Normalized FFO pay-out ratio, which is the ratio of actual distributions to Normalized FFO in a given period. For the three months and year ended December 31, 2018, the Normalized FFO pay-out ratio was 73.3% and 72.5%, respectively.

ADJUSTED FUNDS FROM OPERATIONS AND NORMALIZED ADJUSTED FUNDS FROM OPERATIONS ("AFFO" AND "NORMALIZED 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.

FFO is normalized for the year ended December 31, 2018, for a one-time extraordinary item totaling $7,502 of yield maintenance cost incurred on the early repayment of the first mortgage on 151 Front W, Toronto, resulting in Normalized AFFO.

For the three months ended December 31, 2018, AFFO totaled $0.434 per unit. This represents an increase of $0.025 per unit, or 6.1%, over the comparable period in the prior year. Including the changes in FFO discussed above, AFFO per unit increased due to lower straight-line rent amortization as occupied space became economically productive. It also increased due to lower recoverable maintenance capital expenditures, partially offset by higher regular leasing expenditures and regular maintenance capital expenditures.

For the year ended December 31, 2018, Normalized AFFO totaled $1.793 per unit. This represents an increase of $0.206 per unit, or 13.0%, over the comparable period in the prior year. Including the changes in Normalized FFO discussed above, Normalized AFFO per unit increased primarily due to lower straight-line rent amortization as occupied space became economically productive. It also increased due to lower regular maintenance and recoverable maintenance capital expenditures, partially offset by higher regular leasing expenditures.

To ensure sufficient cash is retained to meet capital improvement and leasing objectives, Allied strives to maintain an appropriate Normalized AFFO pay-out ratio, which is the ratio of actual distributions to Normalized AFFO in a given period. For the three months and year ended December 31, 2018, the Normalized AFFO pay-out ratio was 90.3% and 87.6%, respectively.

The following table reconciles Allied's net income to FFO and AFFO for the three months ended December 31, 2018, and December 31, 2017.

RECONCILIATION OF FFO AND AFFO

	THREE MONTHS ENDED		
	DECEMBER 31, 2018	DECEMBER 31, 2017	CHANGE
Net income and comprehensive income	**$137,270**	$63,066	$74,204
Adjustment to fair value of investment properties	**(100,074)**	(26,260)	(73,814)
Adjustment to fair value of derivative instruments	**10,034**	(1,324)	11,358
Loss on disposal of investment properties	**(1,007)**	2,561	(3,568)
Incremental leasing costs	**1,646**	1,437	209
Amortization of leasing costs and improvement allowances	**7,788**	9,571	(1,783)
FFO	**$55,657**	$49,051	$6,606
Amortization of straight-line rents	**(2,381)**	(2,731)	350
Regular leasing expenditures	**(4,372)**	(3,945)	(427)
Regular maintenance capital expenditures	**(796)**	(310)	(486)
Incremental leasing (related to regular leasing expenditures)	**(1,152)**	(1,006)	(146)
Recoverable maintenance capital expenditures	**(1,770)**	(2,987)	1,217
AFFO	**$45,186**	$38,072	$7,114
Weighted average number of Units			
Basic	**103,859,370**	92,850,893	11,008,477
Diluted	**104,062,567**	93,027,626	11,034,941
Per Unit - basic			
FFO	**$0.536**	$0.528	$0.008
AFFO	**$0.435**	$0.410	$0.025
Per Unit - diluted			
FFO	**$0.535**	$0.527	$0.008
AFFO	**$0.434**	$0.409	$0.025
Payout Ratio			
FFO	**73.3%**	72.9%	0.4%
AFFO	**90.3%**	93.9%	(3.6%)

The following table reconciles Allied's net income to FFO, Normalized FFO and Normalized AFFO for the year ended December 31, 2018, and December 31, 2017.

	YEAR ENDED		
	DECEMBER 31, 2018	DECEMBER 31, 2017	CHANGE
Net income and comprehensive income	**$540,276**	$357,959	$182,317
Adjustment to fair value of investment properties	**(375,849)**	(198,115)	(177,734)
Adjustment to fair value of derivative instruments	**6,470**	(13,889)	20,359
Loss on disposal of investment properties	**(1,007)**	2,561	(3,568)
Incremental leasing costs	**5,986**	5,535	451
Amortization of leasing costs and improvement allowances	**28,819**	33,153	(4,334)
FFO	**$204,695**	$187,204	$17,491
Add impact of other adjustments:			
One-time extraordinary item [1]	**7,502**	—	7,502
Normalized FFO	**$212,197**	$187,204	$24,993
Amortization of straight-line rents	**(6,992)**	(13,830)	6,838
Regular leasing expenditures	**(19,900)**	(17,956)	(1,944)
Regular maintenance capital expenditures	**(1,524)**	(3,173)	1,649
Incremental leasing (related to regular leasing expenditures)	**(4,190)**	(3,875)	(315)
Recoverable maintenance capital expenditures	**(3,946)**	(8,702)	4,756
Normalized AFFO	**$175,645**	$139,668	$35,977
Weighted average number of Units			
Basic	**97,785,091**	87,864,560	9,920,531
Diluted	**97,965,711**	88,006,010	9,959,701
Per Unit - basic			
FFO	**$2.093**	$2.131	$(0.038)
Normalized FFO	**$2.170**	$2.131	$0.039
Normalized AFFO	**$1.796**	$1.590	$0.206
Per Unit - diluted			
FFO	**$2.089**	$2.127	$(0.038)
Normalized FFO	**$2.166**	$2.127	$0.039
Normalized AFFO	**$1.793**	$1.587	$0.206
Payout Ratio			
FFO	**75.2%**	72.2%	3.0%
Normalized FFO	**72.5%**	72.2%	0.3%
Normalized AFFO	**87.6%**	96.8%	(9.2%)

(1) Allied normalized FFO and AFFO in Q2 2018 by excluding a one-time extraordinary item.

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

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017	**DECEMBER 31, 2018**	DECEMBER 31, 2017
Cash flows from operating activities	**$70,810**	$50,037	**$239,381**	$198,926
Add (deduct) impact of the following:				
Amortization of equipment and other assets	**(360)**	(419)	**(1,556)**	(1,819)
Amortization of straight-line rents	**2,381**	2,731	**6,992**	13,830
Amortization, (premium) discount on debt	**98**	257	**1,828**	471
Amortization of finance lease obligations	**69**	(111)	**68**	190
Non-cash interest expense	**4,962**	5,264	**892**	(2,472)
Unit-compensation expense	**(919)**	(810)	**(3,593)**	(3,233)
Change in other non-cash financing items	**(423)**	(549)	**(1,918)**	(2,094)
Change in other non-cash operating items	**(24,494)**	(12,581)	**(51,758)**	(25,925)
Additions to residential inventory	**1,887**	3,795	**8,373**	3,795
Incremental leasing costs	**1,646**	1,437	**5,986**	5,535
FFO	**$55,657**	$49,051	**$204,695**	$187,204
One-time extraordinary item [1]	**—**	—	**7,502**	—
Normalized FFO	**$55,657**	$49,051	**$212,197**	$187,204
Amortization of straight-line rents	**(2,381)**	(2,731)	**(6,992)**	(13,830)
Regular leasing expenditures	**(4,372)**	(3,945)	**(19,900)**	(17,956)
Regular maintenance capital expenditures	**(796)**	(310)	**(1,524)**	(3,173)
Incremental leasing (related to regular leasing expenditures)	**(1,152)**	(1,006)	**(4,190)**	(3,875)
Recoverable maintenance capital expenditures	**(1,770)**	(2,987)	**(3,946)**	(8,702)
Normalized AFFO	**$45,186**	$38,072	**$175,645**	$139,668

(1) Allied normalized FFO and AFFO in Q2 2018 by excluding 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 users 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 users occupying space covered by maturing leases.

For the three months ended December 31, 2018, Allied incurred (i) $4,372 in regular leasing expenditures or $10.57 per leased square foot, (ii) $796 in regular maintenance capital expenditures and (iii) $1,770 of recoverable maintenance capital expenditures.

For the year ended December 31, 2018, Allied incurred (i) $19,900 in regular leasing expenditures or $10.79 per leased square foot, (ii) $1,524 in regular maintenance capital expenditures and (iii) $3,946 of recoverable maintenance capital expenditures.

For the three months and year ended December 31, 2018, Allied invested $94,809 and $238,740, respectively, of revenue enhancing capital into the rental and development portfolio to enhance its income-producing capability and in ongoing development activity.

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017	**DECEMBER 31, 2018**	DECEMBER 31, 2017
Regular leasing expenditures	**$4,372**	$3,945	**$19,900**	$17,956
Regular maintenance capital expenditures	**$796**	$310	**$1,524**	$3,173
Recoverable maintenance capital expenditures	**$1,770**	$2,987	**$3,946**	$8,702
Revenue-enhancing capital and development costs	**$94,809**	$50,824	**$238,740**	$177,983

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 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, 2018, and December 31, 2017.

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017	**DECEMBER 31, 2018**	DECEMBER 31, 2017
Net income and comprehensive income for the period	**$137,270**	$63,066	**$540,276**	$357,959
Interest expense	**14,125**	17,188	**67,285**	69,265
Amortization of equipment and other assets	**360**	419	**1,556**	1,819
Amortization of leasing commissions	**—**	2,259	**—**	8,694
Amortization of improvement allowances	**7,788**	7,312	**28,819**	24,459
Fair value (gain) on investment properties	**(100,074)**	(26,260)	**(375,849)**	(198,115)
Fair value loss (gain) on derivative instruments	**10,034**	(1,324)	**6,470**	(13,889)
(Gain) loss on disposal of investment properties	**(1,007)**	2,561	**(1,007)**	2,561
Adjusted EBITDA	**$68,496**	$65,221	**$267,550**	$252,753

Section VI
—Historical Performance

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

	Q4 2018	Q3 2018	Q2 2018 [1]	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Rental revenue from investment properties	$112,889	$109,630	$106,983	$106,894	$107,709	$106,309	$103,134	$102,111
Property operating costs	(47,925)	(46,145)	(45,540)	(46,328)	(46,419)	(45,277)	(43,493)	(44,359)
Net rental income	$64,964	$63,485	$61,443	$60,566	$61,290	$61,032	$59,641	$57,752
Net income and comprehensive income	$137,270	$204,654	$113,652	$84,700	$63,066	$101,945	$113,081	$79,867
Weighted average units (diluted)	104,062,567	100,680,315	93,868,833	93,099,918	93,027,626	88,936,173	85,073,714	84,868,429
Distributions	$40,817	$39,575	$37,210	$36,253	$35,754	$34,489	$32,506	$32,428
FFO	$55,657	$55,253	$43,750	$50,035	$49,051	$47,799	$45,624	$44,730
FFO per unit (diluted)	$0.535	$0.549	$0.466	$0.537	$0.527	$0.537	$0.536	$0.527
FFO pay-out ratio	73.3%	71.6%	85.1%	72.5%	72.9%	72.2%	71.2%	72.5%
Normalized FFO [1]	$55,657	$55,253	$51,252	$50,035	$49,051	$47,799	$45,624	$44,730
Normalized FFO per unit (diluted)	$0.535	$0.549	$0.546	$0.537	$0.527	$0.537	$0.536	$0.527
Normalized FFO pay-out ratio	73.3%	71.6%	72.6%	72.5%	72.9%	72.2%	71.2%	72.5%
Normalized AFFO [1]	$45,186	$47,034	$42,610	$40,815	$38,072	$33,897	$33,587	$34,112
Normalized AFFO per unit (diluted)	$0.434	$0.467	$0.454	$0.438	$0.409	$0.381	$0.395	$0.402
Normalized AFFO pay-out ratio	90.3%	84.1%	87.3%	88.8%	93.9%	101.7%	96.8%	95.1%
Net debt as a multiple of annualized adjusted EBITDA	7.1x	6.3x	6.8x	7.7x	7.5x	7.3x	8.2x	8.1x
Total indebtedness ratio	29.4%	27.6%	29.9%	34.0%	33.8%	34.3%	37.3%	36.6%
Total rental GLA	11,192	10,953	10,940	10,929	11,268	11,818	11,805	11,747
Leased rental GLA	10,826	10,541	10,435	10,380	10,728	11,027	11,000	10,879
Leased area %	96.7%	96.2%	95.4%	95.0%	95.2%	93.3%	93.2%	92.6%

(1) Allied normalized FFO and AFFO in Q2 2018 by excluding a one-time extraordinary item.

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. Allied's commitment to the balance sheet is evidenced by the fact that net debt as a multiple of annualized adjusted EBITDA declined from 8.1x to 7.1x over the last eight quarters with the result that growth in normalized FFO per unit has been modest.

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, 2018, 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, 2018, 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, 2018, 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 disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) at December 31, 2018, 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, 2018, 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, 2018, 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.

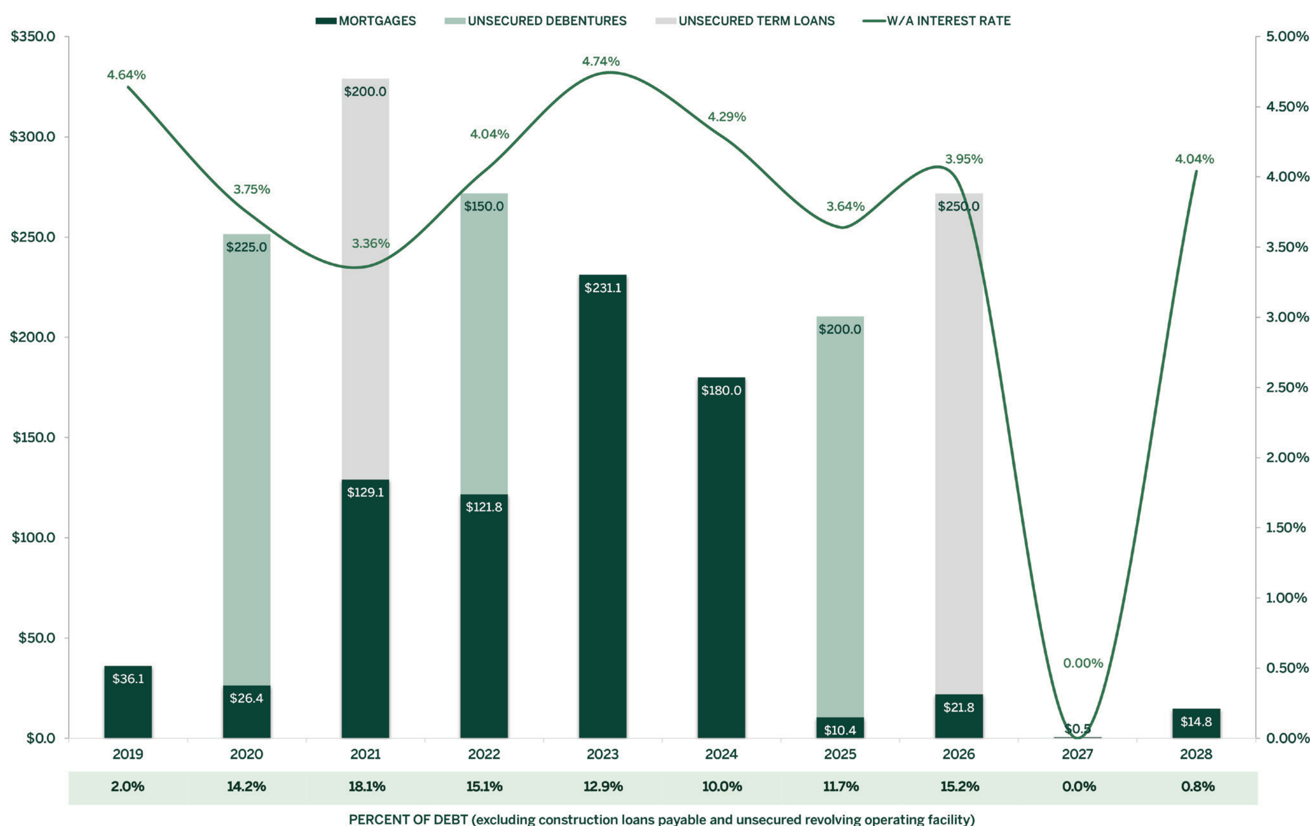
Section IX
— Risks and Uncertainties

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 Allied's 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. Allied's current debt-maturity schedule is set out below:



Interest rates on total debt are between 2.83% and 5.58% with a weighted average interest rate of 3.96%. The weighted average term of our debt is 4.21 years. The aforementioned excludes the revolving Unsecured Facility and construction loans, refer to note 10(b) and (c) of the audited consolidated financial statements for further details.

Allied is additionally subject to risk associated with equity financing. The ability to access the equity capital markets at appropriate points in time and at an acceptable cost will influence Allied's success. In order to minimize the risk associated with equity financing, Allied engages in extensive investor relations activity with retail and institutional investors globally and strives to fix the cost of equity in conjunction with a clear use of proceeds.

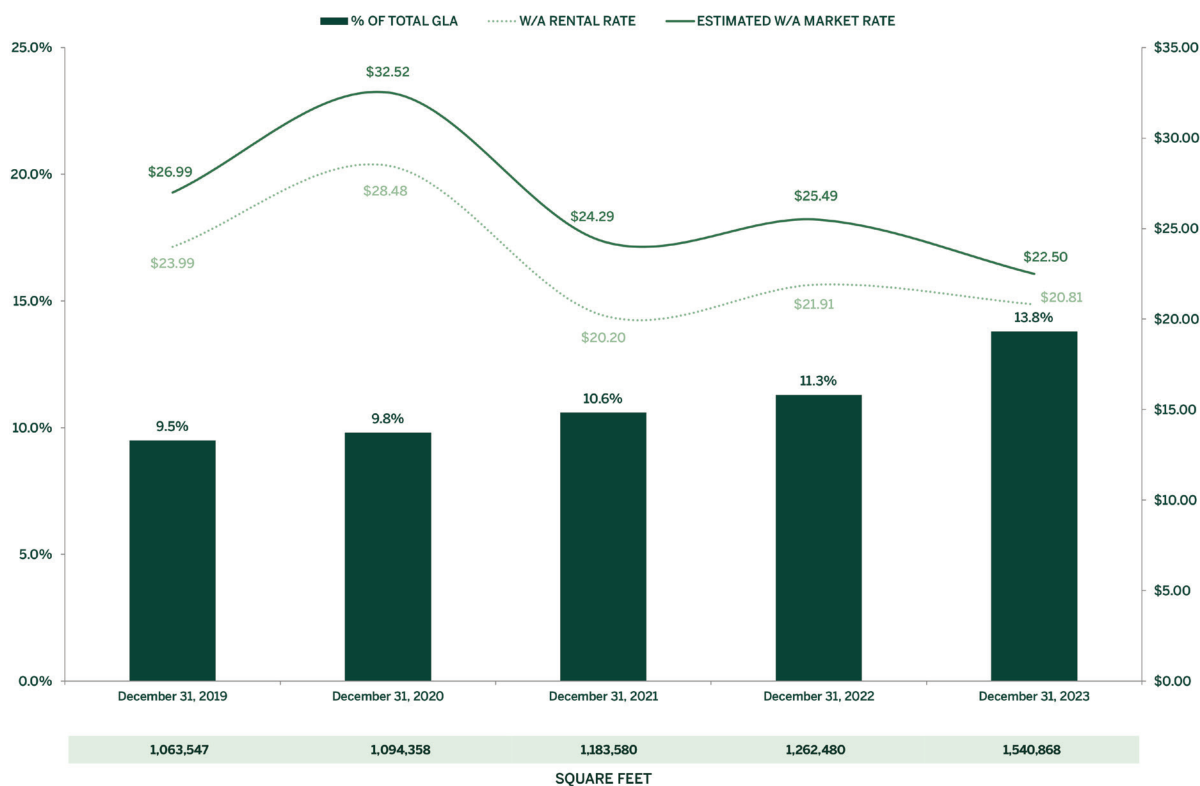
CREDIT RISK

Allied is subject to credit risk arising from the possibility that users may not be able to fulfill their lease obligations. Allied strives to mitigate this risk by maintaining a diversified user-mix and limiting exposure to any single user. Allied's exposure to top 10 users is 19.1% of gross revenue and the credit quality of our top 10 users continues to improve.

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, 2018, Allied had $200,289 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 users 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. Allied's current lease maturity schedule is set out below:



In evaluating lease roll-over risk, it is informative to determine Allied's sensitivity to a decline in occupancy. For every full-year decline of 100 basis points in occupancy at its average rental rate per square foot, Allied's annual Normalized AFFO would decline by approximately $4,364 (approximately $0.045 per unit). The decline in Normalized AFFO per unit would be more pronounced if the decline in occupancy involved space leased above the average rental rate per square foot and less pronounced if the decline in occupancy involved space leased below the 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 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 its 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 users 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, specified investment flow through trusts or partnerships ("SIFT") rules were introduced and changed the manner in which certain trusts are taxed. Certain distributions from a SIFT would not be deductible in computing the SIFT's taxable income and therefore the distributions would be subject to trust entity level tax, at the general tax rate applicable to Canadian corporations. Trusts that meet the REIT exemption are not subject to SIFT 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. Asset tests need to be met at all times in the taxation year and revenue tests need to be met for the taxation year. While there is uncertainty surrounding the interpretation of the relevant provisions of the REIT exemption and application of SIFT rules, 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 users, 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.

REAL ESTATE RISK

Allied is subject to the conventional risks associated with the ownership of real estate. Allied strives to mitigate these risks by remaining fully informed on best practices, trends and legislative and demographic changes in the commercial real estate markets within which we operate. Allied additionally strives to mitigate these risks by focusing intently on execution.

Section X

— *Property Table*

DECEMBER 31, 2018 PROPERTIES	Urban Workspace Office GLA	Urban Workspace Retail GLA	Urban Data Centres GLA	Total GLA	% Total GLA	Total Vacant	Total Leased	Leased %
28 Atlantic	8,324	—	—	8,324		—	8,324	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%
905 King W	46,832	6,593	—	53,425		—	53,425	100.0%
College & Manning, 555 College (1)	24,634	1,996	—	26,630		—	26,630	100.0%
The Castle	146,223	35,614	—	181,837		16,195	165,642	91.1%
King West	**362,151**	**44,203**	**—**	**406,354**	**3.6%**	**16,195**	**390,159**	**96.0%**
141 Bathurst	10,271	—	—	10,271		—	10,271	100.0%
183 Bathurst	24,845	5,600	—	30,445		—	30,445	100.0%
241 Spadina	24,612	6,675	—	31,287		—	31,287	100.0%
379 Adelaide W	36,133	4,300	—	40,433		—	40,433	100.0%
383 Adelaide W	4,882	—	—	4,882		—	4,882	100.0%
387 Adelaide W	—	6,081	—	6,081		—	6,081	100.0%
420 Wellington W	33,813	3,137	—	36,950		—	36,950	100.0%
425 Adelaide W	70,892	4,301	—	75,193		1,026	74,167	98.6%
425-439 King W	82,897	7,855	—	90,752		—	90,752	100.0%
441-443 King W	7,877	3,065	—	10,942		—	10,942	100.0%
445-455 King W	27,435	22,335	—	49,770		—	49,770	100.0%
460 King W	11,100	4,787	—	15,887		—	15,887	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, 2018 PROPERTIES	Urban Workspace Office GLA	Retail GLA	Urban Data Centres GLA	Total GLA	% Total GLA	Total Vacant	Total Leased	Leased %
469 King W	63,912	11,676	—	75,588		—	75,588	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%
500-522 King W	78,271	43,079	—	121,350		—	121,350	100.0%
552-560 King W	8,019	16,696	—	24,715		—	24,715	100.0%
544 King W	17,006	—	—	17,006		—	17,006	100.0%
555 Richmond W	255,412	41,580	—	296,992		1,158	295,834	99.6%
579 Richmond W	28,515	—	—	28,515		—	28,515	100.0%
662 King W	33,580	—	—	33,580		—	33,580	100.0%
668 King W	2,010	2,973	—	4,983		—	4,983	100.0%
80-82 Spadina	60,076	16,009	—	76,085		—	76,085	100.0%
96 Spadina	80,309	9,936	—	90,245		575	89,670	99.4%
King Portland Centre, 602 King W [(1)]	16,098	11,268	—	27,366		5,673	21,693	79.3%
King West Central	**1,095,067**	**265,985**	**—**	**1,361,052**	**12.2%**	**8,432**	**1,352,620**	**99.4%**
180 John	39,375	6,256	—	45,631		—	45,631	100.0%
116 Simcoe	14,349	—	—	14,349		—	14,349	100.0%
179 John	68,606	—	—	68,606		—	68,606	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	21,670	—	53,490		—	53,490	100.0%
257 Adelaide W	45,557	—	—	45,557		—	45,557	100.0%
312 Adelaide W	62,825	7,942	—	70,767		2,350	68,417	96.7%
331-333 Adelaide W	19,733	3,724	—	23,457		—	23,457	100.0%
358-360 Adelaide W	52,405	—	—	52,405		—	52,405	100.0%
375-381 Queen W	21,541	10,648	—	32,189		3,000	29,189	90.7%
388 King W	24,302	15,012	—	39,314		1,341	37,973	96.6%
82 Peter	39,288	8,287	—	47,575		—	47,575	100.0%
99 Spadina	51,173	—	—	51,173		—	51,173	100.0%
Union Centre	10,736	29,239	—	39,975		3,736	36,239	90.7%
QRC West Phase I	334,856	11,287	—	346,143		—	346,143	100.0%
Entertainment District	**910,657**	**114,065**	**—**	**1,024,722**	**9.2%**	**10,427**	**1,014,295**	**99.0%**

DECEMBER 31, 2018 PROPERTIES	Urban Workspace Office GLA	Urban Workspace Retail GLA	Urban Data Centres 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**	**0.5%**	**—**	**50,667**	**100.0%**
56 Esplanade	56,400	19,575	—	75,975		2,511	73,464	96.7%
70 Esplanade	19,192	5,767	—	24,959		—	24,959	100.0%
106 Front E	24,035	10,373	—	34,408		—	34,408	100.0%
35-39 Front E	31,101	13,804	—	44,905		—	44,905	100.0%
36-40 Wellington E	13,513	9,893	—	23,406		—	23,406	100.0%
41-45 Front E	20,957	14,079	—	35,036		—	35,036	100.0%
47 Front E	7,065	4,337	—	11,402		—	11,402	100.0%
45-55 Colborne	28,625	13,986	—	42,611		3,718	38,893	91.3%
49 Front E	9,370	10,441	—	19,811		—	19,811	100.0%
50 Wellington E	21,951	11,049	—	33,000		—	33,000	100.0%
60 Adelaide E	106,048	4,608	—	110,656		4,347	106,309	96.1%
184 Front E	81,203	6,489	—	87,692		—	87,692	100.0%
St. Lawrence Market	**419,460**	**124,401**	**—**	**543,861**	**4.9%**	**10,576**	**533,285**	**98.1%**
137 George	750	750	—	1,500		1,500	—	—%
204-214 King E	126,341	2,699	—	129,040		—	129,040	100.0%
230 Richmond E	72,861	—	—	72,861		—	72,861	100.0%
252-264 Adelaide E	47,674	—	—	47,674		—	47,674	100.0%
489 Queen E	32,208	—	—	32,208		—	32,208	100.0%
70 Richmond	35,181	—	—	35,181		—	35,181	100.0%
Dominion Square	111,857	—	—	111,857		14,933	96,924	86.6%
QRC East	179,435	34,715	—	214,150		—	214,150	100.0%
QRC South	44,024	—	—	44,024		1,185	42,839	97.3%
Queen Richmond	**650,331**	**38,164**	**—**	**688,495**	**6.2%**	**17,618**	**670,877**	**97.4%**
Toronto	**3,472,015**	**603,136**	**—**	**4,075,151**	**36.4%**	**63,248**	**4,011,903**	**98.4%**
189 Joseph	26,462	—	—	26,462		—	26,462	100.0%
72 Victoria	90,428	—	—	90,428		865	89,563	99.0%
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	254,941	73,779	—	328,720		5,835	322,885	98.2%
Kitchener	**485,236**	**73,779**	**—**	**559,015**	**5.0%**	**6,700**	**552,315**	**98.8%**
Central Canada	**3,957,251**	**676,915**	**—**	**4,634,166**	**41.4%**	**69,948**	**4,564,218**	**98.5%**

DECEMBER 31, 2018 PROPERTIES	Urban Workspace Office GLA	Retail GLA	Urban Data Centres GLA	Total GLA	% Total GLA	Total Vacant	Total Leased	Leased %
The Chambers	210,238	10,945	—	221,183		2,499	218,684	98.9%
Ottawa	**210,238**	**10,945**	**—**	**221,183**	**2.0%**	**2,499**	**218,684**	**98.9%**
3510 Saint-Laurent	82,633	16,223	—	98,856		7,166	91,690	92.8%
3575 Saint-Laurent	168,128	18,410	—	186,538		13,188	173,350	92.9%
400 Atlantic	86,273	292	—	86,565		4,433	82,132	94.9%
4446 Saint-Laurent	72,710	7,281	—	79,991		7,623	72,368	90.5%
451-481 Saint-Catherine	22,297	8,510	—	30,807		2,350	28,457	92.4%
480 Saint-Laurent	47,543	7,217	—	54,760		7,727	47,033	85.9%
5445 Gaspé	480,008	955	—	480,963		11,301	469,662	97.7%
5455 Gaspé	486,029	904	—	486,933		3,235	483,698	99.3%
5505 Saint-Laurent	248,822	2,524	—	251,346		—	251,346	100.0%
6300 Parc	181,225	1,310	—	182,535		5,092	177,443	97.2%
644 Courcelle	149,709	4,355	—	154,064		10,078	143,986	93.5%
645 Wellington	131,266	3,773	—	135,039		—	135,039	100.0%
740 Saint-Maurice	68,044	—	—	68,044		—	68,044	100.0%
8 Place du Commerce	40,702	16,694	—	57,396		—	57,396	100.0%
85 Saint-Paul	80,264	—	—	80,264		2,869	77,395	96.4%
Cité Multimédia	935,884	8,176	—	944,060		12,380	931,680	98.7%
Le Nordelec	809,664	10,139	—	819,803		23,748	796,055	97.1%
Montréal	**4,091,201**	**106,763**	**—**	**4,197,964**	**37.5%**	**111,190**	**4,086,774**	**97.4%**
Eastern Canada	**4,301,439**	**117,708**	**—**	**4,419,147**	**39.5%**	**113,689**	**4,305,458**	**97.4%**
100-6th SW	34,242	—	—	34,242		—	34,242	100.0%
119-6th SW	62,650	—	—	62,650		—	62,650	100.0%
1207-1215 13th SE	32,015	—	—	32,015		—	32,015	100.0%
1240-20th SE	44,885	—	—	44,885		—	44,885	100.0%
129-8th SW	2,339	4,591	—	6,930		—	6,930	100.0%
209-8th SW	27,118	5,022	—	32,140		—	32,140	100.0%
237-8th SE	65,727	8,581	—	74,308		1,160	73,148	98.4%
322-326 11th SW	197,068	15,660	—	212,728		7,877	204,851	96.3%
402-11th SE	39,537	—	—	39,537		—	39,537	100.0%
438-11th SE	52,489	—	—	52,489		—	52,489	100.0%
601-611 10th SW	46,319	2,455	—	48,774		5,365	43,409	89.0%

DECEMBER 31, 2018 PROPERTIES	Urban Workspace Office GLA	Urban Workspace Retail GLA	Urban Data Centres GLA	Total GLA	% Total GLA	Total Vacant	Total Leased	Leased %
603-605 11th SW	21,853	29,207	—	51,060		16,395	34,665	67.9%
613-11th SW	—	3,163	—	3,163		—	3,163	100.0%
617-11th SW	2,986	6,306	—	9,292		2,403	6,889	74.1%
625-11th SW	32,481	1,410	—	33,891		9,208	24,683	72.8%
731-10th SW (4)	—	10,433	—	10,433		—	10,433	100.0%
805-1st SW	9,135	18,874	—	28,009		2,057	25,952	92.7%
808-1st SW	17,566	29,902	—	47,468		9,949	37,519	79.0%
809-10th SW	35,704	—	—	35,704		5,278	30,426	85.2%
802-838 11th SW (4)	9,990	23,287	—	33,277		8,989	24,288	73.0%
Demcor Building	39,674	—	—	39,674		5,728	33,946	85.6%
Calgary	**773,778**	**158,891**	**—**	**932,669**	**8.3%**	**74,409**	**858,260**	**92.0%**
Boardwalk & Revillon Building	220,092	45,442	—	265,534		3,700	261,834	98.6%
Edmonton	**220,092**	**45,442**	**—**	**265,534**	**2.4%**	**3,700**	**261,834**	**98.6%**
128 West Pender	78,323	1,693	—	80,016		9,149	70,867	88.6%
151 West Hastings	38,512	—	—	38,512		—	38,512	100.0%
342 Water	18,338	2,886	—	21,224		2,972	18,252	86.0%
840 Cambie	91,437	—	—	91,437		—	91,437	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%
1220 Homer	21,708	—	—	21,708		—	21,708	100.0%
1286 Homer	15,919	9,115	—	25,034		—	25,034	100.0%
Vancouver	**334,818**	**32,858**	**—**	**367,676**	**3.3%**	**12,121**	**355,555**	**96.7%**
Western Canada	**1,328,688**	**237,191**	**—**	**1,565,879**	**14.0%**	**90,230**	**1,475,649**	**94.2%**
Total Office and Retail	**9,587,378**	**1,031,814**	**—**	**10,619,192**	**94.9%**	**273,867**	**10,345,325**	**97.4%**
905 King W	—	—	57,339	57,339		4,038	53,301	93.0%
151 Front W	—	—	275,709	275,709		4,387	271,322	98.4%
250 Front W	—	—	173,000	173,000		67,000	106,000	61.3%
Urban Data Centres	**—**	**—**	**506,048**	**506,048**	**4.5%**	**75,425**	**430,623**	**85.1%**
Total Rental Portfolio, Excluding PUD Transfers	**9,587,378**	**1,031,814**	**506,048**	**11,125,240**	**99.4%**	**349,292**	**10,775,948**	**96.9%**

DECEMBER 31, 2018 PROPERTIES	Urban Workspace Office GLA	Urban Workspace Retail GLA	Urban Data Centres GLA	Total GLA	% Total GLA	Total Vacant	Total Leased	Leased %
642 King W [1]	7,030	5,276	—	12,306		—	12,306	100.0%
491 College [1]	8,851	3,717	—	12,568		—	12,568	100.0%
1700 St. Patrick	—	41,764	—	41,764		16,225	25,539	61.2%
Total Rental Portfolio, Including PUD Transfers	**9,603,259**	**1,082,571**	**506,048**	**11,191,878**	**100%**	**365,517**	**10,826,361**	**96.7%**

Note that the table above does not include 159-161 Bathurst and 589-591 Richmond W as they are considered ancillary residential properties, totaling approximately 9,600 square feet. They are however included in the property count.

(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)
King Portland Centre, Toronto [(1)]	136,320
TELUS Sky, Calgary [(2)]	218,000
425 Viger, Montréal	315,000
The Lougheed (604-1st SW), Calgary	92,600
College & Manning, 547-549 College, Toronto [(1)]	27,000
Adelaide & Duncan, Toronto [(3)]	228,000
The Well, Toronto [(4)]	746,000
KING Toronto, Toronto [(3)(5)]	115,000
Total Development Portfolio	1,877,920

(1) RioCan/Allied Joint Arrangement
(2) Telus/Westbank/Allied Joint Arrangement
(3) Westbank/Allied Joint Arrangement
(4) Each of Allied and RioCan own an undivided 50% interest with an estimated total GLA of 3,100,000 square feet. The GLA components (in square feet) at our 50% share will be as follows: approximately 534,000 of office, 212,000 of retail, and the remaining is related to residential air rights. The air rights were sold by the co-ownership as previously announced, with closing expected to occur by 2021.
(5) Allied entered into a joint arrangement with Westbank to develop KING Toronto. As part of the arrangement, Allied sold a 50% undivided interest to Westbank. KING Toronto is comprised of the following properties: 489 King W, 495 King W, 499 King W, 511-529 King W, 533 King W and 539 King W. The GLA components (in square feet) at our 50% share will be as follows: 30,000 of office and 85,000 of retail.

ANCILLARY PARKING FACILITIES

	NUMBER OF SPACES
7-9 Morrison, Toronto	25
15 Brant, Toronto	203
78 Spadina, Toronto	39
105 George, Toronto	15
301 Markham, Toronto	47
305 Joseph, Kitchener [(1)]	75
388 Richmond, Toronto	121
464 King, Toronto	12
478 King, Toronto [(2)]	65
560 King, Toronto	171
650 King, Toronto	71
Total Parking	844

(1) Perimeter/Allied Joint Arrangement
(2) Lifetime/Allied Joint Arrangement

Consolidated Financial Statements for the Years Ended December 31, 2018 and 2017

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 ("Allied"). 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 Allied.

Deloitte LLP (the "Auditors"), the independent auditors of Allied, have audited the consolidated financial statements of Allied 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

OPINION

We have audited the consolidated financial statements of Allied Properties Real Estate Investment Trust and its subsidiaries (the "Trust"), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of income and comprehensive income, unitholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis of Results of Operations and Financial Condition
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis of Results of Operations and Financial Condition and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, management is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Trust to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Antonio Ciciretto.

/s/ Deloitte LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

TORONTO, ONTARIO
FEBRUARY 13, 2019

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2018 AND DECEMBER 31, 2017

(in thousands of Canadian dollars)	NOTES	DECEMBER 31, 2018	DECEMBER 31, 2017
Assets			
Non-current assets			
Investment properties	5	$6,257,647	$5,627,439
Residential inventory	6	103,690	28,239
Loans and notes receivable	7	202,367	90,613
Other assets	8	28,518	12,593
		6,592,222	5,758,884
Current assets			
Cash and cash equivalents	19	18,361	6,048
Loans and notes receivable	7	11,077	11,628
Accounts receivable, prepaid expenses and deposits	9	47,999	47,072
Residential Inventory	6	36,612	—
		114,049	64,748
Total assets		$6,706,271	$5,823,632
Liabilities			
Non-current liabilities			
Debt	10	$1,850,621	$1,705,526
Finance lease obligations	11	156,663	154,871
		2,007,284	1,860,397
Current liabilities			
Debt	10	106,990	254,351
Accounts payable and other liabilities	12	217,334	159,862
		324,324	414,213
Total liabilities		2,331,608	2,274,610
Unitholders' equity		4,374,663	3,549,022
Total liabilities and Unitholders' equity		$6,706,271	$5,823,632

Commitments and Contingencies (note 25)
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, 2018 AND 2017

(in thousands of Canadian dollars, except unit and per unit amounts)	NOTES	YEAR ENDED DECEMBER 31, 2018	YEAR ENDED DECEMBER 31, 2017
Rental revenue from investment properties	17	$436,396	$419,263
Property operating costs		(185,938)	(179,548)
Net rental income		250,458	239,715
Interest expense	10 (f)	(67,285)	(69,265)
General and administrative expenses	18	(17,059)	(14,436)
Condominium marketing expenses		(1,609)	—
Amortization of other assets and leasing costs	5 & 8	(1,556)	(10,513)
Interest income		6,941	3,015
Fair value gain on investment properties	5	375,849	198,115
Fair value (loss) gain on derivative instruments	13, 24 (d)	(6,470)	13,889
Gain (loss) on disposal of investment properties		1,007	(2,561)
Net income and comprehensive income		$540,276	$357,959
Income per unit			
Basic		$5.53	$4.07
Diluted		$5.51	$4.07
Weighted average number of Units	16		
Basic		97,785,091	87,864,560
Diluted		97,965,711	88,006,010

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, 2018 AND 2017

(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
Unit 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		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

(in thousands of Canadian dollars)	NOTES	TRUST UNITS	RETAINED EARNINGS	CONTRIBUTED SURPLUS	TOTAL
Balance at January 1, 2018	**14**	**$2,399,768**	**$1,134,614**	**$14,640**	**$3,549,022**
Net income and comprehensive income		**—**	**540,276**	**—**	**540,276**
Unit offering (net of issuance costs)	**14**	**435,168**	**—**	**—**	**435,168**
Distributions		**—**	**(153,855)**	**—**	**(153,855)**
Unit option plan – options exercised	**15 (a)**	**3,043**	**—**	**—**	**3,043**
Contributed surplus – Unit option plan	**15 (a)**	**—**	**—**	**1,346**	**1,346**
Restricted Unit plan (net of forfeitures)	**15 (b)**	**(2,584)**	**—**	**2,247**	**(337)**
Balance at December 31, 2018		**$2,835,395**	**$1,521,035**	**$18,233**	**$4,374,663**

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, 2018 AND 2017

(in thousands of Canadian dollars)	NOTES	YEAR ENDED DECEMBER 31, 2018	YEAR ENDED DECEMBER 31, 2017
Operating activities			
Net income for the year		$540,276	$357,959
Fair value (gain) on investment properties	5	(375,849)	(198,115)
Fair value (gain) loss on derivative instruments	24 (d)	6,470	(13,889)
(Gain) loss on disposal of investment properties		(1,007)	2,561
Interest expense	10 (f)	67,285	69,265
Interest paid (excluding capitalized interest)	19, 5	(68,177)	(66,793)
Amortization of equipment and other assets	8	1,556	1,819
Amortization of leasing commissions	5	—	8,694
Amortization of improvement allowances	5	28,819	24,459
Amortization of straight-line rents	5	(6,992)	(13,830)
Amortization of premium (discount) on debt	10 (f)	(1,828)	(471)
Amortization of finance lease obligations		(68)	(190)
Unit compensation expense	15	3,593	3,233
Additions to residential inventory		(8,373)	(3,795)
Change in other non-cash financing items		1,918	2,094
Change in other non-cash operating items	19	51,758	25,925
Cash provided by operating activities		239,381	198,926
Financing activities			
Repayment of mortgages payable		(213,653)	(155,685)
Proceeds from senior unsecured debentures (net of financing costs)	10 (d)	—	198,825
Proceeds from unsecured term loan (net of financing costs)	10 (e)	99,190	—
Principal payments of finance lease obligations		(24)	(22)
Distributions paid to Unitholders		(152,123)	(133,900)
Proceeds of Unit offering (net of issuance costs)	14	435,168	287,701
Proceeds from exercise of Unit options	14, 15	3,043	15,948
Proceeds from Units issued under the LTIP	14	—	72
Purchase of Units under normal course issuer bid for cancellation	14	—	(47)
Restricted Unit Plan (net of forfeitures)	14, 15	(2,584)	(2,173)
Proceeds from notes receivables		575	1,073
Drawings from Unsecured Revolving Operating Facility	10 (c)	470,000	167,000

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018 AND 2017 *- continued*

		YEAR ENDED	
(in thousands of Canadian dollars)	NOTES	DECEMBER 31, 2018	DECEMBER 31, 2017
Repayments of Unsecured Revolving Operating Facility	10 (c)	(400,000)	(189,000)
Proceeds from construction loan	10 (b)	24,151	25,702
Financing costs		(719)	—
Loan receivable issued to third-party	4, 7 (a)	(44,943)	(67,143)
Cash provided by financing activities		218,081	148,351
Investing activities			
Acquisition of investment properties	4	(123,279)	(111,700)
Additions to investment properties (including capitalized interest)	5	(244,210)	(189,858)
Net proceeds on disposition of investment properties	4	—	30,710
Additions to equipment and other assets	8	(2,613)	(595)
Leasing commissions	5	(21,023)	(7,793)
Improvement allowances	5	(54,024)	(74,186)
Cash used in investing activities		(445,149)	(353,422)
Increase (decrease) in cash and cash equivalents		12,313	(6,145)
Cash and cash equivalents, beginning of year		6,048	12,193
Cash and cash equivalents, end of year		$18,361	$6,048

Supplemental cash flow information (note 19)
The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS

Allied Properties Real Estate Investment Trust ("Allied") is a Canadian unincorporated closed-end real estate investment trust created pursuant to the Declaration of Trust dated October 25, 2002, most recently amended May 12, 2016. Allied is governed by the laws of the Province of Ontario and began operations on February 19, 2003. The Units of Allied 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 year ended December 31, 2018, and 2017, 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, 2018, and 2017, were approved and authorized for issue by the Board of Trustees on February 13, 2019.

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

Investment properties are externally appraised quarterly and are 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 Statements 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 uses 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 operations.

(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.

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 collectability is reasonably assured. Other income is recognized upon provision of goods or services when collectability is reasonably assured.

Contracts with customers for residential condominium units generally include one distinct performance obligation. Revenue is measured at the transaction price agreed under the contract, and is recognized at the point in time in which control over the property has been transferred. Customer deposits received are held in trust and restricted for use.

(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) *Other Assets*

Computer and office equipment and owner occupied property are included in other assets and are 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).

(I) *Financial Instruments*

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

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

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
Finance 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, finance 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, Allied 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 as loans and receivables or fair value through profit or loss. Financial assets are initially measured at fair value.

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 assesses, on a continual basis, whether there is objective evidence that a financial asset that is not carried at fair value through profit or loss is impaired based on changes in the credit risk of the financial asset since initial recognition. 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 classified and measured as disclosed in the table above. 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, finance 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) *Short-Term Employee Benefits*

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

(L) *Unit-Based Payments*

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

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

(M) *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.

(N) *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 (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 the 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 (refer to note 15 for further details).

(O) *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 inventory 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.

(P) *Accounting standards implemented in 2018*

IFRS 15 - REVENUE FROM CONTRACTS WITH CUSTOMERS ("IFRS 15")

Allied has adopted IFRS 15, as issued in May 2014, on January 1, 2018, which replaces IAS 18, *Revenue*, and IAS 11, *Construction contracts*. Allied has elected to apply the standard on a modified retrospective basis as of January 1, 2018. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The objective of IFRS 15 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; except for contracts that are within the scope of the standards on leases, insurance contracts, and financial instruments. IFRS 15 also contains enhanced disclosure requirements.

As Allied's most material revenue stream of rental revenue is outside the scope of the new standard, the adoption of the new standard did not have a material impact on the consolidated statements of income and comprehensive income. Service components within its lease arrangements fall within the scope of IFRS 15, specifically the recovery of costs related to the provision of services provided to users. In respect of such recovery of services revenue, Allied has concluded that the pattern of revenue recognition is unchanged. Allied has included disclosure of the separate components of each revenue stream, including those within gross leases (see note 17). There was no adjustment to opening retained earnings on the adoption of this standard.

No material impact on the consolidated statements of cash flow has resulted from adoption.

IFRS 9 - FINANCIAL INSTRUMENTS ("IFRS 9")

Allied has adopted IFRS 9, issued in July 2014, and the related consequential amendments to IFRS 7 - *Financial Instruments: Disclosures*, with a date of initial application of January 1, 2018. IFRS 9 introduced new requirements, which is summarized as follows:

- Classification and measurement of financial assets and financial liabilities;
- Impairment for financial assets;
- General hedge accounting, which represent a significant change from IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39"); and
- Modification of financial liabilities that do not result in extinguishment.

Classification and measurement

IFRS 9 required a new approach for the classification and measurement of financial assets based on Allied'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 are 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"); and
- Assets held within another business model or assets that do not have contractual cash flow characteristics that are solely payments of principal and interest are measured at fair value through profit or loss ("FVTPL").

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

- Allied's cash and cash equivalents, accounts receivable, and loans and notes receivable previously classified as loans and receivable and measured at amortized cost continue to be classified and measured at amortized cost; and
- Allied's derivative asset and liability instruments continue to be measured at FVTPL.

Impairment for financial assets

IFRS 9 introduced 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 results in an allowance for expected credit losses being recorded regardless of whether or not there has been an actual loss event. Under IFRS 9, credit losses are recognized earlier than under IAS 39. The adoption of IFRS 9 did not result in any change to Allied's allowance for impairment.

Hedge accounting

IFRS 9 introduced a new hedge accounting model that expands the scope of hedge items and risks eligible for hedge accounting and aligned 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 provided more hedging strategies that are used for risk management to qualify for hedge accounting and introduced more judgment to assess the effectiveness of a hedging relationship. Allied does not apply hedge accounting.

Financial Liabilities

IFRS 9 introduced 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 at the date of modification. The adoption of IFRS 9 did not result in any changes to Allied's treatment of modified financial liabilities as all modifications have resulted in derecognition.

As a result of adopting IFRS 9, Allied updated its accounting policies for the recognition, classification and impairment of financial instruments, which are as follows:

Recognition and initial measurement - Financial assets and financial liabilities are recognized in the consolidated balance sheets when Allied becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are measured at fair value on initial recognition.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as FVTPL, are added to or deducted from the fair value on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in net income.

Classification and subsequent measurement - Allied classifies financial assets, at the time of initial recognition, according to Allied's business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets are subsequently measured at amortized cost if both of the following conditions are met and they are not designated as at FVTPL: a) the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and b) the contractual terms of the financial asset give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding. These assets are subsequently measured at amortized cost using the effective interest rate method, less any impairment, with gains and losses recognized in net income in the period that the asset is derecognized or impaired.

Financial liabilities are subsequently measured at amortized cost using the effective interest rate method with gains and losses recognized in net income in the period that the liability is derecognized.

Impairment of financial instruments - Allied recognizes a loss allowance on a forward looking basis at an amount equal to the lifetime ECL on its financial assets measured at amortized cost. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

Allied has applied the standard on a retrospective basis without restating comparatives as allowed under the available transitional provisions.

IAS 40 - INVESTMENT PROPERTY

On December 8, 2016, the IASB issued an amendment, effective January 1, 2018, 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 adopted these amendments and clarifications in its financial statements on a retroactive basis for the annual period beginning on January 1, 2018, and it did not result in any impact.

(Q) *Future accounting standards*

IFRS 16 - LEASES ("IFRS 16")

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, *Leases* ("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.

Allied will adopt IFRS 16 in its consolidated financial statements for the annual period beginning January 1, 2019, on a modified retrospective basis using the available transitional provisions. Allied is in the final stages of evaluating the impact of this standard. As a landlord, lessor accounting is substantially unchanged between IAS 17 and IFRS 16 and therefore, leases with users 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 the material leases are in relation to Allied's land leases; the remainder of the leases are not considered to be significant. The land leases are presently accounted for as finance leases, therefore the adoption of IFRS 16 is not expected to have a material impact on Allied's results.

(R) *Comparative figures*

The segment comparative figures for the year ended December 31, 2017, have been restated to present the office component of 905 King within the office segment from the urban data centre segment to be consistent with the presentation in the current year (see note 21). As a result of the adoption of IFRS 15, effective January 1, 2018, Allied discloses revenue from contracts recognized with customers related to operating cost recoveries and tax and insurance recoveries separate from other sources of revenue, accordingly the December 31, 2017 comparative figures have been restated to conform with the disclosure requirements adopted in the current year (see note 17).

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 Allied 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 Allied'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 qualifies as a mutual fund trust ("MFT") and a REIT as defined in the Income Tax Act (Canada). Allied is not liable to pay entity level Canadian income taxes provided that its taxable income is fully distributed to Unitholders each year and if it meets the prescribed rules under the Income Tax Act (Canada) to be a REIT and MFT. This results in no current or deferred income tax being recognized in the financial statements.

Allied applies judgment in determining whether it will continue to qualify as a REIT and in assessing its interpretation and application to its assets and revenue. While there are uncertainties in interpretation and application of these rules, Allied believes it meets the REIT and MFT rules.

Allied expects to continue to qualify as a REIT under the Income Tax Act (Canada), however, should it no longer qualify, it would be subject to entity level tax and would be required to recognize current and deferred income taxes.

4. ACQUISITIONS AND DISPOSITIONS

ACQUISITIONS

During the year ended December 31, 2018, Allied completed the following property acquisitions from third-parties:

LOCATION	DATE OF ACQUISITION	PROPERTY TYPE	INVESTMENT PROPERTY	INTEREST ACQUIRED
464 King W, Toronto	January 18, 2018	Parking	$7,529	100%
812-11th SW, Calgary	January 25, 2018	Retail	1,750	50%
137 George, Toronto	January 30, 2018	Office, Retail	1,110	100%
731-10th SW, Calgary	February 12, 2018	Retail	5,970	50%
305 Joseph, Kitchener	June 21, 2018	Parking	888	50%
1220 Homer, Vancouver	October 15, 2018	Office	18,072	100%
802-11th SW, Calgary	October 15, 2018	Retail	2,287	50%
151 West Hastings, Vancouver	November 30, 2018	Office	40,061	100%
668 King W, Toronto	November 30, 2018	Retail	12,547	100%
342 Water, Vancouver	December 3, 2018	Office, Retail	20,074	100%
644 Courcelle, Montréal	December 19, 2018	Office, Retail	33,108	100%
			$143,396	

The total purchase price for the above noted properties of $143,396 comprised net cash consideration paid of $123,279, and the assumption of other liabilities of $1,442, and mortgages payable of $18,675.

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

LOCATION	DATE OF ACQUISITION	PROPERTY TYPE	INVESTMENT PROPERTY	INTEREST ACQUIRED
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	10%
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 forms part of the commercial component of The Well. On October 5, 2017, Allied acquired an additional 10% interest in the commercial component of The Well. This contributed to an overall ownership interest of 50% in 456 Wellington W, which is a 50/50 co-ownership between Allied and RioCan Real Estate Investment Trust ("RioCan").

(2) Allied acquired an additional undivided 10% interest in the commercial component of The Well, resulting in each of Allied and RioCan now owning an undivided 50% interest in the commercial component. Allied continues to own an undivided 40% interest in the residential component of The Well.

The total purchase price for the above noted properties of $122,863 comprised net cash consideration paid of $111,700, and the assumption of other liabilities of $834, and mortgages payable of $10,329.

DISPOSITIONS

During the year ended December 31, 2018, Allied completed the following dispositions of investment properties to third-parties:

LOCATION	DATE OF DISPOSITION	PROPERTY TYPE	SELLING PRICE
KING Toronto [1]	November 30, 2018	Residential, Retail	$63,225
Total selling price			$63,225
Net selling costs			(20)
Working capital adjustments			3,825
Loan issuance			(67,030)
Net cash consideration received			$—

(1) Allied entered into a joint arrangement with Westbank to develop KING Toronto. As part of the arrangement, Allied sold a 50% undivided interest to Westbank. KING Toronto is comprised of the following properties: 489 King W, 495 King W, 499 King W, 511-529 King W, 533 King W and 539 King W.

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 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.

5. INVESTMENT PROPERTIES

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

	DECEMBER 31, 2018			DECEMBER 31, 2017		
	RENTAL PROPERTIES	PROPERTIES UNDER DEVELOPMENT ("PUD")	TOTAL	RENTAL PROPERTIES	PROPERTIES UNDER DEVELOPMENT ("PUD")	TOTAL
Balance, beginning of year	**$5,168,621**	**$458,818**	**$5,627,439**	$4,948,043	$181,498	$5,129,541
Additions:						
Acquisitions	**143,396**	**—**	**143,396**	94,122	28,741	122,863
Improvement allowances	**48,607**	**5,417**	**54,024**	74,186	—	74,186
Leasing commissions	**13,823**	**7,200**	**21,023**	7,793	—	7,793
Capital expenditures	**40,091**	**204,119**	**244,210**	70,083	119,775	189,858
Dispositions	**—**	**(67,030)**	**(67,030)**	(54,030)	—	(54,030)
Transfers from PUD	**67,180**	**(67,180)**	**—**	46,360	(46,360)	—
Transfers to PUD	**(185,770)**	**185,770**	**—**	(177,508)	177,508	—
Transfers to residential inventory	**—**	**(103,690)**	**(103,690)**	—	(24,444)	(24,444)
Transfers to other assets	**(17,631)**	**—**	**(17,631)**	—	—	—
Finance lease	**1,884**	**—**	**1,884**	2,880	—	2,880
Amortization of straight-line rent, improvement allowances and leasing commissions [1]	**(23,287)**	**1,460**	**(21,827)**	(19,323)	—	(19,323)
Fair value gain on investment properties	**335,302**	**40,547**	**375,849**	176,015	22,100	198,115
Balance, end of year	**$5,592,216**	**$665,431**	**$6,257,647**	$5,168,621	$458,818	$5,627,439

(1) Commencing January 1, 2018, initial direct leasing commissions are included in the fair value gain (loss) on investment properties.

For the year ended December 31, 2018, Allied capitalized a total of $22,133 of borrowing costs to qualifying investment properties (December 31, 2017 - $20,097).

Included in the rental properties amounts noted above are investment properties with a fair value of $502,040 (December 31, 2017 - $472,010) representing the fair value of Allied's interest in five investment properties with corresponding finance leases. The finance leases' maturities range from 25.8 years to 83.5 years.

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, Allied 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 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, 2018	DECEMBER 31, 2017
Discount rate	**6.64%**	6.93%
Terminal capitalization rate	**5.55%**	5.86%
Overall capitalization rate	**5.13%**	5.43%
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	**$675,772**	**$320,576**	**$(290,783)**	**$(555,741)**

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 then decided to sell the residential portion as condominium units, comprised of 132 units. The residential condominium units have been fully sold, subject to customary closing conditions. Management expects the condominium sales to close in Q4 2019.

On November 30, 2018, Allied entered into a joint arrangement with Westbank to develop KING Toronto. KING Toronto is a mixed-used property comprised of office, retail, and residential uses. As part of the arrangement, Allied sold a 50% undivided interest to Westbank. The residential component will be developed and sold as condominiums. The sale of the residential units commenced in October 2018 and totals 210,000 square feet of GLA. Management expects the condominium sales to close in 2023.

For the year ended December 31, 2018, Allied capitalized a total of $1,264 of borrowing costs to qualifying residential inventory (December 31, 2017 - $259).

Residential inventory is as follows:

	DECEMBER 31, 2018	DECEMBER 31, 2017
King Portland Centre	**$36,612**	$28,239
KING Toronto	**103,690**	—
	$140,302	$28,239
Current	**$36,612**	$—
Non-current	**103,690**	28,239
	$140,302	$28,239

7. LOANS AND NOTES RECEIVABLE

Loans and notes receivable are as follows:

	DECEMBER 31, 2018	DECEMBER 31, 2017
Loans receivable (a)	$200,289	$88,316
Notes and other receivables (b)	13,155	13,925
	$213,444	$102,241
Current	$11,077	$11,628
Non-current	202,367	90,613
	$213,444	$102,241

(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 $21,173 to Westbank (refer to note 20 for further details). As at December 31, 2018, the loan receivable outstanding is $21,173 (December 31, 2017 - $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 on August 31, 2022, and has a one year extension option to August 31, 2023. On 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, 2018, is $112,086 (December 31, 2017 - $67,143).

On November 30, 2018, Allied entered into a joint arrangement with Westbank to develop KING Toronto. As part of the arrangement, Allied advanced a total of $67,030 to Westbank for its purchase of a 50% undivided interest in the property. As at December 31, 2018, the loan receivable outstanding is $67,030 and bears interest at a rate of 7.00% per annum. The loan is repayable at the earlier of November 23, 2023, or the closing of the condominium units.

(B) As at December 31, 2018, the balance of notes and other receivables includes $10,967 (December 31, 2017 - $11,542) of mortgage receivables due from the purchaser of Allied's Québec City portfolio as the mortgage transfer was not executed by the lender. The remaining balance is made up of individually insignificant notes receivable.

8. OTHER ASSETS

Other assets consist of the following:

	DECEMBER 31, 2018	DECEMBER 31, 2017
Equipment and other assets [1]	$6,141	$5,084
Property, plant and equipment [2]	17,631	—
Interest rate swap derivative assets	4,746	7,509
	$28,518	$12,593

(1) During the year ended December 31, 2018, Allied recorded amortization of equipment and other assets of $1,556 (December 31, 2017 - $1,819).
(2) This amount is related to owner-occupied property.

9. ACCOUNTS RECEIVABLE, PREPAID EXPENSES AND DEPOSITS

	DECEMBER 31, 2018	DECEMBER 31, 2017
User trade receivables - net of allowance (a)	$7,308	$4,697
Other user receivables (b)	3,581	6,982
Miscellaneous receivables (c)	9,957	15,830
Prepaid expenses and deposits (d)	27,153	19,563
	$47,999	$47,072

(A) *User trade receivables*

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

An allowance is maintained for expected credit losses resulting from the inability of users to meet obligations under lease agreements. Allied actively reviews receivables on a continuous basis and determines the potentially uncollectible accounts on a per-user basis giving consideration to their credit risk and records impairment based on expected credit losses as required.

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

	YEAR ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017
Allowance for doubtful accounts, beginning of year	$2,342	$1,686
Additional provision recorded during the year	2,926	2,622
Reversal of previous provisions	(1,469)	(601)
Receivables written off during the year	(1,466)	(1,365)
Allowance for doubtful accounts, end of year	$2,333	$2,342

(B) *Other user receivables*

Other user 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, 2018, there are no credit risk 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 and $9,000 of deposits held in trust received from the sale of residential condominium units.

10. DEBT

Debt consists of the following items, net of financing costs:

	DECEMBER 31, 2018	DECEMBER 31, 2017
Mortgages payable (a)	$769,473	$965,832
Construction loans payable (b)	70,909	46,758
Unsecured revolving operating facility (c)	95,000	25,000
Senior unsecured debentures (d)	573,320	572,849
Unsecured term loans (e)	448,909	349,438
	$1,957,611	$1,959,877
Current	$106,990	$254,351
Non-current	1,850,621	1,705,526
	$1,957,611	$1,959,877

(A) *Mortgages payable*

Mortgages payable have a weighted average stated interest rate of 4.38% as at December 31, 2018 (December 31, 2017 - 4.73%). 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, 2018	DECEMBER 31, 2017
2019	$25,115	$10,967	$36,082	
2020	26,411	—	26,411	
2021	25,519	103,535	129,054	
2022	21,725	100,102	121,827	
2023	17,749	213,355	231,104	
2024	5,123	174,860	179,983	
2025	1,596	8,788	10,384	
2026	1,391	20,443	21,834	
2027	487	—	487	
2028	293	14,457	14,750	
Mortgages, principal	$125,409	$646,507	$771,916	$966,894
Net premium on assumed mortgages			924	2,599
Net financing costs			(3,367)	(3,661)
			$769,473	$965,832

(B) *Construction loans payable*

As of December 31, 2018, and December 31, 2017, Allied's obligation under the construction loan is:

JOINT ARRANGEMENT	OWNERSHIP	GUARANTEE LIMIT	DATE OF MATURITY	DECEMBER 31, 2018	DECEMBER 31, 2017
TELUS Sky	33.33%	$114,000	August 31, 2019	$70,909	$46,758

The construction loan 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.

On January 31, 2019, Allied and Westbank obtained a $270,000 construction lending facility from a syndicate of Canadian banks for the Adelaide & Duncan joint arrangement, in which Allied's 50% share is $135,000. The loan matures on July 31, 2023, and bears interest at bank prime plus 35 basis points or banker's acceptance rate plus 135 basis points. Allied provided a joint and several guarantee to support the facility to assist with the financing of construction costs associated with the development of Adelaide & Duncan.

(C) *Unsecured revolving operating facility*

On November 30, 2018, Allied amended the Unsecured Facility to increase the limit to $400,000 and extended the maturity to January 29, 2022. Prior to the amendment, Allied had access to $250,000 maturing on January 29, 2021. The Unsecured Facility will bear interest at bank prime plus 45 basis points or bankers' acceptance plus 145 basis points with a standby fee of 29 basis points, subject to certain conditions being met (December 31, 2017 - maturity of January 29, 2019, interest rate at bank prime plus 70 basis points or bankers' acceptance plus 170 basis points with a standby fee of 34 basis points). 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 with a standby fee of 34 basis points. The Unsecured Facility contains a $100,000 accordion feature, allowing Allied to increase the amount available under the facility to $500,000. The Unsecured Facility had a balance of $95,000 outstanding at December 31, 2018 (December 31, 2017 - $25,000).

	DECEMBER 31, 2018	DECEMBER 31, 2017
Unsecured Facility limit	**$400,000**	$250,000
Amounts drawn under the Unsecured Facility	**(95,000)**	(25,000)
Letters of credit outstanding under the Unsecured Facility	**(14,404)**	(5,551)
Remaining unused balance under the Unsecured Facility	**$290,596**	$219,449

(D) *Senior unsecured debentures*

As of December 31, 2018, and December 31, 2017, Allied's obligation of the balance outstanding under the senior unsecured debentures is summarized in the table below:

SERIES	INTEREST RATE	DATE OF MATURITY	INTEREST PAYMENT DATE	DECEMBER 31, 2018	DECEMBER 31, 2017
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**	200,000
Unsecured Debentures, principal				**$575,000**	$575,000
Net premium on Unsecured Debentures				**216**	369
Net financing costs				**(1,896)**	(2,520)
				$573,320	$572,849

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

Proceeds from the 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)).

(E) *Unsecured term loans*

As of December 31, 2018, and December 31, 2017, Allied's obligation of the balance outstanding under the unsecured term loans is summarized in the table below:

	INTEREST RATE	DATE OF MATURITY	FREQUENCY OF INTEREST PAYMENT	DECEMBER 31, 2018	DECEMBER 31, 2017
Unsecured Term Loan	3.992%	January 14, 2026	Monthly	**$250,000**	$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				**$450,000**	$350,000
Net financing costs				**(1,091)**	(562)
				$448,909	$349,438

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

On December 14, 2018, Allied entered into a new Unsecured Term Loan with a financial institution for $250,000 at a rate of 3.992%, due on January 14, 2024, with two one-year extensions to January 14, 2026. The proceeds from the loan were used to repay the $150,000 maturing term loan due on December 14, 2018, at a rate of 2.645% and the balance was used to reduce amounts drawn on the Unsecured Facility. Debt financing costs of $810 were incurred and recorded against the principal owing.

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

(F) *Interest expense*

Interest expense consists of the following:

	YEAR ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017
Interest on debt:		
Mortgages payable	$38,452	$49,050
Construction loans payable	2,187	1,050
Unsecured Facility	2,779	1,622
Unsecured Debentures	21,714	19,477
Unsecured Term Loans	9,838	9,679
Interest on finance lease obligations	8,292	7,288
Amortization, premium (discount) on debt	(1,828)	(471)
Amortization, net financing costs	1,746	1,926
	$83,180	$89,621
Less: Interest capitalized to qualifying investment properties and residential inventory	(23,397)	(20,356)
Interest expense excluding yield maintenance cost	$59,783	$69,265
Adjustment for yield maintenance cost due to early repayment	7,502	—
Interest expense	$67,285	$69,265

Borrowing costs have been capitalized to qualifying investment properties, where applicable, at a weighted average rate of 3.94% per annum (December 31, 2017 – 4.07%).

(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.

	2019	2020	2021	2022	2023	THEREAFTER	TOTAL
Mortgages payable, principal repayments	$25,115	$26,411	$25,519	$21,725	$17,749	$8,890	$125,409
Mortgages payable, balance due at maturity	10,967	—	103,535	100,102	213,355	218,548	646,507
Construction loans payable	70,909	—	—	—	—	—	70,909
Unsecured Facility	—	—	—	95,000	—	—	95,000
Unsecured Debentures	—	225,000	—	150,000	—	200,000	575,000
Unsecured Term Loans	—	—	200,000	—	—	250,000	450,000
Total	$106,991	$251,411	$329,054	$366,827	$231,104	$677,438	$1,962,825

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

11. FINANCE LEASE OBLIGATIONS

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

	2019 [1]	2020 - 2023 [1]	THEREAFTER	DECEMBER 31, 2018	DECEMBER 31, 2017
Future minimum lease payments	**$9,667**	**$39,540**	**$463,658**	**$512,865**	$535,247
Interest accrued on lease obligations	**(570)**	**1,481**	**—**	**911**	3,641
Less: amounts representing interest payments	**(9,097)**	**(41,021)**	**(306,995)**	**(357,113)**	(384,017)
Present value of lease payments	**$—**	**$—**	**$156,663**	**$156,663**	$154,871

(1) The future minimum lease payments prior to 2023 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, 2018, minimum lease payments of $8,335 were paid by Allied (December 31, 2017 - $7,552).

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consists of the following:

	DECEMBER 31, 2018	DECEMBER 31, 2017
Trade payables and other liabilities	$130,363	$89,627
Prepaid user rents and user deposits	59,958	47,705
Accrued interest payable	5,418	6,374
Distributions payable to Unitholders	13,814	12,082
Interest rate swap derivative liability	7,781	4,074
	$217,334	$159,862

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, 2018		DECEMBER 31, 2017	
	CLASSIFICATION/ MEASUREMENT	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Financial Assets:					
Loans and notes receivable (note 7)	Amortized cost	213,444	213,444	102,241	102,241
Cash and cash equivalents (note 19)	Amortized cost	18,361	18,361	6,048	6,048
Accounts receivable (note 9)	Amortized cost	20,846	20,846	27,509	27,509
Unsecured term loan interest swap asset (note 8)	FVTPL	4,746	4,746	7,509	7,509
Financial Liabilities:					
Debt (note 10)					
Mortgages	Amortized cost	769,473	798,485	965,832	993,774
Construction loans payable	Amortized cost	70,909	70,909	46,758	46,758
Unsecured Facility	Amortized cost	95,000	95,000	25,000	25,000
Unsecured Debentures	Amortized cost	573,320	570,616	572,849	578,267
Unsecured Term Loans	Amortized cost	448,909	454,350	349,438	344,149
Mortgage interest swap liability (note 12)	FVTPL	7,781	7,781	4,074	4,074
Finance lease obligations (note 11 and note 5)	Amortized cost	156,663	174,303	154,871	172,857
Accounts payable and other liabilities (note 12)	Amortized cost	209,553	209,553	155,788	155,788

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, 2018			DECEMBER 31, 2017		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial Assets:						
Loans and notes receivable (note 7)	—	213,444	—	—	102,241	—
Cash and cash equivalents (note 19)	18,361	—	—	6,048	—	—
Accounts receivable (note 9)	—	20,846	—	—	27,509	—
Unsecured term loan interest swap asset (note 8)	—	4,746	—	—	7,509	—
Financial Liabilities:						
Debt (note 10)						
Mortgages	—	798,485	—	—	993,774	—
Construction loans payable	—	70,909	—	—	46,758	—
Unsecured Facility	—	95,000	—	—	25,000	—
Unsecured Debentures	—	570,616	—	—	578,267	—
Unsecured Term Loans	—	454,350	—	—	344,149	—
Mortgage interest swap liability (note 12)	—	7,781	—	—	4,074	—
Finance lease obligations (note 11 and note 5)	—	—	174,303	—	—	172,857
Accounts payable and other liabilities (note 12)	—	209,553	—	—	155,788	—

The carrying value of Allied's financial assets and liabilities approximates the fair value except for loans and notes receivable (note 7), 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 SWAP DERIVATIVE CONTRACTS

The fair value of Allied's interest rate derivative contracts, which represents a net liability as at December 31, 2018, is $3,035 (December 31, 2017 - $3,435). The fair value of the derivative contracts is determined using forward interest rates observable in the market (Level 2).

	DECEMBER 31, 2018	DECEMBER 31, 2017
Interest rate swap derivative asset (note 8)	$4,746	$7,509
Interest rate swap derivative liability (note 12)	(7,781)	(4,074)
Net (liability) asset	$(3,035)	$3,435

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 determined by discounting the cash flows for the obligations 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, 2018, and for the year ended December 31, 2017.

	DECEMBER 31, 2018		DECEMBER 31, 2017	
	UNITS	AMOUNT	UNITS	AMOUNT
Trust Units, beginning of year	**92,935,150**	**$2,399,768**	84,734,469	$2,098,267
Restricted Unit plan (net of forfeitures) (note 15(b))	**—**	**(2,584)**	—	(2,173)
Long-term incentive plan	**—**	**—**	—	72
Unit option plan - options exercised (note 15(a))	**84,595**	**3,043**	507,044	15,948
Unit offering	**10,842,200**	**435,168**	7,695,000	287,701
Purchase of Units under normal course issuer bid for cancellation	**—**	**—**	(1,363)	(47)
Trust Units, end of year	**103,861,945**	**$2,835,395**	92,935,150	$2,399,768

On September 26, 2018, Allied raised gross proceeds of $155,264 through the issuance of 3,548,900 Units at a price of $43.75 per unit. Costs relating to the issuance totaled $6,760 and were applied against the gross proceeds of the issuance and charged against Unitholders' equity.

On June 22, 2018, Allied raised gross proceeds of $299,025 through the issuance of 7,293,300 Units at a price of $41.00 per unit. Costs relating to the issuance totaled $12,361 and were applied against the gross proceeds of the issuance and charged against Unitholders' equity.

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 Unitholders' equity.

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

DISTRIBUTIONS

On January 15, 2019, Allied declared a distribution for the month of January, 2019 of $0.133 per unit, representing $1.60 per unit on an annualized basis to unitholders of record on January 31, 2019.

NORMAL COURSE ISSUER BID

On February 20, 2018, Allied received approval from the Toronto Stock Exchange ("TSX") for the renewal of its normal course issuer bid ("NCIB"), which entitles Allied to purchase up to 9,114,825 of its outstanding Units, representing approximately 10% of its public float as at February 14, 2018. The NCIB commenced February 22, 2018, and will expire on February 21, 2019, or such earlier date as Allied completes its purchases pursuant to the NCIB. All purchases under the NCIB will be made on the open market through the facilities of the TSX or alternate trading systems in Canada at market prices prevailing at the time of purchase. Any Units that are repurchased will either be cancelled or delivered to participants under Allied's Restricted Unit Plan or to employees pursuant to Allied's employee programs.

During the year ended December 31, 2018, Allied purchased 62,044 Units for $2,598 at a weighted average price of $41.87 per unit under its NCIB program, of which 61,733 units were purchased for delivery to participants under Allied's Restricted Unit Plan and 311 Units were purchased for certain employee rewards outside of Allied's Restricted Unit Plan.

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 units were purchased for delivery to participants under Allied's Restricted Unit Plan and 1,363 were purchased for cancellation.

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	(182,787)	(26,448)	—	—
March 4, 2014	March 4, 2019	266,174	$33.29	(182,673)	(65,914)	17,587	17,587
May 6, 2014	May 6, 2019	8,474	$34.59	(8,474)	—	—	—
March 3, 2015	March 3, 2020	302,706	$40.60	(34,188)	—	268,518	268,518
March 1, 2016	March 1, 2026	540,480	$31.56	(116,417)	(19,132)	404,931	240,312
February 22, 2017	February 22, 2027	279,654	$35.34	—	—	279,654	69,914
February 14, 2018	February 14, 2028	198,807	$40.30	—	—	198,807	—
		1,805,530		(524,539)	(111,494)	1,169,497	596,331

	YEAR ENDED DECEMBER 31, 2018		YEAR ENDED DECEMBER 31, 2017	
	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	6.26	$31.56-40.60	6.41

	YEAR ENDED DECEMBER 31, 2018		YEAR ENDED DECEMBER 31, 2017	
	Number of Units	Weighted average exercise price	Number of Units	Weighted average exercise price
Balance at the beginning of the year	1,057,084	$35.24	1,296,191	$33.70
Granted during the year	198,807	40.30	279,654	35.34
Forfeited during the year	(1,799)	31.56	(11,717)	31.56
Exercised during the year	(84,595)	35.97	(507,044)	31.46
Balance at the end of the year	1,169,497	$36.05	1,057,084	$35.24
Units exercisable at the end of the year	596,331	$36.12	345,491	$37.11

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 DECEMBER 31, 2018	YEAR ENDED DECEMBER 31, 2017
Unit options granted	198,807	279,654
Unit option holding period (years)	10	10
Volatility rate	24.48%	25.08%
Distribution yield	3.87%	4.33%
Risk free interest rate	2.32%	1.69%
Value of options granted	$1,354	$1,423

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

For the year ended December 31, 2018, Allied recorded a share-based payment expense of $1,346 in general and administrative expense in the consolidated statements of income and comprehensive income (for the year ended December 31, 2017 - $1,466).

(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 will not vest and 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. 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 DECEMBER 31, 2018	YEAR ENDED DECEMBER 31, 2017
Restricted Units, beginning of year	**241,557**	223,717
Granted	**61,733**	64,217
Expiration of restriction period	**(35,870)**	(44,769)
Forfeited	**—**	(1,608)
Restricted Units, end of year	**267,420**	241,557

For the year ended December 31, 2018, Allied recorded a share-based payment expense of $2,247 in general and administrative expense in the consolidated statements of income and comprehensive income (for the year ended December 31, 2017 - $1,767).

16. WEIGHTED AVERAGE NUMBER OF UNITS

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

	YEAR ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017
Basic	97,785,091	87,864,560
Unit Option Plan	180,620	140,353
LTIP	—	1,097
Fully diluted	97,965,711	88,006,010

17. RENTAL REVENUE FROM INVESTMENT PROPERTIES

Rental revenue includes the following:

	YEAR ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017
Rental revenue from rental properties (1)	$200,760	$201,373
Tax and insurance recoveries	69,144	63,551
Miscellaneous revenue (2)	9,687	9,688
Operating cost recoveries	156,805	144,651
Total rental revenue	$436,396	$419,263

(1) Includes straight-line rent, amortization of tenant improvements and parking revenue earned at properties.
(2) Includes lease terminations, third party managed parking, variable percentage rent and other miscellaneous items.

Future minimum rental income is as follows:

	2019	2020 - 2022	THEREAFTER	TOTAL
Future minimum rental income	$242,781	$606,192	$987,022	$1,835,995

18. GENERAL AND ADMINISTRATIVE EXPENSES

	YEAR ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017
Salaries and benefits	$15,277	$13,705
Professional and directors fees	2,801	2,443
Office and general expenses	2,823	2,927
	$20,901	$19,075
Capitalized to qualifying investment properties	(3,842)	(4,639)
Total general and administrative expenses	$17,059	$14,436

19. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents include the following components:

	DECEMBER 31, 2018	DECEMBER 31, 2017
Cash	$17,361	$4,717
Short-term deposits	1,000	1,331
Total cash and cash equivalents	$18,361	$6,048

The following summarizes supplemental cash flow information in operating activities:

	YEAR ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017
Supplemental		
Interest paid on debt (including capitalized interest (note 10))	$91,574	$87,149
Interest received	$6,529	$3,015

The following summarizes supplemental cash flow information in non-cash investing items:

	YEAR ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017
Supplemental		
Disposition of investment properties (note 5)	$67,030	$—
Loan issuance (note 7)	$(67,030)	—

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

	YEAR ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017
Net change in accounts receivable, prepaid expenses and deposits	**$(927)**	$(8,198)
Add back: Amounts from disposed properties	**—**	1,013
Net change in loans and notes receivable	**195**	152
Net change in accounts payable and other liabilities	**57,472**	28,983
Less: Non-cash interest	**892**	(2,472)
Less: Distributions payable to Unitholders	**(1,732)**	(1,278)
Less: Mortgage interest swap liability	**(3,707)**	8,559
Less: Accrued amounts from disposed properties	**1,007**	—
Less: Accrued amounts from acquired properties	**(1,442)**	(834)
Change in non-cash operating items	**$51,758**	$25,925

20. JOINT ARRANGEMENTS

Allied 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.

			OWNERSHIP	
PROPERTIES	LOCATION	CURRENT STATUS	DECEMBER 31, 2018	DECEMBER 31, 2017
305 Joseph	Kitchener, ON	Rental Property	50%	—%
478 King W	Toronto, ON	Rental Property	50%	50%
642 King W	Toronto, ON	Rental Property	50%	50%
731-10th SW	Calgary, AB	Rental Property	50%	—%
802-838 11th SW, Glenbow Assembly	Calgary, AB	Rental Property	50%	—%
Adelaide & Duncan	Toronto, ON	Property Under Development	50%	50%
Breithaupt Block	Kitchener, ON	Rental Property	50%	50%
College & Manning	Toronto, ON	Rental Property and Property Under Development	50%	50%
College & Palmerston	Toronto, ON	Rental Property	50%	50%
KING Toronto	Toronto, ON	Property Under Development	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 (1)	Toronto, ON	Property Under Development	50%	50%

(1) Allied owns an undivided 40% interest in the residential component and an undivided 50% interest in the commercial component of The Well. The residential component is comprised of residential air rights, which were sold by the co-ownership in 2016, with closing expected to occur by 2021 when certain specified conditions are complete. The commercial component is comprised of the planned office and retail components of the property under development.

	DECEMBER 31, 2018	DECEMBER 31, 2017
Total assets	$898,833	$533,734
Total liabilities	$235,054	$167,371

	YEAR ENDED	
	DECEMBER 31, 2018	DECEMBER 31, 2017
Revenue	**$10,362**	$7,321
Expenses	**(5,998)**	(4,339)
Income before fair value adjustment on investment properties	**4,364**	2,982
Fair value gain on investment properties	**66,754**	25,511
Net income and comprehensive income	**$71,118**	$28,493

21. 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. Allied has determined that its CODM is the President and Chief Executive Officer. Allied's operating segments are managed by use of properties and geographical locations. Urban Data Centres are comprised of properties operating similar to data centres and colocation facilities. 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 and Vancouver). On December 20 and 27, 2017, Allied disposed of its Winnipeg and Québec City properties. These disposals are consistent with Allied's previously disclosed business strategy of exiting these two markets.

The CODM measures and evaluates performance of Allied'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 administrative expenses, interest income, fair value of investment properties and fair value of derivative instruments are not allocated to operating segments.

The following summary tables present a reconciliation of net rental income to net income for the year ended December 31, 2018, and 2017.

SEGMENTED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Year ended December 31, 2018	EASTERN CANADA	CENTRAL CANADA	WESTERN CANADA	URBAN DATA CENTRES	TOTAL
Rental revenue from investment properties	**$115,696**	**$192,674**	**$49,138**	**$78,888**	**$436,396**
Property operating costs	**(57,707)**	**(74,851)**	**(22,177)**	**(31,203)**	**(185,938)**
Net rental income	**57,989**	**117,823**	**26,961**	**47,685**	**250,458**
Interest expense					**(67,285)**
General and administrative expenses					**(17,059)**
Condominium marketing expenses					**(1,609)**
Amortization of other assets					**(1,556)**
Interest income					**6,941**
Fair value gain on investment properties					**375,849**
Fair value loss on derivative instruments					**(6,470)**
Gain on disposal of investment properties					**1,007**
Net income and comprehensive income					**$540,276**

SEGMENTED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Year ended December 31, 2017	EASTERN CANADA	CENTRAL CANADA	WESTERN CANADA	URBAN DATA CENTRES	TOTAL
Rental revenue from investment properties	$113,961	$176,388	$54,532	$74,382	$419,263
Property operating costs	(55,993)	(70,169)	(24,347)	(29,039)	(179,548)
Net rental income	57,968	106,219	30,185	45,343	239,715
Interest expense					(69,265)
General and administrative expenses					(14,436)
Condominium marketing expenses					—
Amortization of leasing costs and other assets					(10,513)
Interest income					3,015
Fair value gain on investment properties					198,115
Fair value gain on derivative instruments					13,889
Loss on disposal of investment properties					(2,561)
Net income and comprehensive income					$357,959

22. INCOME TAXES

Allied qualifies as a REIT and MFT for income tax purposes. Pursuant to its Declaration of Trust, it also distributes or designates substantially all of its taxable income to Unitholders and deducts such distributions or designations for income tax purposes. Accordingly, there is no entity level tax and no provision for current and deferred income taxes in the financial statements. Income tax obligations relating to distributions of Allied are the obligations of the Unitholders.

23. RELATED PARTY TRANSACTIONS

Allied's related parties include its subsidiaries, nominee corporations, Allied Properties Management Trust, Allied Properties Management Limited Partnership, Allied Properties Management GP Limited and key management, 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, 2018, real estate service revenue earned from these properties was $290 (for the year ended December 31, 2017 - $297).

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, 2018	DECEMBER 31, 2017
Salary, bonus and other short-term employee benefits	**$4,386**	$4,034
Unit-based compensation	**2,895**	2,664
	$7,281	$6,698

24. RISK MANAGEMENT

(A) *Capital management*

Allied defines capital as the aggregate of Unitholders' equity, mortgages payable, construction loans payable, Unsecured Facility, Unsecured Debentures, Unsecured Term 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, 2018, the debt to gross book value ratio was 29.4% (December 31, 2017 - 33.7%) and debts having variable interest rates or maturities of less than one year aggregated to 3.0% of gross book value (December 31, 2017 - 4.8%).

On November 27, 2018, 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 $1,500,000. 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 Allied 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, 2018.

(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, 2018, 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, 2018, the Unsecured Facility, which is at a floating interest rate and is exposed to changes in interest rates, has a balance of $95,000 (December 31, 2017 - $25,000). 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, 2018	CARRYING MOUNT	INCOME IMPACT	INCOME IMPACT
Unsecured Facility	**$95,000**	**$950**	**$(950)**
Mortgages and construction loan payable maturing within one year	**$106,990**	**$1,070**	**$(1,070)**

(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, 2018, Allied had $200,289 outstanding in loans receivable (December 31, 2017 - $88,316). 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 value. Allied mitigates this risk by obtaining corporate guarantees and/or registered mortgage charges.

Credit risk from user receivables arises from the possibility that users 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 user base, ensuring no individual user contributes a significant portion of Allied's revenues and conducting credit reviews of new users. Management reviews user 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, 2018, and December 31, 2017, the allowance for doubtful accounts totals $2,333 and $2,342, 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, 2018	DECEMBER 31, 2017
Less than 30 days	$1,692	$1,556
30 to 60 days	1,719	659
More than 60 days	3,897	2,482
Total	$7,308	$4,697

(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 3.59% and 5.58% for December 31, 2018 (2.00% and 6.88% - December 31, 2017).

As at December 31, 2018, Allied has entered into interest rate derivative contracts to limit its exposure to fluctuations in interest rates on $208,712 of its variable rate mortgages payable and $450,000 of its variable rate Unsecured Term Loans (December 31, 2017 - $215,827 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, 2018, Allied recognized as part of the change in fair value adjustment on derivative instruments a net loss of $6,470 (for the year ended December 31, 2017 – a net gain of $13,889).

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 undiscounted future principal and interest payments on Allied's debt instruments are as follows:

	2019	2020	2021	2022	2023	THERE-AFTER	TOTAL
Mortgages payable	$68,544	$57,773	$157,617	$145,206	$249,180	$236,198	$914,518
Construction loans payable	72,916	—	—	—	—	—	$72,916
Unsecured Facility	3,469	3,469	3,469	95,289	—	—	105,696
Unsecured Debentures	21,606	246,606	13,173	163,173	7,272	214,544	$666,374
Unsecured Term Loans	15,700	15,700	209,980	9,980	9,980	269,960	$531,300
Total	**$182,235**	**$323,548**	**$384,239**	**$413,648**	**$266,432**	**$720,702**	**$2,290,804**

25. 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, 2018, and December 31, 2017, were $402,525 and $77,609, 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 remaining claims are not probable to occur and would not have a material effect on the consolidated financial statements.

Allied, through a financial intermediary, has issued letters of credit in the amount of $14,545 representing deposits on financing requirements (December 31, 2017 - $5,691).

26. SUBSEQUENT EVENTS

On February 1, 2019, Allied completed the purchase of 145 George, Toronto, for $1,300.

2019 Outlook

LOW-MID-SINGLE-DIGIT % GROWTH IN SANOI

LOW-MID-SINGLE-DIGIT % GROWTH IN FFO/UNIT

LOW-MID-SINGLE-DIGIT % GROWTH IN AFFO/UNIT

CONTINUED GROWTH IN NAV/UNIT

CONTINUED STRONG DEBT-METRICS

CONTINUED GROWTH IN UNENCUMBERED ASSETS

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