ALLIED

Annual Report
December 31, 2016

Building cities — one building at a time

02.22.17

40-46 Elgin Street, Ottawa

ALLIED

Annual Report

February 22, 2017

Contents

Letter to Unitholders

Dear Fellow Unitholder:

Our strategy is to profit from the ongoing intensification of Canada's major cities by operating, consolidating and developing distinctive urban workspace. In the last two years, we pursued our strategy intently and successfully. We invested over half a billion dollars in existing Class I properties, with roughly half that amount involving properties with material value-add potential, and another two hundred million dollars in development projects, seven of which reached completion in the two-year period. In the face of this extraordinary level of capital investment, we maintained strong balance-sheet metrics and increased our distributions to unitholders in both years while maintaining conservative pay-out ratios.

Measured by short-term results, our performance in the last two years was uneven, in large part because of decisions made with a view to the longer-term and in part because of delayed organic growth in our rental portfolio. Our FFO per unit growth in 2015 was 3%, due to de-levering and temporary erosion of same-asset NOI from our rental portfolio, both of which we instigated with a view to the longer-term. Our FFO per unit in 2016 was down slightly, due to de-levering and slower than anticipated same-asset NOI growth in our rental portfolio. The delayed growth resulted from slower than expected occupancy gains in Montréal and Toronto, something we've now addressed in part with leasing progress at 5445-5455 Avenue de Gaspé in Montréal.

Measured by long-term results, our performance in the last two years was strong. Following 6% NAV per unit growth in 2015, we delivered 8% growth in 2016, despite NAV erosion in our Calgary portfolio. In 2015, development completions represented 46% of our NAV per unit growth, development approvals 17% and cap-rate compression in Toronto the remainder. In 2016, development completions represented 28% of our NAV per unit growth, development approvals 25% and cap-rate compression in Toronto and Vancouver the remainder.

Cap-rate compression cannot be relied upon to drive NAV per unit growth in any particular year, as cap rates are entirely beyond our control. Indeed, cap-rate expansion will occur from time to time, putting downward pressure on NAV per unit. It's important to appreciate, therefore, that over 50% of our NAV per unit growth in the past two years was driven by development completions and development approvals. This underscores the importance of our ongoing value-creation activity, which can drive NAV per unit growth independently of cap rates applicable to our rental portfolio.

Looking forward, I expect our operating and development environment to be generally favourable in 2017. Our internal forecast for the year contemplates mid-single-digit percentage growth in same-asset NOI, with rent growth in Toronto and occupancy gains in Montréal, Edmonton and Vancouver more than offsetting erosion in Calgary. It also contemplates low- to mid-single-digit percentage growth in FFO per unit. While we don't forecast NAV per unit growth for a given year, I believe development completions, significant lease-up at development projects currently underway and partial-monetization transactions will propel continued growth in 2017. I don't anticipate cap-rate expansion in Montréal, Toronto and Vancouver in 2017, but I do see it as a possibility in Calgary.

Our initial activity as a public entity was confined to operating and consolidating distinctive urban workspace. We've now built a development pipeline that will increase the relative importance of value-add activity going forward. With a very active portfolio like the one we now own, forecasting for a particular year can be materially affected by numerous temporal estimates, including the following:

(i) the timing of lease-up of GLA in the rental portfolio (and consequent NOI growth);

(ii) the timing of de-leasing of GLA in upgrade properties (and consequent NOI suppression);

(iii) the timing of development commencements (and consequent NOI suppression);

(iv) the timing of development completions (and consequent NOI commencement);

(v) the timing of interest and expense capitalization in connection with development activity; and

(vi) the timing of dilution through equity offerings undertaken (a) to finance the acquisition of low-yielding properties with value-creation potential or (b) to finance ongoing debt reduction.

We have to make temporal estimates if we're to forecast intelligently. With respect to 2017, we expect four temporal factors to put downward pressure on our FFO per unit, keeping our year-over-year growth in the low- to mid-single digit range. The first is the cumulative dilutive impact of $268 million in low-yielding acquisitions made in 2015 and 2016. The second is the partial offset to NOI growth that flows from discontinuance of interest and expense capitalization on completion of corresponding development activity. The third is the development commencement at The Well and consequent elimination of NOI from the property. The fourth is the blend-and-extend transaction completed with the National Capital Commission at The Chambers in Ottawa that reduced current NOI in exchange for a 20-year term extension.

The low-yielding acquisitions made in the past two years represent significant and irreplaceable value-creation opportunities for Allied. Three of the smaller acquisitions, 485 King Street West, 180 John Street and 47 Front Street East in Toronto, will contribute to NOI growth in 2017. While very strategic, the larger acquisitions, most notably 511-539 King Street West and 461 King Street West in Toronto, will not contribute to NOI growth in the near term. The former is currently going through the municipal approval process as part of the intensification of 489-539 King West with Westbank. The latter will be operated in its current state at least until substantial completion of the adjacent intensification of 489-539 King West.

It follows from the above that my confidence in Allied's near-term and longer-term outlook continues. My confidence is predicated on the continued intensification of the urban core of Canada's major cities and the continued desire on the part of office users to locate in distinctive urban office environments, both of which are secular trends. It's also underpinned by the depth and strength of the Allied team and the team's ability to execute our strategy at all levels.

* * *

If you have any questions or comments, please don't hesitate to call me at (416) 977-0643 or e-mail me at *memory@alliedreit.com.*

Yours truly,

Michael Emory
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Management's Discussion and Analysis of Results of Operations and Financial Condition as at December 31, 2016

Section I
—Overview

This Management's Discussion and Analysis ("MD&A") of results of operations and financial condition relates to the year ended December 31, 2016. Unless the context indicates otherwise, all references to "Allied", "the Trust", "we", "us" and "our" in this MD&A refer to Allied Properties Real Estate Investment Trust. The Board of Trustees of Allied, upon the recommendation of its Audit Committee, approved the contents of this MD&A.

This MD&A has been prepared with an effective date of February 22, 2017, and should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2016. 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"), 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, 2016. Such terms do not have a standardized meaning prescribed by IFRS and may not be comparable to similarly titled measures presented by other publicly traded entities. See "Other Financial Performance Measures", "Net Operating Income", "Debt" and "Financial Covenants".

FORWARD LOOKING STATEMENTS

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws, including, among other things, statements concerning Allied's objectives and strategies to achieve those objectives, statements with respect to Management's beliefs, plans, estimates and intentions and statements concerning anticipated future events, circumstances, expectations, results, operations or performance that are not historical facts. Forward-looking statements can be identified generally by the use of forward-looking terminology, such as "indicators", "outlook", "objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans", "continue" or similar expressions suggesting future outcomes or events. In particular, certain statements in the Letter to Unitholders, Section I—Overview, under the headings "Business Overview and Strategy", "Corporate Social Responsibility" and "Business Environment and Outlook", Section III—Asset Profile, under the headings "Rental Properties", and "Development Properties" and Section IV—Liquidity and Capital Resources, constitute forward looking information. This MD&A includes, but is not limited to, forward-looking statements regarding: closing dates of proposed acquisitions; completion of construction and lease-up in connection with Properties Under Development ("PUDs"); growth of our Normalized AFFO and Normalized FFO per unit; continued demand for space in our target markets; increase in net rental income per square feet of gross leasable area ("GLA"); ability to extend lease terms; the creation of future value; estimated GLA, NOI and growth from PUDs; estimated costs of PUDs; future economic occupancy; return on investments, including 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 and taxation. Material assumptions that were made in formulating the forward-looking statements in this MD&A include the following: that our current target markets remain stable, with no material increase in supply of directly-competitive office space; that acquisition capitalization rates remain reasonably constant; that the trend toward intensification within our target markets continues; and that the equity and debt markets continue to provide us with access to capital at a reasonable cost to fund our future growth and 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 22, 2017, 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 other data)	THREE MONTHS ENDED		YEAR ENDED		YEAR ENDED
	DECEMBER 31, 2016	DECEMBER 31, 2015	**DECEMBER 31, 2016**	DECEMBER 31, 2015	DECEMBER 31, 2014
Portfolio					
Number of properties			**155**	148	143
Total rental GLA (000's of square feet)			**11,843**	10,421	9,501
Leased rental GLA (000's of square feet)			**10,906**	9,516	8,742
Leased area			**92.1%**	91.3%	92.0%
Occupied area			**88.7%**	90.6%	88.1%
Average in-place net rent per occupied square foot (period-end)			**21.31**	19.85	19.63
Renewal and replacement rate			**85.3%**	83.6%	77.1%
Increase in net rent on maturing leases			**8.1%**	5.5%	7.1%
Investment properties			**4,923,201**	4,197,277	3,726,757
Total assets			**5,213,854**	4,455,946	3,932,719
Cost of PUD as % of GBV			**3.4%**	4.7%	5.6%
Unencumbered investment properties			**2,306,215**	1,619,465	782,100
Total debt			**1,909,265**	1,587,503	1,353,403
Net asset value			**3,021,506**	2,591,731	2,330,031
Annualized Adjusted EBITDA	**243,132**	220,984	**232,399**	219,208	201,426
Net debt	**1,897,072**	1,583,180	**1,897,072**	1,583,180	1,348,143
Net debt as a multiple of annualized Adjusted EBITDA	**7.8x**	7.2x	**8.2x**	7.2x	6.7x
Adjusted EBITDA	**60,783**	55,246	**232,399**	219,208	201,426
Interest expense	**15,952**	11,497	**61,425**	52,131	53,674
Interest expense as a multiple of Adjusted EBITDA	**3.8x**	4.8x	**3.8x**	4.2x	3.8x
Rental revenue from investment properties	**105,411**	94,024	**389,722**	365,401	337,545
NOI	**59,868**	55,274	**227,677**	215,452	203,631
Same Asset NOI - rental portfolio	**52,299**	52,807	**195,322**	195,123	190,570
Same Asset NOI - total portfolio	**55,195**	54,242	**214,798**	202,544	193,690
Net income excluding loss on disposal and IFRS value adjustments	**35,210**	36,889	**140,215**	144,671	130,920
Net income	**163,731**	45,165	**324,305**	254,367	151,778
FFO	**45,501**	44,318	**172,749**	168,610	148,786
Normalized FFO (1)	**45,501**	44,318	**173,884**	168,610	148,786

($000's except per-square foot, per-unit and other data)		THREE MONTHS ENDED DECEMBER 31, 2016	THREE MONTHS ENDED DECEMBER 31, 2015	YEAR ENDED DECEMBER 31, 2016	YEAR ENDED DECEMBER 31, 2015	YEAR ENDED DECEMBER 31, 2014
Normalized AFFO [1]		**35,806**	35,356	**142,612**	140,683	130,197
Distributions		**31,984**	28,836	**121,880**	113,674	100,588
Per unit:						
Rental revenue from investment properties		**1.24**	1.20	**4.81**	4.70	4.73
NOI		**0.71**	0.71	**2.81**	2.77	2.86
Net income excluding loss on disposal and IFRS value adjustments		**0.42**	0.47	**1.73**	1.86	1.84
Net income		**1.93**	0.58	**4.01**	3.27	2.13
FFO		**0.54**	0.57	**2.13**	2.17	2.09
Normalized FFO [1]		**0.54**	0.57	**2.15**	2.17	2.09
Normalized FFO payout ratio		**70.3%**	65.1%	**70.1%**	67.4%	67.6%
Normalized AFFO [1]		**0.42**	0.45	**1.76**	1.81	1.83
Normalized AFFO payout ratio		**89.3%**	81.6%	**85.5%**	80.8%	77.3%
Distributions		**0.38**	0.37	**1.50**	1.46	1.41
Net asset value				**35.66**	33.05	31.04
Actual Units outstanding				**84,734,469**	78,430,153	75,068,912
Weighted average diluted Units outstanding		**84,826,679**	78,355,768	**80,939,463**	77,773,683	71,319,055
Financial Ratios	**ALLIED'S TARGETS**					
Total indebtedness ratio	**<40%**			**36.7%**	35.8%	34.4%
Secured indebtedness ratio	**<45%**			**21.9%**	27.0%	34.4%
Debt service coverage ratio	**>1.50x**			**2.1x**	2.2x	2.1x
Unencumbered property asset ratio	**>1.40x**			**3.0x**	4.1x	N/A
Interest-coverage ratio - including interest capitalized	**>3.0x**			**2.8x**	3.1x	3.0 x

(1) As a result of an unfavourable decision by the Supreme Court of Canada, Allied reversed heritage-grant revenue of $1,135 recorded following a favourable decision by the Alberta Court of Appeal in 2014 with respect to Allied's entitlement. This was a one-time extraordinary item recorded in Q3 2016.

BUSINESS OVERVIEW AND STRATEGY

Allied is an unincorporated closed-end real estate investment trust created pursuant to the Declaration of Trust ("Declaration") dated October 25, 2002, as amended and restated from time to time, most recently May 12, 2016. Allied is governed by the laws of Ontario. Allied's Units are publicly traded on the Toronto Stock Exchange under the symbol "AP.UN". Additional information on Allied, including its annual information form, is available on SEDAR at *www.sedar.com*.

Allied is a leading owner, manager and developer of distinctive urban workspace in Canada's major cities. Allied's objectives are to provide stable and growing cash distributions to unitholders and to maximize unitholder value through effective management and accretive portfolio growth.

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

The Class I value proposition includes (i) proximity to central business districts in areas well served by public transportation, (ii) distinctive internal and external environments that assist tenants in attracting, retaining and motivating employees and (iii) significantly lower overall occupancy costs than those that prevail in the central business districts. This value proposition has proven appeal to a diverse base of business tenants, including the full range of service and professional firms, telecommunications and information technology providers, media and film groups and storefront retailers.

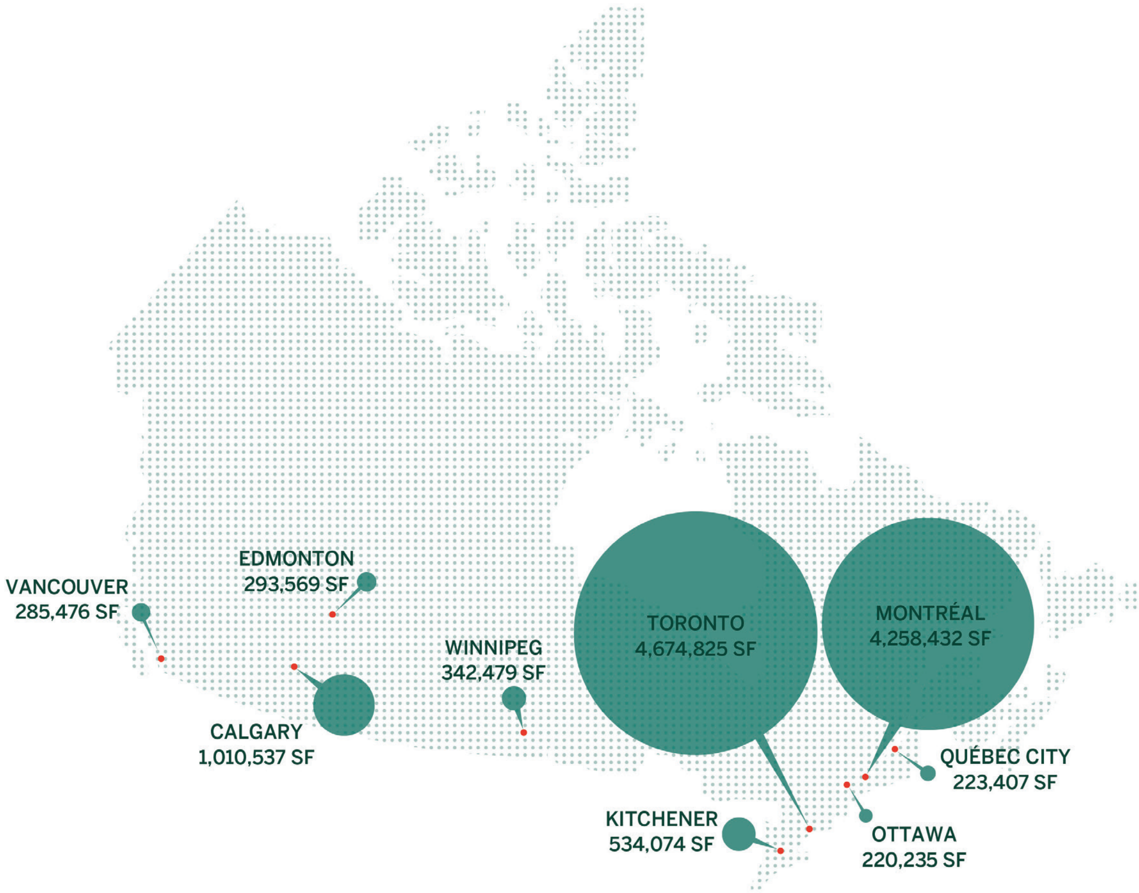
In addition to accommodating their employees in urban office space, many of Allied's tenants utilize sophisticated and extensive telecommunication and computer equipment. This is often a mission-critical need for our tenants. In an effort to serve this related need, Allied established extensive capability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

PROPERTY MANAGEMENT

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

PROPERTY PORTFOLIO

Allied completed its initial public offering ("IPO") on February 20, 2003, at which time it had assets of $120 million, a market capitalization of $62 million and a local, urban-office portfolio of 820,000 square feet of GLA. As of December 31, 2016, Allied had assets of $5.2 billion, a market capitalization of $3.0 billion and rental properties with 11.8 million square feet of GLA in nine cities across Canada. The illustration below depicts the geographic diversity of Allied's rental portfolio.



ACQUISITIONS

During the year ended December 31, 2016, Allied acquired the following properties:

PROPERTY	ACQUISITION DATE	ACQUISITION COST [1]	OFFICE GLA	RETAIL GLA	TOTAL GLA	PARKING SPACES
816-838 11th SW, Calgary [2]	February 29, 2016	$10,534	10,119	13,617	23,736	59
64 Jefferson, Toronto	March 29, 2016	32,396	78,820	—	78,820	120
Le Nordelec Portfolio (Rental and Development), Montréal [3]	May 31, 2016	172,986	804,676	59,310	863,986	520
Redbourne Portfolio, Montréal [4]	May 31, 2016	56,607	241,210	39,922	281,132	380
47 Front E, Toronto	July 28, 2016	6,542	6,380	4,028	10,408	—
642 King W, Toronto [5]	August 31, 2016	12,923	14,134	525	14,659	—
461 King W, Toronto	August 31, 2016	84,696	43,771	37,320	81,091	35
Total		$376,684	1,199,110	154,722	1,353,832	1,114

(1) Purchase price plus transaction costs.
(2) Equal two-way co-ownership with First Capital Realty, with total estimated GLA of 47,472 at 100%.
(3) For property count purposes, this acquisition is split into two components: rental and development.
(4) For property count purposes, this acquisition is split into four properties: 3510 Saint-Laurent, 480 Saint-Laurent, 740 Saint-Maurice and 8 Place du Commerce.
(5) Equal two-way co-ownership with RioCan, with total estimated GLA of 29,318 at 100%.

On January 5, 2017, Allied completed the purchase of an undivided 40% interest in 456 Wellington West, Toronto, for $5,200. This property will form part of The Well, which is a 40/40/20 co-ownership between Allied, RioCan and Diamondcorp.

On January 17, 2017, Allied completed the purchase of 387-391 Adelaide West, Toronto, for $8,250.

DISPOSITIONS

During the year ended December 31, 2016, Allied disposed of the following properties:

PROPERTY	DISPOSITION DATE	SALE PRICE	OFFICE GLA	RETAIL GLA	TOTAL GLA	PARKING SPACES
57 Spadina, Toronto [1]	February 17, 2016	$9,615	8,084	8,566	16,650	—
138 Portage, Winnipeg	July 15, 2016	2,550	53,482	—	53,482	—
145 Berkeley, Toronto	July 19, 2016	3,300	8,991	1,325	10,316	—
535 Yates, Victoria	August 5, 2016	3,954	12,718	6,312	19,030	—
754 Fort, Victoria	August 5, 2016	8,146	13,339	9,209	22,548	—
Total		$27,565	96,614	25,412	122,026	—

(1) Undivided 50% interest.

CORPORATE SOCIAL RESPONSIBILITY

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

The ongoing operation of our buildings also affects the physical environment. Allied is committed to obtaining BOMA BESt certification for as many of its existing buildings as possible. Certification is based on an independent assessment of key areas of environmental performance and management. Level 1 certification involves independent verification that all BOMA BESt practices have been adopted. Level 2 through to Level 4 involve progressively better assessments of environmental performance and management. Allied has one property with Level 2 certification and 13 properties with Level 3 certification, with plans to put additional buildings forward for certification on an annual basis.

Allied is also attentive to the impact of its business on the human environment. Allied's investment and development activities can have a displacing impact on members of the artistic community. As building inventory in an area is improved, the cost of occupancy can become prohibitive. Allied believes that its buildings and tenants are best served if artists remain viable members of the surrounding communities. Accordingly, Allied has made it a practice to allocate an appropriate portion of its rentable area to artistic uses on an affordable basis as part of its Make Room for the Arts program, the most recent example of this being the lease of over 200,000 square feet of GLA to Pied Carré at 5445-5455 de Gaspé in Montréal for a 30-year term. What Allied foregoes in short-term rent, it more than makes up in overall occupancy and net rent levels at other properties in the surrounding communities. Allied sees this as an important part of its corporate social responsibility.

BUSINESS ENVIRONMENT AND OUTLOOK

As of December 31, 2016, Allied was operating in nine urban markets in Canada – Toronto, Kitchener, Ottawa, Montréal, Québec City, Winnipeg, Calgary, Edmonton and Vancouver.

The office inventory statistics are summarized in the table below:

	TOTAL OFFICE INVENTORY	ESTIMATED TARGET MARKET INVENTORY	ALLIED CURRENT GLA	PERIOD END ALLIED LEASED RATE	ALLIED'S ESTIMATED SHARE OF TARGET MARKET
Toronto	87,800,000	16,100,000	4,674,825	95.2%	29.0%
Kitchener	2,400,000	1,000,000	534,074	97.2%	53.5%
Ottawa	18,700,000	1,700,000	220,235	100.0%	13.0%
Montréal	47,100,000	17,500,000	4,258,432	91.3%	24.3%
Québec City	19,000,000	1,500,000	223,407	61.1%	14.9%
Winnipeg	10,300,000	1,800,000	342,479	81.5%	19.0%
Calgary	49,300,000	2,900,000	1,010,537	85.2%	34.8%
Edmonton	15,800,000	1,000,000	293,569	94.4%	29.4%
Vancouver	33,300,000	4,000,000	285,476	96.4%	7.1%
Total	**283,700,000**	**47,500,000**	**11,843,034**	**92.1%**	**24.9%**

Allied expects its operating environment to be generally favourable in 2017. Allied's internal forecast for the year contemplates (i) mid-single-digit percentage growth in same-asset NOI, with rent growth in Toronto and occupancy gains in Montréal, Edmonton and Vancouver more than offsetting erosion in Calgary and (ii) low- to mid-single-digit percentage growth in FFO per unit. Allied's internal forecast is predicated on the continued intensification of the urban core of Canada's major cities and the continued desire on the part of office users to locate in distinctive urban office environments. It is also underpinned by the depth and strength of the Allied team and the team's ability to execute Allied's strategy at all levels.

At the end of 2016, the leased area of 250 Front Street West (the "Facility") was 54%, somewhat below the targeted level of 65%. Accordingly, Allied made conservative leasing assumptions for the Facility when finalizing its internal forecast for 2017. Management remains fully confident that lease-up will be achieved at the levels of return initially projected, just as it was at QRC West in Toronto and 5445-5455 de Gaspé in Montréal, both of which were pioneering projects. Management's confidence is underpinned by a recent opportunity in the active meet-me room at the Facility that, if finalized, has the potential to generate substantial recurring revenue that will be phased in over a six to 18 month period.

Section II

—Leasing

Allied strives to maintain high levels of occupancy and leased area. At December 31, 2016, Allied's rental portfolio was 92.1% leased.

STATUS

Leasing status for the rental portfolio as at December 31, 2016, is summarized in the following table:

	WEIGHTED AVERAGE RATE CURRENT RENT (PER SF)	WEIGHTED AVERAGE RATE MARKET RENT (PER SF)	GLA	AS A % OF TOTAL GLA (1)
Leased area (occupied & committed)				
December 31, 2015	$19.85		**9,516,372**	**91.3%**
Vacancy committed for future leases			(73,952)	
Occupancy - December 31, 2015			**9,442,420**	**90.6%**
Previous committed vacant space now occupied	$22.34	$24.41	428,512	
New leases on vacant space	$17.65	$17.01	105,225	
Expansions into vacant space	$33.11	$29.87	72,531	
Vacancies	$15.12	$15.25	(330,115)	
Surrender / early termination agreements			(303,730)	
Suite additions and removals			(2,667)	
Remeasurements			16,566	
Occupancy (pre acquisitions, dispositions, and transfers)			**9,428,742**	**90.4%**
Occupancy related to acquired properties			1,017,378	
Occupancy related to disposed properties			(68,544)	
Occupancy related to transfers from PUD			133,057	
Occupancy related to transfers to PUD			(6,699)	
Occupancy - December 31, 2016			**10,503,934**	**88.7%**
Vacancy committed for future leases			401,678	
Leased area (occupied & committed), December 31, 2016	$21.31		**10,905,612**	**92.1%**

(1) Excludes properties under development

Of 11,843,034 square feet of total GLA in Allied's rental portfolio, 10,503,934 square feet were occupied by tenants on December 31, 2016. Another 401,678 square feet were subject to contractual lease commitments with tenants whose leases commence subsequent to December 31, 2016, bringing the leased area to 10,905,612 square feet, which represents 92.1% of Allied's total GLA.

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

FIXTURING COMMENCEMENT (OCCUPANCY)	Q1 2017	Q2 2017	Q3 2017	TOTAL
Lease commitments - GLA	177,033	174,914	49,731	401,678
% of lease commitments	44%	44%	12%	100%

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

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

RENT COMMENCEMENT (ECONOMIC OCCUPANCY)	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	TOTAL
Lease commitments - GLA	9,870	44,915	116,107	40,849	189,937	401,678
% of lease commitments	3%	11%	29%	10%	47%	100%

Allied monitors the level of sub-lease space in its rental portfolio. Below is a summary of sub-lease space currently being marketed by city as at December 31, 2016, and September 30, 2016:

	DECEMBER 31, 2016	SEPTEMBER 30, 2016
Toronto	**24,771**	30,083
Kitchener	**8,445**	1,116
Ottawa	**—**	—
Montréal	**48,855**	42,758
Québec City	**—**	—
Winnipeg	**—**	—
Calgary	**24,493**	28,591
Edmonton	**1,645**	1,645
Vancouver	**—**	—
Total square feet	**108,209**	104,193
% of Total GLA	**0.9%**	0.5%

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

ACTIVITY

Allied places a high value on tenant retention, as the cost of retention is typically lower than the cost of securing new tenancies. When retention is neither possible nor desirable, Allied strives for high-quality replacement tenants.

Leasing activity in connection with the rental portfolio as at December 31, 2016, 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, 2016, including re-measurement	949,138	502,739	53.0%	446,399
Vacancy transferred from PUD on December 31, 2016	79,000	—	—	79,000
Acquired vacancy as at December 31, 2016	234,816	122,333	52.1%	112,483
Arranged and other vacancy as at December 31, 2016	175,159	13,526	7.7%	161,633
Maturities as at December 31, 2016	940,183	802,276	85.3%	137,907
Total	2,378,296	1,440,874	60.6%	937,422

On January 1, 2016, 949,138 square feet of GLA was vacant. By the year ended December 31, 2016, Allied leased 502,739 square feet of this GLA, leaving 446,399 square feet unleased.

Leases for 940,183 square feet of GLA matured in the period ended December 31, 2016, at the end of which Allied renewed or replaced 85.3% of this GLA. This represents 802,276 square feet of GLA, leaving 137,907 square feet unleased.

For the year ended December 31, 2016, the table below summarizes the rental rates achieved for the leases that were either renewed or replaced. Overall, this has resulted in an increase of 8.1% in the net rent per square foot from maturing leases.

LEASE RENEWALS/ REPLACEMENTS	FOR THE YEAR ENDED, DECEMBER 31, 2016		
	ABOVE IN-PLACE RENTS	AT IN-PLACE RENTS	BELOW IN-PLACE RENTS
% of Total Leased SF	59.2%	12.2%	28.6%
Maturing leases in 2016 - Weighted average rent	$15.59	$18.52	$22.45
Renewals & Replacements - Weighted average rent	$19.86	$18.52	$18.52

TENANT PROFILE

The following sets out Allied's tenant-mix on the basis of percentage of rental revenue for the year ended December 31, 2016:

CATEGORY	% OF RENTAL REVENUE DECEMBER 31, 2016
Business service and professional	29.5%
Telecommunications and information technology	28.4%
Media and entertainment	13.6%
Retail (head office and storefront)	12.1%
Parking & other	7.0%
Financial services	4.5%
Government	2.9%
Educational and institutional	2.0%
	100.0%

The following sets out the percentage of rental revenue from top 10 tenants by rental revenue for the year ended December 31, 2016:

TENANT	% OF RENTAL REVENUE DECEMBER 31, 2016	WEIGHTED AVERAGE REMAINING LEASE TERM (YEARS)	CREDIT RATING DBRS/S&P/MOODY'S
Equinix	3.0%	8.3	-/BB+/Ba3
Cloud Service Provider	2.4%	3.6	* -/AAA/Aaa
Ubisoft	2.4%	7.8	Not rated
Desjardins	2.2%	2.0	AA/A+/Aa2
Cologix	2.0%	21.0	Not rated
National Capital Commission (a Canadian Crown Corporation)	1.9%	18.6	Not rated
Entertainment One	1.6%	11.5	-/B+/Ba3
Morgan Stanley	1.4%	3.8	AH/BBB+/A3
Allstream	1.3%	2.2	* -/B/B2
Bell Canada	1.2%	3.6	BBBH/BBB+/Baa1
	19.4%		

**Credit rating for parent company*

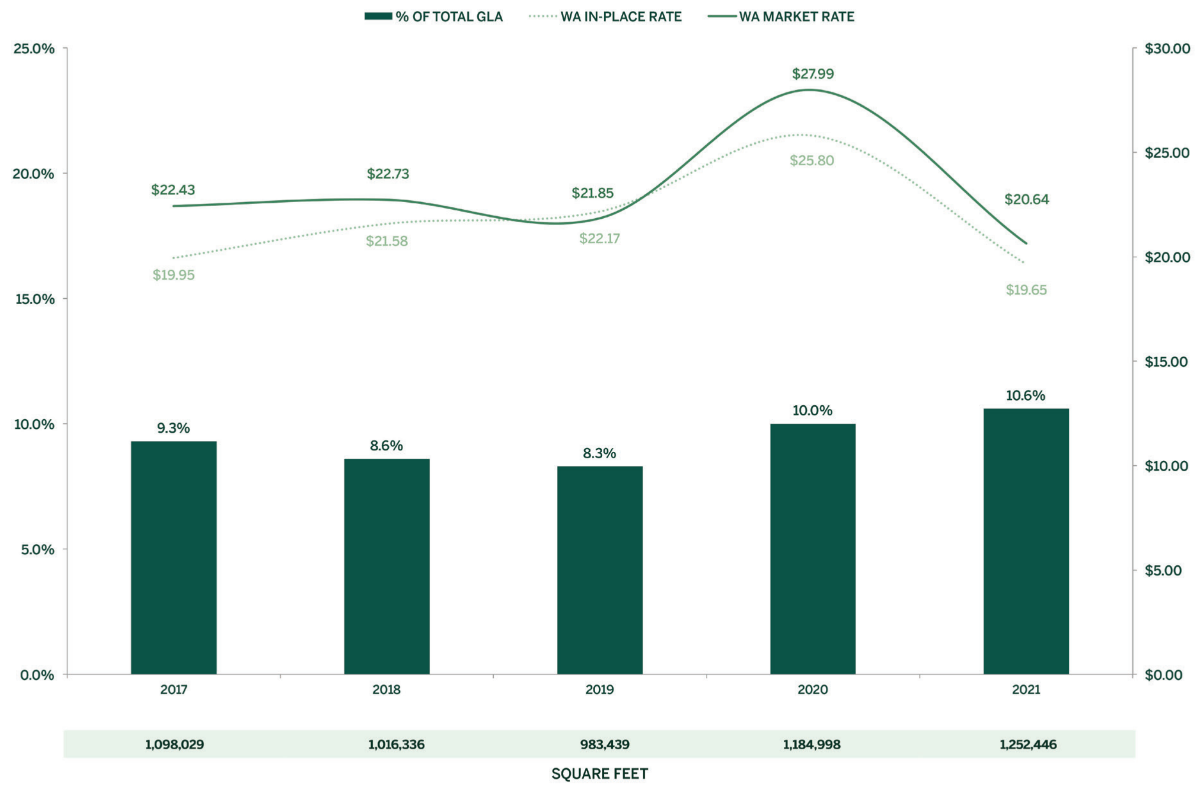
LEASE MATURITY

As at December 31, 2016, 92.1% of the GLA in Allied's rental portfolio was leased. The weighted average term to maturity of Allied's leases at that time was six 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 and retail leases that mature up to 2021, assuming tenants do not exercise renewal options, and the corresponding estimated weighted average market rental rate as at December 31, 2016:

TOTAL RENTAL PORTFOLIO	SQUARE FEET	% OF TOTAL GLA	WEIGHTED AVERAGE IN-PLACE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2017 (1)	1,098,029	9.3%	19.95	22.43
December 31, 2018	1,016,336	8.6%	21.58	22.73
December 31, 2019	983,439	8.3%	22.17	21.85
December 31, 2020	1,184,998	10.0%	25.80	27.99
December 31, 2021	1,252,446	10.6%	19.65	20.64

(1) Includes 197,983 sq. ft of GLA relating to Desjardins at 425 Viger, which is maturing December 31, 2017. The property will be transferred to the Development Portfolio in Q4 2017.



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

EASTERN CANADA	SQUARE FEET	% OF REGIONAL GLA	WEIGHTED AVERAGE IN-PLACE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2017 (1)	465,003	9.9%	14.76	14.58
December 31, 2018	192,707	4.1%	15.51	14.08
December 31, 2019	339,780	7.2%	18.31	14.29
December 31, 2020	316,376	6.7%	16.01	14.43
December 31, 2021	624,837	13.3%	15.98	14.97

(1) Includes 197,983 sq. ft of GLA relating to Desjardins at 425 Viger, which is maturing December 31, 2017. The property will be transferred to the Development Portfolio in Q4 2017.

CENTRAL CANADA	SQUARE FEET	% OF REGIONAL GLA	WEIGHTED AVERAGE IN-PLACE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2017	467,569	9.0%	22.03	29.53
December 31, 2018	555,511	10.7%	26.02	31.05
December 31, 2019	427,490	8.2%	26.44	31.11
December 31, 2020	608,675	11.7%	35.17	41.34
December 31, 2021	428,120	8.2%	24.06	28.71

WESTERN CANADA	SQUARE FEET	% OF REGIONAL GLA	WEIGHTED AVERAGE IN-PLACE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2017	165,457	8.6%	22.45	15.03
December 31, 2018	268,118	13.9%	16.75	11.73
December 31, 2019	216,169	11.2%	19.81	15.41
December 31, 2020	259,947	13.5%	15.78	13.26
December 31, 2021	199,489	10.3%	21.66	21.06

Section III
—Asset Profile

As at December 31, 2016, Allied's portfolio consisted of 155 investment properties (136 rental properties, nine development properties and ten ancillary parking facilities), with an IFRS value of $4,923,201.

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

	THREE MONTHS ENDED DECEMBER 31, 2016			YEAR ENDED DECEMBER 31, 2016		
	RENTAL PROPERTIES	PROPERTIES UNDER DEVELOPMENT	TOTAL	RENTAL PROPERTIES	PROPERTIES UNDER DEVELOPMENT	TOTAL
Balance, beginning of year	$4,584,979	$153,869	$4,738,848	$3,854,076	$343,201	$4,197,277
Additions:						
Acquisitions	—	—	—	322,651	54,033	376,684
Transfers from PUD	—	—	—	285,329	(285,329)	—
Transfers to PUD	—	—	—	(10,992)	10,992	—
Capital expenditures	47,697	18,861	66,558	97,306	83,200	180,506
Dispositions	—	—	—	(25,015)	(2,550)	(27,565)
Freehold lease and land leases	1,046	—	1,046	1,046	15,950	16,996
IFRS value gain (loss)	110,048	6,701	116,749	219,369	(40,066)	179,303
Balance, end of year	$4,743,770	$179,431	$4,923,201	$4,743,770	$179,431	$4,923,201

For the year ended December 31, 2016, Allied capitalized a total of $21,085 of borrowing costs, $9,514 of which related to development activity, $5,814 to rental properties going through intensification approval (half of which related to The Well) and $5,757 to upgrade activity in the rental portfolio. The rental properties undergoing upgrade activity consists of 5445-5455 de Gaspé, Le Nordelec, 905 King West and 6300 du Parc.

The appraised fair value of investment properties is 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 minimum term of ten years, including a terminal value of the properties based on a capitalization rate applied to the estimated net operating income ("NOI"), a non-GAAP measure, in the terminal year. This method is primarily used to value the rental portfolio.

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

Allied's entire portfolio is valued by an independent 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 changes to the valuation techniques during the year.

In valuing the rental portfolio as at December 31, 2016, 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 range of capitalization rates used to assess the reasonability were 4.00% to 8.00%. The corresponding rental portfolio weighted average overall capitalization rate used was 5.68%, detailed in the table below:

	DECEMBER 31, 2016		DECEMBER 31, 2015	
	RANGE %	**WEIGHTED AVERAGE %**	RANGE %	WEIGHTED AVERAGE %
Central Region	**4.00% - 6.75%**	**5.53%**	4.00% - 7.25%	5.75%
Eastern Region	**5.25% - 8.00%**	**6.27%**	5.75% - 8.00%	6.22%
Western Region	**4.00% - 7.50%**	**5.33%**	4.50% - 7.50%	5.83%
Rental Properties	**4.00% - 8.00%**	**5.68%**	4.00% - 8.00%	5.88%
Properties Under Development [1]	**—**	**—**	7.00% - 7.75%	7.29%
Total Investment Properties	**4.00% - 8.00%**	**5.68%**	4.00% - 8.00%	5.95%

(1) As at December 31, 2016, there were no properties under development that were valued using the discounted cash flow method.

The drop in the Western Region capitalization rate is due to continued strengthening in the Vancouver market.

RENTAL PROPERTIES

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

TOP-10 RENTAL PROPERTIES

Listed below are Allied's top 10 rental properties measured by Last Quarter Annualized ("LQA") NOI. LQA NOI is a non-IFRS measure, which represents the stabilized results for the most recently completed quarter multiplied by four. These properties represent 44.0% of total NOI for the period ended December 31, 2016.

PROPERTY NAME	LQA NOI	APPRAISED VALUE	IFRS VALUE	CAP RATE	PRINCIPAL TENANTS BY NOI
151 Front West, Toronto	$28,019	$394,610	$390,015	6.75%	Allstream, Bell, Cologix, Equinix, Telus
Cité Multimédia, Montréal	18,894	327,290	303,679	5.75%	Desjardins, Morgan Stanley, SAP Canada
QRC West, Toronto	9,915	215,220	193,311	4.75%	eOne, Sapient Canada
Le Nordelec, Montréal	7,432	154,470	151,229	6.70%	Babel Games, Groupe Gsoft, Lumenpulse
250 Front West, Toronto	7,155	264,330	258,864	6.75%	Cloud Service Provider, Equinix
The Chambers, Ottawa	6,531	146,540	139,719	5.25%	National Capital Commission
555 Richmond West, Toronto	6,502	116,040	112,119	4.75%	Good Life, Sentinelle Medical, Synaptive Medical
Vintage I & II, Calgary	5,851	103,430	97,684	5.00%	Royal & Sun Alliance
The Tannery, Kitchener	5,181	76,140	73,026	6.50%	Communitech Corp., Desire 2 Learn
Boardwalk Revillon, Edmonton	4,803	74,150	71,108	6.21%	Edmonton Public School Board, Legal Aid Society of Alberta
Total	$100,283	$1,872,220	$1,790,754	5.99%	

The appraised value is the value received from the independent appraiser. The IFRS value is equal to the appraised value less the re-classifcation of certain items to other assets (tenant improvement allowances, leasing commissions and straight-line rents receivable, refer to note 5 in Allied's consolidated financial statements for a reconciliation of the IFRS value to appraised value). The IFRS value (or the "adjusted fair value", as referred to in the consolidated financial statements) for each investment property is the value assigned to it for the purpose of Allied's consolidated financial statements for the year ended December 31, 2016.

RENTAL PROPERTIES UNDERGOING INTENSIFICATION APPROVAL

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

Allied began tracking the intensification potential inherent in the Toronto portfolio in the fourth quarter of 2007 (see our MD&A dated March 7, 2008, for the quarter and year ended December 31, 2007). At the time, the 46 buildings 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. With the significant additions this year, the 75 buildings in Toronto now comprise 4.7 million square feet of GLA and are situated on 1.9 million square feet (44 acres) of underutilized land immediately east and west of the Downtown Core. With achievable rezoning, the underlying land in our Toronto portfolio could permit up to 11 million square feet of GLA, 6.3 million square feet more than currently in place. Less than half of the potential value of this buildable area is reflected in either the appraised or IFRS values.

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

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

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

PROPERTY NAME	LQA NOI	APPRAISED VALUE	IFRS VALUE	REZONING APPROVAL STATUS	USE	CURRENT GLA	ESTIMATED GLA ON COMPLETION	ESTIMATED COMPLETION
College & Manning (1)	$630	$13,460	$13,106	Completed	Office, limited retail, residential	31,564	56,500	2020
The Well (2) (3)	1,226	154,808	154,808	Completed	Office, retail, residential	101,043	1,240,000	2022
QRC West, Phase II	1,163	30,590	30,544	Completed	Office, retail	32,439	90,000	Unscheduled
King & Peter	1,554	77,500	76,774	Completed	Office, limited retail	92,292	790,000	Unscheduled
King & Spadina (4)	3,113	148,360	148,090	In progress	Office, retail, residential	107,189	650,000	Unscheduled
Union Centre	1,125	82,000	80,937	Completed	Office, limited retail	40,571	1,129,000	Unscheduled
Total	$8,811	$506,718	$504,259			405,098	3,955,500	

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

(2) 40/40/20 co-ownership with RioCan and Diamondcorp., total estimated GLA is 2,822,500 square feet. Approximately one half of this estimated GLA has been sold by the co-ownership as previously announced, with closing expected to occur in 2021.

(3) The Well was vacated on January 1, 2017 and transferred to the Development Portfolio concurrently. The project received rezoning approval subsequent to year end. The LQA NOI is expected to be nil in 2017.

(4) Allied plans to redevelop this project with its current joint-arrangement partner Westbank. Allied will own an undivided 50% interest of the proposed joint arrangement. The figures listed in the table above are currently at 100% ownership.

Estimated GLA is based on applicable standards of area measurement and the expected or actual outcome of re-zoning. These properties are currently generating NOI and will continue to do so until Allied initiates construction. With respect to the ultimate intensification of these properties, a significant amount of pre-leasing will be required on the larger projects before construction commences. The design-approval costs have been, and will continue to be, funded by Allied for its share.

DEVELOPMENT PROPERTIES

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

It is expected that development activity will become a more important component of Allied's growth as projects are completed. The expectation is largely contingent upon completing the development projects in the manner contemplated. The most important factor affecting completion will be successful lease-up of space in the development portfolio. The material assumption is that the office leasing market in the relevant markets remains stable. Pursuant to Allied's Declaration, the cost of Properties Under Development cannot exceed 15% of GBV. At the end of December 31, 2016, the cost of Allied's Properties Under Development was 3.4% of GBV (December 31, 2015 - 4.7%). 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, 2016, Allied has the following nine Properties Under Development:

	USE	ESTIMATED GLA ON COMPLETION (SF)	% OF DEVELOPMENT LEASED
180 John, Toronto	Office	46,000	100%
189 Joseph, Kitchener	Office	26,000	100%
47 Front E, Toronto	Office	10,500	—
642 King W, Toronto (1) (2)	Office, retail	13,750	—
TELUS Sky, Calgary (1) (3)	Office, retail, residential	223,000	32%
College & Palmerston, Toronto (1)	Office, retail	12,500	30%
King Portland Centre, Toronto (1) (4)	Office, retail, residential	211,300	75%
Adelaide & Duncan, Toronto (1) (5)	Office, retail, residential	225,500	—
Le Nordelec - Development, Montréal	Office, retail, residential	TBD	—
Total		768,550	

(1) These properties are co-owned, reflected in the table above at Allied's ownership.
(2) The GLA components (in square feet) at our 50% share are as follows: 6,330 of office and 7,420 of retail.
(3) The GLA components (in square feet) at our 33.33% share are as follows: 148,000 of office, 70,000 of residential and 5,000 of retail. 32% of the office space is leased, representing 21% of the total GLA.
(4) The GLA components (in square feet) at our 50% share are as follows: 156,250 of office, 48,550 of residential and 6,500 of retail.
(5) The GLA components (in square feet) at our 50% share are as follows: 155,800 of residential, 58,300 of office and 11,400 of retail.

The following table sets out the fair value of Allied's Properties Under Development, as at December 31, 2016, as well as Management's estimates with respect to the financial outcome on completion:

	TRANSFER TO RENTAL PORTFOLIO	APPRAISED VALUE	IFRS VALUE	LQA NOI	ESTIMATED ANNUAL NOI	ESTIMATED TOTAL COST	ESTIMATED YIELD ON COST	ESTIMATED COST TO COMPLETE
180 John, Toronto	Q2 2017	$17,370	$16,760	$—	$1,500 - $1,550	$26,000	5.8% - 6.0%	$7,000
189 Joseph, Kitchener	Q2 2017	7,610	7,060	—	670 - 780	11,600	5.8% - 6.7%	6,220
47 Front E, Toronto	Q2 2017	6,200	6,200	26	330 - 430	7,700	4.3% - 5.6%	900
642 King W, Toronto (1)	Q1 2018	12,500	12,500	156	660 - 760	15,300	4.3% - 5.0%	2,750
TELUS Sky, Calgary (1)	Q4 2018	42,523	42,330	—	8,000 - 9,600	133,000	6.0% - 7.2%	77,650
College & Palmerston, Toronto (1)	Q4 2018	5,530	5,530	—	400 - 500	10,700	3.7% - 4.7%	4,380
King Portland Centre, Toronto (1)	Q1 2019	25,600	24,895	—	6,590 - 7,500	104,500	6.3% - 7.2%	71,990
Adelaide & Duncan, Toronto (1)	Q3 2020	29,665	29,664	94	8,250 - 9,500	146,600	5.6% - 6.5%	113,800
Le Nordelec - Development, Montréal	Unscheduled	34,500	34,492	14	TBD	TBD	TBD	TBD
Total		$181,498	$179,431					

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

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.

Section IV

—Liquidity and Capital Resources

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

Allied has financed its operations through the use of equity, mortgage debt secured by rental properties, construction loans, an unsecured operating line, senior unsecured debentures and unsecured term loans. Conservative financial management has been consistently applied through the use of long term, fixed rate, debt financing. Allied's objective is to maximize financial flexibility while continuing to strengthen the balance sheet. Management intends to achieve this by continuing to access the equity market, unsecured debenture market, unsecured loans and growing the pool of unencumbered assets, which totals $2.3 billion as at December 31, 2016.

DEBT

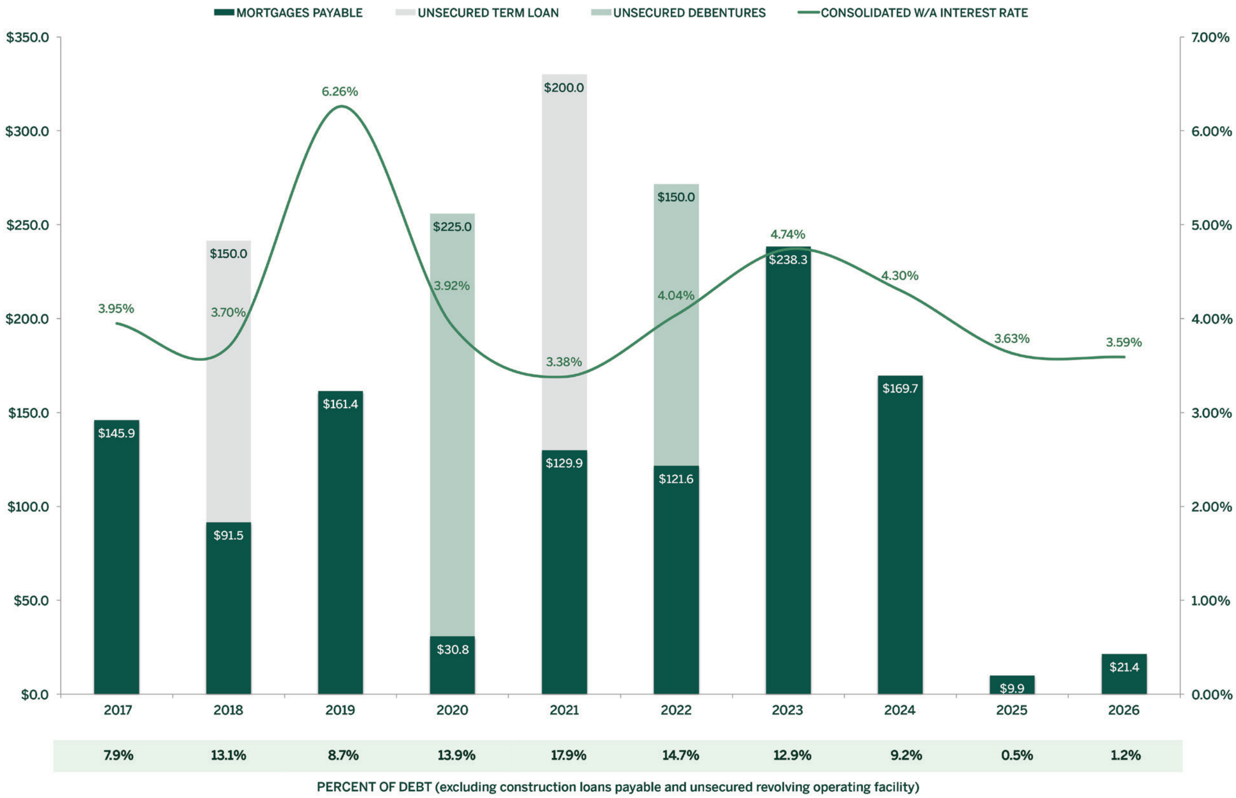
Total debt and net debt are non-IFRS financial measures and do not have any standard meaning prescribed by IFRS. As computed by Allied, total debt and net debt may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers total debt and net debt to be useful measures for evaluating debt levels and interest coverage. The following illustrates the calculation of total debt and net debt as at December 31, 2016, and December 31, 2015:

	DECEMBER 31, 2016	DECEMBER 31, 2015
Mortgages payable	**$1,118,551**	$1,172,468
Construction loans payable	**21,056**	21,789
Unsecured revolving operating facility	**47,000**	19,598
Senior unsecured debentures	**373,596**	224,161
Unsecured term loans	**349,062**	149,487
Total debt	**$1,909,265**	$1,587,503
Less cash and cash equivalents	**12,193**	4,323
Net debt	**$1,897,072**	$1,583,180

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

	MORTGAGES	W/A INTEREST RATE	SENIOR UNSECURED DEBENTURES	W/A INTEREST RATE	UNSECURED TERM LOANS	W/A INTEREST RATE	TOTAL	CONSOLIDATED W/A INTEREST RATE
2017	$145,895	3.95%	$—	—	$—	—	$145,895	3.95%
2018	91,511	5.41%	—	—	150,000	2.65%	241,511	3.70%
2019	161,415	6.26%	—	—	—	—	161,415	6.26%
2020	30,801	5.20%	225,000	3.75%	—	—	255,801	3.92%
2021	129,919	4.19%	—	—	200,000	2.86%	329,919	3.38%
2022	121,596	4.18%	150,000	3.93%	—	—	271,596	4.04%
2023	238,284	4.74%	—	—	—	—	238,284	4.74%
2024	169,704	4.30%	—	—	—	—	169,704	4.30%
2025	9,934	3.63%	—	—	—	—	9,934	3.63%
2026	21,367	3.59%	—	—	—	—	21,367	3.59%
	$1,120,426	4.66%	$375,000	3.82%	$350,000	2.77%	$1,845,426	4.13%

The chart below summarizes the maturities of principal in regards to Allied's various obligations as at December 31, 2016:



MORTGAGES PAYABLE

Mortgages payable as at December 31, 2016, totaled $1,118,551 and have a weighted average stated interest rate of 4.66% (December 31, 2015 - 4.72%). The weighted average term of the mortgage debt is 5.2 years (December 31, 2015 - 5.7 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, 2016	DECEMBER 31, 2015
2017	$35,569	$110,326	$145,895	
2018	34,611	56,900	91,511	
2019	32,050	129,365	161,415	
2020	26,345	4,456	30,801	
2021	25,575	104,344	129,919	
2022	21,494	100,102	121,596	
2023	17,327	220,957	238,284	
2024	4,378	165,326	169,704	
2025	1,146	8,788	9,934	
2026	924	20,443	21,367	
Mortgages, principal	$199,419	$921,007	$1,120,426	$1,177,514
Net premium on assumed mortgages			2,924	568
Net financing costs			(4,799)	(5,614)
			$1,118,551	$1,172,468

For the year ended December 31, 2016, in additional to regularly scheduled principal payments, Allied repaid 16 mortgages totaling $96,821 with a weighted average interest rate of 4.97%.

CONSTRUCTION LOANS PAYABLE

Allied provided a guarantee (limited to $114,000) to a Canadian chartered bank to support a $342,000 construction lending facility to assist with the financing of construction costs associated with the development of TELUS Sky, in which Allied has a 33.33% joint arrangement interest. The loan matures on August 31, 2019, and bears interest at bank prime plus 70 basis points or banker's acceptance rate plus 195 basis points. Allied's obligation of the balance outstanding under the facility as at December 31, 2016, was $21,056 (December 31, 2015 - $3,126).

Allied had provided a guarantee (limited to $22,870) to a Canadian chartered bank to support a $45,740 construction lending facility to assist with the financing of construction costs associated with the development of the Breithaupt Block project, in which Allied has a 50% joint arrangement interest. The loan carried interest at bank prime plus 80 basis points or bankers' acceptance rate plus 180 basis points. On November 24, 2016, the construction loan was repaid in full upon the project acquiring permanent mortgage financing. Allied had no obligation outstanding under the facility as at December 31, 2016 (December 31, 2015 - $18,663).

JOINT ARRANGEMENT	OWNERSHIP	ALLIED'S GUARANTEE LIMIT	DATE OF MATURITY	DECEMBER 31, 2016	DECEMBER 31, 2015
TELUS Sky	33.33%	$114,000	August 31, 2019	**$21,056**	$3,126
Breithaupt Block	50%	22,870	Matured	**—**	18,663
				$21,056	$21,789

UNSECURED REVOLVING OPERATING FACILITY

On January 28, 2015, Allied obtained an unsecured revolving operating facility (the "Unsecured Facility") of $200,000. On April 26, 2016, the limit under the Unsecured Facility was increased to $250,000 and the maturity date was extended to January 29, 2019 (December 31, 2015 - maturity of January 18, 2018). The Unsecured Facility contains a $100,000 accordion feature, allowing Allied to increase the amount available under the facility to $350,000. The Unsecured Facility bears interest at bank prime plus 70 basis points or bankers' acceptance plus 170 basis points. The Unsecured Facility had a balance of $47,000 outstanding at December 31, 2016 (December 31, 2015 - $19,598).

	DECEMBER 31, 2016	DECEMBER 31, 2015
Unsecured Facility limit	**$250,000**	$200,000
Amounts drawn under the Unsecured Facility	**(47,000)**	(19,598)
Letters of credit outstanding under the Unsecured Facility	**(3,040)**	(7,634)
Remaining unused balance under the Unsecured Facility	**$199,960**	$172,768

SENIOR UNSECURED DEBENTURES

On May 12, 2016, Allied issued $150,000 of 3.934% Series B unsecured debentures (the "Series B Debentures") due November 14, 2022, with semi-annual interest payments due on May 14 and November 14 of each year commencing November 14, 2016. Debt financing costs of $801 were incurred and recorded against the principal owing. Funds from the issuance were used to fund acquisitions, repay amounts drawn on the Unsecured Facility and for general working capital purposes.

On May 13, 2015, Allied issued $150,000 of 3.748% Series A unsecured debentures (the "Series A Debentures") due May 13, 2020, with semi-annual interest payments due on May 13 and November 13 of each year commencing November 13, 2015. Debt financing costs of $1,001 were incurred and recorded against the principal owing. Furthermore, on August 18, 2015, Allied issued an additional $75,000 of 3.748% Series A Debentures with the same terms and conditions as the May 13, 2015, issuance described above. Allied recognized a premium of $731 on the secondary offering of the Series A Debentures. Debt financing costs of $700 were incurred and recorded against the principal owing.

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

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

SERIES	INTEREST RATE	DATE OF MATURITY	INTEREST PAYMENT DATE	DECEMBER 31, 2016	DECEMBER 31, 2015
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**	—
Unsecured Debentures, principal				**375,000**	225,000
Net premium on Unsecured Debentures				**522**	674
Net financing costs				**(1,926)**	(1,513)
				$373,596	$224,161

UNSECURED TERM LOANS

On March 16, 2016, Allied entered into a $150,000 unsecured credit facility with a Canadian chartered bank for a term of five years and bearing interest at a floating rate of CDOR plus 1.70% per year (the "Unsecured Term Facility"). On May 25, 2016, the credit limit for the Unsecured Term Facility was increased to $200,000. Allied drew on the Unsecured Term Facility in two tranches, on March 16, 2016, for $100,000 at an effective interest rate of 2.83%, and on May 25, 2016, for $100,000 at an effective interest rate of 2.890%. The Unsecured Term Facility provides for the interest rate to be adjusted up or down based on changes in the credit rating of the Unsecured Debentures. In addition, Allied entered into interest rate swap agreements which will have the effect of fixing the floating CDOR interest rate for the term of the Unsecured Term Facility. After giving effect to the interest rate swaps, the current effective rate for the Unsecured Term Facility is 2.860%. The interest rate swap agreements have a notional amount of $200,000. Financing costs of $700 were incurred and recorded against the principal owing.

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

On December 14, 2015, Allied entered into a credit agreement with a Canadian chartered bank to obtain a $150,000 unsecured term loan in the form of a revolving bankers' acceptance at prime plus 170 basis points which matures December 14, 2018 (the "Unsecured Term Loan"). Concurrently with the closing of the Unsecured Term Loan, Allied entered into an interest rate swap agreement to fix the variable interest rate on the bankers' acceptance to 0.945%, resulting in a total fixed interest rate of 2.645% for the full term of the Unsecured Term Loan. The interest rate swap agreement has a notional amount of $150,000. Financing costs of $522 were incurred and recorded against the principal owing.

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

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

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

	INTEREST RATE	DATE OF MATURITY	FREQUENCY OF INTEREST PAYMENT	DECEMBER 31, 2016	DECEMBER 31, 2015
Unsecured Term Loan	2.645%	December 14, 2018	Monthly	**$150,000**	$150,000
Unsecured Term Facility					
Tranche 1	2.830%	March 16, 2021	Quarterly	**100,000**	—
Tranche 2	2.890%	March 16, 2021	Quarterly	**100,000**	—
Unsecured Term Loans, principal				**350,000**	150,000
Net financing costs				**(938)**	(513)
				$349,062	$149,487

CREDIT RATING

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

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

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

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

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

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

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

FINANCIAL COVENANTS

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

UNSECURED FACILITY AND UNSECURED TERM LOANS

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

1. Indebtedness ratio

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

	DECEMBER 31, 2016
Total debt	$1,909,265
Letters of credit	3,040
Consolidated indebtedness	$1,912,305
Consolidated gross book value	$5,213,854
Indebtedness ratio	**36.7%**

2. Secured indebtedness ratio

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

	DECEMBER 31, 2016
Consolidated indebtedness	$1,912,305
Less:	
Unsecured Facility	(47,000)
Unsecured Debentures	(373,596)
Unsecured Term Loans	(349,062)
Consolidated secured indebtedness	$1,142,647
Consolidated gross book value	$5,213,854
Secured indebtedness ratio	**21.9%**

3. Debt service coverage ratio

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

	ROLLING 12 MONTHS DECEMBER 31, 2016
Net income and comprehensive income	$324,305
Interest expense	61,425
Capitalized interest	21,085
Amortization of leasing costs and other assets	10,043
Amortization of tenant improvements	20,716
IFRS value gain on investment properties	(179,303)
Fair value gain on derivative instruments	(5,874)
Loss on disposal of investment properties	1,087
Consolidated adjusted EBITDA	$253,484
Total principal and interest payments (excluding principal payments on maturity)	$118,985
Debt service coverage ratio	**2.1x**

4. Equity maintenance

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

	DECEMBER 31, 2016
Unitholders' equity	$3,021,506
Initial requirement	$1,250,000
75% of future equity issuances	227,036
Total required equity amount	$1,477,036
Excess over required amount	**$1,544,470**

5. Unencumbered property assets ratio

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

	DECEMBER 31, 2016
Total unencumbered properties	$2,306,215
Unsecured Facility	$47,000
Unsecured Debentures	373,596
Unsecured Term Loans	349,062
Total unsecured debt	$769,658
Unencumbered property assets ratio	**3.0x**

6. Distribution payout ratio

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

	ROLLING 24 MONTHS DECEMBER 31, 2016
Distributions	$235,554
FFO	$341,360
Distribution payout ratio	**69.0%**

SENIOR UNSECURED DEBENTURES

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

1. Pro forma interest coverage ratio

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

	PRO FORMA 12 MONTHS DECEMBER 31, 2016
Net income and comprehensive income	$327,842
Interest expense (net of capitalized interest)	64,047
Amortization of leasing costs and other assets	10,043
Amortization of tenant improvements	20,716
IFRS value gain on investment properties	(179,303)
Fair value gain on derivative instruments	(5,874)
Loss on disposal of investment properties	1,087
Consolidated pro forma EBITDA	$238,558
Pro forma interest expense (including capitalized interest)	$85,132
Pro forma interest coverage ratio	**2.8x**

2. Pro forma asset coverage test

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

	PRO FORMA DECEMBER 31, 2016
Total debt	$1,909,265
Total assets	$5,213,854
Less:	
Cumulative capitalized interest	(85,498)
Add:	
Cumulative amortization of tenant improvements	50,496
Cumulative amortization of leasing costs and other assets	25,131
Net aggregate assets	$5,203,983
Asset coverage test	**36.7%**

3. Equity maintenance covenant

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

	DECEMBER 31, 2016
Unitholders' equity	$3,021,506
Requirement	300,000
Excess over required amount	**$2,721,506**

4. Pro forma unencumbered net aggregate adjusted asset ratio

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

	DECEMBER 31, 2016
Total assets	$5,213,854
Less:	
Investment properties with certain encumbrances	(2,616,986)
Cumulative capitalized interest	(85,498)
Add:	
Cumulative amortization of tenant improvements	50,496
Cumulative amortization of leasing costs and other assets	25,131
Total pro forma unencumbered net aggregate adjusted assets	$2,586,997
Unsecured Facility	$47,000
Unsecured Debentures	373,596
Unsecured Term Loans	349,062
Consolidated unsecured indebtedness	$769,658
Pro forma unencumbered net aggregate adjusted asset ratio	**3.4x**

As of December 31, 2016, 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 interest expense as a multiple of EBITDA. 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 Unit equity, for the year ended December 31, 2016, and for the year ended December 31, 2015.

	DECEMBER 31, 2016		DECEMBER 31, 2015	
	UNITS	AMOUNT	UNITS	AMOUNT
Trust Units, beginning of year	**78,430,153**	**$1,873,541**	75,068,912	$1,754,576
Units issued under the DRIP	**168,014**	**5,839**	1,028,659	35,195
Net cash used to purchase and allocate Units to the Restricted Unit Plan (net of forfeitures)	**—**	**(1,022)**	—	(1,672)
Repayments of Long-term incentive plan installment loan receivable	**—**	**74**	—	18
Units issued under the unit based compensation arrangement	**162,302**	**3,570**	118,832	3,076
Units issued, net of issuance costs	**6,089,250**	**220,367**	2,213,750	82,348
Purchase of Units under normal course issuer bid for cancellation	**(115,250)**	**(4,102)**	—	—
Trust Units, end of year	**84,734,469**	**$2,098,267**	78,430,153	$1,873,541

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

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

The table below represents weighted average Units outstanding for:

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2016	DECEMBER 31, 2015	**DECEMBER 31, 2016**	DECEMBER 31, 2015
Basic	**84,718,085**	78,255,779	**80,815,747**	77,620,668
Unit option plan	**104,094**	82,989	**113,130**	136,015
LTIP	**4,500**	17,000	**10,586**	17,000
Fully diluted	**84,826,679**	78,355,768	**80,939,463**	77,773,683

NORMAL COURSE ISSUER BID

On December 19, 2016, 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 8,306,955 of its outstanding Units, representing approximately 10% of its public float as at December 7, 2016. The NCIB renewal commenced December 22, 2016, and will expire on December 21, 2017, 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.

On March 9, 2016, the Trust entered into an automatic unit repurchase plan with a broker in order to facilitate repurchase of its Units under the NCIB at times when the Trust would ordinarily not be permitted to purchase its Units due to self-imposed trading blackout periods. On the announcement on August 10, 2016, of an equity offering by the Trust, the automatic unit repurchase plan terminated automatically in accordance with its terms.

During the year ended December 31, 2016, Allied purchased 147,244 Units for $5,162 at a weighted average price of $35.06 per Unit under its NCIB program, of which 115,250 Units were purchased for cancellation, 30,994 Units were purchased for delivery to participants under the Trust's Restricted Unit Plan (December 31, 2015 - nil) and 1,000 Units were purchased for certain long term employee anniversary grants.

UNIT OPTION AND RESTRICTED UNIT PLANS

In May of 2004, Allied adopted a long-term incentive plan ("LTIP") whereby its trustees and officers ("Participants") may from time to time, at the discretion of the trustees and subject to regulatory approval, subscribe for Units at a market price established in accordance with the provisions of the LTIP. The price for the Units is payable as to 5% upon issuance and as to the balance ("LTIP Loan") over 10 years with interest on the LTIP Loan at an annual rate established in accordance with the provisions of the LTIP. The Units issued pursuant to the LTIP are registered in the name of a Custodian on behalf of the Participants who are the beneficial owners. The Units are pledged to Allied as security for payment of the LTIP Loan, and all distributions paid on the Units are forwarded by the Custodian to Allied and applied first on account of interest on the LTIP Loan and then to reduce the outstanding balance of the LTIP Loan. In May 2014, Allied adopted the Unit Option Plan and amended the LTIP to limit the number of Units authorized for issuance under the Unit Option Plan, the LTIP or any other equity compensation plan to 2,800,545 Units, representing 3.3% of the issued and outstanding Units as at December 31, 2016 and the date hereof. No further Units will be issued, or indebtedness incurred, under the LTIP. At December 31, 2016, Allied had 4,500 Units issued and outstanding under the LTIP (December 31, 2015 - 17,000 Units).

Allied adopted a Unit Option Plan providing for the issuance, from time to time, at the discretion of the trustees, of options to purchase Units for cash. Participation in the Unit Option Plan is restricted to certain employees of Allied. The Unit Option Plan complies with the requirements of the Toronto Stock Exchange. The exercise price of any option granted will not be less than the closing market price of the Units on the day preceding the date of grant. The term of the options may not exceed ten years and vests evenly over three years from the date of grant. All options are settled in Units.

At December 31, 2016, Allied had issued options to purchase 1,296,191 Units outstanding, of which 499,801 had vested. At December 31, 2015, Allied had options to purchase 923,629 Units outstanding, of which 440,417 had vested. In May 2015, the Unit Option Plan was amended so that non-employee trustees of the REIT are no longer eligible to be granted options under the Unit Option Plan.

For the Unit Option Plan, $1,430 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) has been included in net income for the year ended December 31, 2016, and credited to Unitholders' equity (for the year ended December 31, 2015 - $811).

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, 2016, Allied had 223,717 Restricted Units outstanding (December 31, 2015 – 220,216).

For the Restricted Unit Plan, a total of $1,194 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) has been included in net income for the year ended December 31, 2016, and credited to Unitholders' equity (for the year ended December 31, 2015 - $1,478, respectively).

DISTRIBUTIONS TO UNITHOLDERS

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

	MARCH, 2004	MARCH, 2005	MARCH, 2006	MARCH, 2007	MARCH, 2008	DECEMBER, 2012	DECEMBER, 2013	DECEMBER, 2014	DECEMBER, 2015	DECEMBER, 2016
Annualized increase per unit	$0.04	$0.04	$0.04	$0.04	$0.06	$0.04	$0.05	$0.05	$0.04	$0.03
% increase	3.6%	3.5%	3.4%	3.3%	4.8%	3.0%	3.7%	3.5%	2.7%	2.0%
Annualized distribution per unit	$1.14	$1.18	$1.22	$1.26	$1.32	$1.36	$1.41	$1.46	$1.50	$1.53

DISTRIBUTION REINVESTMENT PLAN ("DRIP")

Allied instituted a DRIP whereby Canadian Unitholders may elect to have their distributions automatically reinvested in additional Units. Effective December 31, 2015, Unitholders who so elected to participate in the DRIP received no additional distribution of Units for each distribution that was reinvested. Effective November 21, 2016, Allied suspended its DRIP until further notice. No commissions, service charges or brokerage fees are payable by participants in connection with the DRIP.

SOURCES OF DISTRIBUTIONS

For the three months and year ended December 31, 2016, Allied declared $31,984 and $121,880 in distributions (three months and year ended December 31, 2015 - $28,836 and $113,674, respectively), and non-cash distributions of $979 and $5,839 were provided under the DRIP (three months and year ended December 31, 2015 - $10,348 and $35,195, respectively).

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2016	DECEMBER 31, 2015	**DECEMBER 31, 2016**	DECEMBER 31, 2015
Distributions declared	**$31,984**	$28,836	**$121,880**	$113,674
Net income	**$163,731**	$45,165	**$324,305**	$254,367
Cash flows provided by operating activities	**$50,830**	$46,802	**$161,240**	$185,074
AFFO and Normalized AFFO	**$35,806**	$35,356	**$142,612**	$140,683
Excess of net income over distributions declared	**$131,747**	$16,329	**$202,425**	$140,693
Excess of cash flows provided by operating activities over distributions declared	**$18,846**	$17,966	**$39,360**	$71,400
Excess of cash provided by AFFO and Normalized AFFO over distributions declared	**$3,822**	$6,520	**$20,732**	$27,009

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

The current rate of distribution amounts to $1.53 per unit per annum (December 31, 2015 - $1.50 per unit per annum).

COMMITMENTS

At December 31, 2016, Allied had future commitments as set out below:

	DECEMBER 31, 2016
Capital expenditures	$88,371
Conditional acquisitions	18,750
Total	$107,121

Section V
—Discussion of Operations

The following sets out summary information and financial results for the three months and year ended December 31, 2016, and the comparable periods in 2015.

NET INCOME AND COMPREHENSIVE INCOME

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2016	DECEMBER 31, 2015	**DECEMBER 31, 2016**	DECEMBER 31, 2015
Rental revenue from investment properties	**$105,411**	$94,024	**$389,722**	$365,401
Property operating costs	**(49,548)**	(40,818)	**(171,064)**	(152,728)
Net rental income	**55,863**	53,206	**218,658**	212,673
Interest expense	**(15,952)**	(11,497)	**(61,425)**	(52,131)
General and administrative expenses	**(2,041)**	(2,730)	**(8,520)**	(8,916)
Amortization of leasing costs and other assets	**(3,074)**	(2,441)	**(10,043)**	(8,230)
Interest income	**414**	351	**1,545**	1,275
Fair value gain on investment properties	**116,749**	8,234	**179,303**	117,438
Fair value gain (loss) on derivative instruments	**11,808**	190	**5,874**	(7,594)
Loss on disposal of investment properties	**(36)**	(148)	**(1,087)**	(148)
Net income and comprehensive income	**$163,731**	$45,165	**$324,305**	$254,367

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 nine urban markets in Canada—Québec City, Montréal, Ottawa, Toronto, Kitchener, Winnipeg, Calgary, Edmonton and Vancouver. For the purpose of analysing NOI, Allied groups Québec City with Montréal and Ottawa as Eastern Canada, Toronto with Kitchener as Central Canada and Winnipeg with Calgary, Edmonton, and Vancouver as Western Canada.

Over the past year, Allied's real estate portfolio has grown through acquisitions and development activities which have positively contributed to the operating results for the year ended December 31, 2016, as compared to the same period in the prior year.

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2016	DECEMBER 31, 2015	**DECEMBER 31, 2016**	DECEMBER 31, 2015
Revenue from investment properties	**$105,411**	$94,024	**$389,722**	$365,401
Property operating costs	**(49,548)**	(40,818)	**(171,064)**	(152,728)
Net rental income	**55,863**	53,206	**218,658**	212,673
Amortization of tenant improvements	**6,547**	4,419	**20,716**	14,176
Amortization of straight-line rents	**(2,542)**	(2,351)	**(11,697)**	(11,397)
NOI	**$59,868**	$55,274	**$227,677**	$215,452

The following sets out the NOI by region and space type from the rental and development properties for the year ended December 31, 2016, and comparable period.

	THREE MONTHS ENDED				CHANGE	
REGION	**DECEMBER 31, 2016**		DECEMBER 31, 2015		$	%
Eastern Canada	**$14,705**	**24.6%**	$13,479	24.4%	$1,226	9.1%
Central Canada	**35,944**	**60.0%**	32,547	58.9%	3,397	10.4%
Western Canada	**9,219**	**15.4%**	9,248	16.7%	(29)	(0.3)%
NOI	**$59,868**	**100.0%**	$55,274	100.0%	$4,594	8.3%

TYPE OF SPACE	THREE MONTHS ENDED DECEMBER 31, 2016		DECEMBER 31, 2015		CHANGE $	%
Office	**$42,447**	**70.9%**	$38,744	70.1%	$3,703	9.6%
Equipment	**9,961**	**16.6%**	8,674	15.7%	1,287	14.8%
Retail	**4,644**	**7.8%**	5,345	9.7%	(701)	(13.1)%
Parking	**2,816**	**4.7%**	2,511	4.5%	305	12.1%
NOI	**$59,868**	**100.0%**	$55,274	100.0%	$4,594	8.3%

The increase in NOI for the three months ended December 31, 2016, was the result of acquisitions and occupancy gains in Toronto and Montréal. This was partially offset by the impact of the blend-and-extend transaction with the National Capital Commission ("NCC") at The Chambers in Ottawa, vacancy in Québec City and Winnipeg, turnover vacancy in Vancouver and the disposition of the Victoria portfolio.

REGION	YEAR ENDED DECEMBER 31, 2016		DECEMBER 31, 2015		CHANGE $	%
Eastern Canada	**$55,808**	**24.5%**	$50,072	23.2%	$5,736	11.5%
Central Canada	**137,571**	**60.4%**	127,060	59.0%	10,511	8.3%
Western Canada	**34,298**	**15.1%**	38,320	17.8%	(4,022)	(10.5)%
NOI	**$227,677**	**100.0%**	$215,452	100.0%	$12,225	5.7%

TYPE OF SPACE	YEAR ENDED DECEMBER 31, 2016		DECEMBER 31, 2015		CHANGE $	%
Office	**$161,500**	**70.9%**	$147,473	68.4%	$14,027	9.5%
Equipment	**36,953**	**16.2%**	37,686	17.5%	(733)	(1.9)%
Retail	**18,112**	**8.0%**	20,344	9.4%	(2,232)	(11.0)%
Parking	**11,112**	**4.9%**	9,949	4.7%	1,163	11.7%
NOI	**$227,677**	**100.0%**	$215,452	100.0%	$12,225	5.7%

The increase in NOI for the year ended December 31, 2016, was the result of acquisitions and occupancy gains in Toronto and Montréal. This was partially offset by the non-recurrence of the $6,000 front-end connection fee for a tenant at 250 Front West in 2015, the blend-and-extend transaction completed with the NCC, a one-time extraordinary item of $1,135 relating to heritage grant revenue reversal recorded in the third quarter of 2016, vacancy in Québec City, turnover vacancy in Vancouver and the disposition of the Victoria portfolio.

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, 2015 to December 31, 2016. The same asset NOI development portfolio for the three months ended December 31, 2016, consists of 180 John, 189 Joseph, 250 Front West, 485 King West, Adelaide and Duncan, Breithaupt Block (Phase II), College & Palmerston, and King Portland Centre.

	THREE MONTHS ENDED		CHANGE	
	DECEMBER 31, 2016	DECEMBER 31, 2015	$	%
Eastern Canada	**$11,802**	$13,263	$(1,461)	(11.0)%
Central Canada	**31,815**	30,748	1,067	3.5%
Western Canada	**8,682**	8,796	(114)	(1.3)%
Rental Portfolio - Same Asset NOI	**52,299**	52,807	(508)	(1.0)%
Development Portfolio - Same Asset NOI	**2,896**	1,435	1,461	101.8%
Total Portfolio - Same Asset NOI	**$55,195**	$54,242	$953	1.8%
Acquisitions	**3,977**	—	3,977	
Dispositions	**12**	361	(349)	
Non-recurring items	**684**	671	13	
NOI	**$59,868**	$55,274	$4,594	8.3%
Amortization of tenant improvements	**(6,547)**	(4,419)	(2,128)	
Amortization of straight-line rents	**2,542**	2,351	191	
Net rental income	**$55,863**	$53,206	$2,657	5.0%

Same asset NOI of the total portfolio increased by 1.8% for the three months ended December 31, 2016. Same asset NOI in the rental portfolio decreased by 1.0% as a result of the blend-and-extend transaction completed with the NCC, vacancy in Québec City and Calgary and turnover vacancy in Vancouver, partially offset by occupancy gains in Montréal, Toronto and Edmonton. Same asset NOI in the development portfolio increased by 101.8%, primarily due to occupancy commencement at 250 Front West.

The same asset NOI in the table below refers to those investment properties that were owned by Allied from January 1, 2015, to December 31, 2016. The same asset NOI development portfolio for the year ended December 31, 2016, consists of 189 Joseph, 250 Front West, 460 King West, 485 King West, 5445 de Gaspé, Breithaupt Block (Phase II), College & Palmerston, King Portland Centre and QRC West.

	YEAR ENDED		CHANGE	
	DECEMBER 31, 2016	DECEMBER 31, 2015	$	%
Eastern Canada	**$47,263**	$47,377	$(114)	(0.2)%
Central Canada	**114,026**	111,229	2,797	2.5%
Western Canada	**34,033**	36,517	(2,484)	(6.8)%
Rental Portfolio - Same Asset NOI	**195,322**	195,123	199	0.1%
Development Portfolio - Same Asset NOI	**19,476**	7,421	12,055	162.4%
Total Portfolio - Same Asset NOI	**$214,798**	$202,544	$12,254	6.1%
Acquisitions	**12,257**	1,638	10,619	
Dispositions	**602**	1,899	(1,297)	
Non-recurring items	**20**	9,371	(9,351)	
NOI	**$227,677**	$215,452	$12,225	5.7%
Amortization of tenant improvements	**(20,716)**	(14,176)	(6,540)	
Amortization of straight-line rents	**11,697**	11,397	300	
Net rental income	**$218,658**	$212,673	$5,985	2.8%

Same asset NOI of the total portfolio increased by 6.1% for the year ended December 31, 2016. Same asset NOI in the rental portfolio was flat due to the blend-and-extend transaction completed with the NCC, temporary turnover vacancy in Vancouver and vacancy in Québec City and Calgary. Same asset NOI in the development portfolio increased by 162.4%, as a result of occupancy commencement, primarily at QRC West and 250 Front West.

INTEREST EXPENSE

For the three months and year ended December 31, 2016, excluding capitalized interest, interest expense increased over the comparable periods in 2015 primarily due to higher levels of debt used to fund acquisitions, although these were at more favourable interest rates.

For the three months ended December 31, 2016, capitalized interest decreased in relation to the comparable period in 2015 due to a lower weighted average borrowing cost from favourable interest rates on new debt and a year to date adjustment to capitalized interest in the three months ended December 31, 2015, to reflect activity that took place earlier in the year.

For the year ended December 31, 2016, capitalized interest increased over the comparable period in 2015 due to the increase in development and upgrade activities across the portfolio.

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2016	DECEMBER 31, 2015	**DECEMBER 31, 2016**	DECEMBER 31, 2015
Interest on debt:				
Mortgages payable	**$13,319**	$13,584	**$53,525**	$57,191
Construction loans payable	**43**	248	**248**	543
Unsecured Facility	**245**	877	**1,459**	2,622
Unsecured Debentures	**3,640**	2,108	**12,217**	4,594
Unsecured Term Loans	**2,422**	192	**7,982**	192
Interest on freehold lease and land lease obligations	**1,472**	826	**5,024**	3,281
Amortization, premium (discount) on debt	**(88)**	38	**60**	170
Amortization, net financing costs	**473**	405	**1,995**	1,580
	$21,526	$18,278	**$82,510**	$70,173
Less: interest capitalized to qualifying investment properties	**(5,574)**	(6,781)	**(21,085)**	(18,042)
Interest expense	**$15,952**	$11,497	**$61,425**	$52,131

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 the audited Consolidated Financial Statements for the year ended December 31, 2016, 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, 2016, general and administrative expenses decreased by $689 and $396, respectively, over the comparable periods. The decrease for the three months and year ended December 31, 2016, is due to lower salaries and benefits as well as lower office and general expenses.

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2016	DECEMBER 31, 2015	**DECEMBER 31, 2016**	DECEMBER 31, 2015
Salaries and benefits	**$1,329**	$2,108	**$7,076**	$7,305
Professional and directors fees	**865**	941	**2,843**	2,616
Office and general expenses	**167**	375	**878**	1,309
	$2,361	$3,424	**$10,797**	11,230
Capitalized to qualifying investment properties	**(320)**	(694)	**(2,277)**	(2,314)
Total	**$2,041**	$2,730	**$8,520**	$8,916

Salaries and benefits were lower in the period primarily due to lower non-equity incentive compensation in 2016.

NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income for the three months and year ended December 31, 2016, increased by $118,566 and $69,938, respectively, over the comparable period in 2015. Excluding the effect of IFRS value changes on investment properties, derivative instruments, and loss on sale of investment properties, net income for the year ended December 31, 2016, was down $1,679 and $4,456, respectively, as compared to the same period in the prior year primarily due to an increase in interest expense and amortization of leasing costs and other assets, partially offset by higher NOI and interest income and lower general and administrative expense.

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 the one-time extraordinary item defined below.

As a result of an unfavourable decision by the Supreme Court of Canada, Allied reversed heritage-grant revenue of $1,135 recorded following a favourable decision by the Alberta Court of Appeal in 2014 with respect to Allied’s entitlement.

For the three months ended December 31, 2016, FFO totaled $0.54 per unit. This is a decrease of $0.03 per unit, or 5.3%, as compared to the same period in the prior year. The decrease was due to higher interest expense and dilution from Allied’s equity offering completed in August 2016, partially offset by an increase in NOI.

For the year ended December 31, 2016, excluding the one-time extraordinary item of reversing heritage grant revenue of $1,135, Normalized FFO totaled $173,884 or $2.15 per unit. This is a decrease of $0.02 per unit, or 0.9%, as compared to the prior year. The decrease was due to higher interest expense and dilution from Allied's equity offering completed in August 2016, partially offset by the increase in NOI.

To ensure sufficient cash is retained to meet capital improvement and leasing objectives, Allied strives to maintain an appropriate FFO and Normalized FFO pay-out ratio, which is the ratio of actual distributions to FFO and Normalized FFO in a given period. For the three months ended December 31, 2016, the FFO pay-out ratio was 70.3% and for the year ended December 31, 2016 the Normalized FFO pay-out ratio was 70.1%.

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

AFFO and Normalized AFFO are non-IFRS financial measures 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 or Normalized AFFO does not have any standardized meaning prescribed by IFRS. As computed by Allied, AFFO or Normalized AFFO may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers AFFO and Normalized AFFO to be useful measures of cash available for distributions. The principal advantage of AFFO and Normalized AFFO is that they start from the standardized definition of FFO or Normalized FFO and take account of regular maintenance capital expenditures and regular leasing expenditures while ignoring the impact of non-cash revenue and the one-time extraordinary item. As regular maintenance capital expenditures and regular leasing expenditures are not incurred evenly throughout a fiscal year, there can be volatility in AFFO and Normalized AFFO on a quarterly basis.

For the three months ended December 31, 2016, AFFO totaled $35,806 or $0.42 per unit. This represents a decrease of $0.03 per unit, or 6.7%, over the comparable period in the prior year. Including the changes in FFO, the decrease in AFFO per unit is primarily due to higher straight-line rent amortization, regular leasing expenditures and regular maintenance capital expenditures.

For the year ended December 31, 2016, Normalized AFFO totaled $142,612 or $1.76 per unit. This represents a decrease in Normalized AFFO per unit of $0.05 or 2.8%, over the comparable period in the prior year. Including the changes in Normalized FFO, the decrease is primarily due to higher regular leasing expenditures and regular maintenance capital expenditures.

To ensure sufficient cash is retained to meet capital improvement and leasing objectives, Allied strives to maintain an appropriate AFFO and Normalized AFFO pay-out ratio, which is the ratio of actual distributions to AFFO or Normalized AFFO in a given period. For the three months ended December 31, 2016, the AFFO pay-out ratio was 89.3%. For the year ended December 31, 2016, the Normalized AFFO pay-out ratio was 85.5%.

RECONCILIATION OF FFO, NORMALIZED FFO AND NORMALIZED AFFO

The following table reconciles Allied's net income to FFO, and AFFO for the three months ended December 31, 2016, and December 31, 2015.

	THREE MONTHS ENDED		
	DECEMBER 31, 2016	DECEMBER 31, 2015	CHANGE
Net income and comprehensive income	**$163,731**	$45,165	$118,566
IFRS value (gain) on investment properties	**(116,749)**	(8,234)	(108,515)
Fair value (gain) loss from derivative instruments	**(11,808)**	(190)	(11,618)
Loss on disposal of investment properties	**36**	148	(112)
Incremental leasing costs	**1,112**	884	228
Amortization of leasing costs and tenant improvements	**9,179**	6,545	2,634
FFO	**$45,501**	$44,318	$1,183
Amortization of straight-line rents	**(2,542)**	(2,351)	(191)
Regular leasing expenditures	**(6,099)**	(5,786)	(313)
Regular maintenance capital expenditures	**(1,054)**	(825)	(229)
AFFO	**$35,806**	$35,356	$450
Weighted average number of Units			
Basic	**84,718,085**	78,255,779	6,462,306
Diluted	**84,826,679**	78,355,768	6,470,911
Per Unit - basic			
FFO	**$0.54**	$0.57	$(0.03)
AFFO	**$0.42**	$0.45	$(0.03)
Per Unit - diluted			
FFO	**$0.54**	$0.57	$(0.03)
AFFO	**$0.42**	$0.45	$(0.03)
Payout Ratio			
FFO	**70.3%**	65.1%	5.2%
AFFO	**89.3%**	81.6%	7.7%

The following table reconciles Allied's net income to FFO, Normalized FFO and Normalized AFFO for the year ended December 31, 2016, and December 31, 2015.

	YEAR ENDED		
	DECEMBER 31, 2016	DECEMBER 31, 2015	CHANGE
Net income and comprehensive income	**$324,305**	$254,367	$69,938
IFRS value (gain) on investment properties	**(179,303)**	(117,438)	(61,865)
Fair value (gain) loss from derivative instruments	**(5,874)**	7,594	(13,468)
Loss on disposal of investment properties	**1,087**	148	939
Incremental leasing costs	**3,367**	2,611	756
Amortization of leasing costs and tenant improvements	**29,167**	21,328	7,839
FFO	**$172,749**	$168,610	$4,139
One-time extraordinary item (1)	**1,135**	—	1,135
Normalized FFO	**$173,884**	$168,610	5,274
Amortization of straight-line rents	**(11,697)**	(11,397)	(300)
Regular leasing expenditures	**(17,452)**	(15,273)	(2,179)
Regular maintenance capital expenditures	**(2,123)**	(1,257)	(866)
Normalized AFFO	**$142,612**	$140,683	$1,929
Weighted average number of Units			
Basic	**80,815,747**	77,620,668	3,195,079
Diluted	**80,939,463**	77,773,683	3,165,780
Per Unit - basic			
FFO	**$2.14**	$2.17	$(0.03)
Normalized FFO	**$2.15**	$2.17	$(0.02)
Normalized AFFO	**$1.76**	$1.81	$(0.05)
Per Unit - diluted			
FFO	**$2.13**	$2.17	$(0.04)
Normalized FFO	**$2.15**	$2.17	$(0.02)
Normalized AFFO	**$1.76**	$1.81	$(0.05)
Payout Ratio			
FFO	**70.6%**	67.4%	3.2%
Normalized FFO	**70.1%**	67.4%	2.7%
Normalized AFFO	**85.5%**	80.8%	4.7%

(1) As a result of an unfavourable decision by the Supreme Court of Canada, Allied reversed heritage-grant revenue of $1,135 recorded following a favourable decision by the Alberta Court of Appeal in 2014 with respect to Allied's entitlement. This was a one-time extraordinary item recorded in Q3 2016.

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

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2016	DECEMBER 31, 2015	**DECEMBER 31, 2016**	DECEMBER 31, 2015
Cash flows from operating activities	**$50,830**	$46,802	**$161,240**	$185,074
Add (deduct) impact of the following:				
Amortization of equipment and other assets	**(442)**	(315)	**(1,592)**	(1,078)
Amortization of straight-line rents	**2,542**	2,351	**11,697**	11,397
Amortization, (premium) discount on assumed debt	**88**	(38)	**(60)**	(170)
Unit-compensation expense	**(733)**	(639)	**(2,624)**	(2,289)
Change in other non-cash financing items	**(283)**	(375)	**(3,907)**	(1,342)
Change in other non-cash operating items	**(7,613)**	(4,352)	**4,628**	(25,593)
Incremental leasing costs	**1,112**	884	**3,367**	2,611
FFO	**45,501**	44,318	**172,749**	168,610
Add (deduct) impact of the following:				
One-time extraordinary item (1)	**—**	—	**1,135**	—
Amortization of straight-line rents	**(2,542)**	(2,351)	**(11,697)**	(11,397)
Regular leasing expenditures	**(6,099)**	(5,786)	**(17,452)**	(15,273)
Regular maintenance capital expenditures	**(1,054)**	(825)	**(2,123)**	(1,257)
Normalized AFFO	**$35,806**	$35,356	**$142,612**	$140,683

(1) As a result of an unfavourable decision by the Supreme Court of Canada, Allied reversed heritage-grant revenue of $1,135 recorded following a favourable decision by the Alberta Court of Appeal in 2014 with respect to Allied's entitlement. This was a one-time extraordinary item recorded in Q3 2016.

CAPITAL EXPENDITURES

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

Allied strives to maintain its properties in top physical condition. In the three months ended December 31, 2016, Allied incurred (i) $1,054 in regular maintenance capital expenditures and (ii) $6,099 in regular leasing expenditures or $10.69 per leased square foot, in line with the historical range of $7 to $10. In the year ended December 31, 2016, Allied incurred (i) $2,123 in regular maintenance capital expenditures and (ii) $17,452 in regular leasing expenditures or $8.99 per leased square foot, in line with the historical range of $7 to $10.

For the year ended December 31, 2016, Allied invested $57,308 and $209,882, respectively, of revenue enhancing capital into the rental portfolio to enhance its income-producing capability and in ongoing development activity.

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2016	DECEMBER 31, 2015	**DECEMBER 31, 2016**	DECEMBER 31, 2015
Regular leasing expenditures	**$6,099**	$5,786	**$17,452**	$15,273
Regular leasing expenditures per leased square foot	**$10.69**	$12.06	**$8.99**	$7.89
Regular maintenance capital expenditures	**$1,054**	$825	**$2,123**	$1,257
Regular maintenance capital expenditures per portfolio square foot	**$0.09**	$0.08	**$0.18**	$0.12
Revenue-enhancing capital and development costs	**$57,308**	$41,388	**$209,882**	$188,833

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

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

EBITDA is a metric that can be used to help determine Allied's ability to service its debt, finance capital expenditures and provide for distributions to its Unitholders. Additionally, Adjusted EBITDA removes the non-cash impact of the IFRS value changes and gains and losses on investment property dispositions. The IFRS value is referred to as the fair value of the investment properties in the consolidated financial statements.

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

The following table reconciles Allied's net income and comprehensive income to Adjusted EBITDA for the three months and year ended December 31, 2016, and December 31, 2015.

	THREE MONTHS ENDED		YEAR ENDED	
	DECEMBER 31, 2016	DECEMBER 31, 2015	**DECEMBER 31, 2016**	DECEMBER 31, 2015
Net income and comprehensive income for the period	**$163,731**	$45,165	**$324,305**	$254,367
Interest expense	**15,952**	11,497	**61,425**	52,131
Amortization of equipment and other assets	**442**	315	**1,592**	1,078
Amortization of leasing commissions	**2,632**	2,126	**8,451**	7,152
Amortization of tenant improvement allowances	**6,547**	4,419	**20,716**	14,176
IFRS value (gain) on investment properties	**(116,749)**	(8,234)	**(179,303)**	(117,438)
Fair value (gain) loss on derivative instruments	**(11,808)**	(190)	**(5,874)**	7,594
Loss on disposal of investment properties	**36**	148	**1,087**	148
Adjusted EBITDA	**$60,783**	$55,246	**$232,399**	$219,208

Section VI

—Historical Performance

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

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Rental revenue from investment properties	$105,411	$96,278	$94,220	$93,813	$94,024	$90,681	$91,129	$89,567
Property operating costs	(49,548)	(41,104)	(39,415)	(40,997)	(40,818)	(37,275)	(36,047)	(38,588)
Net rental income	$55,863	$55,174	$54,805	$52,816	$53,206	$53,406	$55,082	$50,979
Net income (loss) and comprehensive income (loss)	$163,731	$53,961	$69,145	$37,468	$45,165	$85,889	$126,942	$(3,629)
Weighted average units (diluted)	84,826,679	81,620,796	78,717,035	78,566,949	78,355,768	78,062,347	77,839,513	76,818,461
Distributions	$31,984	$30,996	$29,467	$29,433	$28,836	$28,453	$28,404	$27,981
FFO	$45,501	$42,720	$42,466	$42,062	$44,318	$42,915	$41,959	$39,418
FFO per unit (diluted)	$0.54	$0.52	$0.54	$0.54	$0.57	$0.55	$0.54	$0.51
FFO pay-out ratio	70.3%	72.6%	69.4%	70.0%	65.1%	66.3%	67.7%	71.0%
Normalized FFO (1)	$45,501	$43,855	$42,466	$42,062	$44,318	$42,915	$41,959	$39,418
Normalized FFO per unit (diluted)	$0.54	$0.54	$0.54	$0.54	$0.57	$0.55	$0.54	$0.51
Normalized FFO pay-out ratio	70.3%	70.7%	69.4%	70.0%	65.1%	66.3%	67.7%	71.0%
Normalized AFFO (1)	$35,806	$35,864	$36,247	$34,695	$35,356	$35,763	$33,811	$35,753
Normalized AFFO per unit (diluted)	$0.42	$0.44	$0.46	$0.44	$0.45	$0.46	$0.43	$0.46
Normalized AFFO pay-out ratio	89.3%	86.4%	81.3%	84.8%	81.6%	79.6%	85.2%	79.3%
Investment properties	$4,923,201	$4,738,848	$4,599,657	$4,291,196	$4,197,277	$4,140,059	$4,008,398	$3,759,462
Total debt	$1,909,265	$1,909,720	$1,949,110	$1,675,026	$1,587,503	$1,555,264	$1,506,858	$1,339,493
Total rental GLA	11,843	11,849	11,639	10,512	10,421	10,487	10,451	9,501
Leased rental GLA	10,906	10,839	10,593	9,691	9,516	9,523	9,461	8,681
Leased area %	92.1%	91.5%	91.0%	91.3%	90.8%	90.5%	91.4%	92.0%

(1) As a result of an unfavourable decision by the Supreme Court of Canada, in Q3 2016, Allied reversed heritage-grant revenue of $1,135 recorded following a favourable decision by the Alberta Court of Appeal in 2014 with respect to Allied's entitlement. This was a one-time extraordinary item recorded in Q3 2016.

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

Section VII
—Accounting Estimates and Assumptions

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Critical accounting estimates and assumptions are discussed in Allied's audited consolidated financial statements for the year ended December 31, 2016, and the notes contained therein.

SIGNIFICANT ACCOUNTING POLICIES

Accounting policies and the respective changes are discussed in Allied's audited consolidated financial statements for the year ended December 31, 2016, and the notes contained therein. Furthermore, the future accounting policy changes as proposed by the International Accounting Standards Board (the "IASB") are discussed in Allied's audited consolidated financial statements for the year ended December 31, 2016, and notes contained therein.

Section VIII
—Disclosure Controls and Internal Controls

Management maintains appropriate information systems, procedures and controls to ensure that information that is publicly disclosed is complete, reliable and timely. The Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO") evaluated, or caused to be evaluated under their direct supervision, the design and operating effectiveness of our disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) at December 31, 2016 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, 2016, 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, 2016, 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 nine metropolitan real estate markets in Canada. This focus enables Management to capitalize on certain economies of scale and competitive advantages that would not otherwise be available.

FINANCING AND INTEREST RATE RISK

Allied is subject to risk associated with debt financing. The availability of debt to re-finance existing and maturing loans and the cost of servicing such debt will influence our success. In order to minimize risk associated with debt financing, Allied strives to re-finance maturing loans with long-term fixed-rate debt and to stagger the maturities over time.

Interest rates on total debt are between 2.00% and 6.88% with a weighted average interest rate of 4.12%. The weighted average term of our debt is 4.6 years. The aforementioned excludes the revolving Unsecured Facility, refer to Note 9(c) of the consolidated financial statements for further details.

TENANT CREDIT RISK

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

LEASE ROLL-OVER RISK

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

In evaluating our lease roll-over risk, it is informative to determine our sensitivity to a decline in occupancy. For every full-year decline of 100 basis points in occupancy at our average rental rate per square foot, our annual Normalized AFFO would decline by approximately $3,898 (approximately $0.05 per unit). The decline in Normalized AFFO per unit would be more pronounced if the decline in occupancy involved space leased above our average rental rate per square foot and less pronounced if the decline in occupancy involved space leased below our average rental rate per square foot.

ENVIRONMENTAL RISK

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

DEVELOPMENT RISK

As an owner of Properties Under Development, Allied is subject to development risks, such as construction delays, cost over-runs and the failure of tenants to take occupancy and pay rent in accordance with lease arrangements. In connection with all Properties Under Development, Allied incurs development costs prior to (and in anticipation of) achieving a stabilized level of rental revenue. In the case of the development of ancillary or surplus land, these risks are managed in most cases by not commencing construction until a satisfactory level of pre-leasing is achieved. Overall, these risks are managed through Allied's Declaration, which states that the cost of development cannot exceed 15% of GBV.

TAXATION RISK

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

JOINT ARRANGEMENT RISK

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

Section X
—Property Table

DECEMBER 31, 2016 PROPERTIES	Office GLA	Retail GLA	Total GLA	% Total GLA	Office Vacant	Retail Vacant	Total Leased	Leased %
32 Atlantic	50,434		50,434				50,434	100.0%
47 Jefferson	6,884		6,884				6,884	100.0%
64 Jefferson	78,820		78,820				78,820	100.0%
905 King W	103,216	7,085	110,301		59,915	1,343	49,043	44.5%
College & Manning [1]	27,367	4,287	31,654		2,400		29,254	92.4%
The Castle	129,474	35,628	165,102			17,761	147,341	89.2%
King West	**396,195**	**47,000**	**443,195**	**3.7%**	**62,315**	**19,104**	**361,776**	**81.6%**
141 Bathurst	10,063		10,063				10,063	100.0%
159-161 Bathurst	4,000		4,000				4,000	100.0%
183 Bathurst	27,185	5,600	32,785				32,785	100.0%
241 Spadina	25,112	6,675	31,787				31,787	100.0%
379 Adelaide W	36,009	4,300	40,309				40,309	100.0%
383 Adelaide W	7,382		7,382				7,382	100.0%
420 Wellington W	33,813	3,137	36,950				36,950	100.0%
425 Adelaide W	73,908	3,940	77,848		4,378		73,470	94.4%
425-439 King W	90,357	8,066	98,423				98,423	100.0%
441-443 King W	8,415	3,065	11,480				11,480	100.0%
445-455 King W	30,102	22,335	52,437				52,437	100.0%
460 King W	12,934	4,787	17,721				17,721	100.0%
461 King W	43,771	37,320	81,091				81,091	100.0%
468 King W	65,027		65,027				65,027	100.0%
469 King W	67,505	11,676	79,181				79,181	100.0%

DECEMBER 31, 2016 PROPERTIES	Office GLA	Retail GLA	Total GLA	% Total GLA	Office Vacant	Retail Vacant	Total Leased	Leased %
478 King W [2]		3,277	3,277				3,277	100.0%
489 King W	21,421	4,850	26,271				26,271	100.0%
495 King W	10,684		10,684				10,684	100.0%
499 King W		8,400	8,400				8,400	100.0%
500-522 King W	82,133	43,079	125,212				125,212	100.0%
511-529 King W	37,709	11,375	49,084				49,084	100.0%
552-560 King W	8,019	16,696	24,715				24,715	100.0%
539 King W	12,750		12,750				12,750	100.0%
544 King W	17,006		17,006				17,006	100.0%
555 Richmond W	255,150	41,580	296,730				296,730	100.0%
579 Richmond W	28,515		28,515				28,515	100.0%
589-591 Richmond W	2,000		2,000				2,000	100.0%
662 King W	31,042	2,126	33,168				33,168	100.0%
80-82 Spadina	60,102	16,009	76,111				76,111	100.0%
96 Spadina	80,309	9,936	90,245				90,245	100.0%
The Well [3]	95,898	5,145	101,043		11,045		89,998	89.1%
King & Portland [1]	18,611	12,299	30,910		2,969	1,000	26,941	87.2%
King West Central	**1,296,932**	**285,673**	**1,582,605**	**13.4%**	**18,392**	**1,000**	**1,563,213**	**98.8%**
116 Simcoe	15,637		15,637				15,637	100.0%
151 Front	265,872	10,224	276,096		2,791		273,305	99.0%
179 John	69,812		69,812				69,812	100.0%
185 Spadina	55,814		55,814				55,814	100.0%
200 Adelaide W	27,156		27,156				27,156	100.0%
208-210 Adelaide W	11,813		11,813				11,813	100.0%
217-225 Richmond W	31,820	21,987	53,807				53,807	100.0%
257 Adelaide W	46,018		46,018				46,018	100.0%
312 Adelaide W	62,825	8,015	70,840				70,840	100.0%
331-333 Adelaide W	20,085	3,724	23,809				23,809	100.0%
358-360 Adelaide W	53,054		53,054				53,054	100.0%
375-381 Queen W	21,791	10,648	32,439				32,439	100.0%
388 King W	29,571	15,012	44,583		4,536		40,047	89.8%
82 Peter	39,422	8,287	47,709		8,129		39,580	83.0%
99 Spadina	50,923		50,923				50,923	100.0%
Union Center	11,332	29,239	40,571				40,571	100.0%
QRC West Phase I	335,886	11,358	347,244				347,244	100.0%
Entertainment District	**1,148,831**	**118,494**	**1,267,325**	**10.7%**	**15,456**		**1,251,869**	**98.8%**

DECEMBER 31, 2016 PROPERTIES	Office GLA	Retail GLA	Total GLA	% Total GLA	Office Vacant	Retail Vacant	Total Leased	Leased %
193 Yonge	34,349	16,318	50,667				50,667	100.0%
Downtown	**34,349**	**16,318**	**50,667**	**0.4%**			**50,667**	**100.0%**
106 Front E	24,488	10,465	34,953			3,137	31,816	91.0%
35-39 Front E	39,216	13,804	53,020				53,020	100.0%
36-40 Wellington E	16,642	9,893	26,535				26,535	100.0%
41-45 Front E	28,183	14,079	42,262				42,262	100.0%
45-55 Colborne	28,611	14,634	43,245			6,004	37,241	86.1%
49 Front E	9,370	10,441	19,811				19,811	100.0%
50 Wellington E	22,001	11,049	33,050				33,050	100.0%
60 Adelaide E	106,587	4,608	111,195		2,568		108,627	97.7%
184 Front E	81,196	6,489	87,685		7,368		80,317	91.6%
St. Lawrence Market	**356,294**	**95,462**	**451,756**	**3.8%**	**9,936**	**9,141**	**432,679**	**95.8%**
204-214 King E	128,129	2,699	130,828				130,828	100.0%
230 Richmond E	72,787		72,787				72,787	100.0%
252-264 Adelaide E	47,607		47,607		2,102		45,505	95.6%
489 Queen E	32,434		32,434				32,434	100.0%
70 Richmond	35,118		35,118				35,118	100.0%
Dominion Square	110,928		110,928		5,049		105,879	95.4%
QRC East	185,414	35,349	220,763				220,763	100.0%
QRC South	43,698		43,698		3,822		39,876	91.3%
Queen Richmond	**656,115**	**38,048**	**694,163**	**5.9%**	**10,973**		**683,190**	**98.4%**
Toronto	**3,888,716**	**600,995**	**4,489,711**	**37.9%**	**117,072**	**29,245**	**4,343,394**	**96.7%**
72 Victoria	89,732		89,732		14,658		75,074	83.7%
Breithaupt Phase I (4)	66,559		66,559				66,559	100.0%
The Tannery	257,158	73,779	330,937		466		330,471	99.9%
Kitchener	**413,449**	**73,779**	**487,228**	**4.1%**	**15,124**		**472,104**	**96.9%**
Central Canada	**4,302,165**	**674,774**	**4,976,939**	**42.0%**	**132,196**	**29,245**	**4,815,498**	**96.8%**
The Chambers	208,012	12,223	220,235				220,235	100.0%
Ottawa	**208,012**	**12,223**	**220,235**	**1.9%**			**220,235**	**100.0%**
3510 Saint-Laurent	85,977	16,223	102,200		3,825	2,139	96,236	94.2%

DECEMBER 31, 2016 PROPERTIES	Office GLA	Retail GLA	Total GLA	% Total GLA	Office Vacant	Retail Vacant	Total Leased	Leased %
3575 Saint-Laurent	166,944	18,412	185,356		25,015		160,341	86.5%
400 Atlantic	85,213	292	85,505		16,248		69,257	81.0%
425 Viger W	205,201	820	206,021				206,021	100.0%
4446 Saint-Laurent	73,208	7,281	80,489		7,942		72,547	90.1%
451-481 Saint-Catherine	22,341	8,475	30,816				30,816	100.0%
480 Saint-Laurent	46,662	7,165	53,827		2,310		51,517	95.7%
5445 Gaspé	470,191	955	471,146		22,325		448,821	95.3%
5455 Gaspé	503,702	750	504,452		82,374		422,078	83.7%
5505 Saint-Laurent	252,453	2,524	254,977				254,977	100.0%
6300 Parc	185,264	673	185,937		61,411		124,526	67.0%
645 Wellington	137,843	3,773	141,616				141,616	100.0%
740 Saint-Maurice	67,869		67,869		7,238		60,631	89.3%
8 Place du Commerce	40,702	16,534	57,236			3,965	53,271	93.1%
85 Saint-Paul	80,203		80,203				80,203	100.0%
Cité Multimedia	939,964	14,225	954,189		38,173	4,557	911,459	95.5%
Le Nordelec	776,679	19,914	796,593		93,006		703,587	88.3%
Montréal	**4,140,416**	**118,016**	**4,258,432**	**36.0%**	**359,867**	**10,661**	**3,887,904**	**91.3%**
390 Charest	67,043	6,348	73,391		45,524		27,867	38.0%
410 Charest	3,229	21,508	24,737				24,737	100.0%
420 Charest	47,641	13,496	61,137		25,983	5,000	30,154	49.3%
605 Saint-Joseph	27,145	8,504	35,649		2,000		33,649	94.4%
622 Saint-Joseph	2,711	3,300	6,011		648		5,363	89.2%
633 Saint-Joseph	15,914	6,568	22,482		7,835		14,647	65.1%
Québec City	**163,683**	**59,724**	**223,407**	**1.9%**	**81,990**	**5,000**	**136,417**	**61.1%**
Eastern Canada	**4,512,111**	**189,963**	**4,702,074**	**39.7%**	**441,857**	**15,661**	**4,244,556**	**90.3%**
115 Bannatyne	39,906		39,906		1,371		38,535	96.6%
123 Bannatyne	16,443		16,443		12,067		4,376	26.6%
250 McDermot	42,893	12,482	55,375		21,920	6,077	27,378	49.4%
54-70 Arthur	112,354	8,818	121,172		20,740	1,200	99,232	81.9%
1500 Notre Dame	109,583		109,583				109,583	100.0%
Winnipeg	**321,179**	**21,300**	**342,479**	**2.9%**	**56,098**	**7,277**	**279,104**	**81.5%**
100-6th SW	34,242		34,242				34,242	100.0%
119-6th SW	63,064		63,064				63,064	100.0%

DECEMBER 31, 2016 PROPERTIES	Office GLA	Retail GLA	Total GLA	% Total GLA	Office Vacant	Retail Vacant	Total Leased	Leased %
1207-1215 13th SE	31,862		31,862		2,974		28,888	90.7%
1240-20th SE	46,124		46,124		2,894		43,230	93.7%
129-8th SW	3,068	4,493	7,561			2,329	5,232	69.2%
209-8th SW	26,944	5,022	31,966		5,495		26,471	82.8%
237-8th SE	66,229	8,581	74,810		7,981	1,160	65,669	87.8%
322-326 11th SW	198,889	15,660	214,549		31,587	2,778	180,184	84.0%
402-11th SE	39,155		39,155				39,155	100.0%
438-11th SE	52,489		52,489				52,489	100.0%
601-611 10th SW	46,786	2,592	49,378		16,923		32,455	65.7%
603-605 11th SW	22,050	29,207	51,257		3,162	11,560	36,535	71.3%
604-1st SW	69,667	22,897	92,564		15,738	9,997	66,829	72.2%
613-11th SW	—	3,163	3,163				3,163	100.0%
617-11th SW	2,986	6,218	9,204			3,000	6,204	67.4%
625-11th SW	33,277	1,410	34,687		19,682		15,005	43.3%
805-1st SW	9,092	18,767	27,859		2,812	1,329	23,718	85.1%
808-1st SW	17,224	30,244	47,468			2,311	45,157	95.1%
809-10th SW	35,742		35,742				35,742	100.0%
816-838 11th SW (5)	10,119	13,617	23,736				23,736	100.0%
Demcor Building	39,657		39,657		5,728		33,929	85.6%
Calgary	**848,666**	**161,871**	**1,010,537**	**8.5%**	**114,976**	**34,464**	**861,097**	**85.2%**
10190-104 NW	16,989	5,767	22,756		9,783		12,973	57.0%
Boardwalk & Revillon Building	225,371	45,442	270,813		6,567		264,246	97.6%
Edmonton	**242,360**	**51,209**	**293,569**	**2.5%**	**16,350**		**277,219**	**94.4%**
128 West Pender	76,421	1,693	78,114		8,177		69,937	89.5%
840 Cambie	91,437		91,437				91,437	100.0%
948-950 Homer	23,114	23,290	46,404				46,404	100.0%
1040 Hamilton	35,889	8,765	44,654		2,121		42,533	95.3%
1286 Homer	15,752	9,115	24,867				24,867	100.0%
Vancouver	**242,613**	**42,863**	**285,476**	**2.4%**	**10,298**		**275,178**	**96.4%**
Western Canada	**1,654,818**	**277,243**	**1,932,061**	**16.3%**	**197,722**	**41,741**	**1,692,598**	**87.6%**

DECEMBER 31, 2016 PROPERTIES	Office GLA	Retail GLA	Total GLA	% Total GLA	Office Vacant	Retail Vacant	Total Leased	Leased %
Rental Portfolio - before transfers from PUD in 2016	**10,469,094**	**1,141,980**	**11,611,074**	**98.0%**	**771,775**	**86,647**	**10,752,652**	**92.6%**
Transfers from PUD in 2016								
250 Front W	173,000		173,000		79,000		94,000	54.3%
485 King W	8,120	3,994	12,114				12,114	100.0%
Breithaupt Phase II [4]	46,846		46,846				46,846	100.0%
Transfers from PUD in 2016	**227,966**	**3,994**	**231,960**	**2.0%**	**79,000**		**152,960**	**65.9%**
Total Rental Portfolio	**10,697,060**	**1,145,974**	**11,843,034**	**100.0%**	**850,775**	**86,647**	**10,905,612**	**92.1%**

(1) RioCan/Allied Joint Arrangement
(2) Lifetime/Allied Joint Arrangement
(3) RioCan/Diamondcorp./Allied Joint Arrangement
(4) Perimeter/Allied Joint Arrangement
(5) First Capital/Allied Joint Arrangement

PROPERTIES UNDER DEVELOPMENT

	CURRENT GLA
180 John, Toronto	36,173
189 Joseph, Kitchener	—
47 Front E, Toronto	10,408
642 King W, Toronto (1)	14,659
TELUS Sky, Calgary (2)	—
College & Palmerston , Toronto (1)	8,085
King Portland Centre, Toronto (1)	—
Adelaide & Duncan, Toronto (3)	30,930
Le Nordelec - Development, Montréal	74,396
Total Development Portfolio	174,651

(1) RioCan/Allied Joint Arrangement
(2) Telus/Westbank/Allied Joint Arrangement
(3) Westbank/Allied Joint Arrangement

ANCILLARY PARKING FACILITIES

	NUMBER OF SPACES
301 Markham, Toronto	47
388 Richmond, Toronto	117
78 Spadina, Toronto	24
7-9 Morrison, Toronto	25
650 King, Toronto	71
539 King, Toronto	107
560 King, Toronto	171
478 King, Toronto (4)	65
15 Brant, Toronto	203
105 George, Toronto	15
Total Parking	845

(4) Lifetime/Allied Joint Arrangement

Consolidated Financial Statements for the Years Ended December 31, 2016 and 2015

Management's Statement of Responsibility for Financial Reporting

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

Management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized.

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

BDO Canada LLP (the "Auditors"), the independent auditors of the REIT, have audited the consolidated financial statements of the REIT in accordance with Canadian generally accepted auditing standards to enable them to express to the Unitholders their opinion on the consolidated financial statements. The Auditors have direct and full access to, and meet periodically with the Committee, both with and without Management present.

Michael R. Emory
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Cecilia C. Williams, CPA, CA
VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

Independent Auditor's Report

TO THE UNITHOLDERS OF ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST

We have audited the accompanying consolidated financial statements of Allied Properties Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2016 and 2015, and the consolidated statements of unitholders' equity, income and comprehensive income and cash flows for each of the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Allied Properties Real Estate Investment Trust as at December 31, 2016 and 2015 and its financial performance and its cash flows for each of the years then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

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

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2016 AND 2015

(in thousands of Canadian dollars)	NOTES	DECEMBER 31, 2016	DECEMBER 31, 2015
Assets			
Non-current assets			
Investment properties	5	**$4,923,201**	$4,197,277
Loans and notes receivable	6	**23,686**	22,245
Other assets	7	**214,827**	177,491
		5,161,714	4,397,013
Current assets			
Cash and cash equivalents	19	**12,193**	4,323
Loans and notes receivable	6	**1,073**	1,055
Accounts receivable, prepaid expenses and deposits	8	**38,874**	53,555
		52,140	58,933
Total assets		**$5,213,854**	$4,455,946
Liabilities			
Non-current liabilities			
Debt	9	**$1,763,370**	$1,446,916
Freehold lease and land lease obligations	10	**144,350**	130,648
		1,907,720	1,577,564
Current liabilities			
Debt	9	**145,895**	140,587
Freehold lease and land lease obligations	10	**7,854**	7,412
Accounts payable and other liabilities	11	**130,879**	138,652
		284,628	286,651
Total liabilities		**2,192,348**	1,864,215
Unitholders' equity		**3,021,506**	2,591,731
Total liabilities and unitholders' equity		**$5,213,854**	$4,455,946

Subsequent events (note 26)
The accompanying notes are an integral part of these consolidated financial statements.

Gordon Cunningham
TRUSTEE

Michael R. Emory
TRUSTEE

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015

(in thousands of Canadian dollars, except unit and per unit amounts)	NOTES	YEAR ENDED DECEMBER 31, 2016	YEAR ENDED DECEMBER 31, 2015
Rental revenue from investment properties	17	$389,722	$365,401
Property operating costs	17	(171,064)	(152,728)
Net rental income		218,658	212,673
Interest expense	9 (f)	(61,425)	(52,131)
General and administrative expenses	18	(8,520)	(8,916)
Amortization of leasing costs and other assets	7	(10,043)	(8,230)
Interest income		1,545	1,275
Fair value gain on investment properties	5	179,303	117,438
Fair value gain (loss) on derivative instruments		5,874	(7,594)
Loss on disposal of investment properties	4	(1,087)	(148)
Net income and comprehensive income		$324,305	$254,367
Income per unit			
Basic		$4.01	$3.28
Diluted		$4.01	$3.27
Weighted average number of Units	16		
Basic		80,815,747	77,620,668
Diluted		80,939,463	77,773,683

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, 2016 AND 2015

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

(in thousands of Canadian dollars)	NOTES	TRUST UNITS	RETAINED EARNINGS	CONTRIBUTED SURPLUS	TOTAL
Balance at January 1, 2016	**13**	**$1,873,541**	**$709,407**	**$8,783**	**$2,591,731**
Comprehensive income		**—**	**324,305**	**—**	**324,305**
Public offering	**13**	**220,367**	**—**	**—**	**220,367**
Distributions		**—**	**(121,880)**	**—**	**(121,880)**
Distribution reinvestment plan ("DRIP")	**13**	**5,839**	**—**	**—**	**5,839**
Unit option plan – options exercised	**14 (a)**	**3,570**	**—**	**—**	**3,570**
Contributed surplus – unit option plan	**14 (a)**	**—**	**—**	**1,430**	**1,430**
Restricted unit plan (net of forfeitures)	**14 (b)**	**(1,022)**	**—**	**1,194**	**172**
Long-term incentive plan	**15**	**74**	**—**	**—**	**74**
Purchase of Units under normal course issuer bid for cancellation	**13**	**(4,102)**	**—**	**—**	**(4,102)**
Balance at December 31, 2016		**$2,098,267**	**$911,832**	**$11,407**	**$3,021,506**

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, 2016 AND 2015

(in thousands of Canadian dollars)	NOTES	DECEMBER 31, 2016	DECEMBER 31, 2015
Operating activities			
Net income for the year		**$324,305**	$254,367
Fair value (gain) on investment properties	**5**	**(179,303)**	(117,438)
Fair value (gain) loss on derivative instruments		**(5,874)**	7,594
Loss on disposal of investment properties	**4**	**1,087**	148
Amortization of equipment and other assets	**7**	**1,592**	1,078
Amortization of leasing commissions	**7**	**8,451**	7,152
Amortization of tenant improvement allowances	**7**	**20,716**	14,176
Amortization of straight-line rents		**(11,697)**	(11,397)
Amortization of premium (discount) on debt	**9 (f)**	**60**	170
Unit-compensation expense	**14**	**2,624**	2,289
Change in other non-cash financing items		**3,907**	1,342
Change in other non-cash operating items	**19**	**(4,628)**	25,593
Cash provided by operating activities		**161,240**	185,074
Financing activities			
Proceeds from new mortgages payable		**29,000**	—
Repayment of mortgages payable		**(135,587)**	(115,498)
Proceeds from senior unsecured debentures (net of financing costs)	**9 (d)**	**149,199**	224,030
Proceeds from unsecured term loan (net of financing costs)	**9 (e)**	**199,300**	149,478
Amortization of freehold lease and land lease obligations		**2,869**	360
Financing - freehold lease and land leases		**(21)**	(17)
Distributions paid to unitholders		**(115,041)**	(77,803)
Proceeds of public offering (net of financing costs)	**13**	**220,367**	82,348
Proceeds from exercise of unit options	**14**	**3,570**	2,829
Proceeds from Units issued under the LTIP	**15**	**74**	18
Purchase of Units under normal course issuer bid	**13**	**(4,102)**	—
Restricted unit plan (net of forfeitures)	**14**	**(1,022)**	(1,672)
Proceeds from annuity loan receivable		**1,054**	1,019
Net proceeds from unsecured revolving operating facility	**9 (c)**	**27,402**	19,598
Repayment of secured operating facility	**9 (c)**	**—**	(24,336)
Net repayments of construction loan	**9 (b)**	**(733)**	(32,421)
Financing costs		**(407)**	(357)
Cash provided by financing activities		**375,922**	227,576

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015 *- continued*

(in thousands of Canadian dollars)	NOTES	DECEMBER 31, 2016	DECEMBER 31, 2015
Investing activities			
Acquisitions of investment properties	**4**	**(321,123)**	(152,368)
Additions to investment properties	**5**	**(180,506)**	(188,222)
Net proceeds on disposition of investment properties	**4**	**26,450**	6,127
Additions to equipment and other assets	**7**	**(2,077)**	(4,190)
Leasing commissions	**7**	**(15,481)**	(12,410)
Tenant improvement allowances	**7**	**(36,555)**	(41,351)
Loans receivable issued to third-party	**6 (a)**	**—**	(21,173)
Cash used in investing activities		**(529,292)**	(413,587)
Increase in cash and cash equivalents		**7,870**	(937)
Cash and cash equivalents, beginning of year		**4,323**	5,260
Cash and cash equivalents, end of year		**$12,193**	$4,323

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" or the "Trust") is a Canadian unincorporated closed-end real estate investment trust created pursuant to the Declaration of Trust dated October 25, 2002, most recently amended May 12, 2016. Allied is governed by the laws of the Province of Ontario and began operations on February 19, 2003. The Units of the Trust are traded on the Toronto Stock Exchange and are traded under the symbol "AP.UN". Allied is the ultimate parent of its group of companies. The consolidated financial statements of Allied include the accounts of Allied and its consolidated subsidiaries.

Allied is a leading owner, manager and developer of distinctive urban workspace in Canada's major cities. Allied's objectives are to provide stable and growing cash distributions to Unitholders and to maximize Unitholder value through effective management and accretive portfolio growth.

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

2. SIGNIFICANT ACCOUNTING POLICIES

(A) *Statement of compliance*

The consolidated financial statements of Allied for the year ending December 31, 2016 and 2015 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, 2016, were approved and authorized for issue by the Board of Trustees on February 22, 2017.

(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 (including structural entities) over which Allied has control, where control is defined as the power to direct the relevant activities of an entity so as to obtain benefit from its activities. Control exists when a parent company is exposed to, or has rights to, variable returns from the subsidiaries and has the ability to affect those returns through its power.

Subsidiaries are consolidated from the date control is transferred to Allied, and are de-consolidated from the date control ceases. Intercompany transactions between subsidiaries are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Trust. All subsidiaries have a reporting date of December 31.

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

(d) *Investment properties*

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

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

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

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

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

The independent professional appraisers engaged by Allied predominantly use the discounted cash flow method to determine fair value, whereby the income and expenses are projected over the anticipated term of the investment and combined with a terminal value, all of which is discounted using an appropriate discount rate. Properties under development are measured using both a comparable sales method and a discounted cash flow method, net of costs to complete, as of the balance sheet date. Valuations of investment properties are most sensitive to changes in discount rates and capitalization rates.

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

Allied has applied judgment when reporting its properties under development. The cost of properties under development includes the acquisition cost of the property, direct development costs, realty taxes and borrowing costs attributable to the development. 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 has reviewed its joint arrangement agreements and determined that the activities are jointly operated, therefore Allied recognizes its interests as joint operations and accounts for its share of assets held jointly, liabilities incurred jointly, revenue shared jointly and expenses incurred jointly.

(F) *Revenue Recognition*

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

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

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

(G) *Borrowing Costs*

Borrowing costs directly attributable to acquiring or constructing a qualifying investment property are capitalized. Capitalization commences when the activities necessary to prepare an asset for development or redevelopment begin, and ceases once the asset is substantially complete, or is suspended if the development of the asset is suspended. The amount of borrowing costs capitalized is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Where borrowings are associated with specific developments, the amount capitalized is the gross costs incurred on those borrowings. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted.

(H) *Equipment*

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

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

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

(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
Freehold lease and land lease obligations	Other financial liabilities	Amortized cost
Accounts payable and other liabilities	Other financial liabilities	Amortized cost
Interest rate swaps	Fair value through profit & loss	Fair value

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

FINANCIAL ASSETS

Financial assets are classified into one of the following four categories: loans and receivables; fair value through profit or loss; held-to-maturity; and available-for-sale. Financial assets are initially measured at fair value. Financial assets classified as loans and receivables are measured at amortized cost.

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

Allied had no held-to-maturity or available-for-sale financial assets as at December 31, 2016 and December 31, 2015.

At the end of each reporting period, Allied assesses whether there is objective evidence that a financial asset that is not carried at fair value through profit and loss is impaired. An impairment loss, which is the excess of the carrying amount over the fair value, is recognized if the present value of estimated future cash flows discounted at the original effective interest rate inherent in the loan is less than its carrying value and is measured as the difference between the two amounts. Impairments are recognized in the Consolidated Statements of Income and Comprehensive Income.

FINANCIAL LIABILITIES

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

Allied measures its debt, freehold lease and land lease obligations, and accounts payable and other liabilities, at amortized cost using the effective interest method. All interest-related charges are reported in the Consolidated Statements of Income and Comprehensive Income and are included within 'Interest expense', except for those interest-related charges capitalized to qualifying properties under development or rental properties.

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

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

Allied has entered into interest rate derivative contracts to limit its exposure to fluctuations in the interest rates on variable rate mortgages and the 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 prior to the reporting date.

(k) *Distribution Reinvestment Plan (DRIP)*

Allied instituted a DRIP whereby Canadian Unitholders may elect to have their distributions automatically reinvested in additional Units. Effective December 31, 2015, Unitholders who so elected to participate in the DRIP received no additional distribution of Units for each distribution that was reinvested. Effective November 21, 2016, Allied suspended its DRIP until further notice. No commissions, service charges or brokerage fees are payable by participants in connection with the DRIP.

(l) *Short-Term Employee Benefits*

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

(m) *Unit-Based Payments*

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

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

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

(n) *Provisions*

Provisions are recognized when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Allied does not have any provisions as of the date of this report.

(o) *Per Unit Calculations*

Basic net income per unit is calculated by dividing net income by the weighted average number of Units outstanding for the period, excluding those Units issued under the Long Term Incentive Plan, for which the installment loans are still outstanding, refer to note 15 for further details.

Diluted net income per unit is calculated using the denominator of the basic calculation described above adjusted to include the potentially dilutive effect of outstanding unit purchase options and Long Term Incentive Plan. The denominator is increased by the total number of additional Units that would have been issued by Allied assuming exercise of all unit purchase options with exercise prices below the average market price for the year. The calculation of net income per unit on a diluted basis also includes those Units issued under the Long Term Incentive Plan, for which the installment loans are still outstanding, refer to note 15 for further details.

(p) *Accounting standards implemented in 2016*

Allied implemented the amendments to IAS 1, "Presentation of Financial Statements" ("IAS 1 amendments"), beginning January 1, 2016, with no significant impact on Allied's consolidated financial statements.

(q) *Future Accounting Standards*

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by Allied.

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

IAS 7 - STATEMENT OF CASH FLOWS

On January 7, 2016, the IASB issued Disclosure Initiative (Amendments to IAS 7), these amendments apply for annual periods beginning January 1, 2017. The amendments require additional disclosure for a user of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. Allied will adopt the amendments for its financial statements for the annual period beginning on January 1, 2017. Allied does not expect the amendments to have a material impact on the consolidated financial statements.

IAS 40 - INVESTMENT PROPERTIES

On December 8, 2016, the IASB issued amendments to IAS 40 Investment Property clarifying the principles for transfers into or out of investment property in IAS 40 when there has been a change in use. The amendments apply prospectively for annual periods beginning January 1, 2018. Allied intends to adopt the amendments for its financial statements for the annual period beginning January 1, 2018. Allied does not expect the amendments to have a material impact on the consolidated financial statements.

IFRS 15 - REVENUE FROM CONTRACTS WITH CUSTOMERS

On May 28, 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers and issued further clarifications issued on April 12, 2016. The new standard is effective for annual periods beginning January 1, 2018. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property. Allied intends to adopt IFRS 15 and the clarifications in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 9 - FINANCIAL INSTRUMENTS

On July 24, 2014, the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning January 1, 2018 and must be applied retrospectively with some exemptions. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. Allied intends to adopt IFRS 9 (2014) and the clarifications in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 16 - Leases

On January 13, 2016 the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning January 1, 2019. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The extent of the impact of adoption of the standard has not yet been determined.

(R) *Comparative figures*

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

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

INVESTMENT PROPERTIES

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

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

JOINT ARRANGEMENTS

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

LEASES

Judgments Made in Relation to Accounting Policies Applied - Allied has applied judgment to determine whether the freehold lease and certain land leases, where Allied is the lessee, are operating leases or finance leases. Pursuant to the long term contractual obligations in each, they are finance leases and accordingly they are classified as investment properties. All tenant leases where Allied is the lessor have been determined to be operating leases.

INCOME TAXES

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

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

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

4. ACQUISITIONS AND DISPOSITIONS

ACQUISITIONS

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

LOCATION	DATE OF ACQUISITION	PROPERTY TYPE	INVESTMENT PROPERTY	OWNERSHIP
Calgary, AB	February 29, 2016	Office, Retail	**$10,534**	50%
Toronto, ON	March 29, 2016	Office	**32,396**	100%
Montréal, QC	May 31, 2016	Office, Retail, Development	**172,986**	100%
Montréal, QC	May 31, 2016	Office, Retail	**56,607**	100%
Toronto, ON	July 28, 2016	Development	**6,542**	100%
Toronto, ON	August 31, 2016	Development	**12,923**	50%
Toronto, ON	August 31, 2016	Office, Retail	**84,696**	100%
			$376,684	

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

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

LOCATION	DATE OF ACQUISITION	PROPERTY TYPE	INVESTMENT PROPERTY	OWNERSHIP
Toronto, ON	February 20, 2015	Development	24,573	50%
Toronto, ON	April 15, 2015	Office	8,581	100%
Toronto, ON	June 29, 2015	Office, Retail	102,939	100%
Toronto, ON	September 17, 2015	Office, Retail	28,342	100%
Toronto, ON	October 13, 2015	Parking	399	100%
			$164,834	

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

DISPOSITIONS

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

LOCATION	DATE OF DISPOSITION	PROPERTY TYPE	SELLING PRICE
Toronto, ON	February 17, 2016	Office, Retail	**$9,615**
Winnipeg, MB	July 15, 2016	Development	**2,550**
Toronto, ON	July 19, 2016	Office, Retail	**3,300**
Victoria, BC	August 5, 2016	Office, Retail	**3,954**
Victoria, BC	August 5, 2016	Office, Retail	**8,146**
Total selling price			**$27,565**
Net selling costs			**(1,087)**
Working capital adjustments			**(28)**
Net cash consideration received			**$26,450**

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

5. INVESTMENT PROPERTIES

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

	DECEMBER 31, 2016			DECEMBER 31, 2015		
	RENTAL PROPERTIES	PROPERTIES UNDER DEVELOPMENT	TOTAL	RENTAL PROPERTIES	PROPERTIES UNDER DEVELOPMENT	TOTAL
Balance, beginning of year	**$3,854,076**	**$343,201**	**$4,197,277**	$3,490,057	$236,700	$3,726,757
Additions:						
Acquisitions	**322,651**	**54,033**	**376,684**	140,261	24,573	164,834
Transfers from PUD	**285,329**	**(285,329)**	**—**	230,531	(230,531)	—
Transfers to PUD	**(10,992)**	**10,992**	**—**	(186,892)	186,892	—
Capital expenditures	**97,306**	**83,200**	**180,506**	72,363	115,859	188,222
Dispositions	**(25,015)**	**(2,550)**	**(27,565)**	(6,275)	—	(6,275)
Freehold lease and land leases	**1,046**	**15,950**	**16,996**	—	6,301	6,301
Fair value gain (loss)	**219,369**	**(40,066)**	**179,303**	114,031	3,407	117,438
Balance, end of year	**$4,743,770**	**$179,431**	**$4,923,201**	$3,854,076	$343,201	$4,197,277

For the year ended December 31, 2016, Allied capitalized a total of $21,085 of borrowing costs to qualifying investment properties (December 31, 2015 - $18,042)

Included in the amounts noted above is $460,075 (December 31, 2015 - $468,861) which represents the adjusted fair value of Allied's interest in four land leases as well as a freehold lease (collectively referred to as the "Finance Leases"). The Finance Leases maturities range from 27.8 years to 85.5 years from period end. The freehold lease and land lease obligation was increased in 2016 to reflect the additional square footage leased subsequent to the inception of the lease.

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

	DECEMBER 31, 2016	DECEMBER 31, 2015
Total fair value	**$5,129,541**	$4,369,013
Less:		
Tenant improvement allowances	**(116,128)**	(99,565)
Leasing commissions	**(44,823)**	(37,793)
Straight-line rents receivable	**(45,389)**	(34,378)
Adjusted fair value	**$4,923,201**	$4,197,277

VALUATION METHODOLOGY

The appraised fair value of investment properties is 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 minimum term of ten years, including a terminal value of the properties based on a capitalization rate applied to the estimated net operating income ("NOI"), a non-GAAP measure, in the terminal year. This method is primarily used to value the rental portfolio.

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

Allied's entire portfolio is valued by an independent 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 changes to the valuation techniques during the year.

SIGNIFICANT UNOBSERVABLE INPUTS

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

	WEIGHTED AVERAGE	
	DECEMBER 31, 2016	DECEMBER 31, 2015
Discount rate	**6.89%**	7.12%
Terminal capitalization rate	**6.06%**	6.33%
Overall capitalization rate	**5.68%**	5.95%
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	**$473,385**	**$225,835**	**$(206,857)**	**$(397,032)**

6. LOANS AND NOTES RECEIVABLE

Loans and notes receivable are as follows:

	DECEMBER 31, 2016	DECEMBER 31, 2015
Loans receivable (a)	**$21,173**	$21,173
Notes and other receivables (b)	**3,586**	2,127
	$24,759	$23,300
Current	**$1,073**	$1,055
Non-current	**23,686**	22,245
	$24,759	$23,300

(A) In February 2015, Allied entered into a joint arrangement with Westbank and completed the acquisition of an undivided 50% interest in Adelaide & Duncan, advancing $42,346 to the joint arrangement between Allied and Westbank. The loan is secured by a first charge on the property and assignment of rents and leases. Interest on the loan is payable monthly at a rate of 6.17%. The loan is repayable when the joint arrangement obtains external permanent financing.

(B) Included in notes and other receivables is an annuity loan receivable of $1,073 (December 31, 2015 - $2,127), bearing interest of 1.80% and maturing on December 1, 2017. The remaining balance is made up of individually insignificant notes receivable.

7. OTHER ASSETS

Other assets consist of the following:

	DECEMBER 31, 2016	DECEMBER 31, 2015
Tenant improvement allowances (1)	**$116,128**	$99,565
Leasing commissions (2)	**44,823**	37,793
Straight-line rents receivable	**45,389**	34,378
Equipment and other assets (3)	**6,308**	5,738
Unsecured term loan interest swap asset	**2,179**	17
	$214,827	$177,491

(1) During the year ended December 31, 2016, Allied recorded amortization of tenant improvement allowances of $20,716 (December 31, 2015 - $14,176), which was netted against rental revenue.
(2) During the year ended December 31, 2016, Allied recorded amortization of leasing commissions of $8,451, (December 31, 2015 - $7,152).
(3) During the year ended December 31, 2016, Allied recorded amortization of equipment and other assets of $1,592 (December 31, 2015 - $1,078).

8. ACCOUNTS RECEIVABLE, PREPAID EXPENSES AND DEPOSITS

	DECEMBER 31, 2016	DECEMBER 31, 2015
Tenant trade receivables - net of allowance (a)	**$8,763**	$20,848
Other tenant receivables (b)	**5,986**	10,341
Miscellaneous receivables (c)	**9,484**	10,654
Prepaid expenses and deposits (d)	**14,641**	11,712
	$38,874	$53,555

(A) *Tenant trade receivables*

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

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

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

	YEAR ENDED	
	DECEMBER 31, 2016	DECEMBER 31, 2015
Allowance for doubtful accounts, beginning of year	**$1,769**	$3,265
Additional provision recorded during the year	**1,819**	2,513
Reversal of previous provisions	**(370)**	(1,009)
Receivables written off during the year	**(1,532)**	(3,000)
Allowance for doubtful accounts, end of year	**$1,686**	$1,769

(B) *Other tenant receivables*

Other tenant receivables pertain to unbilled operating costs such as common area maintenance and property tax recoveries and chargebacks.

(C) *Miscellaneous receivables*

Miscellaneous receivables consist primarily of property taxes recoverable from municipalities and insurance claims. As at December 31, 2016, there are no indicators that the debtors will not meet their payment obligations.

(D) *Prepaid expenses and deposits*

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

9. DEBT

Debt consists of the following items:

	DECEMBER 31, 2016	DECEMBER 31, 2015
Mortgages payable (a)	**$1,118,551**	$1,172,468
Construction loans payable (b)	**21,056**	21,789
Unsecured revolving operating facility (c)	**47,000**	19,598
Senior unsecured debentures (d)	**373,596**	224,161
Unsecured term loans (e)	**349,062**	149,487
	$1,909,265	$1,587,503
Current	**$145,895**	$140,587
Non-current	**1,763,370**	1,446,916
	$1,909,265	$1,587,503

(a) *Mortgages payable*

Mortgages payable have a weighted average stated interest rate of 4.66% as at December 31, 2016 (December 31, 2015 - 4.72%). 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, 2016	DECEMBER 31, 2015
2017	**$35,569**	**$110,326**	**$145,895**	
2018	**34,611**	**56,900**	**91,511**	
2019	**32,050**	**129,365**	**161,415**	
2020	**26,345**	**4,456**	**30,801**	
2021	**25,575**	**104,344**	**129,919**	
2022	**21,494**	**100,102**	**121,596**	
2023	**17,327**	**220,957**	**238,284**	
2024	**4,378**	**165,326**	**169,704**	
2025	**1,146**	**8,788**	**9,934**	
2026	**924**	**20,443**	**21,367**	
Mortgages, principal	**$199,419**	**$921,007**	**$1,120,426**	$1,177,514
Net premium on assumed mortgages			**2,924**	568
Net financing costs			**(4,799)**	(5,614)
			$1,118,551	$1,172,468

(b) *Construction loans payable*

Allied provided a guarantee (limited to $114,000) to a Canadian chartered bank to support a $342,000 construction lending facility to assist with the financing of construction costs associated with the development of TELUS Sky, in which Allied has a 33.33% joint arrangement interest. The loan matures on August 31, 2019, and bears interest at bank prime plus 70 basis points or banker's acceptance rate plus 195 basis points. Allied's obligation of the balance outstanding under the facility as at December 31, 2016, was $21,056 (December 31, 2015 - $3,126).

Allied had provided a guarantee (limited to $22,870) to a Canadian chartered bank to support a $45,740 construction lending facility to assist with the financing of construction costs associated with the development of the Breithaupt Block project, in which Allied has a 50% joint arrangement interest. The loan carried interest at bank prime plus 80 basis points or bankers' acceptance rate plus 180 basis points. On November 24, 2016, the construction loan was repaid in full upon the project acquiring permanent mortgage financing. Allied had no obligation outstanding under the facility as at December 31, 2016 (December 31, 2015 - $18,663).

JOINT ARRANGEMENT	OWNERSHIP	ALLIED'S GUARANTEE LIMIT	DATE OF MATURITY	DECEMBER 31, 2016	DECEMBER 31, 2015
TELUS Sky	33.33%	$114,000	August 31, 2019	**$21,056**	$3,126
Breithaupt Block	50%	22,870	Matured	**—**	18,663
				$21,056	$21,789

(C) *Unsecured revolving operating facility*

On January 28, 2015, Allied obtained an unsecured revolving operating facility (the "Unsecured Facility") of $200,000. On April 26, 2016, the limit under the Unsecured Facility was increased to $250,000 and the maturity date was extended to January 29, 2019 (December 31, 2015 - maturity of January 18, 2018). The Unsecured Facility contains a $100,000 accordion feature, allowing Allied to increase the amount available under the facility to $350,000. The Unsecured Facility bears interest at bank prime plus 70 basis points or bankers' acceptance plus 170 basis points. The Unsecured Facility had a balance of $47,000 outstanding at December 31, 2016 (December 31, 2015 - $19,598). The Unsecured Facility replaced the $100,000 secured operating facility in January 2015, at which point $24,336 of the secured operating facility was repaid.

	DECEMBER 31, 2016	DECEMBER 31, 2015
Unsecured Facility limit	**$250,000**	$200,000
Amounts drawn under the Unsecured Facility	**(47,000)**	(19,598)
Letters of credit outstanding under the Unsecured Facility	**$(3,040)**	$(7,634)
Remaining unused balance under the Unsecured Facility	**$199,960**	$172,768

(D) *Senior unsecured debentures*

On May 12, 2016, Allied issued $150,000 of 3.934% Series B unsecured debentures (the "Series B Debentures") due November 14, 2022, with semi-annual interest payments due on May 14 and November 14 of each year commencing November 14, 2016. Debt financing costs of $801 were incurred and recorded against the principal owing. Funds from the issuance were used to fund acquisitions, repay amounts drawn on the Unsecured Facility and for general working capital purposes.

On May 13, 2015, Allied issued $150,000 of 3.748% Series A unsecured debentures (the "Series A Debentures") due May 13, 2020, with semi-annual interest payments due on May 13 and November 13 of each year commencing November 13, 2015. Debt financing costs of $1,001 were incurred and recorded against the principal owing. Furthermore, on August 18, 2015, Allied issued an additional $75,000 of 3.748% Series A Debentures with the same terms and conditions as the May 13, 2015, issuance described above. Allied recognized a premium of $731 on the secondary offering of the Series A Debentures. Debt financing costs of $700 were incurred and recorded against the principal owing.

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

The respective financing costs and premium recognized are amortized using the effective interest method and recorded to Interest Expense (note 9 (f)).

SERIES	INTEREST RATE	DATE OF MATURITY	INTEREST PAYMENT DATE	DECEMBER 31, 2016	DECEMBER 31, 2015
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**	—
Unsecured Debentures, principal				**375,000**	225,000
Net premium on Unsecured Debentures				**522**	674
Net financing costs				**(1,926)**	(1,513)
				$373,596	$224,161

(E) *Unsecured term loans*

On March 16, 2016, Allied entered into a $150,000 unsecured credit facility with a Canadian chartered bank for a term of five years and bearing interest at a floating rate of CDOR plus 1.70% per year (the "Unsecured Term Facility"). On May 25, 2016, the credit limit for the Unsecured Term Facility was increased to $200,000. Allied drew on the Unsecured Term Facility in two tranches, on March 16, 2016, for $100,000 at an effective interest rate of 2.83%, and on May 25, 2016, for $100,000 at an effective interest rate of 2.890%. The Unsecured Term Facility provides for the interest rate to be adjusted up or down based on changes in the credit rating of the Unsecured Debentures. In addition, Allied entered into interest rate swap agreements which will have the effect of fixing the floating CDOR interest rate for the term of the Unsecured Term Facility. After giving effect to the interest rate swaps, the current effective rate for the Unsecured Term Facility is 2.860%. The interest rate swap agreements have a notional amount of $200,000. Financing costs of $700 were incurred and recorded against the principal owing.

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

On December 14, 2015, Allied entered into a credit agreement with a Canadian chartered bank to obtain a $150,000 unsecured term loan in the form of a revolving bankers' acceptance at prime plus 170 basis points which matures December 14, 2018 (the "Unsecured Term Loan"). Concurrently with the closing of the Unsecured Term Loan, Allied entered into an interest rate swap agreement to fix the variable interest rate on the bankers' acceptance to 0.945%, resulting in a total fixed interest rate of 2.645% for the full term of the Unsecured Term Loan. The interest rate swap agreement has a notional amount of $150,000. Financing costs of $522 were incurred and recorded against the principal owing.

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

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

The respective financing costs are amortized using the effective interest method and recorded to Interest Expense (note 9 (f)).

	INTEREST RATE	DATE OF MATURITY	FREQUENCY OF INTEREST PAYMENT	DECEMBER 31, 2016	DECEMBER 31, 2015
Unsecured Term Loan	2.645%	December 14, 2018	Monthly	**$150,000**	$150,000
Unsecured Term Facility					
Tranche 1	2.830%	March 16, 2021	Quarterly	**100,000**	—
Tranche 2	2.890%	March 16, 2021	Quarterly	**100,000**	—
Unsecured Term Loans, principal				**350,000**	150,000
Net financing costs				**(938)**	(513)
				$349,062	$149,487

(F) *Interest expense*

Interest expense consists of the following:

	YEAR ENDED	
	DECEMBER 31, 2016	DECEMBER 31, 2015
Interest on debt:		
Mortgages payable	**$53,525**	$57,191
Construction loans payable	**248**	543
Unsecured Facility	**1,459**	2,622
Unsecured Debentures	**12,217**	4,594
Unsecured Term Loans	**7,982**	192
Interest on freehold lease and land lease obligations	**5,024**	3,281
Amortization, premium (discount) on debt	**60**	170
Amortization, net financing costs	**1,995**	1,580
	$82,510	$70,173
Less: interest capitalized to qualifying investment properties	**(21,085)**	(18,042)
Interest expense	**$61,425**	$52,131

Borrowing costs have been capitalized at a weighted average rate of 4.23% per annum (December 31, 2015 – 4.57%).

(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.

	2017	2018	2019	2020	2021	THEREAFTER	TOTAL
Mortgages payable, principal repayments	$35,569	$34,611	$32,050	$26,345	$25,575	$45,269	$199,419
Mortgages payable, balance due at maturity	110,326	56,900	129,365	4,456	104,344	515,616	921,007
Construction loans payable	—	—	21,056	—	—	—	21,056
Unsecured Facility	—	—	47,000	—	—	—	47,000
Unsecured Debentures	—	—	—	225,000	—	150,000	375,000
Unsecured Term Loans	—	150,000	—	—	200,000	—	350,000
Total	$145,895	$241,511	$229,471	$255,801	$329,919	$710,885	$1,913,482

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

10. FREEHOLD LEASE AND LAND LEASE OBLIGATIONS

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

	2017 (1)	2018 - 2021 (1)	THEREAFTER	DECEMBER 31, 2016	DECEMBER 31, 2015
Future minimum lease payments	**$7,854**	**$38,511**	**$496,738**	**$543,103**	$529,806
Interest accrued on lease obligations	**2,315**	**2,914**	**—**	**5,229**	—
Less: amounts representing interest payments	**(10,169)**	**(41,425)**	**(344,534)**	**(396,128)**	(391,746)
Present value of lease payments	**$—**	**$—**	**$152,204**	**$152,204**	$138,060

	DECEMBER 31, 2016	DECEMBER 31, 2015
Current	**$7,854**	$7,412
Non-current	**144,350**	130,648
	$152,204	$138,060

(1) The future minimum lease payments prior to 2021 are less than the effective interest on the freehold lease and land 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, 2016, minimum lease payments of $7,348 were paid by Allied (December 31, 2015 - $7,129).

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consists of the following:

	DECEMBER 31, 2016	DECEMBER 31, 2015
Trade payables and other liabilities	$64,411	$77,651
Prepaid tenant rents and tenant deposits	37,616	29,891
Accrued interest payable	5,415	4,961
Distributions payable to Unitholders	10,804	9,804
Mortgage interest swap liability	12,633	16,345
	$130,879	$138,652

12. FAIR VALUES MEASUREMENTS

Allied uses various methods in estimating the fair values of assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the 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, 2016			DECEMBER 31, 2015		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Assets:						
Investment properties (note 5)	**$—**	**$—**	**$4,923,201**	$—	$—	$4,197,277
Loans and notes receivable (note 6)	**—**	**24,759**	**—**	—	23,300	—
Other assets (note 7)	**—**	**214,827**	**—**	—	177,491	—
Cash and cash equivalents (note 19)	**12,193**	**—**	**—**	4,323	—	—
Accounts receivable, prepaid expenses and deposits (note 8)	**—**	**38,874**	**—**	—	53,555	—
Liabilities:						
Debt (note 9)						
Mortgages	**—**	**1,164,661**	**—**	—	1,246,836	—
Construction loans payable	**—**	**21,056**	**—**	—	18,692	—
Unsecured Facility	**—**	**47,000**	**—**	—	19,598	—
Unsecured Debentures	**—**	**383,134**	**—**	—	225,144	—
Unsecured Term Loans	**—**	**347,821**	**—**	—	150,000	—
Freehold lease and land lease obligations (note 10 and note 5)	**—**	**—**	**460,075**	—	—	468,861
Accounts payable and other liabilities (note 11)	**—**	**130,879**	**—**	—	138,652	—

The carrying value of Allied's financial assets and liabilities approximates the fair value except for debt (note 9) and freehold lease and land lease obligations (note 10).

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

Other than as described in investment properties (note 5), the following summarizes the significant methods and assumptions used in estimating the fair value of Allied's financial assets and liabilities measured at fair value:

INTEREST RATE DERIVATIVE CONTRACTS

The fair value of Allied's interest rate derivative contracts, which represent a net liability as at December 31, 2016, is $10,454 as compared to a net liability as at December 31, 2015, of $16,328. The fair value of the derivative contracts is determined using forward interest rates observable in the market (Level 2).

	DECEMBER 31, 2016	DECEMBER 31, 2015
Mortgage interest swap liability (note 11)	**$12,633**	$16,345
Unsecured term loan interest swap asset (note 7)	**(2,179)**	(17)
Net liability	**$10,454**	$16,328

13. UNITHOLDERS´ EQUITY

The following represents the number of Units issued and outstanding, and the related carrying value of Unit equity, for the year ended December 31, 2016 and 2015.

	DECEMBER 31, 2016		DECEMBER 31, 2015	
	UNITS	AMOUNT	UNITS	AMOUNT
Trust Units, beginning of year	**78,430,153**	**$1,873,541**	75,068,912	$1,754,576
Units issued under the DRIP	**168,014**	**5,839**	1,028,659	35,195
Net cash used to purchase and allocate Units to the Restricted Unit Plan (net of forfeitures)	**—**	**(1,022)**	—	(1,672)
Repayments of long-term incentive plan installment loan receivable (note 15)	**—**	**74**	—	18
Units issued under the unit based compensation arrangement (note 14(a))	**162,302**	**3,570**	118,832	3,076
Units issued, net of issuance costs	**6,089,250**	**220,367**	2,213,750	82,348
Purchase of Units under normal course issuer bid for cancellation	**(115,250)**	**(4,102)**	—	—
Trust Units, end of year	**84,734,469**	**$2,098,267**	78,430,153	$1,873,541

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

On February 2, 2015, Allied raised gross proceeds of $86,336 through the issuance of 2,213,750 Units at a price of $39.00 per unit. Costs relating to the issuance were $3,988 and were applied against the gross proceeds of the issuance and charged against Unitholder's equity.

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

NORMAL COURSE ISSUER BID

On December 19, 2016, 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 8,306,955 of its outstanding Units, representing approximately 10% of its public float as at December 7, 2016. The NCIB renewal commenced December 22, 2016, and will expire on December 21, 2017, 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.

On March 9, 2016, the Trust entered into an automatic unit repurchase plan with a broker in order to facilitate repurchase of its Units under the NCIB at times when the Trust would ordinarily not be permitted to purchase its Units due to self-imposed trading blackout periods. On the announcement on August 10, 2016, of an equity offering by the Trust, the automatic unit repurchase plan terminated automatically in accordance with its terms.

During the year ended December 31, 2016, Allied purchased 147,244 Units for $5,162 at a weighted average price of $35.06 per Unit under its NCIB program, of which 115,250 Units were purchased for cancellation, 30,994 Units were purchased for delivery to participants under the Trust's Restricted Unit Plan (December 31, 2015 - nil) and 1,000 Units were purchased for certain long term employee anniversary grants.

14. UNIT OPTION AND RESTRICTED UNIT PLANS

(A) *Unit option plan*

Allied adopted a Unit Option Plan providing for the issuance, from time to time, at the discretion of the trustees, of options to purchase Units for cash. Participation in the Unit Option Plan is restricted to certain employees of Allied. The Unit Option Plan complies with the requirements of the Toronto Stock Exchange. The exercise price of any option granted will not be less than the closing market price of the Units on the day preceding the date of grant. The options have a term of five to ten years and vest evenly over three years from the date of grant. All options are settled in Units.

SUMMARY OF UNIT OPTION GRANTS:

Date granted	Expiry date	Units granted	Exercise price	Exercised - life to date	Forfeited - life to date	Net outstanding	Vested
March 6, 2012	March 6, 2017	226,132	$26.51	(81,512)	(13,494)	131,126	131,126
March 5, 2013	March 5, 2018	209,235	$34.25	(50,844)	(26,448)	131,943	131,943
March 4, 2014	March 4, 2019	266,174	$33.29	(13,182)	(65,914)	187,078	124,719
May 6, 2014	May 6, 2019	8,474	$34.59	—	—	8,474	5,649
March 3, 2015	March 3, 2020	302,706	$40.60	—	—	302,706	100,902
March 1, 2016	March 1, 2026	540,480	$31.56	—	(5,616)	534,864	5,462
		1,553,201		(145,538)	(111,472)	1,296,191	499,801

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.

	YEAR ENDED			
	DECEMBER 31, 2016		DECEMBER 31, 2015	
	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	**$26.51-40.60**	**4.99**	$21.91-40.60	2.57

	YEAR ENDED			
	DECEMBER 31, 2016		DECEMBER 31, 2015	
	Number of Units	**Weighted average exercise price**	Number of units	Weighted average exercise price
Balance at the beginning of the year	**923,629**	**$32.89**	778,889	$28.54
Granted during the year	**540,480**	**31.56**	302,706	40.60
Forfeited during the year	**(5,616)**	**31.56**	(39,134)	33.60
Exercised during the year	**(162,302)**	**21.99**	(118,832)	23.81
Balance at the end of the year	**1,296,191**	**$33.70**	923,629	$32.89
Units exercisable at the end of the year	**499,801**	**$33.24**	440,417	$27.29

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, 2016	DECEMBER 31, 2015
Unit options granted	**540,480**	302,706
Unit option holding period (years)	**10**	5
Volatility rate	**25.74%**	17.80%
Distribution yield	**4.75%**	3.60%
Risk free interest rate	**1.14%**	0.70%
Value of options granted	**$2,140**	$1,062

The underlying expected volatility was determined by reference to historical data of Allied's Units over 5 or 10 years.

For the Unit Option Plan, $1,430 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) has been included in net income for the year ended December 31, 2016, and credited to Unitholders' equity (for the year ended December 31, 2015 - $811).

(B) *Restricted unit plan*

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

	YEAR ENDED	
	DECEMBER 31, 2016	DECEMBER 31, 2015
Outstanding Restricted Units, beginning of year	**220,216**	178,755
Granted	**30,994**	47,695
Transferred to participants on expiry of restriction year	**(27,329)**	—
Forfeited	**(164)**	(6,234)
Outstanding Restricted Units, end of year	**223,717**	220,216

For the Restricted Unit Plan, a total of $1,194 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) has been included in net income for the year ended December 31, 2016, and credited to Unitholders' equity (for the year ended December 31, 2015 - $1,478).

15. LONG-TERM INCENTIVE PLAN

Officers and trustees of Allied have been granted the right to participate in a long-term incentive plan ("LTIP"), whereby the participants subscribe for Units at a purchase price equal to the weighted average trading price of the Units for five trading days preceding the date of the grant. The purchase price is payable as to 5% upon issuance and to the balance ("installment loan receivable") over a term not exceeding ten years. The installment loan receivable bears interest at rates of 3% or 5% per annum on any outstanding balance and is a direct, personal obligation of the participant. The Units issued under the LTIP are held by a custodian for the benefit of the participants until the installment loan receivable has been paid in full. The values of these Units held by the Custodian as at December 31, 2016, and December 31, 2015, were $162 and $537, respectively. For the year ended December 31, 2016, $68 of LTIP loans were repaid and 12,500 Units were transfered to participants (for the year ended December 31, 2015 - nil). Cash distributions paid in respect of the Units issued under the LTIP are applied first to the interest and then to reduce the balance of the installment loan receivable.

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

UNITS ISSUED UNDER THE LTIP	CUMULATIVE AS AT DECEMBER 31, 2016	YEAR ENDED DECEMBER 31, 2016	CUMULATIVE AS AT DECEMBER 31, 2015
Number of Units issued	412,293	—	412,293
Units issued	$6,282	$—	$6,282
Compensation cost	474	—	474
	6,756	—	6,756
LTIP installment loans receivable	(5,968)	—	(5,968)
Interest on installment loans receivable	(1,088)	(5)	(1,083)
Distributions applied against installment loans receivable	3,633	16	3,617
Repayment of installment loans	3,351	68	3,283
	(72)	79	(151)
	$6,684	$79	$6,605

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, 2016	DECEMBER 31, 2015
Basic	**80,815,747**	77,620,668
Unit option plan	**113,130**	136,015
LTIP	**10,586**	17,000
Fully diluted	**80,939,463**	77,773,683

17. NET RENTAL INCOME

	YEAR ENDED	
	DECEMBER 31, 2016	DECEMBER 31, 2015
Rental revenue - rental properties	**$380,965**	$348,129
Rental revenue - properties under development	**8,757**	17,272
	389,722	365,401
Property operating costs - rental properties	**(168,825)**	(149,184)
Property operating costs - properties under development	**(2,239)**	(3,544)
	$(171,064)	$(152,728)

Future minimum rental income is as follows:

	2017	2018 - 2021	THEREAFTER	TOTAL
Future minimum rental income	**$209,387**	**$544,145**	**$780,256**	**$1,533,788**

18. GENERAL AND ADMINISTRATIVE EXPENSES

	YEAR ENDED	
	DECEMBER 31, 2016	DECEMBER 31, 2015
Salaries and benefits	**$7,076**	$7,305
Professional and directors fees	**2,843**	2,616
Office and general expenses	**878**	1,309
	$10,797	$11,230
Capitalized to qualifying investment properties	**(2,277)**	(2,314)
Total	**$8,520**	$8,916

19. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents include the following components:

	DECEMBER 31, 2016	DECEMBER 31, 2015
Cash	**$11,546**	$4,176
Short-term deposits	**647**	147
Total cash and cash equivalents	**$12,193**	$4,323

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

	YEAR ENDED	
	DECEMBER 31, 2016	DECEMBER 31, 2015
Supplemental		
Interest paid on debt	**$75,968**	$64,501
Interest received	**$1,534**	$1,274
Non-cash transactions		
Units issued under DRIP	**$5,839**	$35,195
Freehold lease and land leases	**$14,144**	$2,416

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

	YEAR ENDED	
	DECEMBER 31, 2016	DECEMBER 31, 2015
Net change in accounts receivable, prepaid expenses and deposits	**$14,681**	$8,349
Less: Prepaid expenses and deposits	**(5,699)**	890
Less: Loans and notes receivable	**(2,513)**	—
Less: Amounts from disposed properties	**1,258**	—
Add back: Amounts from acquired properties	**(104)**	177
Net change in accounts payable and other liabilities	**(7,773)**	25,010
Less: Distributions payable to Unitholders	**(1,000)**	(676)
Less: Mortgage interest swap liability	**3,711**	(7,611)
Less: Amounts from disposed properties	**132**	(546)
Less: Amounts from acquired properties	**(7,321)**	—
Change in non-cash operating items	**$(4,628)**	$25,593

20. JOINT ARRANGEMENTS

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

			OWNERSHIP	
PROPERTIES	LOCATION	CURRENT STATUS	DECEMBER 31, 2016	DECEMBER 31, 2015
478 King W	Toronto, ON	Rental Property	**50%**	50%
57 Spadina	Toronto, ON	Rental Property	**—**	50%
642 King W	Toronto, ON	Property Under Development	**50%**	—
816-838 11th SW	Calgary, AB	Rental Property	**50%**	—
Adelaide & Duncan	Toronto, ON	Property Under Development	**50%**	50%
Breithaupt Block I & II	Kitchener, ON	Rental Property	**50%**	50%
College & Manning	Toronto, ON	Rental Property	**50%**	50%
College & Palmerston	Toronto, ON	Property Under Development	**50%**	50%
King Portland Centre	Toronto, ON	Rental Property and Property Under Development	**50%**	50%
TELUS Sky	Calgary, AB	Property Under Development	**33.33%**	33.33%
The Well	Toronto, ON	Rental Property	**40%**	40%

	DECEMBER 31, 2016	DECEMBER 31, 2015
Total assets	**$367,442**	$238,288
Total liabilities	**$131,000**	$80,110

	YEAR ENDED	
	DECEMBER 31, 2016	DECEMBER 31, 2015
Revenue	**$9,527**	$8,565
Expenses	**(6,692)**	(5,198)
Income before fair value gain on investment properties	**2,835**	3,367
Fair value gain on investment properties	**69,588**	15,184
Net income	**$72,423**	$18,551

21. SEGMENTED INFORMATION

To measure performance based on income from property operations, management divides operations into three geographical locations consisting of Eastern Canada (Montréal, Québec City and Ottawa), Central Canada (Toronto and Kitchener) and Western Canada (Winnipeg, Calgary, Edmonton, Vancouver and Victoria). On August 5, 2016, Allied disposed of two properties in Victoria, British Columbia, and consistent with its previously disclosed business strategy, has exited that market.

Management reviews assets and liabilities on a total corporate basis and therefore assets and liabilities are not included in the segmented information below.

Allied does not allocate interest expense to segments as debt is viewed by management to be used for the purpose of acquisitions, development and improvement of all the properties. Similarly, general and administration expenses, interest income and fair value of derivative instruments are not allocated to segments. These are disclosed below as Other.

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

Year ended December 31, 2016	EASTERN CANADA	CENTRAL CANADA	WESTERN CANADA	OTHER	TOTAL
Rental revenue from investment properties	**$100,979**	**$230,790**	**$57,953**	**$—**	**$389,722**
Property operating costs	**(49,906)**	**(95,001)**	**(26,157)**	**—**	**(171,064)**
Net rental income	**51,073**	**135,789**	**31,796**	**—**	**218,658**
Interest expense	**—**	**—**	**—**	**(61,425)**	**(61,425)**
General and administrative expenses	**—**	**—**	**—**	**(8,520)**	**(8,520)**
Amortization of leasing costs and other assets	**(2,911)**	**(4,581)**	**(959)**	**(1,592)**	**(10,043)**
Interest income	**—**	**—**	**—**	**1,545**	**1,545**
Fair value gain (loss) on investment properties	**(14,688)**	**205,132**	**(11,141)**	**—**	**179,303**
Fair value gain on derivative instruments	**—**	**—**	**—**	**5,874**	**5,874**
Loss on disposal of investment properties	**—**	**(360)**	**(727)**	**—**	**(1,087)**
Net income (loss) and comprehensive income (loss)	**$33,474**	**$335,980**	**$18,969**	**$(64,118)**	**$324,305**

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

Year ended December 31, 2015	EASTERN CANADA	CENTRAL CANADA	WESTERN CANADA	OTHER	TOTAL
Rental revenue from investment properties	$87,899	$213,405	$64,097	$—	$365,401
Property operating costs	(41,334)	(84,432)	(26,962)	—	(152,728)
Net rental income	46,565	128,973	37,135	—	212,673
Interest expense	—	—	—	(52,131)	(52,131)
General and administrative expenses	—	—	—	(8,916)	(8,916)
Amortization of leasing costs and other assets	(2,870)	(3,381)	(902)	(1,077)	(8,230)
Interest income	—	—	—	1,275	1,275
Fair value gain (loss) on investment properties	(18,350)	158,709	(22,921)	—	117,438
Fair value loss on derivative instruments	—	—	—	(7,594)	(7,594)
Loss on disposal of investment properties	—	—	(148)		(148)
Net income (loss) and comprehensive income (loss)	$25,345	$284,301	$13,164	$(68,443)	$254,367

22. INCOME TAXES

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

23. RELATED PARTY TRANSACTIONS

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

Allied engages in third-party property management business, including the provision of services for properties in which certain trustees of Allied have an ownership interest. For the year ended December 31, 2016 real estate service revenue earned from these properties was $171 (for the year ended December 31, 2015 - $228).

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, 2016	DECEMBER 31, 2015
Salary, bonus and other short-term employee benefits	**$3,054**	$3,445
Unit-based compensation	**2,184**	1,696
	$5,238	$5,141

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 freehold lease and land lease obligations. Allied manages its capital to comply with investment and debt restrictions pursuant to the Declaration of Trust, to comply with debt covenants, to ensure sufficient operating funds are available to fund business strategies, to fund leasing and capital expenditures, to fund acquisitions and development 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, 2016, the debt to gross book value ratio was 36.6% (December 31, 2015 - 35.6%) and, debts having variable interest rates or maturities of less than one year aggregated to 3.7% of gross book value (December 31, 2015 - 3.2%).

On December 8, 2016, Allied filed a short form Base Shelf Prospectus allowing for the issuance, from time to time, of Units and debt securities, or any combination there of having an aggregate offering price of up to $1,000,000. This document is valid for a 25-month period.

Allied has certain key financial covenants in its Unsecured Debentures, Unsecured Facility and Unsecured Term Loans. The key financial covenants include debt service ratios and leverage ratios, as defined in the respective agreements. These ratios are evaluated by the Trust on an ongoing basis to ensure compliance with the agreements. Allied was in compliance with each of the key financial covenants under these agreements as at December 31, 2016, and December 31, 2015.

(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, 2016, 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, 2016, the Unsecured Facility, which is at a floating interest rate and is exposed to changes in interest rates, has a balance of $47,000 (December 31, 2015 - $19,598). 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, 2016	CARRYING AMOUNT	INCOME IMPACT	INCOME IMPACT
Unsecured Facility	$47,000	$470	$(470)
Mortgages and construction loans payable maturing within one year	$145,895	$1,459	$(1,459)

(C) *Credit risk*

Credit risk from tenant receivables arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments, resulting in Allied incurring a financial loss. Allied manages credit risk to mitigate exposure to financial loss by staggering lease maturities, diversifying revenue sources over a large tenant base, ensuring no individual tenant contributes a significant portion of Allied's revenues and conducting credit reviews of new tenants. Management reviews tenant receivables on a regular basis and reduces carrying amounts through the use of an allowance for doubtful accounts and the amount of any loss is recognized in the Consolidated Statements of Income and Comprehensive Income within property operating costs. As at December 31, 2016, and December 31, 2015, allowance for doubtful accounts totals $1,686 and $1,769, 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, 2016	DECEMBER 31, 2015
Less than 30 days	**$719**	$1,401
30 to 60 days	**1,029**	443
More than 60 days	**7,015**	19,004
Total	**$8,763**	$20,848

(d) *Liquidity risk*

Liquidity risk arises from the possibility of not having sufficient capital available to fund ongoing operations or ability to refinance or meet obligations as they come due. Mitigation of liquidity risk is also managed through credit risk as discussed above. A significant portion of Allied's assets have been pledged as security under the related mortgages and other security agreements. Interest rates on the mortgages payable are between 2.00% and 6.88% for December 31, 2016, and December 31, 2015.

As at December 31, 2016, Allied has entered into interest rate derivative contracts to limit its exposure to fluctuations in the interest rates on $238,378 of its variable rate mortgages payable and $350,000 of its variable rate Unsecured Term Loans (December 31, 2015 - $247,773 and $150,000, 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, 2016, Allied recognized, as part of the change in fair value adjustment on derivative instruments, a net gain of $5,874 (for the year ended December 31, 2015 – net loss of $7,594).

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

(E) *Maturity Analysis*

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

	2017	2018	2019	2020	2021	THEREAFTER	TOTAL
Mortgages payable	$280,779	$213,708	$272,088	$118,912	$211,580	$697,242	$1,794,309
Construction loans payable	425	425	21,339	—	—	—	22,189
Unsecured Facility	1,234	1,234	47,103	—	—	—	49,571
Unsecured Debentures	14,334	14,334	14,334	235,118	5,901	155,901	439,922
Unsecured Term loans	9,628	159,299	5,685	5,685	200,000	—	380,297
Total	**$306,400**	**$389,000**	**$360,549**	**$359,715**	**$417,481**	**$853,143**	**$2,686,288**

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, 2016, and December 31, 2015, were $107,121 and $36,914, respectively.

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

Allied, through a financial intermediary, has issued letters of credit in the amount of $3,040 representing deposits on financing requirements (December 31, 2015 - $7,634).

26. SUBSEQUENT EVENTS

On January 5, 2017, Allied completed the purchase of undivided 40% interest in a property in Toronto, Ontario for $5,200. This property will form part of The Well joint arrangement, which is a 40/40/20 co-ownership between Allied, RioCan and Diamondcorp.

On January 17, 2017, Allied completed the purchase of a property in Toronto, Ontario for $8,250.

On February 5, 2017, Allied repaid a mortgage on maturity amounting to $8,758 with an interest rate of 4.20%.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