

ALLIED

Quarterly Report June 30, 2019

Urban environments for
creativity and connectivity

07.31.19



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Q2 2019

SANOI GROWTH 7.1%

FFO PER UNIT GROWTH 3.6%

AFFO PER UNIT GROWTH 5.9%

OCCUPANCY GAIN 1.3%

RENT GROWTH ON RENEWALS AND REPLACEMENTS 17.2%

NAV/UNIT GROWTH 10.9%

DEBT RATIO AT QUARTER-END 25.8%

UNENCUMBERED ASSETS AT QUARTER-END \$4.5B

ALLIED

Quarterly Report

June 30, 2019

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Letter to Unitholders

Dear Fellow Unitholder:

We propelled strong internal and external growth in the first half of 2019. Percentage growth in same-asset NOI, FFO per unit and AFFO per unit was in the mid-single-digit range, and NAV per unit was up 11%. Perhaps most notably, we made \$504 million of accretive acquisitions that fit squarely within our investment and operating focus.

FOCUS AND DEFINITION

From the outset, we've adhered to a clear investment and operating focus. We went public in 2003 for the express purpose of consolidating workspace that was centrally located, distinctive and cost-effective. Initially, we achieved this through the Class I format, and we continue to do so on a large scale in major urban centres in Canada. More recently, we achieved this through hybrid structures like QRC West and King Portland Centre in Toronto, where heritage buildings were integrated with new structures in a way that resonated meaningfully with the knowledge-based organizations we serve. We'll continue to do so on a large scale in major urban centres in Canada.

As our business grew and evolved, we realized that it was defined not by the specific workspace format we own, operate and develop, **but rather by the workspace users we serve**. If a particular format enables us to serve knowledge-based organizations better and more profitably, we'll invest in it. The Well in Toronto is a good example. The workspace component will be a high-rise tower for the most part with no heritage element at all. However, because of its architecture, performance attributes and location within a vibrant and amenity-rich neighbourhood, it has attracted outstanding knowledge-based organizations and is now 76% pre-leased.

Our recent acquisition of 700 de la Gauchetière Street West in Montréal (“700 DLG”) is another good example. Through a user-led transformation, a small portion of the workspace at 700 DLG has recently been improved in a manner consistent with the distinctive urban workspace environments that we develop, own and operate. In fact, this workspace is strikingly similar to workspace occupied by Attraction Media, Ubisoft, Framestore, Spaces and Sun Life Financial at our de Gaspé properties in Montréal. We intend (i) to work with existing and future users to continue this transformation over time and (ii) to transform the extensive public and common areas, all with a view to creating a comprehensively distinctive urban workspace environment at 700 DLG for knowledge-based organizations. In effect, we intend to complete on a vertical plane the kind of building transformation we’ve completed so often on a more horizontal plane. In doing so, we expect to augment our ability to serve knowledge-based organizations, as well as adding meaningful value to 700 DLG over a three- to five-year timeframe.

When we define our business by the workspace users we serve, the actual format becomes less important and the specific building attributes and neighbourhood amenities take on paramount importance. Accordingly, if a conventional office tower can be transformed to provide the specific attributes and amenities favoured by knowledge-based organizations, it falls squarely within our investment and operating focus. This expands our opportunity-set materially.

LONG-TERM OUTLOOK

We continue to have deep confidence in, and commitment to, our strategy of consolidating and intensifying distinctive urban workspace and network-dense UDCs in Canada’s major cities. We firmly believe that our strategy is underpinned by the most important secular trends in Canadian and global real estate. We also firmly believe that we have the properties, the people and the platform necessary to execute our strategy for the ongoing benefit of our unitholders.

* * *

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

Yours truly,

A handwritten signature in black ink, appearing to read "Michael Emory", written in a cursive style.

Michael Emory
President and Chief Executive Officer

Management's Discussion and Analysis of Results of Operations and Financial Condition as at June 30, 2019

Section I

—Overview

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

This Management’s Discussion and Analysis (“MD&A”) of results of operations and financial condition relates to the quarter ended June 30, 2019. Unless the context indicates otherwise, all references to “Allied”, “we”, “us” and “our” in this MD&A refer to Allied Properties Real Estate Investment Trust. The Board of Trustees of Allied, upon the recommendation of its Audit Committee, approved the contents of this MD&A.

This MD&A has been prepared with an effective date of July 31, 2019, and should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto for the quarter ended June 30, 2019, and Allied’s 2018 Annual Report. This MD&A is based on financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”). Historical results and percentage relationships contained in this MD&A, including trends that might appear, should not be taken as indicative of future results, operations or performance. Unless otherwise indicated, all amounts in this MD&A are in thousands of Canadian dollars.

NON-IFRS MEASURES

Readers are cautioned that certain terms used in the MD&A such as Funds from Operations (“FFO”), Normalized Funds from Operations (“Normalized FFO”), Adjusted Funds from Operations (“AFFO”), Normalized Adjusted Funds from Operations (“Normalized AFFO”), Net Operating Income (“NOI”), “Same Asset NOI”, Net Asset Value (“NAV”), Gross Book Value (“GBV”), Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”), Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (“Adjusted EBITDA”), “Payout Ratio”, “Interest Coverage”, “Net Debt to Adjusted EBITDA” and any related per unit amounts used by Management of Allied to measure, compare and explain the operating results and financial performance of Allied do not have any standardized meaning prescribed under IFRS and, therefore, should not be construed as alternatives to net income or cash flow from operating activities calculated in accordance with IFRS. These terms are defined in the MD&A and reconciled to the unaudited condensed consolidated financial statements of Allied for the quarter ended June 30, 2019. Such terms do not have a standardized meaning prescribed by IFRS and may not be comparable to similarly titled measures presented by other publicly traded entities. See “Other Financial Performance Measures”, “Net Operating Income”, “Debt” and “Financial Covenants”.

FORWARD-LOOKING STATEMENTS

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws, including, among other things, statements concerning Allied’s objectives and strategies to achieve those objectives, statements with respect to Management’s beliefs, plans, estimates and intentions and statements concerning anticipated future events, circumstances, expectations, results, operations or performance that are not historical facts. Forward-looking statements can be identified generally by the use of forward-looking terminology, such as “indicators”, “outlook”, “objective”, “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “should”, “plans”, “continue” or similar expressions suggesting future outcomes or events. In particular, certain statements in the Letter to Unitholders, Section I—Overview, under the headings “Business Overview and Strategy”, “Corporate Social Responsibility” and “Business Environment and Outlook”, Section III—Asset Profile, under the headings “Rental Properties”, and “Development Properties”, Section IV—Liquidity and Capital Resources and Section IX - Risks and Uncertainties, constitute forward-looking information. This MD&A includes, but is not limited to, forward-looking statements regarding: closing dates of proposed acquisitions; completion of construction and lease-up in connection with Properties Under Development (“PUDs”); growth of our FFO and AFFO per unit; continued demand for space in our target markets; increase in net rental income per square feet of gross leasable area (“GLA”); ability to extend lease terms; the creation of future value; estimated GLA, NOI and growth from PUDs; estimated costs of PUDs; future economic occupancy; return on investments, including yield on cost of PUDs; estimated rental NOI and anticipated rental rates; lease up of our intensification projects; anticipated available square feet of leasable area; Management’s plans to put additional buildings forward for certification; our ability to achieve risk-adjusted returns on intensification; receipt of municipal approval for value-creation projects, including intensifications; and completion of future financings and availability of capital. Such forward-looking statements reflect Management’s current beliefs and are based on information currently available to Management.

The forward-looking statements in this MD&A are not guarantees of future results, operations or performance and are based on estimates and assumptions that are subject to risks and uncertainties, including those described in Section IX - Risks and Uncertainties, which could cause actual results, operations or performance to differ materially from the forward-looking statements in this MD&A. Those risks and uncertainties include risks associated with property ownership, property development, geographic focus, asset-class focus, competition for real property investments, financing and interest rates, government regulations, environmental matters, construction liability, taxation and cybersecurity. Material assumptions that were made in formulating the forward-looking statements in this MD&A include the following: that our current target markets remain stable, with no material increase in supply of directly-competitive office space; that acquisition capitalization rates remain reasonably constant; that the trend toward intensification within our target markets continues; and that the equity and debt markets continue to provide us with access to capital at a reasonable cost to fund our future growth and potentially refinance our mortgage debt as it matures. Although the forward-looking statements contained in this MD&A are based on what Management believes are reasonable assumptions, there can be no assurance that actual results, operations or performance will be consistent with these statements.

All forward-looking statements in this MD&A are qualified in their entirety by this forward-looking disclaimer. Without limiting the generality of the foregoing, the discussion in the Letter to Unitholders, Section I— Overview and Section III—Asset Profile are qualified in their entirety by this forward-looking disclaimer. These statements are made as of July 31, 2019, and, except as required by applicable law, Allied undertakes no obligation to update publicly or revise any such statements to reflect new information or the occurrence of future events or circumstances.

SUMMARY OF KEY FINANCIAL AND OPERATING PERFORMANCE MEASURES

The following table summarizes the key financial and operating performance measures for the periods listed below:

	THREE MONTHS ENDED		SIX MONTHS ENDED		YEAR ENDED
(\$000's except per-square foot, per-unit and financial ratios)	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018	DECEMBER 31, 2018
Portfolio					
Number of properties ^{(1) (2) (3) (4)}			188	170	175
Total rental GLA (000's of square feet)			11,507	10,940	11,192
Leased rental GLA (000's of square feet)			11,080	10,435	10,826
Leased area			96.3%	95.4%	96.7%
Occupied area			96.2%	94.9%	96.3%
Average in-place net rent per occupied square foot (period-end)			23.20	22.41	22.64
Renewal and replacement rate for leases maturing in the period			74.2%	82.8%	90.6%
Increase in net rent on maturing leases			17.2%	22.6%	17.8%
Investment properties			6,655,457	5,886,980	6,257,647
Total assets			7,398,888	6,098,364	6,706,271
Cost of PUD as % of GBV			8.4%	9.5%	8.9%
Unencumbered investment properties			4,458,440	3,793,240	4,266,900
Total debt			1,891,285	1,808,302	1,957,611
Net asset value			5,091,960	3,961,304	4,374,663
Annualized Adjusted EBITDA	300,164	264,092	294,054	262,030	267,550
Net debt	1,688,748	1,806,222	1,688,748	1,806,222	1,939,250
Net debt as a multiple of Annualized Adjusted EBITDA	5.6x	6.8x	5.7x	6.9x	7.2x
Adjusted EBITDA	75,041	66,023	147,027	131,015	267,550
Interest expense ⁽⁵⁾	14,198	15,860	29,136	31,786	59,783
Adjusted EBITDA as a multiple of interest expense	5.3x	4.2x	5.0x	4.1x	4.5x
Rental revenue from investment properties	117,811	106,983	234,297	213,877	436,396
NOI	75,577	66,917	148,255	133,074	272,285
Same Asset NOI - rental portfolio	70,814	65,914	140,235	130,933	260,926
Same Asset NOI - total portfolio	72,070	66,356	142,754	131,679	265,412
Net income excluding gain (loss) on disposal and fair value adjustments	52,756	34,982	101,863	76,672	169,890
Net income	99,895	113,652	243,072	198,352	540,276
FFO ⁽⁵⁾	62,557	51,252	121,105	101,287	212,197
AFFO ⁽⁵⁾	51,840	42,610	102,026	83,425	175,645
Distributions	44,484	37,210	86,624	73,463	153,855

	THREE MONTHS ENDED		SIX MONTHS ENDED		YEAR ENDED
(\$000's except per-square foot, per-unit and financial ratios)	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018	DECEMBER 31, 2018
Per unit:					
Net income excluding gain (loss) on disposal and fair value adjustments	0.48	0.37	0.94	0.82	1.73
Net income	0.91	1.21	2.25	2.12	5.51
FFO ⁽⁵⁾	0.567	0.546	1.122	1.083	2.166
FFO payout ratio ⁽⁵⁾	71.1%	72.6%	71.5%	72.5%	72.5%
FFO excluding condo marketing costs	0.579	0.546	1.142	1.083	2.180
AFFO ⁽⁵⁾	0.470	0.454	0.945	0.892	1.793
AFFO payout ratio ⁽⁵⁾	85.8%	87.3%	84.9%	88.1%	87.6%
AFFO excluding condo marketing costs	0.482	0.454	0.965	0.892	1.809
Distributions	0.40	0.39	0.80	0.78	1.56
Net asset value			43.79	39.50	42.12
Actual Units outstanding			116,272,263	100,274,974	103,861,945
Weighted average diluted Units outstanding	110,368,003	93,868,833	107,970,836	93,486,243	97,965,711
Financial Ratios	ALLIED'S TARGETS				
Total indebtedness ratio	<35%		25.8%	29.9%	29.4%
Secured indebtedness ratio	<45%		11.7%	14.2%	12.5%
Debt service coverage ratio	>1.50x		2.6x	2.0x	2.2x
Unencumbered property asset ratio	>1.40x		4.4x	4.0x	3.8x
Interest-coverage ratio - including interest capitalized	>3.0x		3.4x	2.9x	3.2x

(1) Allied changed the property count methodology to reflect the number of buildings in the portfolio. For example, CDM is marketed as one complex, but consists of six buildings. The comparative periods were restated to reflect the new methodology.

(2) In Q1 2019, King Portland Centre was transferred from properties under development ("PUD") to the rental portfolio, contributing to an additional three rental properties.

(3) In Q2 2019, 305 Joseph was transferred from the parking portfolio to PUD, combining with Breithaupt Phase III, contributing to a decrease in the total property count. The acquisition of 2-4 Stewart and S3 & S5 Wellington is combined with Breithaupt Phase III.

(4) In Q2 2019, Allied acquired seven ancillary residential properties.

(5) Excluding a one-time extraordinary item related to \$7,502 of yield maintenance cost incurred on the early repayment of the first mortgage on 151 Front W, Toronto.

BUSINESS OVERVIEW AND STRATEGY

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

URBAN WORKSPACE

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

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

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

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

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

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

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

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

NETWORK-DENSE URBAN DATA CENTRES

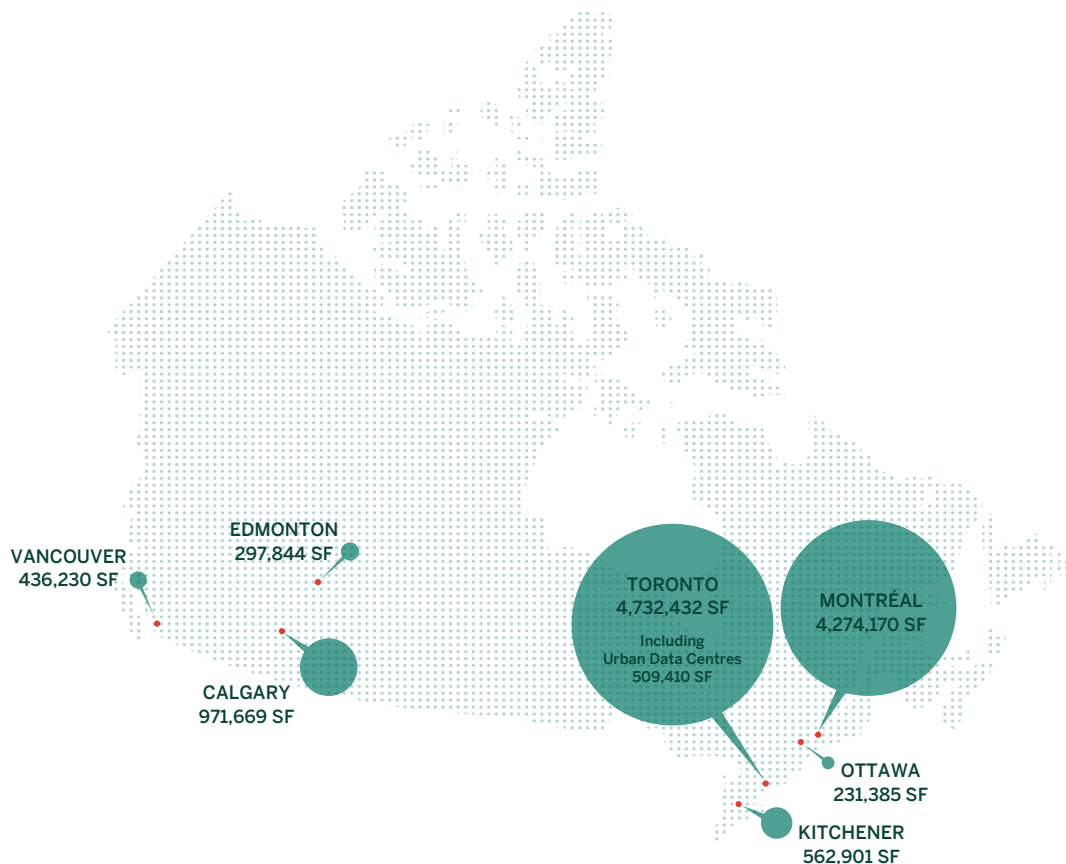
In addition to providing urban workspace, Allied provides network-dense data centre space in Downtown Toronto. Allied established this capability in 2009 through the acquisition of 151 Front W, the largest internet exchange point in Canada and the fifth largest in North America. Allied has since expanded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

PROPERTY MANAGEMENT

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

PROPERTY PORTFOLIO

Allied completed its initial public offering on February 20, 2003, at which time it had assets of \$120 million, a market capitalization of \$62 million and a local, urban-office portfolio of 820,000 square feet of GLA. As of June 30, 2019, Allied had assets of \$7.4 billion, a market capitalization of \$5.5 billion and rental properties with 11.5 million square feet of GLA in seven cities across Canada. The illustration below depicts the geographic diversity of Allied's rental portfolio.



ACQUISITIONS AND DISPOSITIONS

During the six months ended June 30, 2019, Allied completed the following property acquisitions from third-parties:

PROPERTY	ACQUISITION DATE	ACQUISITION COST ⁽¹⁾	OFFICE GLA	RETAIL GLA	TOTAL GLA
738-11th SW, Calgary ⁽²⁾	April 9, 2019	6,145	10,844	4,895	15,739
2233 Columbia, Vancouver	April 11, 2019	25,074	21,591	6,852	28,443
2-4 Stewart, Kitchener ⁽³⁾	May 9, 2019	1,791	—	—	—
1050 Homer, Vancouver	May 27, 2019	41,420	28,483	14,215	42,698
53-55 Wellington, Kitchener ⁽³⁾	June 3, 2019	371	—	—	—
Ancillary residential properties, Toronto ⁽⁴⁾	—	23,074	—	—	—
Total		\$97,875	60,918	25,962	86,880

(1) Purchase price plus transaction costs.

(2) This property is 50/50 co-owned with First Capital.

(3) These properties are 50/50 co-owned with Perimeter and are grouped with Breithaupt - Phase III in our PUD.

(4) Allied acquired eight ancillary residential properties in 2019.

On July 2, 2019, Allied completed the purchase of 1001 Rue Lenoir, Montréal, for total cash consideration of \$80,000.

On July 17, 2019, Allied completed the purchase of 700 de la Gauchetiere, Montréal, for a total purchase price of \$322,500, comprised of net cash consideration paid of \$173,513 and a mortgage assumption of \$148,987.

During the six months ended June 30, 2019, Allied did not dispose of any investment properties.

CORPORATE SOCIAL RESPONSIBILITY

Allied is committed to sustainability as it relates to the physical environment within which it operates. Most of Allied's buildings were created through the adaptive re-use of structures built over a century ago. They are recycled buildings and the recycling has considerably less impact on the environment than new construction (of equivalent GLA) through things like embodied carbon and the reuse of materials. Equally, Allied's commitment to revitalizing neighborhoods strives to cultivate vibrant communities.

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

With carbon reduction a primary focus of our operations, Allied is systematically deploying a multi-year energy budget. The budget allocates dedicated funds for capital projects that are focused on mitigating carbon emissions in Allied's portfolio. 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.

Allied is also attentive to the impact of its business on the human environment. Allied's investment and development activities can have a displacing impact on members of the artistic community. As building inventory in an area is improved, the cost of occupancy can become prohibitive. Allied believes that its buildings and users are best served if artists remain viable members of the surrounding communities. Accordingly, Allied has made a practice of allocating an appropriate portion of its rentable area to artistic uses on an affordable basis as part of its Make Room for the Arts Program, which celebrates the power of place to facilitate connectivity and creativity. The program allows Allied to leverage its expertise and its properties in order to support art, creativity and culture via strategic community partnerships. It is a compelling dimension of Allied's story, which can engage tenants, employees, investors and the broader community.

BUSINESS ENVIRONMENT AND OUTLOOK

As at June 30, 2019, Allied operated in seven urban markets in Canada – Toronto, Kitchener, Ottawa, Montréal, Calgary, Edmonton and Vancouver.

Allied expects its operating, acquisition and development environments to remain favourable in 2019. Allied's internal forecast contemplates low- to mid-single-digit percentage growth in same-asset NOI, FFO per unit and AFFO per unit. Allied expects continued growth in NAV per unit in 2019, with significant contribution from development completions, ongoing rent growth and ongoing cap-rate strength in Canada's major urban centres.

Allied's internal forecast is predicated on the continued intensification of the urban core of Canada's major cities and the continued desire on the part of knowledge-based organizations to locate in distinctive urban environments for creativity and connectivity. It is also underpinned by the depth and strength of the Allied team and the team's ability to execute our strategy at all levels.

Section II

—*Leasing*

Allied strives to maintain high levels of occupancy and leased area. At June 30, 2019, Allied's rental portfolio was 96.3% leased.

STATUS

Leasing status for the rental portfolio as at June 30, 2019, is summarized in the following table:

	GLA	AS A % OF TOTAL GLA ⁽¹⁾
Leased area (occupied & committed)		
December 31, 2018	10,826,361	96.7%
Vacancy committed for future leases	(52,374)	
Occupancy - December 31, 2018	10,773,987	96.3%
Previous committed vacant space now occupied	51,481	
New leases and expansions on vacant space	87,973	
New vacancies during the period	(125,128)	
Surrender / early termination agreements	(52,359)	
Suite additions, remeasurements and removals	104,553	
Occupancy (pre acquisitions, dispositions and transfers)	10,840,507	96.1%
Occupancy related to acquired properties	86,880	
Occupancy related to transfers from PUD	136,318	
Occupancy - June 30, 2019	11,063,705	96.2%
Vacancy committed for future leases	16,685	
Leased area (occupied & committed) June 30, 2019	11,080,390	96.3%

(1) Excludes properties under development.

Of 11,506,631 square feet total GLA in Allied's rental portfolio, 11,063,705 square feet were occupied by users on June 30, 2019. Another 16,685 square feet were subject to contractual lease commitments with users whose leases commence subsequent to June 30, 2019, bringing the leased area to 11,080,390 square feet, which represents 96.3% of Allied's total rental portfolio GLA.

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

FIXTURING COMMENCEMENT (OCCUPANCY)	Q3 2019	TOTAL
Lease commitments - GLA	16,685	16,685
% of lease commitments	100.0%	100%

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

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

RENT COMMENCEMENT (ECONOMIC OCCUPANCY)	Q3 2019	Q4 2019	Q1 2020	TOTAL
Lease commitments - GLA	608	15,513	564	16,685
% of lease commitments	3.6%	93.0%	3.4%	100%

Allied monitors the level of sub-lease space being marketed in its rental portfolio. Below is a summary of sub-lease space being marketed by city as at June 30, 2019, and December 31, 2018:

	JUNE 30, 2019	DECEMBER 31, 2018
Toronto	93,714	35,271
Kitchener	1,429	1,429
Montréal	30,834	35,670
Calgary	104,926	131,712
Total square feet	230,903	204,082
% of Total GLA	2.0%	1.8%

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

ACTIVITY

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

Leasing activity in connection with the rental portfolio as at June 30, 2019, is summarized in the following table:

	LEASABLE SF	LEASED SF BY JUNE 30	% LEASED BY JUNE 30	UNLEASED SF AT JUNE 30
Unleased area on January 1, 2019, including re-measurement	371,307	116,618	31.4%	254,689
Maturities during the period ended June 30, 2019	444,310	329,547	74.2%	114,763
Maturities in remainder of 2019	529,785	191,346	36.1%	338,439

On January 1, 2019, 371,307 square feet of GLA was vacant. By the six months ended June 30, 2019, Allied leased 116,618 square feet of this GLA, leaving 254,689 square feet unleased (net of vacancy transferred to PUD, if any).

Leases for 444,310 square feet of GLA matured in the period ending June 30, 2019, at the end of which Allied renewed or replaced leases totaling 329,547 square feet of GLA, leaving 114,763 square feet unleased.

Leases for 529,785 square feet of GLA are maturing in the remainder of 2019. Allied has either renewed or replaced 191,346 square feet, leaving 338,439 square feet yet to be replaced or renewed.

For the six months ended June 30, 2019, the table below summarizes the rental rates achieved for the leases expiring in 2019 that were either renewed or replaced. Overall, this has resulted in an increase of 17.2% in the net rent per square foot from maturing leases. This high increase stems from the material rent growth in Allied's primary target markets in Toronto.

LEASE RENEWALS/ REPLACEMENTS	FOR THE SIX MONTHS ENDED, JUNE 30, 2019		
	ABOVE IN- PLACE RENTS	AT IN-PLACE RENTS	BELOW IN- PLACE RENTS
% of Total leased SF	72.8%	4.8%	22.3%
Maturing leases in 2019 - Weighted average rent	\$20.67	\$17.41	\$30.14
Renewals & Replacements - Weighted average rent	\$28.02	\$17.41	\$18.36

USER PROFILE

The following sets out Allied's user-mix on the basis of percentage of rental revenue for the six months ended June 30, 2019:

CATEGORY	% OF RENTAL REVENUE JUNE 30, 2019
Business service and professional	33.7%
Telecommunications and information technology	29.8%
Media and entertainment	12.6%
Retail (head office and storefront)	11.6%
Parking & other	4.5%
Financial services	3.5%
Government	2.5%
Educational and institutional	1.8%
	100.0%

The following sets out the percentage of rental revenue from top 10 users by rental revenue for the six months ended June 30, 2019:

USER	% OF RENTAL REVENUE JUNE 30, 2019	WEIGHTED AVERAGE REMAINING LEASE TERM (YEARS)	CREDIT RATING DBRS/S&P/MOODY'S
Cloud Service Provider	3.5%	1.7	*-/AAA/Aaa
Ubisoft	2.9%	12.9	Not Rated
Cologix	2.8%	18.5	-/B-/B3
Equinix	2.4%	5.8	-/BBB-/Ba2
IBM Canada	2.0%	2.1	*-/A/A1
National Capital Commission, a Canadian Crown Corporation	1.8%	21.5	Not Rated
Shopify Inc.	1.8%	6.8	Not Rated
Bell Canada	1.6%	16.1	BBBH/BBB+
Morgan Stanley	1.5%	9.4	AH/BBB+/A3
Entertainment One	1.2%	9.0	-B+/Ba3
	21.5%	10.9	

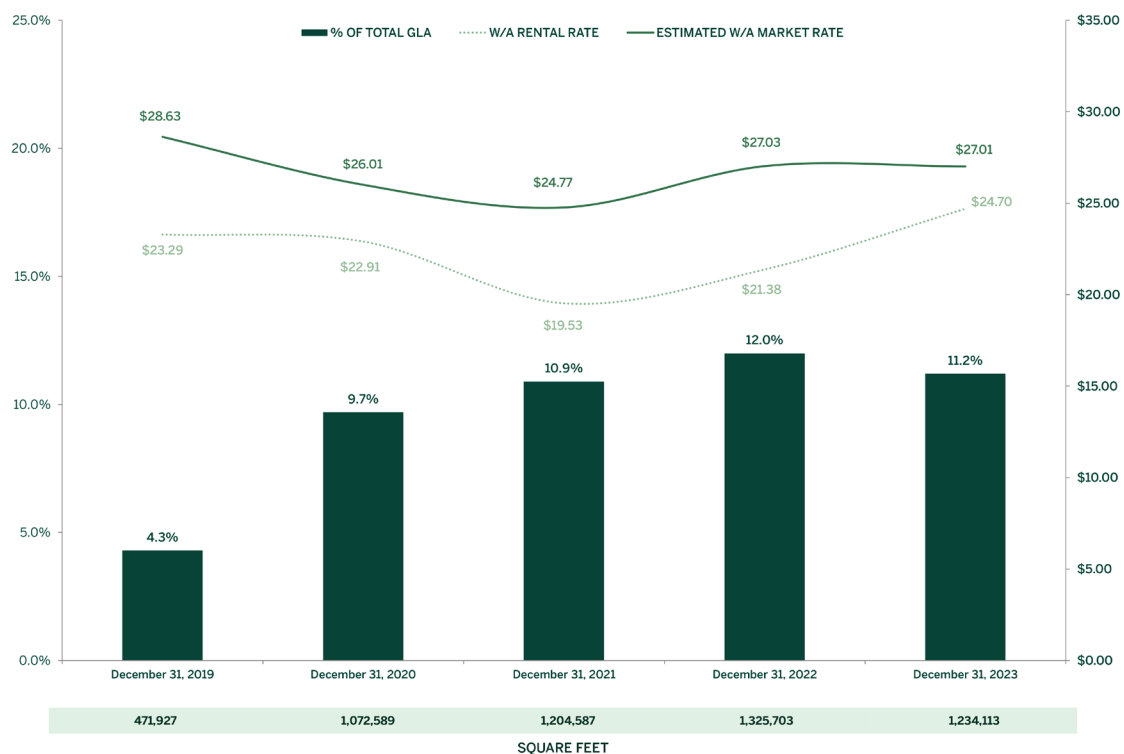
*Credit rating for parent company

LEASE MATURITY

As at June 30, 2019, 96.3% of the GLA in Allied's rental portfolio was leased. The weighted average term to maturity of Allied's leases at that time was 6.2 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 urban workspace, retail and urban data centre leases that mature up to 2023 and the corresponding estimated weighted average market rental rate as at June 30, 2019. Where the renewal rate on maturity is contractually predetermined, it is reflected below as the market rental rate.

TOTAL RENTAL PORTFOLIO	SQUARE FEET	% OF TOTAL GLA	WEIGHTED AVERAGE IN-PLACE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2019	471,927	4.3%	23.29	28.63
December 31, 2020	1,072,589	9.7%	22.91	26.01
December 31, 2021	1,204,587	10.9%	19.53	24.77
December 31, 2022	1,325,703	12.0%	21.38	27.03
December 31, 2023	1,234,113	11.2%	24.70	27.01



The following tables contain information on lease maturities by segment:

MONTREAL & OTTAWA	SQUARE FEET	% OF SEGMENT GLA	WEIGHTED AVERAGE IN-PLACE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2019	197,091	4.6%	13.08	14.53
December 31, 2020	281,162	6.5%	12.74	13.87
December 31, 2021	613,456	14.2%	15.81	17.64
December 31, 2022	299,292	6.9%	16.84	17.24
December 31, 2023	285,792	6.6%	15.78	15.61

TORONTO & KITCHENER	SQUARE FEET	% OF SEGMENT GLA	WEIGHTED AVERAGE IN-PLACE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2019	173,933	3.7%	21.73	35.73
December 31, 2020	454,203	9.6%	18.51	26.77
December 31, 2021	392,211	8.3%	20.04	30.86
December 31, 2022	832,666	17.7%	21.85	30.93
December 31, 2023	647,259	13.7%	24.86	32.75

CALGARY, EDMONTON & VANCOUVER	SQUARE FEET	% OF SEGMENT GLA	WEIGHTED AVERAGE IN-PLACE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2019	78,986	5.0%	21.72	21.43
December 31, 2020	266,341	16.9%	15.73	12.45
December 31, 2021	174,797	11.1%	23.66	23.91
December 31, 2022	168,234	10.6%	18.41	15.04
December 31, 2023	278,762	17.6%	24.84	16.56

URBAN DATA CENTRES	SQUARE FEET	% OF SEGMENT GLA	WEIGHTED AVERAGE IN-PLACE RENTAL RATE	ESTIMATED WEIGHTED AVERAGE MARKET RENTAL RATE
December 31, 2019	21,917	5.2%	134.07	125.08
December 31, 2020	70,883	16.9%	118.45	120.22
December 31, 2021	24,123	5.8%	92.24	109.75
December 31, 2022	25,512	6.1%	85.89	90.46
December 31, 2023	22,301	5.3%	132.84	137.02

Section III

—Asset Profile

As at June 30, 2019, Allied's portfolio consisted of 188 investment properties (170 rental properties, eight development properties and 10 ancillary parking facilities), with a fair value of \$6,655,457.

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

	THREE MONTHS ENDED JUNE 30, 2019			SIX MONTHS ENDED JUNE 30, 2019		
	RENTAL PROPERTIES	PROPERTIES UNDER DEVELOPMENT	TOTAL	RENTAL PROPERTIES	PROPERTIES UNDER DEVELOPMENT	TOTAL
Balance, beginning of period	\$5,801,977	\$613,240	\$6,415,217	\$5,592,216	\$665,431	\$6,257,647
Additions:						
Acquisitions	94,326	2,162	96,488	95,713	2,162	97,875
Improvement allowances	17,435	3,738	21,173	23,337	3,738	27,075
Leasing commissions	5,741	187	5,928	7,178	231	7,409
Capital expenditures	12,384	57,365	69,749	21,860	97,529	119,389
Transfers from PUD	—	—	—	98,850	(98,850)	—
Transfers to PUD	(730)	730	—	(6,530)	6,530	—
Finance leases	470	—	470	940	—	940
Amortization of straight-line rent and improvement allowances	(6,041)	357	(5,684)	(11,666)	353	(11,313)
Fair value gain (loss) on investment properties	57,165	(5,049)	52,116	160,829	(4,394)	156,435
Balance, end of period	\$5,982,727	\$672,730	\$6,655,457	\$5,982,727	\$672,730	\$6,655,457

For the six months ended June 30, 2019, Allied capitalized \$14,103 of borrowing costs, \$10,543 of which related to development activity and \$882 to upgrade activity in the rental portfolio (250 Front W). Allied capitalized \$2,678 of borrowing costs to qualifying residential inventory.

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

Discounted cash flow method (“DCF method”) - Under this approach, discount rates are applied to the projected annual operating cash flows, generally over a ten year period, including a terminal value of the properties based on a capitalization rate applied to the estimated net operating income (“NOI”), a non-GAAP measure, in the terminal year. This method is primarily used to value the rental properties portfolio.

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

Allied’s entire portfolio is revalued by the external appraiser each quarter. Management verifies all major inputs to the valuations, analyzes the change in fair values at the end of each reporting period and reviews the results with the independent appraiser every quarter. There were no material changes to the valuation techniques during the period. For properties with a leasehold interest with a term less than 40 years, the resulting valuation methodology is based upon a full-term discounted cash flow model.

In valuing the investment properties as at June 30, 2019, the independent appraiser compares the value derived using the DCF method to the value that would have been calculated by applying a capitalization rate to NOI. This is done to assess the reasonability of the value obtained under the DCF method. The corresponding portfolio weighted average overall capitalization rate used was 5.10%, detailed in the table below:

OVERALL CAPITALIZATION RATE	JUNE 30, 2019			DECEMBER 31, 2018		
	RANGE %	WEIGHTED AVERAGE %	FAIR VALUE \$	RANGE %	WEIGHTED AVERAGE %	FAIR VALUE \$
Montréal & Ottawa	5.00% - 7.00%	5.41%	\$1,412,749	5.00% - 7.25%	5.55%	\$1,298,019
Toronto & Kitchener	4.00% - 6.00%	4.66%	2,931,249	4.00% - 6.00%	4.67%	2,747,929
Calgary, Edmonton & Vancouver	3.75% - 7.00%	5.15%	738,909	4.00% - 7.00%	5.23%	655,998
Urban Data Centres	5.50% - 6.25%	5.83%	899,820	5.50% - 6.25%	5.83%	890,270
Rental Properties	3.75% - 7.00%	5.08%	\$5,982,727	4.00% - 7.25%	5.13%	\$5,592,216
Properties Under Development	5.75% - 7.00%	5.98%	672,730	4.25% - 7.00%	5.01%	665,431
Total Investment Properties	3.75% - 7.00%	5.10%	\$6,655,457	4.00% - 7.25%	5.13%	\$6,257,647

RENTAL PROPERTIES

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

URBAN WORKSPACE

Allied has evolved into a leading owner, manager and developer of urban workspace in Canada's major cities. It currently owns 167 rental properties in seven Canadian cities. Listed below are Allied's top 10 office rental properties measured by Normalized Last Quarter Annualized ("LQA") NOI. Normalized LQA NOI is a non-IFRS measure, which represents the normalized results for the most recently completed quarter (excluding straight-line rent) multiplied by four. These properties represent 29.5% of total annualized NOI for the period ended June 30, 2019.

PROPERTY NAME	NORMALIZED LQA NOI	APPRAISED FAIR VALUE	CAP RATE	PRINCIPAL USERS
Cité Multimédia, Montréal	\$17,812	\$400,850	5.00%	Desjardins, Morgan Stanley, SAP Canada
Le Nordelec, Montréal	12,990	253,010	5.50%	Gsoft, Unity Technologies, Yellow Pages Media
QRC West, Toronto	12,396	261,830	4.25%	eOne, Sapient Canada
5455 de Gaspé, Montréal	8,819	131,570	5.50%	Attraction Media, Framestore, Ubisoft
555 Richmond W, Toronto	7,463	144,580	4.75%	Centre Francophone de Toronto, Synaptive
5445 de Gaspé, Montréal	6,263	94,550	5.75%	Sun Life, Ubisoft
The Chambers, Ottawa ⁽¹⁾	6,186	140,370	—	National Capital Commission
King Portland Centre, Toronto	6,095	136,920	4.27%	Indigo, Shopify
Vintage I & II, Calgary	6,021	75,300	5.75%	Royal & Sun Alliance
The Tannery, Kitchener	5,227	97,380	5.48%	Communitech Corp., Desire 2 Learn
Total	\$89,272	\$1,736,360	5.02%	

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

NETWORK-DENSE URBAN DATA CENTRES

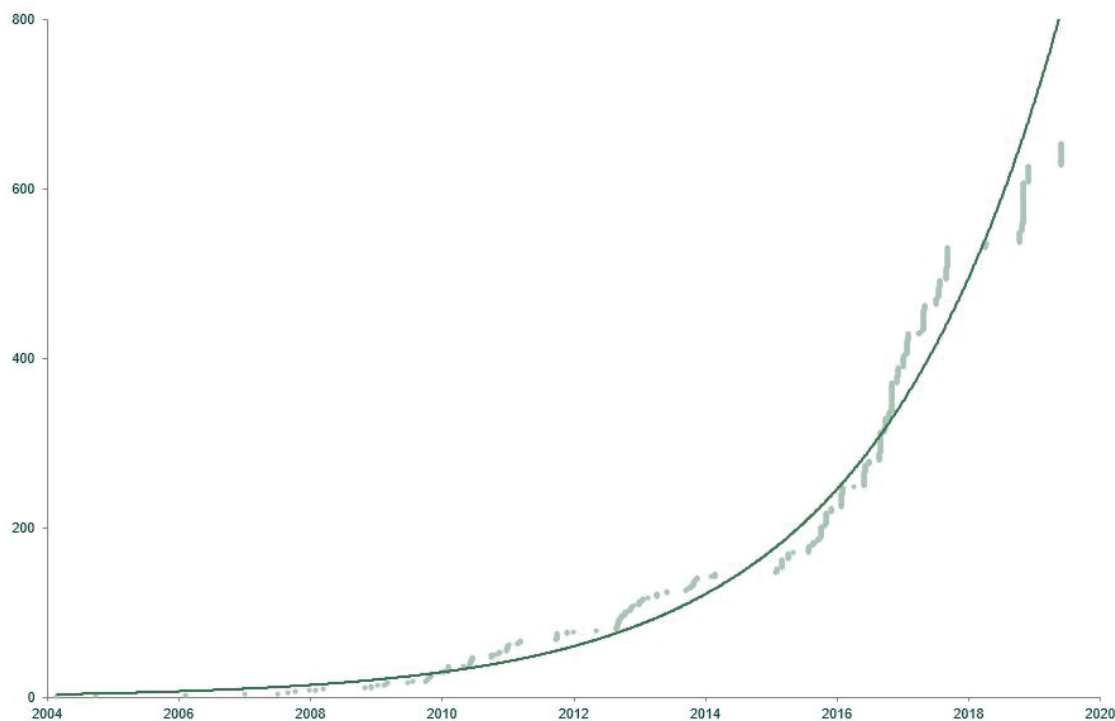
Allied operates three network-dense urban data centres (“UDC”) in downtown Toronto: 151 Front W (“151”), 250 Front W (“250”) and 905 King W (“905”). Listed below are Allied’s urban data centres measured by Normalized LQA NOI. These properties represent 17.8% of total annualized NOI for the period ended June 30, 2019.

PROPERTY NAME	NORMALIZED LQA NOI	APPRAISED FAIR VALUE	CAP RATE	PRINCIPAL USERS
151 Front W, Toronto	\$34,970	\$505,030	5.50%	Bell, Cologix, Equinix, Rogers, Telus, TorIX, Zayo
250 Front W, Toronto	14,464	304,540	6.25%	AWS, Cloud Service Provider
905 King W, Toronto	4,299	90,250	6.25%	Beanfield, Cloud Service Provider, Cologix
Total	\$53,733	\$899,820	5.83%	

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

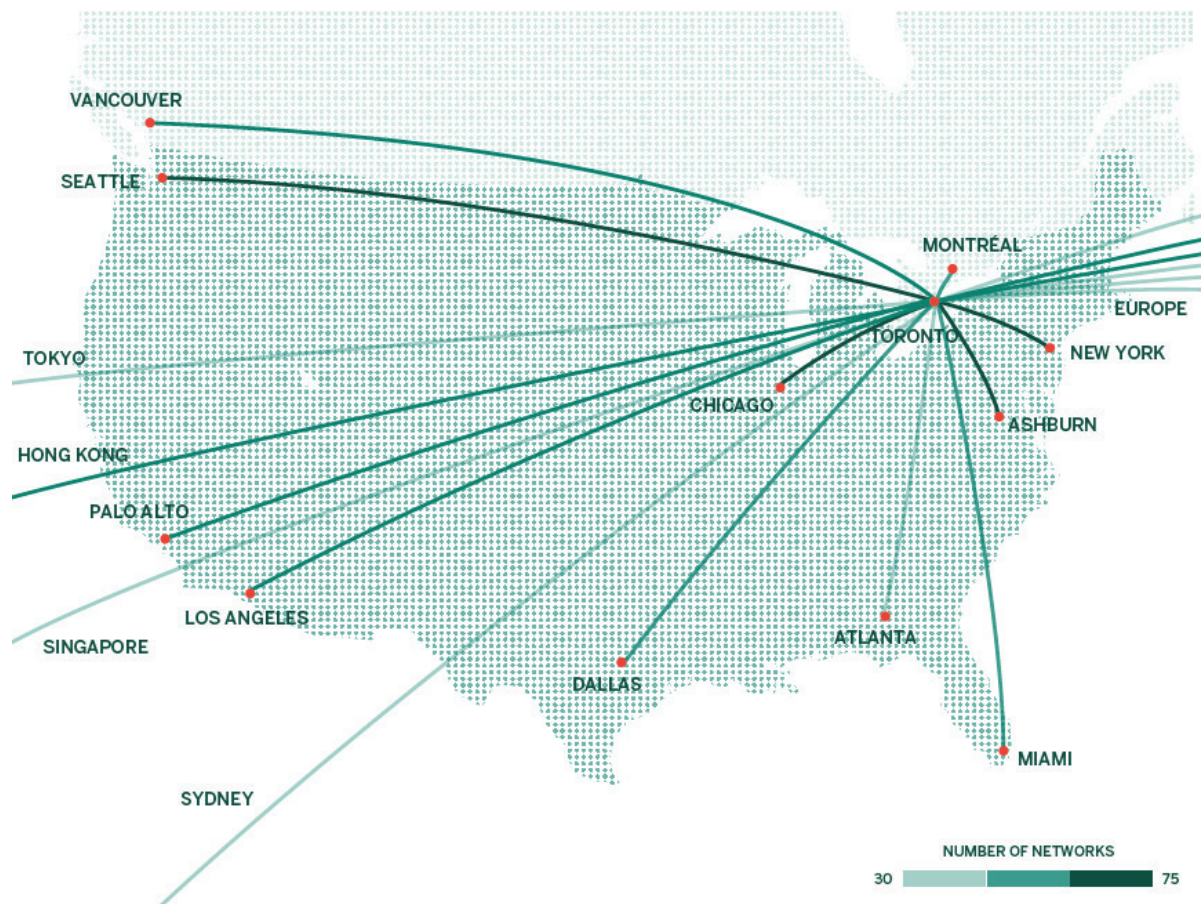
151 is the largest internet exchange point (IXP) in Canada and the fifth largest in North America. It houses Toronto Internet Exchange (TorIX), a not-for-profit organization that enables internet networks to connect and exchange traffic. With over 230 peers connecting, TorIX has experienced a steady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

YEAR-OVER-YEAR TRAFFIC TRENDING



Source: TorIX Website

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



Source: PeeringDB.com

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

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

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

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

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

Allied also owns 905. As a result of substantial capital improvements completed by Allied, including connecting it to 151 with high-density fibre, 58,666 square feet of GLA at the property has become an important urban data centre.

RENTAL PROPERTIES UNDERGOING INTENSIFICATION APPROVAL

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

Allied began tracking the intensification potential inherent in the Toronto portfolio in the fourth quarter of 2007 (see our MD&A dated March 7, 2008, for the quarter and year ended December 31, 2007). At the time, the 46 properties in Toronto comprised 2.4 million square feet of GLA and were situated on 780,000 square feet (17.8 acres) of underutilized land immediately east and west of the Downtown Core. The 100 properties in Toronto (including properties in the development portfolio) now comprise 4.2 million square feet of GLA and are situated on 37.5 acres of underutilized land immediately east and west of the Downtown Core. With achievable rezoning, the underlying land in our Toronto portfolio could permit up to 10.7 million square feet of GLA, 6.5 million square feet more than currently is in place.

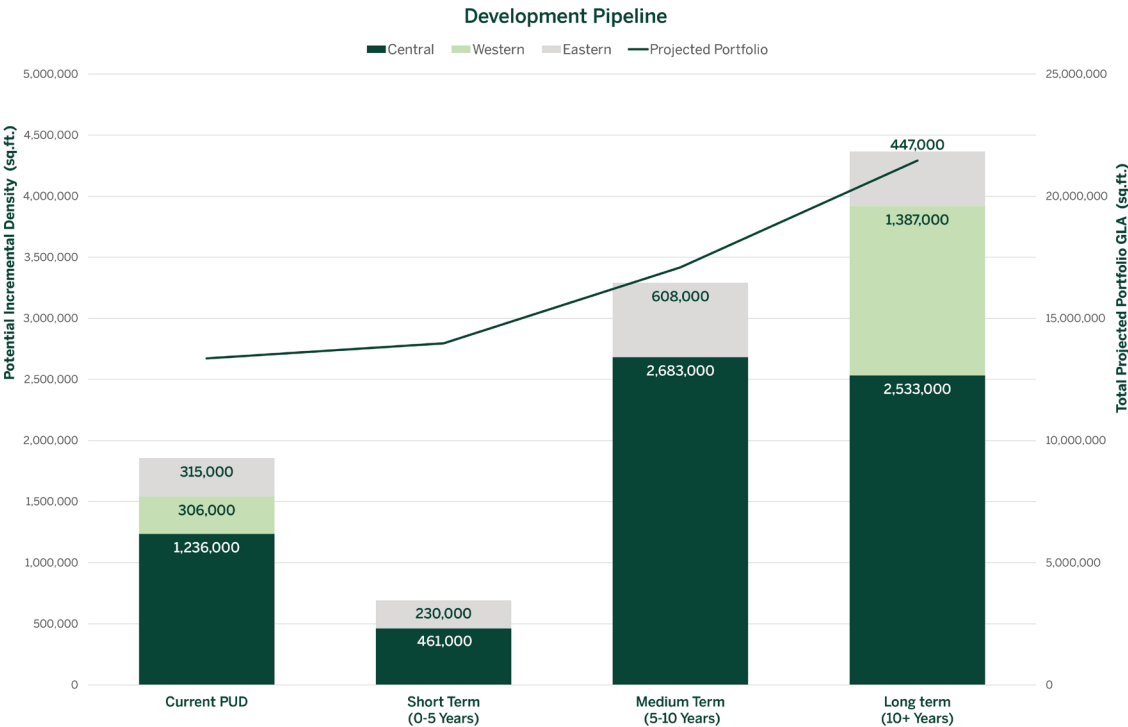
Allied entered the Montréal market in April of 2005. The 25 properties in Montréal now comprise 4.3 million square feet of GLA. As they are much larger buildings on average than those comprising the Toronto portfolio, the 32.4 acres of land on which they sit (immediately south, east and northeast of 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 5.9 million square feet of GLA, 1.6 million square feet more than currently is in place.

There is similar potential inherent in the rest of Allied's portfolio, which is quantified in the chart below. Across Canada on a portfolio-wide basis, there is 10.2 million square feet of potential incremental density, of which 1.9 million square feet is currently in PUD, and the remaining 8.3 million square feet is potential incremental density. Of the 8.3 million square feet of potential incremental density, 2.7 million square feet is reflected in the appraised fair values and the remaining 5.6 million square feet is not reflected in the appraised fair values.

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

CITY	CURRENT GLA	CURRENT PUD (ESTIMATED ON COMPLETION)	POTENTIAL INCREMENTAL DENSITY	TOTAL POTENTIAL GLA
Toronto	4,223,022	1,089,000	5,345,000	10,657,022
Kitchener	562,901	147,000	332,000	1,041,901
Total Toronto & Kitchener	4,785,923	1,236,000	5,677,000	11,698,923
Toronto Urban Data Centres	509,410	—	—	509,410
Total Urban Data Centres	509,410	—	—	509,410
Montréal	4,274,170	315,000	1,285,000	5,874,170
Ottawa	231,385	—	—	231,385
Total Montréal & Ottawa	4,505,555	315,000	1,285,000	6,105,555
Calgary	971,669	306,000	1,120,000	2,397,669
Edmonton	297,844	—	230,000	527,844
Vancouver	436,230	—	37,000	473,230
Total Calgary, Edmonton & Vancouver	1,705,743	306,000	1,387,000	3,398,743
Total	11,506,631	1,857,000	8,349,000	21,712,631

The timing of development for the 8.3 million square feet of potential incremental density is impossible to predict with precision, however the chart below provides a reasonable estimate of when the potential could begin to be realized. One factor is our self-imposed limitation on development activity. The focus in the short-term and the long-term remains on the Toronto portfolio.



Allied has initiated the intensification approval process for five rental properties in Toronto and one rental property in Montréal, all of which are owned in their entirety. These properties are identified in the following table:

PROPERTY NAME	NORMALIZED LQA NOI	APPRAISED FAIR VALUE	REZONING APPROVAL STATUS	USE	CURRENT GLA	ESTIMATED GLA ON COMPLETION	ESTIMATED COMPLETION
King & Peter ⁽¹⁾	\$2,178	\$83,090	Completed	Office, limited retail	86,250	790,000	Unscheduled
QRC West, Phase II ⁽²⁾	1,156	33,800	Completed	Office, retail	32,624	90,000	2022
Union Centre	688	107,860	Completed	Office, limited retail	41,787	1,129,000	Unscheduled
King & Brant ⁽³⁾	450	20,850	Completed	Office, retail	16,340	130,000	2022
Adelaide & Spadina ⁽⁴⁾	264	11,940	In Progress	Office, retail	11,015	245,000	Unscheduled
Le Nordelec	—	29,300	In Progress	Office	—	230,000	Unscheduled
Total	\$4,736	\$286,840			188,016	2,614,000	

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

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

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

(4) Adelaide & Spadina is comprised of 383-387 Adelaide W. 96 Spadina and 379 Adelaide W were previously included, but will now remain in the rental portfolio during future development activity.

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

DEVELOPMENT PROPERTIES

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

It is expected that development activity will become a more important component of Allied's growth as projects are completed. The expectation is largely contingent upon completing the development projects in the manner contemplated. The most important factor affecting completion will be successful lease-up of space in the development portfolio. The material assumption is that the office leasing market in the relevant markets remains stable. Pursuant to Allied's Declaration of Trust, the cost of Properties Under Development cannot exceed 15% of GBV. At the end of June 30, 2019, the cost of Allied's Properties Under Development was 8.4% of GBV (December 31, 2018 - 8.9%). This self-imposed limitation is intended to align the magnitude of Allied's development activity with the overall size of the business.

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

Allied has the following eight Properties Under Development:

PROPERTY NAME	USE	ESTIMATED GLA ON COMPLETION (SF)	% OF OFFICE DEVELOPMENT LEASED
TELUS Sky, Calgary ⁽¹⁾⁽²⁾	Office, retail, residential	218,000	45%
425 Viger, Montréal ⁽³⁾	Office, retail	315,000	53%
The Lougheed (604-1st SW), Calgary ⁽⁴⁾	Office, retail	88,000	—
College & Manning, 547-549 College, Toronto ⁽¹⁾	Retail, residential	27,000	—
Adelaide & Duncan, Toronto ⁽¹⁾⁽⁵⁾	Office, retail, residential	216,000	100%
The Well, Toronto ⁽¹⁾⁽⁶⁾	Office, retail	746,000	76%
KING Toronto, Toronto ⁽¹⁾⁽⁷⁾	Office, retail	100,000	—
Breithaupt Phase III, Kitchener ⁽¹⁾	Office	147,000	100%
Total		1,857,000	65%

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

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

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

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

(5) The GLA components (in square feet) at our 50% share are as follows: 144,000 of residential, 61,000 of office and 11,000 of retail.

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

(7) Allied entered into a joint arrangement with Westbank to develop KING Toronto. As part of the arrangement, Allied sold a 50% undivided interest to Westbank. KING Toronto is comprised of the following properties: 489 King W, 495 King W, 499 King W, 511-529 King W, 533 King W, 539 King W. The GLA components (in square feet) at our 50% share will be as follows: 200,000 of residential, 60,000 of retail and 40,000 of office.

The following table sets out the fair value of Allied's Properties Under Development as at June 30, 2019, as well as Management's estimates with respect to the financial outcome on completion:

PROPERTY NAME	TRANSFER TO RENTAL PORTFOLIO	APPRAISED VALUE	ESTIMATED ANNUAL NOI	ESTIMATED TOTAL COST	ESTIMATED YIELD ON COST	ESTIMATED COST TO COMPLETE
TELUS Sky, Calgary ⁽¹⁾	Q1 2020	109,730	7,650 - 8,310	140,000	5.5% - 5.9%	22,150
425 Viger, Montréal	Q1 2020	80,730	6,500 - 7,000	99,838	6.5% - 7.0%	20,300
The Lougheed (604-1st SW), Calgary	Q1 2021	18,510	TBD	TBD	TBD	TBD
College & Manning, 547-549 College, Toronto ⁽¹⁾	Q1 2021	8,170	975 - 1,125	30,143	3.2% - 3.7%	19,000
Adelaide & Duncan, Toronto ⁽¹⁾	Q2 2021	72,010	9,000 - 10,750	170,300	5.3% - 6.3%	112,600
Breithaupt Phase III, Kitchener ^{(1) (2)}	Q4 2021	9,100	5,375 - 5,500	78,652	6.8% - 7.0%	70,800
The Well, Toronto ⁽¹⁾	Q1 2022	347,820	37,500 - 43,250	688,000	5.5% - 6.3%	415,000
KING Toronto, Toronto ^{(1) (3)}	Q1 2023	26,660	5,000 - 6,000	75,932	6.6% - 7.9%	54,100
Total		\$672,730				

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

(2) Breithaupt Phase III is comprised of 43 Wellington, 53 & 55 Wellington, 305 Joseph and 2-4 Stewart.

(3) Allied entered into a joint arrangement with Westbank to develop KING Toronto. As part of the arrangement, Allied sold a 50% undivided interest to Westbank. KING Toronto is comprised of the following properties: 489 King W, 495 King W, 499 King W, 511-529 King W, 533 King W, 539 King W. The appraised value relates to the commercial component. The estimated total cost is net of the estimated gross proceeds from the sale of the residential inventory of \$273,500 - \$283,500.

The initial cost of Properties Under Development includes the acquisition cost of the property, direct development costs, realty taxes and borrowing costs directly attributable to the development. Borrowing costs and realty taxes associated with direct expenditures on Properties Under Development are capitalized. The amount of capitalized borrowing costs is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments.

Transfer to the rental portfolio occurs when the property is capable of operating in the manner intended by Management. Generally this occurs upon completion of construction and receipt of all necessary occupancy and other material permits. Estimated annual NOI is based on 100% economic occupancy. The most important factor affecting estimated annual NOI will be successful lease-up of vacant space in the development properties at current levels of net rent per square foot. The material assumption is that the office leasing market in the relevant markets remains stable. Estimated total cost includes acquisition cost, estimated total construction, financing costs and realty taxes. The material assumption made in formulating the estimated total cost is that construction and financing costs remain stable for the remainder of the development period. Estimated yield on cost is the estimated annual NOI as a percentage of the estimated total cost. Estimated cost to complete is the difference between the estimated total cost and the costs incurred to date.

RESIDENTIAL INVENTORY

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

On September 19, 2017, Allied with its partner RioCan, announced that they had finalized plans that would allow the co-owners to improve the return on the development of King Portland Centre. The co-owners had originally intended to develop the residential portion of the project as rental apartments and then decided to sell the residential portion as condominium units, comprised of 132 units. The residential condominium units have been fully sold, subject to customary closing conditions. Management expects the condominium sales to close in Q4 2019.

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

On February 14, 2019, Allied acquired 464-466 Queen W, Toronto for \$5,227. This property will be transferred to the city as parkland dedication related to the KING Toronto condominium development.

Residential inventory is as follows:

	JUNE 30, 2019	DECEMBER 31, 2018
King Portland Centre	\$40,303	\$36,612
KING Toronto	112,024	103,690
	\$152,327	\$140,302
Current	\$40,303	\$36,612
Non-current	112,024	103,690
	\$152,327	\$140,302

DEVELOPMENT COMPLETIONS

QRC WEST, TORONTO

This was a pioneering, large-scale intensification project that involved the integration of two restored heritage buildings with a new, mid-rise office structure. The project commenced in 2010 and was completed in 2015. It is comprised of 345,274 square feet of GLA and is fully leased.

DEVELOPMENT ECONOMICS

	INVESTMENT					
Land Costs	\$11,000					
Hard & Soft Costs	104,000	STABILIZED	UNLEVERED		VALUE	VALUE
Capitalized Interest & Operating Costs	15,000	NOI	YIELD ON	FAIR VALUE	CREATION	CREATION AS %
			COST			OF COST
Total Development Costs	\$130,000	\$12,396	9.5%	\$261,830	\$131,830	101.4%

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

THE BREITHAUP BLOCK, KITCHENER

Allied acquired an undivided 50% interest in the property in 2010 and immediately put it into development, completing the first phase in 2014 and the second phase in mid-2016. The property is an equal two-way joint arrangement between Allied and Perimeter Development Corporation. It is comprised of 226,398 square feet of GLA (Allied's share 113,199 square feet) and is fully leased.

DEVELOPMENT ECONOMICS

	INVESTMENT					
Land Costs	\$4,000					
Hard & Soft Costs	18,470	STABILIZED	UNLEVERED		VALUE	VALUE
Capitalized Interest & Operating Costs	2,550	NOI	YIELD ON	FAIR VALUE	CREATION	CREATION AS %
			COST			OF COST
Total Development Costs	\$25,020	\$1,950	7.8%	\$45,210	\$20,190	80.7%

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

180 JOHN, TORONTO

Allied acquired the property in 2015. The property was redeveloped and leased in its entirety to Spaces. The project was completed in 2017. It is comprised of 45,631 square feet of GLA and is fully leased.

DEVELOPMENT ECONOMICS

	INVESTMENT					
Land Costs	\$8,700					
Hard & Soft Costs	17,500	STABILIZED	UNLEVERED		VALUE	VALUE
Capitalized Interest & Operating Costs	1,300	NOI	YIELD ON	FAIR VALUE	CREATION	CREATION AS %
			COST			OF COST
Total Development Costs	\$27,500	\$1,600	5.8%	\$31,610	\$4,110	14.9%

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

189 JOSEPH, KITCHENER

189 Joseph was purchased as part of The Tannery in 2012. The building stood vacant, and was slated to be demolished before Allied proposed the redevelopment and secured Deloitte as the user. The project commenced in late-2015 and was completed in mid-2017. It is comprised of 26,462 square feet of GLA and is fully leased.

DEVELOPMENT ECONOMICS

	INVESTMENT					
Land Costs	\$230					
Hard & Soft Costs	10,890					
Capitalized Interest & Operating Costs	240	STABILIZED NOI	UNLEVERED YIELD ON COST	FAIR VALUE	VALUE CREATION	VALUE CREATION AS % OF COST
Total Development Costs	\$11,360	\$720	6.3%	\$13,320	\$1,960	17.3%

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

KING PORTLAND CENTRE, TORONTO

In 2012, Allied entered into an equal two-way joint arrangement with RioCan to develop King Portland Centre. Allied and RioCan each acquired an undivided 50% interest in 642 King W and 620 King W and subsequently put them into development, completing 642 King W in early 2018 and 620 King W in early 2019. They are comprised of 298,200 square feet of GLA (Allied's share 149,100 square feet) and are 99.4% leased. 602-606 King W is excluded from the figures below as they were never under development.

DEVELOPMENT ECONOMICS

	INVESTMENT					
Land Costs	\$21,478					
Hard & Soft Costs	60,148					
Capitalized Interest & Operating Costs	5,033					
Net Condo Proceeds	(9,981)	STABILIZED NOI	UNLEVERED YIELD ON COST	FAIR VALUE	VALUE CREATION	VALUE CREATION AS % OF COST
Total Development Costs	\$76,678	\$6,361	8.3%	\$117,208	\$40,530	52.9%

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

LOANS RECEIVABLE

As of June 30, 2019, total loans receivable outstanding is \$235,239 (December 31, 2018 - \$200,289).

In February 2015, Allied entered into a joint arrangement with Westbank and completed the acquisition of an undivided 50% interest in Adelaide & Duncan. Allied advanced \$21,173 to Westbank. As at June 30, 2019, the loan receivable outstanding is \$21,173 (December 31, 2018 - \$21,173) and is secured by a first charge on the property and assignment of rents and leases. Interest on the loan is payable monthly. In accordance with the loan agreement, the rate increased to 7.75% per annum upon placement of construction financing (December 31, 2018 - 6.17%). The loan is repayable when the joint arrangement obtains external permanent financing.

On August 1, 2017, Allied entered into an arrangement with Westbank to provide a credit facility of up to \$100,000, plus interest, for the land acquisition and the initial pre-development costs of 400 West Georgia in Vancouver. On February 11, 2019, the facility was increased to \$160,000. Interest is payable monthly at rates between 5.00% to 6.75% per annum in year one and 6.75% per annum in each year thereafter until maturity. The credit facility matures on August 31, 2022, and has a one year extension option to August 31, 2023. On placement of permanent financing, Allied intends to acquire a 50% undivided interest in 400 West Georgia based on total development costs. The loan outstanding as at June 30, 2019, is \$137,063 (December 31, 2018 - \$112,086). On July 3, 2019, Westbank repaid \$34,500 of its loan payable to Allied, bringing the outstanding balance of the loan to \$102,563.

On November 30, 2018, Allied entered into a joint arrangement with Westbank to develop KING Toronto. As part of the arrangement, Allied advanced \$67,030 to Westbank for its purchase of a 50% undivided interest in the property. As at June 30, 2019, the loan receivable outstanding is \$74,685 (December 31, 2018 - \$67,030) and bears interest at a rate of 7.00% per annum. Interest is accrued to the balance on a monthly basis and is payable on loan repayment. The loan is repayable at the earlier of November 23, 2023, or the closing of the condominiums.

On March 18, 2019, Allied entered into an amendment to the joint arrangement with Perimeter to develop Breithaupt Phase III and a loan receivable arrangement to provide 50% of the pre-development costs. As at June 30, 2019, the loan receivable outstanding is \$2,318 (December 31, 2018 - nil) and bears interest at a rate of 7.00% per annum. Interest is accrued on a monthly basis and is payable on loan repayment. The loan is repayable upon rent commencement, which is anticipated to begin in the fourth quarter of 2021.

The following illustrates the calculation of total loans receivable as at June 30, 2019, and December 31, 2018.

	JUNE 30, 2019	DECEMBER 31, 2018
Adelaide & Duncan	\$21,173	\$21,173
400 West Georgia	137,063	112,086
KING Toronto	74,685	67,030
Breithaupt Phase III	2,318	—
	\$235,239	\$200,289

Section IV

—Liquidity and Capital Resources

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

Allied has financed its operations through the use of equity, mortgage debt secured by rental properties, construction loans, an unsecured operating line, senior unsecured debentures and unsecured term loans. Conservative financial management has been consistently applied through the use of long term, fixed rate, debt financing. Allied's objective is to maximize financial flexibility while continuing to strengthen the balance sheet. Management intends to achieve this by continuing to access the equity market, unsecured debenture market, unsecured loans and growing the pool of unencumbered assets, which totals \$4.5 billion as at June 30, 2019.

DEBT

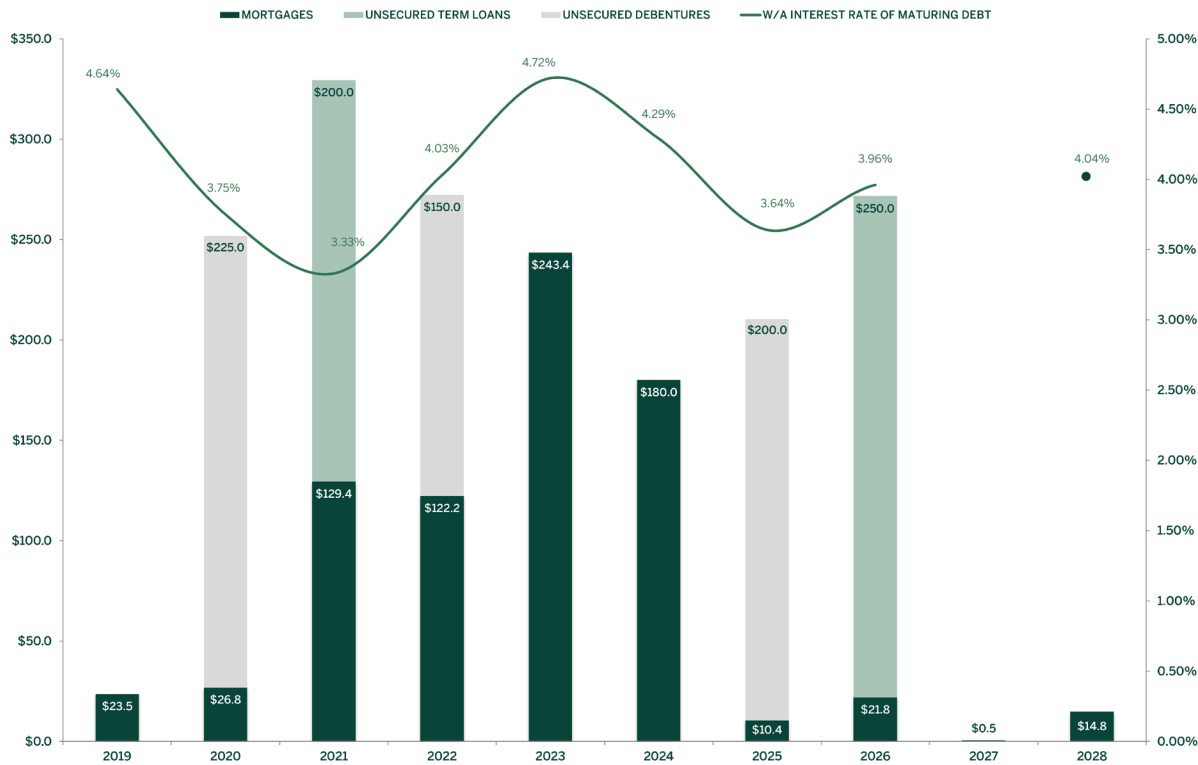
Total debt and net debt are non-IFRS financial measures and do not have any standard meaning prescribed by IFRS. As computed by Allied, total debt and net debt may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers total debt and net debt to be useful measures for evaluating debt levels and interest coverage. The following illustrates the calculation of total debt (net of transaction costs) and net debt as at June 30, 2019, and December 31, 2018:

	JUNE 30, 2019	DECEMBER 31, 2018
Mortgages payable	\$771,068	\$769,473
Construction loans payable	97,631	70,909
Unsecured Facility	—	95,000
Unsecured Debentures	573,555	573,320
Unsecured Term Loans	449,031	448,909
Total debt	\$1,891,285	\$1,957,611
Less cash and cash equivalents	202,537	18,361
Net debt	\$1,688,748	\$1,939,250

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

	MORTGAGES PAYABLE	W/A INTEREST RATE OF MATURING MORTGAGES	SENIOR UNSECURED DEBENTURES	W/A INTEREST RATE	UNSECURED TERM LOANS	W/A INTEREST RATE	TOTAL	CONSOLIDATED W/A INTEREST RATE OF MATURING DEBT
Remaining 2019	\$23,490	4.64%	\$—	—	\$—	—	\$23,490	4.64%
2020	26,753	—	225,000	3.75%	—	—	251,753	3.75%
2021	129,413	4.22%	—	—	200,000	2.86%	329,413	3.33%
2022	122,201	4.18%	150,000	3.93%	—	—	272,201	4.03%
2023	243,396	4.72%	—	—	—	—	243,396	4.72%
2024	179,983	4.29%	—	—	—	—	179,983	4.29%
2025	10,384	3.63%	200,000	3.64%	—	—	210,384	3.64%
2026	21,834	3.59%	—	—	250,000	3.99%	271,834	3.96%
2027	487	—	—	—	—	—	487	—
2028	14,750	4.04%	—	—	—	—	14,750	4.04%
	\$772,691	4.37%	\$575,000	3.76%	\$450,000	3.49%	\$1,797,691	3.96%

The chart below summarizes the maturities of principal in regards to Allied's various obligations as at June 30, 2019:



MORTGAGES PAYABLE

As of June 30, 2019, mortgages payable, net of financing costs, total \$771,068 and have a weighted average stated interest rate of 4.37% (December 31, 2018 - 4.38%). The weighted average term of the mortgage debt is 4.1 years (December 31, 2018 - 4.6 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	JUNE 30, 2019	DECEMBER 31, 2018
Remaining 2019	\$12,824	\$10,666	\$23,490	
2020	26,753	—	26,753	
2021	25,878	103,535	129,413	
2022	22,099	100,102	122,201	
2023	17,811	225,585	243,396	
2024	5,123	174,860	179,983	
2025	1,596	8,788	10,384	
2026	1,391	20,443	21,834	
2027	487	—	487	
2028	293	14,457	14,750	
Mortgages, principal	\$114,255	\$658,436	\$772,691	\$771,916
Net premium on assumed mortgages			1,340	924
Net financing costs			(2,963)	(3,367)
			\$771,068	\$769,473

CONSTRUCTION LOANS PAYABLE

As of June 30, 2019, and December 31, 2018, Allied's obligation under the construction loans is as follows:

JOINT ARRANGEMENT	OWNERSHIP	DATE OF MATURITY	JUNE 30, 2019	DECEMBER 31, 2018
TELUS Sky	33.33%	August 31, 2019	\$86,010	\$70,909
Adelaide & Duncan	50.00%	August 11, 2023	11,621	—
			\$97,631	\$70,909

On June 23, 2015, the TELUS Sky joint arrangement obtained a \$342,000 construction lending facility from a syndicate of Canadian banks for the TELUS Sky joint arrangement, in which Allied's 33.33% share is \$114,000. 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 share of the total loan facility and the amount guaranteed is \$114,000. Allied provided a joint and several guarantee to support the facility to assist with the financing of construction costs associated with the development of TELUS Sky.

On January 31, 2019, the Adelaide & Duncan joint arrangement obtained a \$270,000 construction lending facility from a syndicate of Canadian banks for the Adelaide & Duncan joint arrangement, in which Allied's 50% share is \$135,000. The loan matures on August 11, 2023, and bears interest at bank prime plus 35 basis points or bankers' acceptance rate plus 135 basis points. Allied provided a joint and several guarantee to support the facility to assist with the financing of construction costs associated with the development of Adelaide & Duncan.

UNSECURED REVOLVING OPERATING FACILITY

Allied has access to an Unsecured Facility of \$400,000 with a maturity of January 29, 2022. The Unsecured Facility bears interest at bank prime plus 45 basis points or bankers' acceptance plus 145 basis points with a standby fee of 29 basis points, subject to certain conditions being met. In the event that these conditions are not met, the Unsecured Facility will bear interest at bank prime plus 70 basis points or bankers' acceptance plus 170 basis points with a standby fee of 34 basis points. The Unsecured Facility contains a \$100,000 accordion feature, allowing Allied to increase the amount available under the facility to \$500,000. As of June 30, 2019, there is no balance outstanding under the Unsecured Facility (December 31, 2018 - \$95,000).

	JUNE 30, 2019	DECEMBER 31, 2018
Unsecured Facility limit	\$400,000	\$400,000
Amounts drawn under the Unsecured Facility	—	(95,000)
Letters of credit outstanding under the Unsecured Facility	(14,620)	(14,404)
Remaining unused balance under the Unsecured Facility	\$385,380	\$290,596

SENIOR UNSECURED DEBENTURES

As of June 30, 2019, and December 31, 2018, Allied's obligation of the balance outstanding under the senior unsecured debentures is as follows:

SERIES	INTEREST RATE	DATE OF MATURITY	INTEREST PAYMENT DATE	JUNE 30, 2019	DECEMBER 31, 2018
Series A	3.748%	May 13, 2020	May 13 and November 13	\$225,000	\$225,000
Series B	3.934%	November 14, 2022	May 14 and November 14	150,000	150,000
Series C	3.636%	April 21, 2025	April 21 and October 21	200,000	200,000
Unsecured Debentures, principal				\$575,000	\$575,000
Net premium on Unsecured Debentures				140	216
Net financing costs				(1,585)	(1,896)
				\$573,555	\$573,320

The Series A, Series B and Series C 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.

UNSECURED TERM LOANS

As of June 30, 2019, and December 31, 2018, Allied's obligation of the balance outstanding under the unsecured term loans is as follows:

	INTEREST RATE	DATE OF MATURITY	FREQUENCY OF INTEREST PAYMENT	JUNE 30, 2019	DECEMBER 31, 2018
Unsecured Term Loan	3.992%	January 14, 2026	Monthly	\$250,000	\$250,000
Unsecured Term Facility					
Tranche 1	2.830%	March 16, 2021	Quarterly	100,000	100,000
Tranche 2	2.890%	March 16, 2021	Quarterly	100,000	100,000
Unsecured Term Loans, principal				\$450,000	\$450,000
Net financing costs				(969)	(1,091)
				\$449,031	\$448,909

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

On December 14, 2018, Allied entered into a new Unsecured Term Loan with a financial institution for \$250,000 at a rate of 3.992%, due on January 14, 2024, with two one-year extensions to January 14, 2026.

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

CREDIT RATINGS

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

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

Dominion Bond Rating Services ("DBRS") provides credit ratings of debt securities for commercial issuers that indicate the risk associated with a borrower's capabilities to fulfill its obligations. The minimum investment grade rating is "BBB (low)," with the highest rating being "AAA." Allied's unsecured debentures are rated "BBB (low)." On May 17, 2019, DBRS upgraded Allied's trend from stable to positive.

On June 25, 2018, Moody's Investors Services ("Moody's") assigned Allied an issuer and an unsecured debt rating of "Baa3," with a stable rating outlook. The minimum investment grade rating is "Baa3," with the highest rating being "Aaa". On April 9, 2019, Moody's upgraded Allied's outlook from stable to positive.

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

The above-mentioned ratings assigned to the Unsecured Debentures are not recommendations to buy, sell or hold any securities of Allied. Allied has paid customary rating fees to DBRS and Moody's in connection with the above-mentioned ratings. There can be no assurance that any rating will remain in effect for any given period of time or that a rating will not be lowered, withdrawn or revised by the rating agency if in its judgment circumstances so warrant.

FINANCIAL COVENANTS

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

UNSECURED FACILITY AND UNSECURED TERM LOANS

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

RATIO	THRESHOLD	JUNE 30, 2019	DECEMBER 31, 2018
Indebtedness ratio	Below 60%	25.8%	29.4%
Secured indebtedness ratio	Below 45%	11.7%	12.5%
Debt service coverage ratio	Consolidated adjusted EBITDA to be more than 1.5 times debt service payments	2.6x	2.2x
Equity maintenance	At least \$1,250,000 plus 75% of future equity issuances	5,091,960	4,374,663
Unencumbered property assets value ratio	Unencumbered property assets to be more than 1.4 times total unsecured debt	4.4x	3.8%
Distribution payout ratio	Maintain distributions below 100% of FFO	72.2%	72.4%

SENIOR UNSECURED DEBENTURES

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

RATIO	THRESHOLD	JUNE 30, 2019	DECEMBER 31, 2018
Pro forma interest coverage ratio	Maintain a 12-month rolling consolidated pro forma EBITDA of at least 1.65 times pro forma interest expense	3.3x	2.9x
Pro forma asset coverage test	Maintain net consolidated debt below 65% of net aggregate assets on a pro forma basis	25.7%	29.3%
Equity maintenance covenant	Maintain Unitholders' equity above \$300,000	5,091,960	4,374,663
Pro forma unencumbered net aggregate adjusted asset ratio	Maintain pro forma unencumbered net aggregate adjusted assets above 1.4 times consolidated unsecured indebtedness	5.1x	4.2x

As of June 30, 2019, Allied was in compliance with the terms and covenants of the agreements governing the Unsecured Facility, the Unsecured Term Loans and the Unsecured Debentures.

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

UNITHOLDERS' EQUITY

The following represents the number of Units issued and outstanding, and the related carrying value of Unitholders' equity, for the six months ended June 30, 2019, and for the year ended December 31, 2018.

	JUNE 30, 2019		DECEMBER 31, 2018	
	UNITS	AMOUNT	UNITS	AMOUNT
Units, beginning of period	103,861,945	\$2,835,395	92,935,150	\$2,399,768
Restricted Unit plan (net of forfeitures)	—	(2,497)	—	(2,584)
Unit option plan - options exercised	266,318	10,072	84,595	3,043
Unit offering	12,144,000	551,221	10,842,200	435,168
Units, end of period	116,272,263	\$3,394,191	103,861,945	\$2,835,395

As at July 31, 2019, 116,272,263 Trust Units and 1,226,676 options to purchase Units were issued and outstanding.

On June 19, 2019, Allied raised gross proceeds of \$345,524 through the issuance of 7,176,000 Units at a price of \$48.15 per unit. Costs relating to the issuance totaled \$14,571 and were applied against the gross proceeds of the issuance and charged against Unitholders' equity.

On March 7, 2019, Allied raised gross proceeds of \$230,018 through the issuance of 4,968,000 Units at a price of \$46.30 per unit. Costs relating to the issuance totaled \$9,750 and were applied against the gross proceeds of the issuance and charged against Unitholders' equity.

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

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

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

The table below represents weighted average Units outstanding for:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Basic	110,121,406	93,697,810	107,713,874	93,327,182
Unit Option Plan	246,597	171,023	256,962	159,061
Fully diluted	110,368,003	93,868,833	107,970,836	93,486,243

NORMAL COURSE ISSUER BID

On February 20, 2019, 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 10,205,838 of its outstanding Units, representing approximately 10% of its public float as at February 14, 2019. The NCIB commenced February 22, 2019, and will expire on February 21, 2020, or such earlier date as Allied completes its purchases pursuant to the NCIB. All purchases under the NCIB will be made on the open market through the facilities of the TSX or alternate trading systems in Canada at market prices prevailing at the time of purchase. Any Units that are repurchased will either be cancelled or delivered to participants under Allied’s Restricted Unit Plan or to employees pursuant to Allied’s employee programs.

During the six months ended June 30, 2019, Allied purchased 51,858 Units for \$2,497 at a weighted average price of \$48.16 per unit under its NCIB program, all of which were purchased for delivery to participants under Allied’s Restricted Unit Plan.

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

UNIT OPTION AND RESTRICTED UNIT PLANS

Allied adopted a Unit Option Plan providing for the issuance, from time to time, at the discretion of the trustees, of options to purchase Units for cash. Participation in the Unit Option Plan is restricted to certain employees of Allied. The Unit Option Plan complies with the requirements of the Toronto Stock Exchange. The exercise price of any option granted will not be less than the closing market price of the Units on the day preceding the date of grant. The term of the options may not exceed ten years. Options granted prior to February 22, 2017 vest evenly over three years; options granted subsequently vest evenly over four years from the date of grant. All options are settled in Units.

At June 30, 2019, Allied had issued options to purchase 1,226,676 Units outstanding, of which 615,981 had vested. At December 31, 2018, Allied had options to purchase 1,169,497 Units outstanding, of which 596,331 had vested.

For the three and six months ended June 30, 2019, Allied recorded a share-based payment expense related to options of \$406 and \$782 in general and administrative expense in the unaudited condensed consolidated statements of income and comprehensive income (for the three and six months ended June 30, 2018 - \$326 and \$687).

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 June 30, 2019, Allied had 287,692 Restricted Units outstanding (December 31, 2018 – 267,420).

For the three and six months ended June 30, 2019, Allied recorded a share-based payment expense related to Restricted Units of \$684 and \$1,271 in general and administrative expense in the unaudited condensed consolidated statements of income and comprehensive income (for the three and six months ended June 30, 2018 - \$560 and \$1,093).

DISTRIBUTIONS TO UNITHOLDERS

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

	MARCH, 2004	MARCH, 2005	MARCH, 2006	MARCH, 2007	MARCH, 2008	DECEMBER, 2012
Annualized increase per unit	\$0.04	\$0.04	\$0.04	\$0.04	\$0.06	\$0.04
% increase	3.6%	3.5%	3.4%	3.3%	4.8%	3.0%
Annualized distribution per unit	\$1.14	\$1.18	\$1.22	\$1.26	\$1.32	\$1.36

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

SOURCES OF DISTRIBUTIONS

For the three and six months ended June 30, 2019, Allied declared \$44,484 and \$86,624 in distributions (three and six months ended June 30, 2018 - \$37,210 and \$73,463).

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Distributions declared	\$44,484	\$37,210	\$86,624	\$73,463
Net income	\$99,895	\$113,652	\$243,072	\$198,352
Cash flows provided by operating activities	\$54,269	\$26,554	\$99,655	\$94,743
AFFO ⁽¹⁾	\$51,840	\$42,610	\$102,026	\$83,425
Excess of net income over distributions declared	\$55,411	\$76,442	\$156,448	\$124,889
Excess of cash flows provided by operating activities over distributions declared	\$9,785	\$(10,656)	\$13,031	\$21,280
Excess of cash provided by AFFO over distributions declared ⁽¹⁾	\$7,356	\$5,400	\$15,402	\$9,962

(1) Allied normalized FFO and AFFO in the second quarter of 2018 by excluding a one-time extraordinary item.

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

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

The current rate of distribution amounts to \$1.60 per unit per annum (December 31, 2018 - \$1.60 per unit per annum).

COMMITMENTS

At June 30, 2019, Allied had future commitments as set out below:

	JUNE 30, 2019
Capital expenditures and committed acquisitions	\$774,287

The above does not include Allied's lease liability commitments, which are disclosed in Note 11 of the unaudited condensed consolidated financial statements for the three and six months ended June 30, 2019.

Section V

—Discussion of Operations

The following sets out summary information and financial results for the three and six months ended June 30, 2019, and the comparable period in 2018.

NET INCOME AND COMPREHENSIVE INCOME

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Rental revenue from investment properties	\$117,811	\$106,983	\$234,297	\$213,877
Property operating costs	(47,918)	(45,540)	(97,355)	(91,868)
Net rental income	69,893	61,443	136,942	122,009
Interest expense	(14,198)	(23,362)	(29,136)	(39,288)
General and administrative expenses	(5,496)	(4,048)	(10,956)	(7,909)
Condominium marketing expenses	(1,351)	—	(2,209)	—
Amortization of other assets	(362)	(412)	(730)	(817)
Interest income	4,270	1,361	7,952	2,677
Fair value gain on investment properties	52,116	78,577	156,435	120,454
Fair value (loss) gain on derivative instruments	(4,977)	93	(15,226)	1,226
Net income and comprehensive income	\$99,895	\$113,652	\$243,072	\$198,352

Net income and comprehensive income for the three and six months ended June 30, 2019, decreased by \$13,757 and increased by \$44,720, respectively, over the comparable period in 2018. Excluding the effect of fair value changes on investment properties and derivative instruments, net income for the three and six months ended June 30, 2019, was up by \$17,774 and \$25,191 from the same period in the prior year. This was primarily due to an increase in net rental and interest income as well as lower interest expense, partially offset by higher general and administrative expenses and condominium marketing expenses.

NET OPERATING INCOME (“NOI”)

NOI is a non-IFRS financial measure and should not be considered as an alternative to net income or net income and comprehensive income, cash flow from operating activities or any other measure prescribed under IFRS. NOI does not have any standardized meaning prescribed by IFRS. As computed by Allied, NOI may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers NOI to be a useful measure of performance for rental properties. Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

Allied operates in seven urban markets — Montréal, Ottawa, Toronto, Kitchener, Calgary, Edmonton and Vancouver. For the purpose of analyzing NOI, Allied groups the cities by geographic location.

Over the past year, Allied’s real estate portfolio has grown through acquisitions and development activities that have positively contributed to the operating results for the three and six months ended June 30, 2019, as compared to the same period in the prior year.

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Revenue from investment properties	\$117,811	\$106,983	\$234,297	\$213,877
Property operating costs	(47,918)	(45,540)	(97,355)	(91,868)
Net rental income	69,893	61,443	136,942	122,009
Amortization of improvement allowances	7,725	7,267	15,298	14,238
Amortization of straight-line rents	(2,041)	(1,793)	(3,985)	(3,173)
NOI	\$75,577	\$66,917	\$148,255	\$133,074

The following tables set out the NOI by segment and space type from the rental and development properties for the three and six months ended June 30, 2019, and the comparable period.

SEGMENT	THREE MONTHS ENDED				CHANGE	
	JUNE 30, 2019		JUNE 30, 2018		\$	%
Urban Workspace						
Montréal & Ottawa	\$18,153	24.0%	\$16,780	25.1%	\$1,373	8.2%
Toronto & Kitchener	34,431	45.6%	29,932	44.7%	4,499	15.0%
Calgary, Edmonton & Vancouver	8,774	11.6%	7,727	11.5%	1,047	13.5%
Urban Workspace - Total	61,358	81.2%	54,439	81.3%	6,919	12.7%
Urban Data Centres	14,219	18.8%	12,478	18.7%	1,741	14.0%
NOI	\$75,577	100.0%	\$66,917	100.0%	\$8,660	12.9%

TYPE OF SPACE	THREE MONTHS ENDED				CHANGE	
	JUNE 30, 2019		JUNE 30, 2018		\$	%
Urban Workspace - Office	\$52,580	69.5%	\$45,515	68.0%	\$7,065	15.5%
Urban Data Centres	14,219	18.8%	12,478	18.6%	1,741	14.0%
Urban Workspace - Retail	5,261	7.0%	5,672	8.5%	(411)	(7.2)%
Urban Workspace - Parking	3,517	4.7%	3,252	4.9%	265	8.1%
NOI	\$75,577	100.0%	\$66,917	100.0%	\$8,660	12.9%

The increase in NOI for the three months ended June 30, 2019, was primarily the result of occupancy growth in Montréal, rent and occupancy growth in Toronto and the UDC portfolio, as well as contributions from acquisitions.

SEGMENT	SIX MONTHS ENDED				CHANGE	
	JUNE 30, 2019		JUNE 30, 2018		\$	%
Urban Workspace						
Montréal & Ottawa	\$35,591	24.0%	\$33,248	25.0%	\$2,343	7.0%
Toronto & Kitchener	67,363	45.4%	59,640	44.8%	7,723	12.9%
Calgary, Edmonton & Vancouver	17,486	11.8%	15,784	11.9%	1,702	10.8%
Urban Workspace - Total	120,440	81.2%	108,672	81.7%	11,768	10.8%
Urban Data Centres	27,815	18.8%	24,402	18.3%	3,413	14.0%
NOI	\$148,255	100.0%	\$133,074	100.0%	\$15,181	11.4%

TYPE OF SPACE	SIX MONTHS ENDED				CHANGE	
	JUNE 30, 2019		JUNE 30, 2018		\$	%
Urban Workspace - Office	\$102,767	69.3%	\$91,298	68.6%	\$11,469	12.6%
Urban Data Centres	27,815	18.8%	24,402	18.3%	3,413	14.0%
Urban Workspace - Retail	10,515	7.1%	10,910	8.2%	(395)	(3.6)%
Urban Workspace - Parking	7,158	4.8%	6,464	4.9%	694	10.7%
NOI	\$148,255	100.0%	\$133,074	100.0%	\$15,181	11.4%

The increase in NOI for the six months ended June 30, 2019, was primarily the result of occupancy growth in Montréal, rent and occupancy growth in Toronto and the UDC portfolio, as well as contributions from acquisitions.

SAME ASSET NOI

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

The same asset NOI in the table below refers to those investment properties that were owned by Allied from April 1, 2018, to June 30, 2019. The same asset NOI of the development portfolio for the three months ended June 30, 2019, consists of 425 Viger, Adelaide & Duncan, College & Manning, King Portland Centre (including 642 King), KING Toronto, The Loughheed (604-1st SW), Breithaupt Phase III, TELUS Sky, and The Well.

	THREE MONTHS ENDED		CHANGE	
	JUNE 30, 2019	JUNE 30, 2018	\$	%
Urban Workspace				
Montréal & Ottawa	\$17,591	\$16,684	\$907	5.4%
Toronto & Kitchener	31,491	29,031	2,460	8.5%
Calgary, Edmonton & Vancouver	7,806	7,722	84	1.1%
Urban Workspace	56,888	53,437	3,451	6.5%
Urban Data Centres	13,926	12,477	1,449	11.6%
Rental Portfolio - Same Asset NOI	70,814	65,914	4,900	7.4%
Urban Workspace	1,256	442	814	184.2%
Development Portfolio - Same Asset NOI	1,256	442	814	184.2%
Total Portfolio - Same Asset NOI	\$72,070	\$66,356	\$5,714	8.6%
Acquisitions	1,534	—	1,534	
Dispositions	—	300	(300)	
Lease terminations	178	62	116	
Other non-recurring items	1,795	199	1,596	
NOI	\$75,577	\$66,917	\$8,660	12.9%
Amortization of improvement allowances	(7,725)	(7,267)	(458)	
Amortization of straight-line rents	2,041	1,793	248	
Net rental income	\$69,893	\$61,443	\$8,450	13.8%

Same asset NOI of the total portfolio increased by 8.6% for the three months ended June 30, 2019. Same asset NOI of the rental portfolio increased by 7.4% primarily as a result of occupancy growth in Montréal, and rent and occupancy growth in Toronto and the UDC portfolio. Same asset NOI of the development portfolio increased by 184.2%, primarily as a result of rent commencement at King Portland Centre.

The same asset NOI in the table below refers to those investment properties that were owned by Allied from January 1, 2018, to June 30, 2019. The same asset NOI of the development portfolio for the six months ended June 30, 2019, consists of 425 Viger, Adelaide & Duncan, College & Palmerston (including 547 College), College & Manning, King Portland Centre (including 642 King), KING Toronto, The Lougheed (604-1st SW), Le Nordelec, TELUS Sky, and The Well.

	SIX MONTHS ENDED		CHANGE	
	JUNE 30, 2019	JUNE 30, 2018	\$	%
Urban Workspace				
Montréal & Ottawa	\$34,798	\$33,113	\$1,685	5.1%
Toronto & Kitchener	61,998	57,890	4,108	7.1%
Calgary, Edmonton & Vancouver	15,624	15,528	96	0.6%
Urban Workspace	112,420	106,531	5,889	5.5%
Urban Data Centres	27,815	24,402	3,413	14.0%
Rental Portfolio - Same Asset NOI	140,235	130,933	9,302	7.1%
Urban Workspace	2,519	746	1,773	237.7%
Development Portfolio - Same Asset NOI	2,519	746	1,773	237.7%
Total Portfolio - Same Asset NOI	\$142,754	\$131,679	\$11,075	8.4%
Acquisitions	2,884	151	2,733	
Dispositions	—	593	(593)	
Lease terminations	228	278	(50)	
Other non-recurring items	2,389	373	2,016	
NOI	\$148,255	\$133,074	\$15,181	11.4%
Amortization of improvement allowances	(15,298)	(14,238)	(1,060)	
Amortization of straight-line rents	3,985	3,173	812	
Net rental income	\$136,942	\$122,009	\$14,933	12.2%

Same asset NOI of the total portfolio increased by 8.4% for the six months ended June 30, 2019. Same asset NOI of the rental portfolio increased by 7.1% as a result of occupancy growth in Montréal and rent and occupancy growth in Toronto and the UDC portfolio. Same asset NOI of the development portfolio increased by 237.7%, primarily as a result of rent commencement at King Portland Centre.

INTEREST EXPENSE

For the three and six months ended June 30, 2019, excluding capitalized interest, interest expense decreased over the comparable period due to a lower balance of mortgages payable partially offset by higher interest expense from a higher balance of term loans and construction loans.

For the three and six months ended June 30, 2019, capitalized interest increased over the comparable period with the continuation of development and upgrade activities across the portfolio.

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Interest on debt:				
Mortgages payable	\$8,184	\$10,671	\$16,388	\$21,662
Construction loans payable	997	498	1,783	903
Unsecured Facility	577	1,018	1,580	1,571
Unsecured Debentures	5,441	5,416	10,882	10,832
Unsecured Term Loans	3,941	2,388	7,774	4,757
Interest on lease liabilities	2,083	2,063	4,184	4,155
Amortization, premium (discount) on debt	(111)	(631)	(209)	(1,224)
Amortization, net financing costs	429	452	857	904
	\$21,541	\$21,875	\$43,239	\$43,560
Less: Interest capitalized to qualifying investment properties and residential inventory	(7,343)	(6,015)	(14,103)	(11,774)
Interest expense excluding yield maintenance cost	\$14,198	\$15,860	\$29,136	\$31,786
Adjustment for yield maintenance cost due to early repayment	—	7,502	—	7,502
Interest expense	\$14,198	\$23,362	\$29,136	\$39,288

In accordance with IAS 23 - *Borrowing Costs*, interest may be capitalized on properties in connection with activity required to get the assets ready for their intended use (refer to note 2 (g) in Allied's audited consolidated financial statements for the year ended December 31, 2018, for further details). This would include upgrade work as well as work completed in relation to a future development, such as obtaining zoning approval, completing site approval plans, engineering and architectural drawings. On completion of upgrade and development activity, the ability to capitalize interest expense ends, partially offsetting the positive impact of occupancy commencement.

GENERAL AND ADMINISTRATIVE EXPENSES

For the three and six months ended June 30, 2019, general and administrative expenses increased by \$1,448 and \$3,047 from the comparable period. The increase is mainly due to higher compensation expenses related to Allied's expanding management team and increased professional fees.

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Salaries and benefits	\$4,863	\$3,422	\$9,538	\$6,823
Professional and trustees fees	1,099	681	1,999	1,287
Office and general expenses	870	886	1,791	1,665
	\$6,832	\$4,989	\$13,328	\$9,775
Capitalized to qualifying investment properties	(1,336)	(941)	(2,372)	(1,866)
Total general and administrative expenses	\$5,496	\$4,048	\$10,956	\$7,909

OTHER FINANCIAL PERFORMANCE MEASURES

FUNDS FROM OPERATIONS ("FFO")

FFO is a non-IFRS financial measure used by most Canadian real estate investment trusts and should not be considered as an alternative to net income or comprehensive income, cash flow from operating activities or any other measure prescribed under IFRS. While FFO does not have any standardized meaning prescribed by IFRS, the Real Property Association of Canada ("REALpac") established a standardized definition of FFO. Management believes that this definition is followed by most Canadian real estate investment trusts and that it is a useful measure of cash available for distributions. Normalized FFO in the comparable period excludes a one-time extraordinary item related to \$7,502 of yield maintenance cost incurred on the early repayment of the first mortgage on 151 Front W, Toronto.

For the three months ended June 30, 2019, FFO totaled \$0.567 per unit. This is an increase of \$0.021 per unit, or 3.8%, over the comparable period in the prior year. The increase was primarily due to an increase in NOI, interest income, and a reduction in interest expense.

For the six months ended June 30, 2019, FFO totaled \$1.122 per unit. This is an increase of \$0.039 per unit, or 3.6%, over the comparable period in the prior year. This was primarily due to an increase in NOI and interest income as well as lower interest expense, partially offset by higher general and administrative expenses and condominium marketing expenses.

Allied initiated condominium pre-sales at KING Toronto, a 50/50 joint venture with Westbank, in the fourth quarter of 2018. The first three phases have sold well, and the fourth and final phase has been released to strong demand. For the three and six months ended June 30, 2019, Allied incurred \$1,351 and \$2,209 (at its share), respectively, of non-recurring marketing costs in connection with the pre-sales activity. (Marketing costs associated with merchant development are expensed when incurred.) Allied and Westbank are on schedule to initiate construction of KING Toronto by year-end.

To ensure sufficient cash is retained to meet capital improvement and leasing objectives, Allied strives to maintain an appropriate FFO pay-out ratio, which is the ratio of actual distributions to FFO in a given period. For the three and six months ended June 30, 2019, the FFO pay-out ratio was 71.1% and 71.5%, respectively.

ADJUSTED FUNDS FROM OPERATIONS (“AFFO”)

AFFO is a non-IFRS financial measure used by most Canadian real estate investment trusts and should not be considered as an alternative to net income or comprehensive income, cash flow from operating activities or any other measure prescribed under IFRS. AFFO does not have any standardized meaning prescribed by IFRS. The Real Property Association of Canada (“REALpac”) established a standardized definition of AFFO in its February 2017 white paper. Management considers AFFO to be a useful measure of recurring economic earnings. The principal advantage of AFFO is that it starts from the standardized definition of FFO and takes account of regular maintenance capital expenditures and regular leasing expenditures while ignoring the impact of non-cash revenue. With the adoption of the February 2017 white paper, Allied added recoverable maintenance capital expenditures and incremental leasing costs related to regular leasing in order to comply with the white paper. As regular maintenance capital expenditures and regular leasing expenditures are not incurred evenly throughout a fiscal year, there can be volatility in AFFO on a quarterly basis.

For the three months ended June 30, 2019, AFFO totaled \$0.470 per unit. This represents an increase of \$0.016 per unit, or 3.5%, over the comparable period in the prior year. The AFFO per unit increase is largely attributable to the changes in FFO discussed above, partially offset by higher leasing expenditures and higher regular and recoverable maintenance capital expenditures.

For the six months ended June 30, 2019, AFFO totaled \$0.945 per unit. This represents an increase of \$0.053 per unit, or 5.9%, over the comparable period in the prior year. Including the changes in FFO discussed above, AFFO per unit increased primarily due to lower leasing expenditures.

To ensure sufficient cash is retained to meet capital improvement and leasing objectives, Allied strives to maintain an appropriate AFFO pay-out ratio, which is the ratio of actual distributions to AFFO in a given period. For the three and six months ended June 30, 2019, the AFFO pay-out ratio was 85.8% and 84.9%, respectively.

The following table reconciles Allied's net income to FFO and AFFO for the three months ended June 30, 2019, and June 30, 2018.

THREE MONTHS ENDED			
	JUNE 30, 2019	JUNE 30, 2018	CHANGE
Net income and comprehensive income	\$99,895	\$113,652	\$(13,757)
Adjustment to fair value of investment properties	(52,116)	(78,577)	26,461
Adjustment to fair value of derivative instruments	4,977	(93)	5,070
Incremental leasing costs	2,076	1,501	575
Amortization of improvement allowances	7,725	7,267	458
FFO	\$62,557	\$43,750	\$18,807
Add impact of other adjustments:			
One-time extraordinary item ⁽¹⁾	—	7,502	(7,502)
Normalized FFO	\$62,557	\$51,252	\$11,305
Amortization of straight-line rents	(2,041)	(1,793)	(248)
Regular leasing expenditures	(5,501)	(4,876)	(625)
Regular maintenance capital expenditures	(973)	(288)	(685)
Incremental leasing (related to regular leasing expenditures)	(1,453)	(1,051)	(402)
Recoverable maintenance capital expenditures	(749)	(634)	(115)
AFFO	\$51,840	\$42,610	\$9,230
Weighted average number of Units			
Basic	110,121,406	93,697,810	16,423,596
Diluted	110,368,003	93,868,833	16,499,170
Per Unit - basic			
FFO	\$0.568	\$0.467	\$0.101
Normalized FFO	\$0.568	\$0.547	\$0.021
AFFO	\$0.471	\$0.455	\$0.016
Per Unit - diluted			
FFO	\$0.567	\$0.466	\$0.101
Normalized FFO	\$0.567	\$0.546	\$0.021
AFFO	\$0.470	\$0.454	\$0.016
Payout Ratio			
FFO	71.1%	85.1%	(14.0%)
Normalized FFO	71.1%	72.6%	(1.5%)
AFFO	85.8%	87.3%	(1.5%)

(1) Excludes a one-time extraordinary item related to \$7,502 of yield maintenance cost incurred on the early repayment of the first mortgage on 151 Front W, Toronto in Q2 2018.

SIX MONTHS ENDED

	JUNE 30, 2019	JUNE 30, 2018	CHANGE
Net income and comprehensive income	\$243,072	\$198,352	\$44,720
Adjustment to fair value of investment properties	(156,435)	(120,454)	(35,981)
Adjustment to fair value of derivative instruments	15,226	(1,226)	16,452
Incremental leasing costs	3,944	2,875	1,069
Amortization of improvement allowances	15,298	14,238	1,060
FFO	\$121,105	\$93,785	\$27,320
Add impact of other adjustments:			
One-time extraordinary item ⁽¹⁾	—	7,502	(7,502)
Normalized FFO	\$121,105	\$101,287	\$19,818
Amortization of straight-line rents	(3,985)	(3,173)	(812)
Regular leasing expenditures	(10,019)	(11,559)	1,540
Regular maintenance capital expenditures	(1,148)	(376)	(772)
Incremental leasing (related to regular leasing expenditures)	(2,761)	(2,013)	(748)
Recoverable maintenance capital expenditures	(1,166)	(741)	(425)
AFFO	\$102,026	\$83,425	\$18,601
Weighted average number of Units			
Basic	107,713,874	93,327,182	14,386,692
Diluted	107,970,836	93,486,243	14,484,593
Per Unit - basic			
FFO	\$1.124	\$1.005	\$0.119
Normalized FFO	\$1.124	\$1.085	\$0.039
AFFO	\$0.947	\$0.894	\$0.053
Per Unit - diluted			
FFO	\$1.122	\$1.003	\$0.119
Normalized FFO	\$1.122	\$1.083	\$0.039
AFFO	\$0.945	\$0.892	\$0.053
Payout Ratio			
FFO	71.5%	78.3%	(6.8%)
Normalized FFO	71.5%	72.5%	(1.0%)
AFFO	84.9%	88.1%	(3.2%)

(1) Excludes a one-time extraordinary item related to \$7,502 of yield maintenance cost incurred on the early repayment of the first mortgage on 151 Front W, Toronto in Q2 2018.

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Cash flows from operating activities	\$54,269	\$26,554	\$99,655	\$94,743
Add (deduct) impact of the following:				
Amortization of equipment and other assets	(362)	(412)	(730)	(817)
Amortization of straight-line rents	2,041	1,793	3,985	3,173
Amortization discount on debt	111	631	209	1,224
Amortization of lease liabilities	284	71	631	(64)
Non-cash interest expense	5,138	6,118	(707)	1,026
Non-cash interest income	1,295	—	2,499	—
Unit-compensation expense	(1,090)	(886)	(2,053)	(1,780)
Change in other non-cash financing items	(429)	(625)	(857)	(1,075)
Change in other non-cash operating items	(4,222)	7,521	2,504	(10,114)
Additions to residential inventory	3,446	1,484	12,025	4,594
Incremental leasing costs	\$2,076	\$1,501	3,944	2,875
FFO	\$62,557	\$43,750	\$121,105	\$93,785
Add (deduct) impact of the following:				
One-time extraordinary item (1)	—	7,502	—	7,502
Normalized FFO	\$62,557	\$51,252	\$121,105	\$101,287
Amortization of straight-line rents	(2,041)	(1,793)	(3,985)	(3,173)
Regular leasing expenditures	(5,501)	(4,876)	(10,019)	(11,559)
Regular maintenance capital expenditures	(973)	(288)	(1,148)	(376)
Incremental leasing (related to regular leasing expenditures)	(1,453)	(1,051)	(2,761)	(2,013)
Recoverable maintenance capital expenditures	(749)	(634)	(1,166)	(741)
AFFO	\$51,840	\$42,610	\$102,026	\$83,425

(1) Excludes a one-time extraordinary item related to \$7,502 of yield maintenance cost incurred on the early repayment of the first mortgage on 151 Front W, Toronto from Q2 2018.

RECONCILIATION OF FFO AND AFFO

The following table reconciles Allied's net income to FFO and AFFO for the six months ended June 30, 2019, and June 30, 2018.

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Regular leasing expenditures	\$5,501	\$4,876	\$10,019	\$11,559
Regular maintenance capital expenditures	\$973	\$288	\$1,148	\$376
Recoverable maintenance capital expenditures	\$749	\$634	\$1,166	\$741
Revenue-enhancing capital and development costs	\$68,027	\$56,093	\$117,075	\$97,069

CAPITAL EXPENDITURES

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

For the three months ended June 30, 2019, Allied incurred (i) \$5,501 in regular leasing expenditures or \$10.77 per leased square foot, (ii) \$973 in regular maintenance capital expenditures and (iii) \$749 of recoverable maintenance capital expenditures.

For the six months ended June 30, 2019, Allied incurred (i) \$10,019 in regular leasing expenditures or \$11.63 per leased square foot, (ii) \$1,148 in regular maintenance capital expenditures and (iii) \$1,166 of recoverable maintenance capital expenditures.

For the three and six months ended June 30, 2019, Allied invested \$68,027 and \$117,075, respectively, of revenue enhancing capital into the rental and development portfolio to enhance its income-producing capability and in ongoing development activity.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (“EBITDA”)

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

EBITDA is a metric that can be used to help determine Allied’s ability to service its debt, finance capital expenditures and provide distributions to its Unitholders. Additionally, Adjusted EBITDA removes the non-cash impact of the fair value changes and gains and losses on investment property dispositions.

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

The following table reconciles Allied’s net income and comprehensive income to Adjusted EBITDA for the three and six months ended June 30, 2019, and June 30, 2018.

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Net income and comprehensive income for the period	\$99,895	\$113,652	\$243,072	\$198,352
Interest expense	14,198	23,362	29,136	39,288
Amortization of equipment and other assets	362	412	730	817
Amortization of improvement allowances	7,725	7,267	15,298	14,238
Fair value (gain) on investment properties	(52,116)	(78,577)	(156,435)	(120,454)
Fair value loss (gain) on derivative instruments	4,977	(93)	15,226	(1,226)
Adjusted EBITDA	\$75,041	\$66,023	\$147,027	\$131,015

Section VI

—Historical Performance

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

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018 ⁽¹⁾	Q1 2018	Q4 2017	Q3 2017
Rental revenue from investment properties	\$117,811	\$116,486	\$112,889	\$109,630	\$106,983	\$106,894	\$107,709	\$106,309
Property operating costs	(47,918)	(49,437)	(47,925)	(46,145)	(45,540)	(46,328)	(46,419)	(45,277)
Net rental income	\$69,893	\$67,049	\$64,964	\$63,485	\$61,443	\$60,566	\$61,290	\$61,032
Net income and comprehensive income	\$99,895	\$143,177	\$137,270	\$204,654	\$113,652	\$84,700	\$63,066	\$101,945
Weighted average units (diluted)	110,368,003	105,546,682	104,062,567	100,680,315	93,868,833	93,099,918	93,027,626	88,936,173
Distributions	\$44,484	\$42,140	\$40,817	\$39,575	\$37,210	\$36,253	\$35,754	\$34,489
FFO ⁽¹⁾	\$62,557	\$58,548	\$55,657	\$55,253	\$51,252	\$50,035	\$49,051	\$47,799
FFO per unit (diluted)	\$0.567	\$0.555	\$0.535	\$0.549	\$0.546	\$0.537	\$0.527	\$0.537
FFO pay-out ratio	71.1%	72.0%	73.3%	71.6%	72.6%	72.5%	72.9%	72.2%
FFO per unit (diluted) excluding condo marketing costs	\$0.579	\$0.563	\$0.550	\$0.549	\$0.546	\$0.537	\$0.527	\$0.537
AFFO ⁽¹⁾	\$51,840	\$50,186	\$45,186	\$47,034	\$42,610	\$40,815	\$38,072	\$33,897
AFFO per unit (diluted)	\$0.470	\$0.475	\$0.434	\$0.467	\$0.454	\$0.438	\$0.409	\$0.381
AFFO pay-out ratio	85.8%	84.0%	90.3%	84.1%	87.3%	88.8%	93.9%	101.7%
AFFO per unit (diluted) excluding condo marketing costs	\$0.482	\$0.484	\$0.450	\$0.467	\$0.454	\$0.438	\$0.409	\$0.381
Net debt as a multiple of annualized adjusted EBITDA	5.6x	6.2x	7.1x	6.3x	6.8x	7.7x	7.5x	7.3x
Total indebtedness ratio	25.8%	27.0%	29.4%	27.6%	29.9%	34.0%	33.8%	34.3%
Total rental GLA	11,507	11,422	11,192	10,953	10,940	10,929	11,268	11,818
Leased rental GLA	11,080	11,010	10,826	10,541	10,435	10,380	10,728	11,027
Leased area %	96.3%	96.4%	96.7%	96.2%	95.4%	95.0%	95.2%	93.3%

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

Factors that cause variation from quarter to quarter include, but are not limited to, occupancy, cost of capital, same asset NOI, acquisition activity, leasing expenditures and maintenance capital expenditures. Allied's commitment to the balance sheet is evidenced by the fact that net debt as a multiple of annualized adjusted EBITDA declined from 7.3x to 5.6x over the last eight quarters with the result that growth in FFO per unit has been modest.

Section VII

— *Accounting Estimates and Assumptions*

SIGNIFICANT ACCOUNTING POLICIES

Accounting policies and any respective changes are discussed in Allied's unaudited condensed consolidated financial statements for the three and six months ended June 30, 2019, and the notes contained therein.

Furthermore, the future accounting policy changes as proposed by the International Accounting Standards Board (the "IASB") are discussed in Allied's consolidated financial statements for the year ended December 31, 2018, and notes contained therein.

Section VIII

—Disclosure Controls and Internal Controls

Management maintains appropriate information systems, procedures and controls to provide reasonable assurance that information that is publicly disclosed is complete, reliable and timely. The Chief Executive Officer (the “CEO”) and Chief Financial Officer (the “CFO”) of Allied, along with the assistance of senior management under their supervision, have designed disclosure controls and procedures to provide reasonable assurance that material information relating to Allied is made known to the CEO and CFO, and have designed 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.

No changes were made in our design of internal controls over financial reporting during the period ended June 30, 2019, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance of control issues, including whether instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that Management’s assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) that controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by Management override.

Section IX

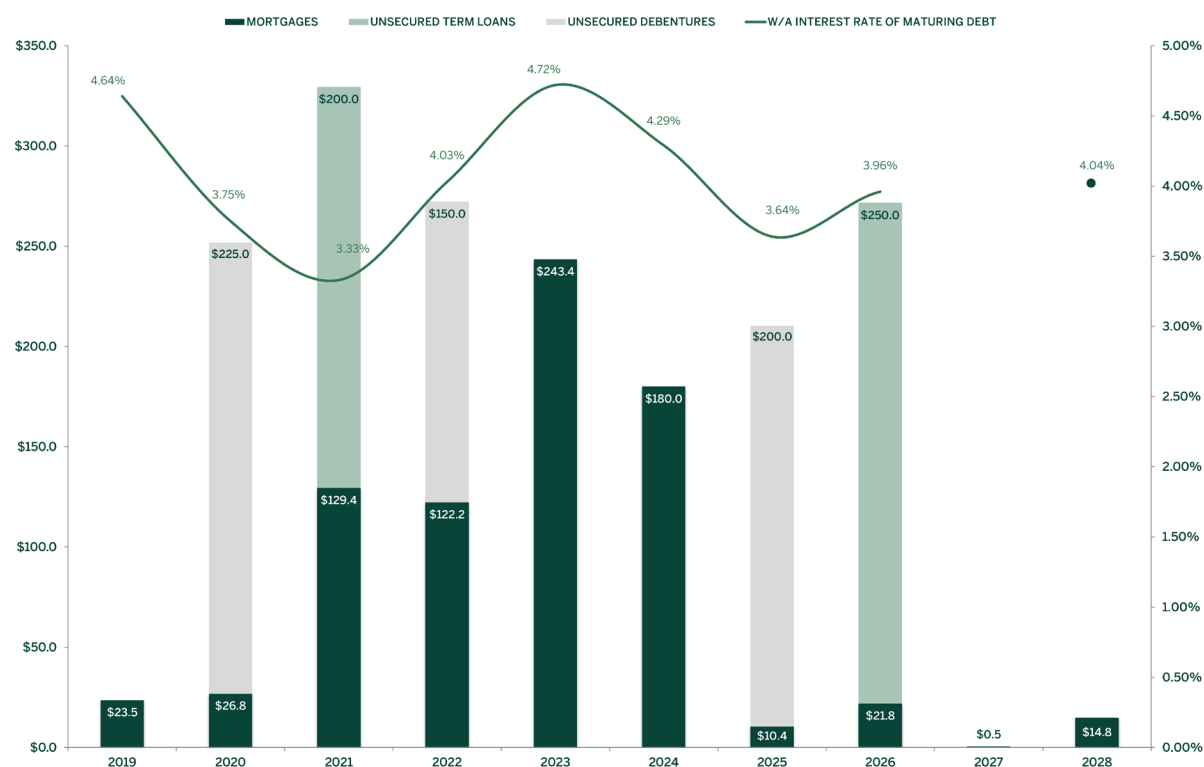
— *Risks and Uncertainties*

There are certain risk factors inherent in the investment and ownership of real estate. Real estate investments are capital intensive, and success from real estate investments depends upon maintaining occupancy levels and rental income flows to generate acceptable returns. These success factors are dependent on general economic conditions and local real estate markets, demand for leased premises and competition from other available properties.

Allied's portfolio is focused on a particular asset class in seven metropolitan real estate markets in Canada. This focus enables Management to capitalize on certain economies of scale and competitive advantages that would not otherwise be available.

FINANCING AND INTEREST RATE RISK

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



Interest rates on total debt are between 3.00% and 5.58% with a weighted average interest rate of 3.96%. The weighted average term of our debt is 3.71 years. The aforementioned excludes the revolving Unsecured Facility and construction loans, refer to note 10(b) and (c) of the unaudited condensed consolidated financial statements for further details.

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

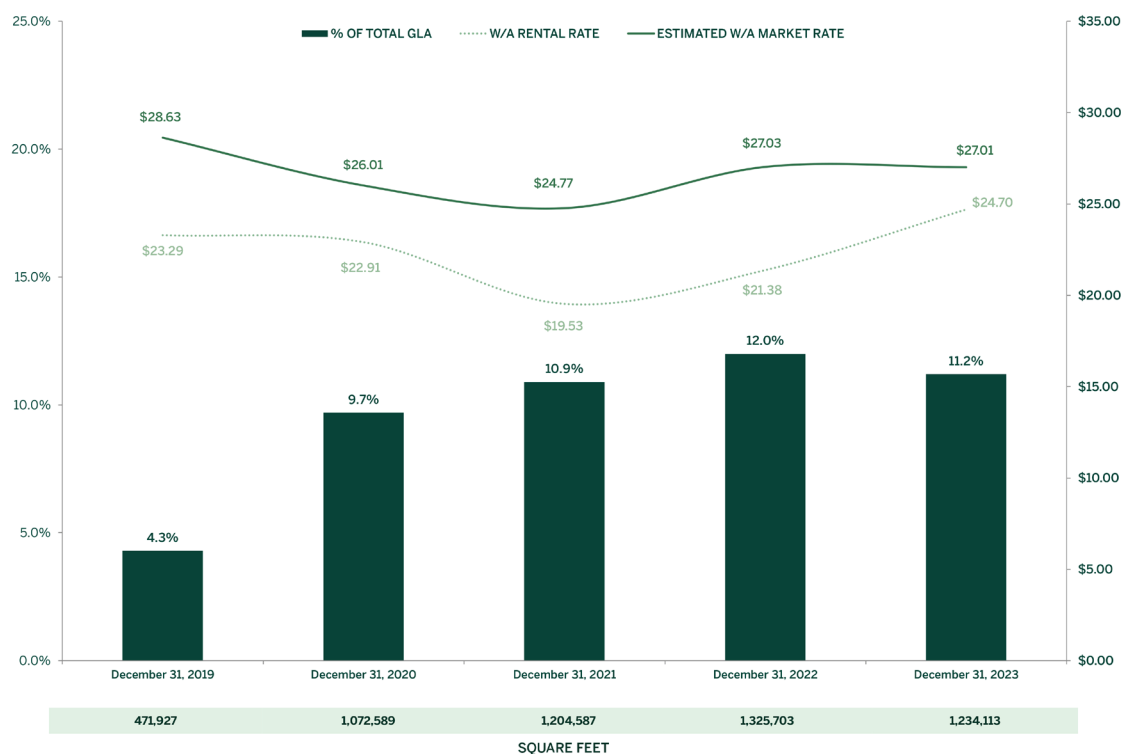
CREDIT RISK

Allied is subject to credit risk arising from the possibility that users may not be able to fulfill their lease obligations. Allied strives to mitigate this risk by maintaining a diversified user-mix and limiting exposure to any single user. Allied's exposure to top 10 users is 21.5% of gross revenue and the credit quality of our top 10 users continues to improve.

As Allied has invested in mortgages to facilitate acquisitions, further credit risks arise in the event that borrowers default on the repayment of their mortgages to Allied. Allied's mortgage investments will typically be subordinate to prior ranking mortgage or charges. Not all of Allied's financing activities will translate into acquisitions. As at June 30, 2019, Allied had \$235,239 in loans receivable, the majority of which is loaned to affiliates of a single private company. In the event of a large commercial real estate market correction, the fair market value of an underlying property may be unable to support the mortgage investment. Allied mitigates this risk by obtaining corporate guarantees and/or registered mortgage charges.

LEASE ROLL-OVER RISK

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



In evaluating lease roll-over risk, it is informative to determine Allied's sensitivity to a decline in occupancy. For every full-year decline of 100 basis points in occupancy at its average rental rate per square foot, Allied's annual AFFO would decline by approximately \$4,687 (approximately \$0.043 per unit). The decline in AFFO per unit would be more pronounced if the decline in occupancy involved space leased above the average rental rate per square foot and less pronounced if the decline in occupancy involved space leased below the average rental rate per square foot.

ENVIRONMENTAL AND CLIMATE CHANGE RISK

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

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

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

DEVELOPMENT RISK

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

TAXATION RISK

On June 22, 2007, specified investment flow through trusts or partnerships ("SIFT") rules were introduced and changed the manner in which certain trusts are taxed. Certain distributions from a SIFT would not be deductible in computing the SIFT's taxable income and therefore the distributions would be subject to trust entity level tax, at the general tax rate applicable to Canadian corporations. Trusts that meet the REIT exemption are not subject to SIFT rules. The determination as to whether Allied qualifies for the REIT exemption in a particular taxation year can only be made with certainty at the end of that taxation year. Asset tests need to be met at all times in the taxation year and revenue tests need to be met for the taxation year. While there is uncertainty surrounding the interpretation of the relevant provisions of the REIT exemption and application of SIFT rules, Allied expects that it will qualify for the REIT exemption.

JOINT ARRANGEMENT RISK

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

CYBERSECURITY RISK

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

REAL ESTATE RISK

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

Section X

— Property Table

JUNE 30, 2019 PROPERTIES	Urban Workspace		Urban Data Centres GLA	Total GLA	% Total GLA	Total Vacant	Total Leased	Leased %
	Office GLA	Retail GLA						
28 Atlantic	10,065	—	—	10,065		—	10,065	100.0%
32 Atlantic	50,434	—	—	50,434		—	50,434	100.0%
47 Jefferson	6,884	—	—	6,884		—	6,884	100.0%
64 Jefferson	78,820	—	—	78,820		—	78,820	100.0%
905 King W	52,662	—	—	52,662		—	52,662	100.0%
College & Manning - 559-563 College ⁽¹⁾	24,626	2,634	—	27,260		—	27,260	100.0%
College & Palmerston - 491 College ⁽¹⁾	8,863	3,750	—	12,613		—	12,613	100.0%
The Castle - 135 Liberty	55,152	—	—	55,152		—	55,152	100.0%
The Castle - 41 Fraser	13,921	—	—	13,921		—	13,921	100.0%
The Castle - 47 Fraser	7,468	3,480	—	10,948		—	10,948	100.0%
The Castle - 49 Fraser	17,472	—	—	17,472		7,115	10,357	59.3%
The Castle - 53 Fraser	79,048	—	—	79,048		16,195	62,853	79.5%
The Castle - 8 Pardee	—	2,681	—	2,681		—	2,681	100.0%
King West	405,415	12,545	—	417,960	3.6%	23,310	394,650	94.4%
141 Bathurst	10,101	—	—	10,101		—	10,101	100.0%
183 Bathurst	24,136	5,643	—	29,779		—	29,779	100.0%
241 Spadina	24,851	6,046	—	30,897		—	30,897	100.0%
379 Adelaide W	38,560	3,045	—	41,605		—	41,605	100.0%
383 Adelaide W	4,515	—	—	4,515		—	4,515	100.0%
387 Adelaide W	6,500	—	—	6,500		—	6,500	100.0%
420 Wellington W	31,221	3,163	—	34,384		—	34,384	100.0%
425 Adelaide W	72,403	2,903	—	75,306		951	74,355	98.7%

JUNE 30, 2019 PROPERTIES	Urban Workspace		Urban Data		% Total GLA	Total Vacant	Total Leased	Leased %
	Office GLA	Retail GLA	Centres GLA	Total GLA				
425-439 King W	66,486	23,497	—	89,983		—	89,983	100.0%
441-443 King W	6,377	2,904	—	9,281		—	9,281	100.0%
445-455 King W	31,282	16,342	—	47,624		2,504	45,120	94.7%
460 King W	10,144	4,285	—	14,429		—	14,429	100.0%
461 King W	38,689	35,833	—	74,522		—	74,522	100.0%
468 King W	63,121	—	—	63,121		—	63,121	100.0%
469 King W	61,618	12,273	—	73,891		—	73,891	100.0%
478 King W ⁽²⁾	—	4,350	—	4,350		—	4,350	100.0%
485 King W	12,339	—	—	12,339		—	12,339	100.0%
500 King W	44,130	21,598	—	65,728		—	65,728	100.0%
522 King W	28,850	21,863	—	50,713		—	50,713	100.0%
544 King W	16,340	—	—	16,340		—	16,340	100.0%
552-560 King W	6,784	17,395	—	24,179		—	24,179	100.0%
555 Richmond W	296,162	1,850	—	298,012		2,975	295,037	99.0%
579 Richmond W	26,818	—	—	26,818		—	26,818	100.0%
662 King W	33,731	—	—	33,731		—	33,731	100.0%
668 King W	—	6,934	—	6,934		—	6,934	100.0%
80-82 Spadina	60,004	16,009	—	76,013		—	76,013	100.0%
96 Spadina	79,450	8,815	—	88,265		575	87,690	99.4%
King Portland Centre - 602-606 King W ⁽¹⁾	19,039	6,346	—	25,385		3,383	22,002	86.7%
King Portland Centre - 642 King W ⁽¹⁾	7,382	4,900	—	12,282		375	11,907	97.0%
King West Central	1,121,033	225,994	—	1,347,027	11.7%	10,763	1,336,264	99.2%
116 Simcoe	15,461	—	—	15,461		—	15,461	100.0%
179 John	70,924	—	—	70,924		—	70,924	100.0%
180 John	45,631	—	—	45,631		—	45,631	100.0%
185 Spadina	55,213	—	—	55,213		—	55,213	100.0%
200 Adelaide W	26,614	—	—	26,614		—	26,614	100.0%
208-210 Adelaide W	11,477	—	—	11,477		—	11,477	100.0%
217-225 Richmond W	30,205	22,587	—	52,792		—	52,792	100.0%
257 Adelaide W	42,763	—	—	42,763		—	42,763	100.0%
312 Adelaide W	62,420	5,583	—	68,003		2,294	65,709	96.6%
331-333 Adelaide W	19,048	3,725	—	22,773		—	22,773	100.0%
358-360 Adelaide W	50,786	—	—	50,786		—	50,786	100.0%
375-381 Queen W	21,541	11,083	—	32,624		—	32,624	100.0%

JUNE 30, 2019 PROPERTIES	Urban Workspace			Urban Data				
	Office GLA	Retail GLA	Centres GLA	Total GLA	% Total GLA	Total Vacant	Total Leased	Leased %
388 King W	20,275	19,060	—	39,335		—	39,335	100.0%
82 Peter	38,583	8,332	—	46,915		—	46,915	100.0%
99 Spadina	51,058	—	—	51,058		—	51,058	100.0%
QRC West - 134 Peter, Phase I	298,782	8,213	—	306,995		—	306,995	100.0%
QRC West - 364 Richmond W, Phase I	38,279	—	—	38,279		—	38,279	100.0%
Union Centre	41,787	—	—	41,787		4,952	36,835	88.2%
Entertainment District	940,847	78,583	—	1,019,430	8.9%	7,246	1,012,184	99.3%
193 Yonge	34,349	16,898	—	51,247		—	51,247	100.0%
Downtown	34,349	16,898	—	51,247	0.4%	—	51,247	100.0%
106 Front E	24,146	10,554	—	34,700		—	34,700	100.0%
184 Front E	84,115	4,829	—	88,944		—	88,944	100.0%
35-39 Front E	34,653	13,822	—	48,475		—	48,475	100.0%
36-40 Wellington E	13,514	9,993	—	23,507		—	23,507	100.0%
41-45 Front E	20,958	14,239	—	35,197		—	35,197	100.0%
45-55 Colborne	30,622	13,158	—	43,780		3,640	40,140	91.7%
47 Front E	9,068	4,337	—	13,405		—	13,405	100.0%
49 Front E	9,482	10,435	—	19,917		—	19,917	100.0%
50 Wellington E	22,112	12,454	—	34,566		—	34,566	100.0%
56 Esplanade	59,270	22,137	—	81,407		2,511	78,896	96.9%
60 Adelaide E	105,571	4,608	—	110,179		—	110,179	100.0%
70 Esplanade	19,590	6,109	—	25,699		—	25,699	100.0%
St. Lawrence Market	433,101	126,675	—	559,776	4.9%	6,151	553,625	98.9%
137 George	1,770	—	—	1,770		1,770	—	—%
204-214 King E	115,423	13,837	—	129,260		—	129,260	100.0%
230 Richmond E	73,542	—	—	73,542		—	73,542	100.0%
252-264 Adelaide E	44,536	2,582	—	47,118		1,404	45,714	97.0%
489 Queen E	31,737	—	—	31,737		—	31,737	100.0%
70 Richmond E	34,333	—	—	34,333		—	34,333	100.0%
Dominion Square - 468 Queen N	30,398	3,523	—	33,921		—	33,921	100.0%
Dominion Square - 468 Queen S	34,313	9,091	—	43,404		—	43,404	100.0%
Dominion Square - 478-496 Queen	6,552	33,526	—	40,078		—	40,078	100.0%
QRC East - 111 Queen E	172,881	38,549	—	211,430		16,104	195,326	92.4%

JUNE 30, 2019 PROPERTIES	Urban Workspace			Urban Data Centres GLA	Total GLA	% Total GLA	Total Vacant	Total Leased	Leased %
	Office GLA	Retail GLA							
QRC South - 100 Lombard	44,671	—	—	—	44,671		—	44,671	100.0%
Queen Richmond	590,156	101,108	—	—	691,264	6.0%	19,278	671,986	97.2%
Toronto	3,524,901	561,803	—	—	4,086,704	35.5%	66,748	4,019,956	98.4%
189-195 Joseph	26,462	—	—	—	26,462		—	26,462	100.0%
25 Breithaupt ⁽³⁾	46,844	—	—	—	46,844		—	46,844	100.0%
51 Breithaupt ⁽³⁾	66,355	—	—	—	66,355		—	66,355	100.0%
72 Victoria	89,860	—	—	—	89,860		—	89,860	100.0%
The Tannery - 151 Charles W	307,570	25,810	—	—	333,380		8,973	324,407	97.3%
Kitchener	537,091	25,810	—	—	562,901	4.9%	8,973	553,928	98.4%
Toronto & Kitchener	4,061,992	587,613	—	—	4,649,605	40.4%	75,721	4,573,884	98.4%
The Chambers - 40 Elgin	195,754	5,500	—	—	201,254		—	201,254	100.0%
The Chambers - 46 Elgin	30,131	—	—	—	30,131		2,430	27,701	91.9%
Ottawa	225,885	5,500	—	—	231,385	2.0%	2,430	228,955	99.0%
3510 Saint-Laurent	85,687	15,022	—	—	100,709		15,537	85,172	84.6%
3575 Saint-Laurent	165,501	19,276	—	—	184,777		9,926	174,851	94.6%
400 Atlantic	87,181	292	—	—	87,473		4,653	82,820	94.7%
4446 Saint-Laurent	72,798	7,251	—	—	80,049		3,209	76,840	96.0%
451-481 Saint-Catherine W	20,879	9,984	—	—	30,863		2,350	28,513	92.4%
480 Saint-Laurent	49,828	6,323	—	—	56,151		6,010	50,141	89.3%
5445 de Gaspé	481,017	896	—	—	481,913		5,459	476,454	98.9%
5455 de Gaspé	465,071	22,539	—	—	487,610		—	487,610	100.0%
5505 Saint-Laurent	242,237	2,221	—	—	244,458		—	244,458	100.0%
6300 Parc	181,180	3,736	—	—	184,916		5,157	179,759	97.2%
645 Wellington	129,017	8,115	—	—	137,132		—	137,132	100.0%
740 Saint-Maurice	67,810	—	—	—	67,810		7,973	59,837	88.2%
8 Place du Commerce	48,306	11,633	—	—	59,939		—	59,939	100.0%
85 Saint-Paul W	81,467	—	—	—	81,467		14,600	66,867	82.1%
Cité Multimédia - 111 Duke	358,913	12,571	—	—	371,484		4,530	366,954	98.8%
Cité Multimédia - 50 Queen	27,071	—	—	—	27,071		—	27,071	100.0%
Cité Multimédia - 700 Wellington	135,232	—	—	—	135,232		12,005	123,227	91.1%
Cité Multimédia - 75 Queen	253,311	2,513	—	—	255,824		21,188	234,636	91.7%
Cité Multimédia - 80 Queen	62,491	4,203	—	—	66,694		10,168	56,526	84.8%

JUNE 30, 2019 PROPERTIES	Urban Workspace			Urban Data				
	Office GLA	Retail GLA	Centres GLA	Total GLA	% Total GLA	Total Vacant	Total Leased	Leased %
Cité Multimédia - 87 Prince	100,116	1,040	—	101,156		—	101,156	100.0%
El Pro Lofts - 644 Courcelle	146,344	7,722	—	154,066		8,141	145,925	94.7%
Le Nordelec - 1301-1303 Montmorency	7,550	—	—	7,550		—	7,550	100.0%
Le Nordelec - 1655 Richardson	32,893	—	—	32,893		—	32,893	100.0%
Le Nordelec - 1751 Richardson & 1700 Saint-Patrick	794,532	42,401	—	836,933		24,634	812,299	97.1%
Montréal	4,096,432	177,738	—	4,274,170	37.1%	155,540	4,118,630	96.4%
Montréal & Ottawa	4,322,317	183,238	—	4,505,555	39.2%	157,970	4,347,585	96.5%
613 11th SW	—	4,288	—	4,288		—	4,288	100.0%
617 11th SW	3,230	6,306	—	9,536		636	8,900	93.3%
Alberta Block - 805 1st SW	9,094	22,540	—	31,634		3,365	28,269	89.4%
Alberta Hotel - 808 1st SW	28,036	20,424	—	48,460		10,563	37,897	78.2%
Atrium on Eleventh - 625 11th SE	34,870	1,410	—	36,280		9,316	26,964	74.3%
Biscuit Block - 438 11th SE	51,298	—	—	51,298		—	51,298	100.0%
Burns Building - 237 8th SE	75,040	1,249	—	76,289		1,070	75,219	98.6%
Cooper Block - 809 10th SW	35,256	—	—	35,256		5,278	29,978	85.0%
Demcor Condo - 221 10th SE	14,253	—	—	14,253		—	14,253	100.0%
Demcor Tower - 239 10th SE	25,749	—	—	25,749		6,022	19,727	76.6%
Five Roses Building - 731-739 10th SW ⁽⁴⁾	—	10,432	—	10,432		—	10,432	100.0%
Glenbow - 802 11th SW ⁽⁴⁾	—	3,660	—	3,660		—	3,660	100.0%
Glenbow - 822 11th SW ⁽⁴⁾	4,848	3,919	—	8,767		2,168	6,599	75.3%
Glenbow Annex - 816 11th SW ⁽⁴⁾	—	4,511	—	4,511		—	4,511	100.0%
Glenbow Cornerblock - 838 11th SW ⁽⁴⁾	5,498	5,606	—	11,104		4,163	6,941	62.5%
Glenbow Ellison - 812 11th SW ⁽⁴⁾	5,676	—	—	5,676		5,676	—	—%
Kipling Square - 601 10th SW	48,502	—	—	48,502		13,281	35,221	72.6%
Leeson Lineham Building - 209 8th SW	33,241	—	—	33,241		1,829	31,412	94.5%
LocalMotive - 1240 20th SE	57,537	—	—	57,537		—	57,537	100.0%
Odd Fellows - 100 6th SW	33,474	—	—	33,474		—	33,474	100.0%
Pilkington Building - 402 11th SE	40,253	—	—	40,253		—	40,253	100.0%

JUNE 30, 2019 PROPERTIES	Urban Workspace		Urban Data		% Total GLA	Total Vacant	Total Leased	Leased %
	Office GLA	Retail GLA	Centres GLA	Total GLA				
Roberts Block - 603-605 11th SW	23,645	27,499	—	51,144		17,149	33,995	66.5%
Sherwin Block - 738 11th SW ⁽⁴⁾	10,844	4,895	—	15,739		—	15,739	100.0%
Telephone Building - 119 6th SW	63,063	—	—	63,063		—	63,063	100.0%
Vintage Towers - 322-326 11th SW	190,219	20,418	—	210,637		3,758	206,879	98.2%
Woodstone Building - 1207-1215 13th SE	33,152	—	—	33,152		2,687	30,465	91.9%
Young Block - 129 8th SW	7,734	—	—	7,734		2,414	5,320	68.8%
Calgary	834,512	137,157	—	971,669	8.4%	89,375	882,294	90.8%
Boardwalk Building - 10310 102nd NW	121,316	18,067	—	139,383		—	139,383	100.0%
Revillon Building - 10310 102nd NW	149,024	—	—	149,024		21,221	127,803	85.8%
Revillon Parkade - 10230 104th NW	—	9,437	—	9,437		—	9,437	100.0%
Edmonton	270,340	27,504	—	297,844	2.6%	21,221	276,623	92.9%
1040 Hamilton	36,276	9,162	—	45,438		798	44,640	98.2%
1050 Homer	28,483	14,215	—	42,698		—	42,698	100.0%
1220 Homer	21,708	—	—	21,708		—	21,708	100.0%
1286 Homer	25,637	—	—	25,637		—	25,637	100.0%
151-155 West Hastings	38,512	—	—	38,512		—	38,512	100.0%
2233 Columbia Street	21,591	6,852	—	28,443		—	28,443	100.0%
342 Water	18,339	2,886	—	21,225		—	21,225	100.0%
840 Cambie	89,377	—	—	89,377		—	89,377	100.0%
948-950 Homer	45,003	—	—	45,003		—	45,003	100.0%
Sun Tower - 128 West Pender	76,496	1,693	—	78,189		7,548	70,641	90.4%
Vancouver	401,422	34,808	—	436,230	3.8%	8,346	427,884	98.1%
Calgary, Edmonton & Vancouver	1,506,274	199,469	—	1,705,743	14.8%	118,942	1,586,801	93.0%
Total Office and Retail	9,890,583	970,320	—	10,860,903	94.4%	352,633	10,508,270	96.8%
151 Front W	—	—	277,744	277,744		2,570	275,174	99.1%
250 Front W	—	—	173,000	173,000		67,000	106,000	61.3%
905 King W	—	—	58,666	58,666		4,038	54,628	93.1%
Urban Data Centres	—	—	509,410	509,410	4.4%	73,608	435,802	85.6%

JUNE 30, 2019 PROPERTIES	Urban Workspace		Urban Data					
	Office GLA	Retail GLA	Centres GLA	Total GLA	% Total GLA	Total Vacant	Total Leased	Leased %
Total Rental Portfolio, Excluding PUD Transfers	9,890,583	970,320	509,410	11,370,313	98.8%	426,241	10,944,072	96.3%
King Portland Centre - 620 King W ⁽¹⁾	128,599	7,719	—	136,318	1.2%	—	136,318	100.0%
Total Rental Portfolio, Including PUD Transfers	10,019,182	978,039	509,410	11,506,631	100%	426,241	11,080,390	96.3%

Note that the table above does not include ancillary residential properties, which total 12 and are included in the property count.

(1) RioCan/Allied Joint Arrangement

(2) Lifetime/Allied Joint Arrangement

(3) Perimeter/Allied Joint Arrangement

(4) First Capital/Allied Joint Arrangement

PROPERTIES UNDER DEVELOPMENT

ESTIMATED GLA ON
COMPLETION (SF)

TELUS Sky, Calgary ⁽¹⁾	218,000
425 Viger, Montréal	315,000
The Lougheed (604-1st SW), Calgary	88,000
College & Manning, 547-549 College, Toronto ⁽²⁾	27,000
Adelaide & Duncan, Toronto ⁽³⁾	216,000
The Well, Toronto ⁽⁴⁾	746,000
KING Toronto, Toronto ⁽³⁾⁽⁵⁾	100,000
Breithaupt Phase III, Kitchener ⁽⁶⁾	147,000
Total Development Portfolio	1,857,000

(1) Telus/Westbank/Allied Joint Arrangement

(2) RioCan/Allied Joint Arrangement

(3) Westbank/Allied Joint Arrangement

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

(5) Allied entered into a joint arrangement with Westbank to develop KING Toronto. As part of the arrangement, Allied sold a 50% undivided interest to Westbank. KING Toronto is comprised of the following properties: 489 King W, 495 King W, 499 King W, 511-529 King W, 533 King W and 539 King W. The GLA components (in square feet) at our 50% share will be as follows: 200,000 of residential, 60,000 of retail and 40,000 of office.

(6) Perimeter/Allied Joint Arrangement. Breithaupt Phase III is comprised of 43 Wellington, 53 & 55 Wellington, 305 Joseph and 2-4 Stewart.

ANCILLARY PARKING FACILITIES

NUMBER OF SPACES

7-9 Morrison, Toronto	25
15 Brant, Toronto	203
78 Spadina, Toronto	39
105 George, Toronto	15
301 Markham, Toronto	47
388 Richmond, Toronto	121
464 King, Toronto	12
478 King, Toronto ⁽¹⁾	65
560 King, Toronto	171
650 King, Toronto	71
Total Parking	769

(1) Lifetime/Allied Joint Arrangement

Unaudited Condensed Consolidated Financial Statements

For the Three and Six Months
Ended June 30, 2019 and 2018

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
AS AT JUNE 30, 2019 AND DECEMBER 31, 2018

(in thousands of Canadian dollars)	NOTES	JUNE 30, 2019	DECEMBER 31, 2018
Assets			
Non-current assets			
Investment properties	5	\$6,655,457	\$6,257,647
Residential inventory	6	112,024	103,690
Loans and notes receivable	7	237,279	202,367
Other assets	8	38,672	28,518
		7,043,432	6,592,222
Current assets			
Cash and cash equivalents	19	202,537	18,361
Loans and notes receivable	7	10,845	11,077
Accounts receivable, prepaid expenses and deposits	9	101,771	47,999
Residential Inventory	6	40,303	36,612
		355,456	114,049
Total assets		\$7,398,888	\$6,706,271
Liabilities			
Non-current liabilities			
Debt	10	\$1,543,458	\$1,850,621
Other liabilities	12	33,685	—
Lease liabilities	11	155,959	156,663
		1,733,102	2,007,284
Current liabilities			
Debt	10	347,827	106,990
Accounts payable and other liabilities	12	225,999	217,334
		573,826	324,324
Total liabilities		2,306,928	2,331,608
Unitholders' equity		5,091,960	4,374,663
Total liabilities and Unitholders' equity		\$7,398,888	\$6,706,271

Commitments and Contingencies (note 25)

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



Gordon Cunningham
TRUSTEE



Michael R. Emory
TRUSTEE

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

(in thousands of Canadian dollars, except unit and per unit amounts)	NOTES	THREE MONTHS ENDED		SIX MONTHS ENDED	
		JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Rental revenue from investment properties	17	\$117,811	\$106,983	\$234,297	\$213,877
Property operating costs		(47,918)	(45,540)	(97,355)	(91,868)
Net rental income		69,893	61,443	136,942	122,009
Interest expense	10 (f)	(14,198)	(23,362)	(29,136)	(39,288)
General and administrative expenses	18	(5,496)	(4,048)	(10,956)	(7,909)
Condominium marketing expenses		(1,351)	—	(2,209)	—
Amortization of other assets	8	(362)	(412)	(730)	(817)
Interest income		4,270	1,361	7,952	2,677
Fair value gain on investment properties	5	52,116	78,577	156,435	120,454
Fair value (loss) gain on derivative instruments	13, 24 (d)	(4,977)	93	(15,226)	1,226
Net income and comprehensive income		\$99,895	\$113,652	\$243,072	\$198,352
Income per unit					
Basic		\$0.91	\$1.21	\$2.26	\$2.13
Diluted		\$0.91	\$1.21	\$2.25	\$2.12
Weighted average number of Units	16				
Basic		110,121,406	93,697,810	107,713,874	93,327,182
Diluted		110,368,003	93,868,833	107,970,836	93,486,243

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

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018

(in thousands of Canadian dollars)	NOTES	TRUST UNITS	RETAINED EARNINGS	CONTRIBUTED SURPLUS	TOTAL
Balance at January 1, 2018	14	\$2,399,768	\$1,134,614	\$14,640	\$3,549,022
Net income and comprehensive income		—	198,352	—	198,352
Unit offering (net of issuance costs)	14	286,664	—	—	286,664
Distributions		—	(73,463)	—	(73,463)
Unit option plan – options exercised	15 (a)	1,533	—	—	1,533
Contributed surplus – Unit option plan	15 (a)	—	—	687	687
Restricted Unit plan (net of forfeitures)	15 (b)	(2,584)	—	1,093	(1,491)
Balance at June 30, 2018		\$2,685,381	\$1,259,503	\$16,420	\$3,961,304

	NOTES	TRUST UNITS	RETAINED EARNINGS	CONTRIBUTED SURPLUS	TOTAL
Balance at January 1, 2019	14	\$2,835,395	\$1,521,035	\$18,233	\$4,374,663
Net income and comprehensive income		—	243,072	—	243,072
Unit offering (net of issuance costs)	14	551,221	—	—	551,221
Distributions		—	(86,624)	—	(86,624)
Unit option plan – options exercised	15 (a)	10,072	—	—	10,072
Contributed surplus – Unit option plan	15 (a)	—	—	782	782
Restricted Unit plan (net of forfeitures)	15 (b)	(2,497)	—	1,271	(1,226)
Balance at June 30, 2019		\$3,394,191	\$1,677,483	\$20,286	\$5,091,960

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

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

(in thousands of Canadian dollars, except unit and per unit amounts)	NOTES	THREE MONTHS ENDED		SIX MONTHS ENDED	
		JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Operating activities					
Net income for the period		\$99,895	\$113,652	\$243,072	\$198,352
Fair value gain on investment properties	5	(52,116)	(78,577)	(156,435)	(120,454)
Fair value loss (gain) on derivative instruments	24 (d)	4,977	(93)	15,226	(1,226)
Interest expense (excluding capitalized interest)	10 (f)	14,198	23,362	29,136	39,288
Interest paid (excluding capitalized interest)	19, 5, 6	(19,336)	(29,480)	(28,429)	(40,314)
Interest income		(4,270)	(1,361)	(7,952)	(2,677)
Interest received	19	2,975	1,361	5,453	2,677
Amortization of equipment and other assets	8	362	412	730	817
Amortization of improvement allowances	5	7,725	7,267	15,298	14,238
Amortization of straight-line rents	5	(2,041)	(1,793)	(3,985)	(3,173)
Amortization of discount on debt	10 (f)	(111)	(631)	(209)	(1,224)
Amortization of lease liabilities		(284)	(71)	(631)	64
Unit compensation expense	15	1,090	886	2,053	1,780
Additions to residential inventory	6	(3,446)	(1,484)	(12,025)	(4,594)
Change in other non-cash financing items		429	625	857	1,075
Change in other non-cash operating items	19	4,222	(7,521)	(2,504)	10,114
Cash provided by operating activities		54,269	26,554	99,655	94,743
Financing activities					
Repayment of mortgages payable	4, 10 (a)	(6,556)	(143,873)	(12,824)	(159,845)
Principal payments of lease liabilities		256	(6)	(1,012)	(12)
Distributions paid to Unitholders		(43,530)	(36,260)	(84,974)	(72,509)
Proceeds of Unit offering (net of issuance costs)	14	330,953	286,664	551,221	286,664
Proceeds from exercise of Unit options	14, 15	—	392	10,072	1,533
Restricted Unit Plan (net of forfeitures)	14, 15	—	—	(2,497)	(2,584)
Proceeds from notes receivables	7 (b)	152	143	302	285
Proceeds from Unsecured Revolving Operating Facility	10 (c)	122,000	75,000	153,000	145,000
Repayments of Unsecured Revolving Operating Facility	10 (c)	(122,000)	(150,000)	(248,000)	(150,000)
Proceeds from construction loan	10 (b)	9,453	7,562	26,722	13,344
Financing costs		(20)	—	(20)	(300)

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018 - continued

(in thousands of Canadian dollars, except unit and per unit amounts)	NOTES	THREE MONTHS ENDED		SIX MONTHS ENDED	
		JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Loan receivable issued to third-party	7 (a), 19	(16,232)	(7,153)	(32,490)	(10,360)
Cash provided by financing activities		274,476	32,469	359,500	51,216
Investing activities					
Acquisition of investment properties	4	(80,185)	(514)	(81,570)	(16,546)
Additions to investment properties (including capitalized interest)	5	(69,749)	(57,015)	(119,389)	(98,186)
Additions to equipment and other assets	8	(191)	(396)	(206)	(1,421)
Leasing commissions	5	(5,928)	(4,080)	(7,409)	(6,969)
Deposits on acquisitions	19	(39,330)	—	(39,330)	—
Improvement allowances	5	(21,173)	(10,826)	(27,075)	(26,805)
Cash used in investing activities		(216,556)	(72,831)	(274,979)	(149,927)
Increase (decrease) in cash and cash equivalents		112,189	(13,808)	184,176	(3,968)
Cash and cash equivalents, beginning of period		90,348	15,888	18,361	6,048
Cash and cash equivalents, end of period		\$202,537	\$2,080	\$202,537	\$2,080

Supplemental cash flow information (note 19)

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

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER UNIT AND UNIT AMOUNTS)**

1. NATURE OF OPERATIONS

Allied Properties Real Estate Investment Trust ("Allied") is a Canadian unincorporated closed-end real estate investment trust created pursuant to the Declaration of Trust dated October 25, 2002, most recently amended May 12, 2016. Allied is governed by the laws of the Province of Ontario and began operations on February 19, 2003. The Units of Allied are traded on the Toronto Stock Exchange and are traded under the symbol "APUN".

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

The unaudited condensed consolidated financial statements are presented in Canadian dollars.

The unaudited condensed consolidated financial statements for the three and six months ended June 30, 2019, and 2018, were approved and authorized for issue by the Board of Trustees on July 31, 2019.

(A) Statement of compliance

The unaudited condensed consolidated financial statements of Allied for the three and six months ended June 30, 2019, and 2018, are prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB").

The significant accounting policies disclosed in Allied's December 31, 2018, audited annual consolidated statements have been applied consistently in the preparation of these unaudited condensed consolidated financial statements, except as described below.

Accounting standards implemented in 2019

IFRS 16 - LEASES ("IFRS 16")

Allied has adopted IFRS 16, as issued by the IASB in January 2016, which replaces IAS 17, *Leases*, and related interpretations. Allied has elected to apply the standard on a modified retrospective basis as of January 1, 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requires the lessee to recognize a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases (lease term of 12 months or less) and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged with the distinction between operating leases and finance leases being retained. However, IFRS 16 requires enhanced disclosures to be provided by lessors.

Allied has historically recorded five land leases accounted for as finance leases and accounted for the respective leases as finance leases under IAS 17. Accordingly, the adoption of IFRS 16 resulted in a change in the description of the line item entitled finance lease obligations to the new line item entitled lease liabilities. There was no impact to the measurement of the finance lease obligations and corresponding investment properties on the adoption of IFRS 16.

Allied's comparative period has not been restated and continues to be reported under the accounting standards in effect for those periods. As no right-of-use asset or lease liabilities have been recognized in the period and no cumulative effect has been recorded in retained earnings on initial application.

For short-term leases and leases of low-value assets, Allied has elected to recognize a lease expense in the period in accordance with the practical expedients of IFRS 16. This expense is presented within property operating costs and/or general and administrative expenses, as applicable, in the unaudited condensed consolidated statements of income and comprehensive income. The total amount expensed during the six months ended June 30, 2019 is \$126.

The adoption of IFRS 16 did not have an impact on the unaudited condensed consolidated statements of cash flows as all short-term leases and low-value asset payments continue to be recorded within cash provided by operating activities line items.

(B) Comparative figures

Allied discloses revenue from contracts recognized with customers related to operating cost recoveries and tax and insurance recoveries separate from other sources of revenue, accordingly the June 30, 2018, comparative figures have been restated to conform with the disclosure requirements adopted as of December 31, 2018 (see note 17). The segment comparative figures for the three and six months ended June 30, 2019, have been restated to present the office component of 905 King within the office segment from the urban data centre segment to be consistent with the presentation as of December 31, 2018 (see note 21).

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the unaudited condensed 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 unaudited condensed consolidated financial statements and accompanying notes.

The critical accounting estimates and assumptions disclosed in Allied's December 31, 2018, audited annual consolidated financial statements have been applied consistently in the preparation of these unaudited condensed consolidated financial statements, with the exception of judgments made in relation to the new accounting standards adopted as of January 1, 2019.

4. ACQUISITIONS AND DISPOSITIONS

During the six months ended June 30, 2019, Allied completed the following property acquisitions from third-parties:

PROPERTY	ACQUISITION DATE	PROPERTY TYPE	INVESTMENT PROPERTY	INTEREST ACQUIRED
738-11th SW, Calgary	April 9, 2019	Office, Retail	6,145	50%
2233 Columbia, Vancouver	April 11, 2019	Office, Retail	25,074	100%
2-4 Stewart, Kitchener	May 9, 2019	Development	1,791	50%
1050 Homer, Vancouver	May 27, 2019	Office, Retail	41,420	100%
53-55 Wellington, Kitchener	June 3, 2019	Development	371	50%
Ancillary residential properties, Toronto ⁽¹⁾	—	Residential	23,074	100%
			\$97,875	

(1) Allied acquired ancillary residential properties with intensification potential nearby or adjacent to its existing investment property portfolios.

The total purchase price for the above noted properties during the three months ended June 30, 2019 of \$96,488 is comprised of net cash consideration paid of \$80,185, the assumption of other liabilities of \$2,704 and a mortgage assumption of \$13,599. The total purchase price for the above noted properties of \$97,875 is comprised of net cash consideration paid of \$81,570, the assumption of other liabilities of \$2,706 and a mortgage assumption of \$13,599.

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

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

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

DISPOSITIONS

During the six months ended June 30, 2019, Allied did not dispose of any investment properties.

During the year ended December 31, 2018, Allied completed the following disposition of investment property to a third-party:

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

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

5. INVESTMENT PROPERTIES

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

	JUNE 30, 2019			DECEMBER 31, 2018		
	RENTAL PROPERTIES	PROPERTIES UNDER DEVELOPMENT ("PUD")	TOTAL	RENTAL PROPERTIES	PROPERTIES UNDER DEVELOPMENT ("PUD")	TOTAL
Balance, beginning of period	\$5,592,216	\$665,431	\$6,257,647	\$5,168,621	\$458,818	\$5,627,439
Additions:						
Acquisitions	95,713	2,162	97,875	143,396	—	143,396
Improvement allowances	23,337	3,738	27,075	48,607	5,417	54,024
Leasing commissions	7,178	231	7,409	13,823	7,200	21,023
Capital expenditures	21,860	97,529	119,389	40,091	204,119	244,210
Dispositions	—	—	—	—	(67,030)	(67,030)
Transfers from PUD	98,850	(98,850)	—	67,180	(67,180)	—
Transfers to PUD	(6,530)	6,530	—	(185,770)	185,770	—
Transfers to residential inventory	—	—	—	—	(103,690)	(103,690)
Transfers to other assets	—	—	—	(17,631)	—	(17,631)
Lease liabilities	940	—	940	1,884	—	1,884
Amortization of straight-line rent and improvement allowances	(11,666)	353	(11,313)	(23,287)	1,460	(21,827)
Fair value gain (loss) on investment properties	160,829	(4,394)	156,435	335,302	40,547	375,849
Balance, end of period	\$5,982,727	\$672,730	\$6,655,457	\$5,592,216	\$665,431	\$6,257,647

For the six months ended June 30, 2019, Allied capitalized \$11,425 of borrowing costs to qualifying investment properties (June 30, 2018 - \$11,171).

Included in the rental properties amounts noted above are investment properties with a fair value of \$506,640 (December 31, 2018 - \$502,040) representing the fair value of Allied's interest in five investment properties with corresponding lease liabilities. The leases' maturities range from 25.3 years to 83 years.

VALUATION METHODOLOGY

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

- a. Discounted cash flow method - Under this approach, discount rates are applied to the projected annual operating cash flows, generally over a ten year period, including a terminal value of the properties based on a capitalization rate applied to the estimated net operating income ("NOI"), a non-GAAP measure, in the terminal year. This method is primarily used to value the rental properties portfolio.
- b. Comparable sales method - This approach compares a subject property's characteristics with those of comparable properties which have recently sold. The process uses one of several techniques to adjust the price of the comparable transactions according to the presence, absence, or degree of characteristics which influence value. These characteristics include the cost of construction incurred at a property under development. This method is primarily used to value the development portfolio and ancillary parking facilities.

In accordance with its policy, Allied measures and records its investment properties using valuations under the supervision of Management with the support of an independent external appraiser. Allied's entire portfolio is revalued by the external appraiser each quarter. Management verifies all major inputs to the valuations, analyzes the change in fair values at the end of each reporting period and reviews the results with the independent appraiser every quarter. There were no material changes to the valuation techniques during the period. For properties with a leasehold interest with a term less than 40 years, the resulting valuation methodology is based upon a full-term discounted cash flow model.

SIGNIFICANT INPUTS

There are significant unobservable inputs used, such as capitalization rates, in determining the fair value of each investment property. Accordingly, all investment properties are measured in accordance with the fair value measurement hierarchy levels and the inputs for investment properties comprise Level 3 unobservable inputs, reflecting Management's best estimate of what market participants would use in pricing the asset at the measurement date. Fair values are most sensitive to changes in capitalization rates and stabilized or forecasted NOI. Generally, an increase in NOI will result in an increase in the fair value of investment properties and an increase in capitalization rates will result in a decrease in the fair value of investment properties. Below are the rates used in the modeling process for valuations.

	WEIGHTED AVERAGE	
	JUNE 30, 2019	DECEMBER 31, 2018
Discount rate	6.58%	6.64%
Terminal capitalization rate	5.51%	5.55%
Overall capitalization rate	5.10%	5.13%
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	\$723,419	\$343,065	\$(311,003)	\$(594,237)

6. RESIDENTIAL INVENTORY

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

On September 19, 2017, Allied with its partner RioCan, announced that they had finalized plans that would allow the co-owners to improve the return on the development of King Portland Centre. The co-owners had originally intended to develop the residential portion of the project as rental apartments and then decided to sell the residential portion as condominium units, comprised of 132 units. The residential condominium units have been fully sold, subject to customary closing conditions. Management expects the condominium sales to close in Q4 2019.

On November 30, 2018, Allied entered into a joint arrangement with Westbank to develop KING Toronto. KING Toronto is a mixed-used property comprised of office, retail, and residential uses. As part of the arrangement, Allied sold a 50% undivided interest to Westbank. The residential component will be developed and sold as condominiums. The sale of the residential units commenced in October 2018 and totals 210,000 square feet of GLA. Management expects the condominium sales to close in 2023. On February 14, 2019, Allied purchased 464-466 Queen W, Toronto, at a purchase price of approximately \$10,454 and concurrently sold a 50% undivided interest to Westbank at a sale price of \$5,227. This property will be transferred to the City of Toronto as parkland dedication related to the KING Toronto condominium development.

For the six months ended June 30, 2019, Allied capitalized \$2,678 of borrowing costs to qualifying residential inventory (June 30, 2018 - \$603).

Residential inventory is as follows:

	JUNE 30, 2019	DECEMBER 31, 2018
King Portland Centre	\$40,303	\$36,612
KING Toronto	112,024	103,690
	\$152,327	\$140,302
Current	\$40,303	\$36,612
Non-current	112,024	103,690
	\$152,327	\$140,302

7. LOANS AND NOTES RECEIVABLE

Loans and notes receivable are as follows:

	JUNE 30, 2019	DECEMBER 31, 2018
Loans receivable (a)	\$235,239	\$200,289
Notes and other receivables (b)	12,885	13,155
	\$248,124	\$213,444
Current	\$10,845	\$11,077
Non-current	237,279	202,367
	\$248,124	\$213,444

- (a) In February 2015, Allied entered into a joint arrangement with Westbank and completed the acquisition of an undivided 50% interest in Adelaide & Duncan. Allied advanced \$21,173 to Westbank (refer to note 20 for further details). As at June 30, 2019, the loan receivable outstanding is \$21,173 (December 31, 2018 - \$21,173) and is secured by a first charge on the property and assignment of rents and leases. Interest on the loan is payable monthly. In accordance with the loan agreement, the rate increased to 7.75% per annum upon placement of construction financing (December 31, 2018 - 6.17%). The loan is repayable when the joint arrangement obtains external permanent financing.

On August 1, 2017, Allied entered into an arrangement with Westbank to provide a credit facility of up to \$100,000, plus interest, for the land acquisition and the initial pre-development costs of 400 West Georgia in Vancouver. On February 11, 2019, the facility was increased to \$160,000. Interest is payable monthly at rates between 5.00% to 6.75% per annum in year one and 6.75% per annum in each year thereafter until maturity. The credit facility matures on August 31, 2022, and has a one year extension option to August 31, 2023. On placement of permanent financing, Allied intends to acquire a 50% undivided interest in 400 West Georgia based on total development costs. The loan outstanding as at June 30, 2019, is \$137,063 (December 31, 2018 - \$112,086). On July 3, 2019, Westbank repaid \$34,500 of its loan payable to Allied, bringing the outstanding balance of the loan to \$102,563.

On November 30, 2018, Allied entered into a joint arrangement with Westbank to develop KING Toronto. As part of the arrangement, Allied advanced \$67,030 to Westbank for its purchase of a 50% undivided interest in the property. As at June 30, 2019, the loan receivable outstanding is \$74,685 (December 31, 2018 - \$67,030) and bears interest at a rate of 7.00% per annum. Interest is accrued to the balance on a monthly basis and is payable on loan repayment. The loan is repayable at the earlier of November 23, 2023, or the closing of the condominiums.

On March 18, 2019, Allied entered into an amendment to the joint arrangement with Perimeter to develop Breithaupt Phase III and a loan receivable arrangement to provide 50% of the pre-development costs. As at June 30, 2019, the loan receivable outstanding is \$2,318 (December 31, 2018 - nil) and bears interest at a rate of 7.00% per annum. Interest is accrued on a monthly basis and is payable on loan repayment. The loan is repayable upon rent commencement, which is anticipated to begin in the fourth quarter of 2021.

- (b) As at June 30, 2019, the balance of notes and other receivables includes \$10,665 (December 31, 2018 - \$10,967) of mortgage receivables from the purchaser of Allied's Québec City portfolio as the mortgage transfer was not executed by the lender. The remaining balance is made up of individually insignificant notes receivable.

8. OTHER ASSETS

Other assets consist of the following:

	JUNE 30, 2019	DECEMBER 31, 2018
Equipment and other assets ⁽¹⁾	\$5,617	\$6,141
Property, plant and equipment ⁽²⁾	17,631	17,631
Prepaid deposits ⁽³⁾	13,190	—
Interest rate swap derivative assets	2,234	4,746
	\$38,672	\$28,518

(1) During the three and six months ended June 30, 2019, Allied recorded amortization of equipment and other assets of \$362 and \$730 (June 30, 2018 - \$412 and \$817).

(2) This amount is related to owner-occupied property.

(3) Deposits held in trust received from the sale of residential condominium units.

9. ACCOUNTS RECEIVABLE, PREPAID EXPENSES AND DEPOSITS

	JUNE 30, 2019	DECEMBER 31, 2018
User trade receivables - net of allowance (a)	\$8,475	\$7,308
Other user receivables (b)	4,772	3,581
Miscellaneous receivables (c)	12,807	9,957
Prepaid expenses and deposits (d)	75,717	27,153
	\$101,771	\$47,999

(A) *User trade receivables*

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

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

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

	SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018
Allowance for doubtful accounts, beginning of period	\$2,333	\$2,342
Additional provision recorded during the period	1,123	1,544
Reversal of previous provisions	(487)	(795)
Receivables written off during the period	(263)	(726)
Allowance for doubtful accounts, end of period	\$2,706	\$2,365

(B) *Other user receivables*

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

(C) *Miscellaneous receivables*

Miscellaneous receivables consist primarily of property taxes recoverable from municipalities and insurance claims. As at June 30, 2019, there are no credit risk indicators that the debtors will not meet their payment obligations.

(D) *Prepaid expenses and deposits*

Prepaid expenses primarily relate to property operating expenses (mainly realty taxes and insurance) and deposits relating to acquisitions of \$39,330 (December 31, 2018 - \$3,780) and deposits held in trust of \$6,909 (December 31, 2018 - \$9,000) received from the sale of residential condominium units.

10. DEBT

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

	JUNE 30, 2019	DECEMBER 31, 2018
Mortgages payable (a)	\$771,068	\$769,473
Construction loans payable (b)	97,631	70,909
Unsecured revolving operating facility (c)	—	95,000
Senior unsecured debentures (d)	573,555	573,320
Unsecured term loans (e)	449,031	448,909
	\$1,891,285	\$1,957,611
Current	\$347,827	\$106,990
Non-current	1,543,458	1,850,621
	\$1,891,285	\$1,957,611

(A) *Mortgages payable*

Mortgages payable have a weighted average stated interest rate of 4.37% as at June 30, 2019 (December 31, 2018 - 4.38%). 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	JUNE 30, 2019	DECEMBER 31, 2018
Remaining 2019	\$12,824	\$10,666	\$23,490	
2020	26,753	—	26,753	
2021	25,878	103,535	129,413	
2022	22,099	100,102	122,201	
2023	17,811	225,585	243,396	
2024	5,123	174,860	179,983	
2025	1,596	8,788	10,384	
2026	1,391	20,443	21,834	
2027	487	—	487	
2028	293	14,457	14,750	
Mortgages, principal	\$114,255	\$658,436	\$772,691	\$771,916
Net premium on assumed mortgages			1,340	924
Net financing costs			(2,963)	(3,367)
			\$771,068	\$769,473

(B) *Construction loans payable*

As of June 30, 2019, and December 31, 2018, Allied's obligation under the construction loans is as follows:

JOINT ARRANGEMENT	OWNERSHIP	DATE OF MATURITY	JUNE 30, 2019	DECEMBER 31, 2018
TELUS Sky	33.33%	August 31, 2019	\$86,010	\$70,909
Adelaide & Duncan	50.00%	August 11, 2023	11,621	—
			\$97,631	\$70,909

On June 23, 2015, the TELUS Sky joint arrangement obtained a \$342,000 construction lending facility from a syndicate of Canadian banks for the TELUS Sky joint arrangement, in which Allied's 33.33% share is \$114,000. 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 share of the total loan facility and the amount guaranteed is \$114,000. Allied provided a joint and several guarantee to support the facility to assist with the financing of construction costs associated with the development of TELUS Sky.

On January 31, 2019, the Adelaide & Duncan joint arrangement obtained a \$270,000 construction lending facility from a syndicate of Canadian banks for the Adelaide & Duncan joint arrangement, in which Allied's 50% share is \$135,000. The loan matures on August 11, 2023, and bears interest at bank prime plus 35 basis points or bankers' acceptance rate plus 135 basis points. Allied provided a joint and several guarantee to support the facility to assist with the financing of construction costs associated with the development of Adelaide & Duncan.

(c) *Unsecured revolving operating facility*

Allied has access to an Unsecured Facility of \$400,000 with a maturity of January 29, 2022. The Unsecured Facility bears interest at bank prime plus 45 basis points or bankers' acceptance plus 145 basis points with a standby fee of 29 basis points, subject to certain conditions being met. In the event that these conditions are not met, the Unsecured Facility will bear interest at bank prime plus 70 basis points or bankers' acceptance plus 170 basis points with a standby fee of 34 basis points. The Unsecured Facility contains a \$100,000 accordion feature, allowing Allied to increase the amount available under the facility to \$500,000. As of June 30, 2019, there is no balance outstanding under the Unsecured Facility (December 31, 2018 - \$95,000).

	JUNE 30, 2019	DECEMBER 31, 2018
Unsecured Facility limit	\$400,000	\$400,000
Amounts drawn under the Unsecured Facility	—	(95,000)
Letters of credit outstanding under the Unsecured Facility	(14,620)	(14,404)
Remaining unused balance under the Unsecured Facility	\$385,380	\$290,596

(D) *Senior unsecured debentures*

As of June 30, 2019, and December 31, 2018, Allied's obligation of the balance outstanding under the senior unsecured debentures is as follows:

SERIES	INTEREST RATE	DATE OF MATURITY	INTEREST PAYMENT DATE	JUNE 30, 2019	DECEMBER 31, 2018
Series A	3.748%	May 13, 2020	May 13 and November 13	\$225,000	\$225,000
Series B	3.934%	November 14, 2022	May 14 and November 14	150,000	150,000
Series C	3.636%	April 21, 2025	April 21 and October 21	200,000	200,000
Unsecured Debentures, principal				\$575,000	\$575,000
Net premium on Unsecured Debentures				140	216
Net financing costs				(1,585)	(1,896)
				\$573,555	\$573,320

Hereafter, the Series A, B and C 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 10 (f)).

(E) *Unsecured term loans*

As of June 30, 2019, and December 31, 2018, Allied's obligation of the balance outstanding under the unsecured term loans is as follows:

	INTEREST RATE	DATE OF MATURITY	FREQUENCY OF INTEREST PAYMENT	JUNE 30, 2019	DECEMBER 31, 2018
Unsecured Term Loan	3.992%	January 14, 2026	Monthly	\$250,000	\$250,000
Unsecured Term Facility					
Tranche 1	2.830%	March 16, 2021	Quarterly	100,000	100,000
Tranche 2	2.890%	March 16, 2021	Quarterly	100,000	100,000
Unsecured Term Loans, principal				\$450,000	\$450,000
Net financing costs				(969)	(1,091)
				\$449,031	\$448,909

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

On December 14, 2018, Allied entered into a new Unsecured Term Loan with a financial institution for \$250,000 at a rate of 3.992%, due on January 14, 2024, with two one-year extensions to January 14, 2026.

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

(F) *Interest expense*

Interest expense consists of the following:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Interest on debt:				
Mortgages payable	\$8,184	\$10,671	\$16,388	\$21,662
Construction loans payable	997	498	1,783	903
Unsecured Facility	577	1,018	1,580	1,571
Unsecured Debentures	5,441	5,416	10,882	10,832
Unsecured Term Loans	3,941	2,388	7,774	4,757
Interest on lease liabilities	2,083	2,063	4,184	4,155
Amortization, premium (discount) on debt	(111)	(631)	(209)	(1,224)
Amortization, net financing costs	429	452	857	904
	\$21,541	\$21,875	\$43,239	\$43,560
Less: Interest capitalized to qualifying investment properties and residential inventory	(7,343)	(6,015)	(14,103)	(11,774)
Interest expense excluding yield maintenance cost	\$14,198	\$15,860	\$29,136	\$31,786
Adjustment for yield maintenance cost due to early repayment	—	7,502	—	7,502
Interest expense	\$14,198	\$23,362	\$29,136	\$39,288

Borrowing costs have been capitalized to qualifying investment properties and residential inventory, where applicable, at a weighted average rate of 3.95% per annum (June 30, 2018 – 3.88%).

(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.

	REMAINING 2019	2020	2021	2022	2023	THEREAFTER	TOTAL
Mortgages payable, principal repayments	\$12,824	\$26,753	\$25,878	\$22,099	\$17,811	\$8,890	\$114,255
Mortgages payable, balance due at maturity	10,666	—	103,535	100,102	225,585	218,548	658,436
Construction loans payable	86,010	—	—	—	11,621	—	97,631
Unsecured Debentures	—	225,000	—	150,000	—	200,000	575,000
Unsecured Term Loans	—	—	200,000	—	—	250,000	450,000
Total	\$109,500	\$251,753	\$329,413	\$272,201	\$255,017	\$677,438	\$1,895,322

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

11. LEASE LIABILITIES

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

	REMAINING 2019 ⁽¹⁾	2020 - 2023 ⁽¹⁾	THEREAFTER	JUNE 30, 2019	DECEMBER 31, 2018
Future minimum lease payments	\$5,850	\$39,540	\$463,659	\$509,049	\$512,865
Interest accrued on lease obligations	(738)	1,550	—	812	911
Less: amounts representing interest payments	(5,112)	(41,090)	(307,700)	(353,902)	(357,113)
Present value of lease payments	\$—	\$—	\$155,959	\$155,959	\$156,663

(1) The future minimum lease payments prior to 2023 are less than the effective interest on the lease liabilities.

Some of Allied's lease agreements contain contingent rent clauses. Contingent rental payments are recognized in the unaudited condensed consolidated statements of income and comprehensive income as required when contingent criteria are met. The lease agreements contain renewal options, purchase options, escalation clauses, additional debt and further leasing clauses. For the three and six months ended June 30, 2019, minimum lease payments of \$2,129 and \$5,800 were paid by Allied (June 30, 2018 - \$2,128 and \$4,078).

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consists of the following:

	JUNE 30, 2019	DECEMBER 31, 2018
Trade payables and other liabilities	\$143,480	\$130,363
Prepaid user rents	53,503	54,958
Accrued interest payable	5,426	5,418
Distributions payable to Unitholders	15,464	13,814
Residential Deposits ⁽¹⁾	21,316	5,000
Interest rate swap derivative liability ⁽²⁾	20,495	7,781
	\$259,684	\$217,334
Current	\$225,999	\$217,334
Non-current ⁽³⁾	33,685	—
	\$259,684	\$217,334

(1) Residential deposits consist of short-term deposits related to King Portland Centre of \$8,126 and long-term deposits related to KING Toronto of \$13,190.

(2) In 2019, Allied classifies the interest rate swap derivative liability as non-current.

(3) Non-current liabilities is composed of residential deposits of \$13,190 and an interest rate swap derivative liability of \$20,495.

13. FAIR VALUE MEASUREMENTS

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

		JUNE 30, 2019		DECEMBER 31, 2018	
	CLASSIFICATION/ MEASUREMENT	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Financial Assets:					
Loans and notes receivable (note 7)	Amortized cost	248,124	248,124	213,444	213,444
Cash and cash equivalents (note 19)	Amortized cost	202,537	202,537	18,361	18,361
Accounts receivable (note 9)	Amortized cost	26,054	26,054	20,846	20,846
Unsecured term loan interest swap asset (note 8)	FVTPL	2,234	2,234	4,746	4,746
Financial Liabilities:					
Debt (note 10)					
Mortgages	Amortized cost	771,068	804,112	769,473	798,485
Construction loans payable	Amortized cost	97,631	97,631	70,909	70,909
Unsecured Facility	Amortized cost	—	—	95,000	95,000
Unsecured Debentures	Amortized cost	573,555	589,388	573,320	570,616
Unsecured Term Loans	Amortized cost	449,031	459,084	448,909	454,350
Mortgage interest swap liability (note 12)	FVTPL	20,495	20,495	7,781	7,781
Lease liabilities (note 11 and note 5)	Amortized cost	155,959	171,907	156,663	174,303
Accounts payable and other liabilities (note 12)	Amortized cost	239,189	239,189	209,553	209,553

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

	JUNE 30, 2019			DECEMBER 31, 2018		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial Assets:						
Loans and notes receivable (note 7)	—	248,124	—	—	213,444	—
Cash and cash equivalents (note 19)	202,537	—	—	18,361	—	—
Accounts receivable (note 9)	—	26,054	—	—	20,846	—
Unsecured term loan interest swap asset (note 8)	—	2,234	—	—	4,746	—
Financial Liabilities:						
Debt (note 10)						
Mortgages	—	804,112	—	—	798,485	—
Construction loans payable	—	97,631	—	—	70,909	—
Unsecured Facility	—	—	—	—	95,000	—
Unsecured Debentures	—	589,388	—	—	570,616	—
Unsecured Term Loans	—	459,084	—	—	454,350	—
Mortgage interest swap liability (note 12)	—	20,495	—	—	7,781	—
Lease liabilities (note 11 and note 5)	—	—	171,907	—	—	174,303
Accounts payable and other liabilities (note 12)	—	239,189	—	—	209,553	—

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

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

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

INTEREST RATE SWAP DERIVATIVE CONTRACTS

The fair value of Allied's interest rate derivative contracts, which represent a net liability as at June 30, 2019, is \$18,261 (December 31, 2018 - \$3,035). The fair value of the derivative contracts is determined using forward interest rates observable in the market (Level 2).

	JUNE 30, 2019	DECEMBER 31, 2018
Interest rate swap derivative asset (note 8)	\$2,234	\$4,746
Interest rate swap derivative liability (note 12)	(20,495)	(7,781)
Net (liability) asset	\$(18,261)	\$(3,035)

DEBT

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

LEASE LIABILITIES

The fair value of lease liabilities is determined by discounting the cash flows for the obligations using applicable Level 3 inputs based on Allied's assumptions of interest rates and the residual lease term.

14. UNITHOLDERS' EQUITY

The following represents the number of Units issued and outstanding, and the related carrying value of Unitholders' equity, for the six months ended June 30, 2019, and for the year ended December 31, 2018.

	JUNE 30, 2019		DECEMBER 31, 2018	
	UNITS	AMOUNT	UNITS	AMOUNT
Units, beginning of period	103,861,945	\$2,835,395	92,935,150	\$2,399,768
Restricted Unit plan (net of forfeitures) (note 15(b))	—	(2,497)	—	(2,584)
Unit option plan - options exercised (note 15(a))	266,318	10,072	84,595	3,043
Unit offering	12,144,000	551,221	10,842,200	435,168
Units, end of period	116,272,263	\$3,394,191	103,861,945	\$2,835,395

On June 19, 2019, Allied raised gross proceeds of \$345,524 through the issuance of 7,176,000 Units at a price of \$48.15 per unit. Costs relating to the issuance totaled \$14,571 and were applied against the gross proceeds of the issuance and charged against Unitholders' equity.

On March 7, 2019, Allied raised gross proceeds of \$230,018 through the issuance of 4,968,000 Units at a price of \$46.30 per unit. Costs relating to the issuance totaled \$9,750 and were applied against the gross proceeds of the issuance and charged against Unitholders' equity.

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

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

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

DISTRIBUTIONS

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

NORMAL COURSE ISSUER BID

On February 20, 2019, 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 10,205,838 of its outstanding Units, representing approximately 10% of its public float as at February 14, 2019. The NCIB commenced February 22, 2019, and will expire on February 21, 2020, or such earlier date as Allied completes its purchases pursuant to the NCIB. All purchases under the NCIB will be made on the open market through the facilities of the TSX or alternate trading systems in Canada at market prices prevailing at the time of purchase. Any Units that are repurchased will either be cancelled or delivered to participants under Allied’s Restricted Unit Plan or to employees pursuant to Allied’s employee programs.

During the six months ended June 30, 2019, Allied purchased 51,858 Units for \$2,497 at a weighted average price of \$48.16 per unit under its NCIB program, all of which were purchased for delivery to participants under Allied’s Restricted Unit Plan.

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

15. UNIT OPTION AND RESTRICTED UNIT PLANS

(A) Unit Option Plan

Allied adopted a Unit Option Plan providing for the issuance, from time to time, at the discretion of the trustees, of options to purchase Units for cash. Participation in the Unit Option Plan is restricted to certain employees of Allied. The Unit Option Plan complies with the requirements of the Toronto Stock Exchange. The exercise price of any option granted will not be less than the closing market price of the Units on the day preceding the date of grant. Options granted prior to February 22, 2017, vest evenly over three years and options granted subsequently vest evenly over four years from the date of grant. All options are settled in Units.

SUMMARY OF UNIT OPTION GRANTS:

Date granted	Expiry date	Units granted	Exercise price	Exercised - life to date	Forfeited - life to date	Net outstanding	Vested
March 3, 2015	March 3, 2020	302,706	\$40.60	(208,689)	—	94,017	94,017
March 1, 2016	March 1, 2026	540,480	\$31.56	(174,930)	(19,132)	346,418	346,418
February 22, 2017	February 22, 2027	279,654	\$35.34	(15,717)	—	263,937	124,110
February 14, 2018	February 14, 2028	198,807	\$40.30	—	—	198,807	51,436
February 13, 2019	February 13, 2029	323,497	\$47.53	—	—	323,497	—
		1,645,144		(399,336)	(19,132)	1,226,676	615,981

	SIX MONTHS ENDED		YEAR ENDED	
	JUNE 30, 2019		DECEMBER 31, 2018	
	The range of exercise prices	Weighted average remaining contractual life (years)	The range of exercise prices	Weighted average remaining contractual life (years)
For the Units outstanding at the end of the period	\$31.56-47.53	7.52	\$31.56-40.60	6.26

	SIX MONTHS ENDED		YEAR ENDED	
	JUNE 30, 2019		DECEMBER 31, 2018	
	Number of Units	Weighted average exercise price	Number of Units	Weighted average exercise price
Balance at the beginning of the period	1,169,497	\$36.05	1,057,084	\$35.24
Granted during the period	323,497	47.53	198,807	40.30
Forfeited during the period	—	—	(1,799)	31.56
Exercised during the period	(266,318)	37.82	(84,595)	35.97
Balance at the end of the period	1,226,676	\$38.69	1,169,497	\$36.05
Units exercisable at the end of the period	615,981	\$34.43	596,331	\$36.12

Allied accounts for its Unit Option Plan using the fair value method, under which compensation expense is measured at the date options are granted and recognized over the vesting period.

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

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

	SIX MONTHS ENDED	YEAR ENDED
	JUNE 30, 2019	DECEMBER 31, 2018
Unit options granted	323,497	198,807
Unit option holding period (years)	10	10
Volatility rate	18.85%	24.48%
Distribution yield	3.37%	3.87%
Risk free interest rate	1.87%	2.32%
Value of options granted	\$1,980	\$1,354

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

For the three and six months ended June 30, 2019, Allied recorded a share-based payment expense of \$406 and \$782 in general and administrative expense in the unaudited condensed consolidated statements of income and comprehensive income (for the three and six months ended June 30, 2018 - \$326 and \$687).

(B) *Restricted Unit Plan*

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

	SIX MONTHS ENDED	YEAR ENDED
	JUNE 30, 2019	DECEMBER 31, 2018
Restricted Units, beginning of the period	267,420	241,557
Granted	51,858	61,733
Expiration of restriction period	(31,586)	(35,870)
Restricted Units, end of the period	287,692	267,420

For the three and six months ended June 30, 2019, Allied recorded a share-based payment expense of \$684 and \$1,271 in general and administrative expense in the unaudited condensed consolidated statements of income and comprehensive income (for the three and six months ended June 30, 2018 - \$560 and \$1,093).

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:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Basic	110,121,406	93,697,810	107,713,874	93,327,182
Unit Option Plan	246,597	171,023	256,962	159,061
Fully diluted	110,368,003	93,868,833	107,970,836	93,486,243

17. RENTAL REVENUE FROM INVESTMENT PROPERTIES

Rental revenue includes the following:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Rental revenue from rental properties ⁽¹⁾	\$55,744	\$49,962	\$109,409	\$99,648
Tax and insurance recoveries	19,317	18,369	39,702	37,571
Miscellaneous revenue ⁽²⁾	5,231	3,927	10,383	7,966
Operating cost recoveries	37,519	34,725	74,803	68,692
Total rental revenue	117,811	106,983	\$234,297	\$213,877

(1) Includes straight-line rent, amortization of tenant improvements and parking revenue earned at properties.

(2) Includes lease terminations, third party managed parking, variable percentage rent and other miscellaneous items.

Future minimum rental income is as follows:

	REMAINING 2019	2020 - 2023	THEREAFTER	TOTAL
Future minimum rental income	\$125,808	\$830,404	\$973,177	\$1,929,389

18. GENERAL AND ADMINISTRATIVE EXPENSES

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Salaries and benefits	\$4,863	\$3,422	\$9,538	\$6,823
Professional and trustee fees	1,099	681	1,999	1,287
Office and general expenses	870	886	1,791	1,665
	\$6,832	\$4,989	\$13,328	\$9,775
Capitalized to qualifying investment properties	(1,336)	(941)	(2,372)	(1,866)
Total general and administrative expenses	\$5,496	\$4,048	\$10,956	\$7,909

19. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents include the following components:

	JUNE 30, 2019	DECEMBER 31, 2018
Cash	\$201,537	\$17,361
Short-term deposits	1,000	1,000
Total cash and cash equivalents	\$202,537	\$18,361

The following summarizes supplemental cash flow information in operating activities:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Supplemental				
Interest paid on debt (including capitalized interest (note 10))	\$26,679	\$35,495	\$42,532	\$52,088
Interest received	\$2,975	\$1,361	\$5,453	\$2,677

The following summarizes supplemental cash flow information in financing activities:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Supplemental				
Non-cash loan Issuance (note 7)	\$2,460	\$—	\$2,460	\$—

The following summarizes supplemental cash flow information in investing activities:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Supplemental				
Mortgages assumed (note 4)	\$13,599	\$375	\$13,599	\$375

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Net change in accounts receivable, prepaid expenses and deposits	\$(41,498)	\$663	\$(66,962)	\$(4,547)
Add back: Amounts from acquired properties	39,330	—	39,330	—
Net change in loans and notes receivable	4,067	83	7	106
Net change in accounts payable and other liabilities	20,790	(14,077)	42,350	13,028
Less: Non-cash interest	5,138	6,118	(707)	1,026
Less: Distributions payable to Unitholders	(955)	(950)	(1,651)	(954)
Less: Mortgage interest swap liability	(20,495)	641	(12,714)	1,781
Less: Accrued amounts from acquired properties (net of assumed mortgage premiums)	(2,155)	1	(2,157)	(326)
Change in non-cash operating items	\$4,222	\$(7,521)	\$(2,504)	\$10,114

20. JOINT ARRANGEMENTS

Allied has investments in properties under joint arrangements which are accounted for as joint operations.

The following tables summarize Allied's ownership interests in joint operations and its share of the rights to the assets, its share of the obligations with respect to liabilities, and its share of revenues and expenses for the joint operations in which it participates.

Allied's joint arrangements are governed by agreements with the respective co-owners. Included within the agreements are standard exit and transfer provisions that include, but are not limited to, buy/sell and/or right of first offers or refusals that provide for unwinding the arrangement. Allied is generally liable for its proportionate share of the obligations of the arrangement. In the event that there is default on payment by the co-owner, credit risk is typically mitigated with an option to remedy any non-performance by the defaulting co-owner, as well as recourse against the asset, whereby claims would be against both the underlying real estate investments and the co-owner in default.

PROPERTIES	LOCATION	CURRENT STATUS	OWNERSHIP	
			JUNE 30, 2019	DECEMBER 31, 2018
478 King W	Toronto, ON	Rental Property	50%	50%
642 King W	Toronto, ON	Rental Property	50%	50%
731-10th SW	Calgary, AB	Rental Property	50%	50%
802-838 11th SW, Glenbow Assembly	Calgary, AB	Rental Property	50%	50%
Adelaide & Duncan	Toronto, ON	Property Under Development	50%	50%
Breithaupt Block	Kitchener, ON	Rental Property and Property Under Development	50%	50%
College & Manning	Toronto, ON	Rental Property and Property Under Development	50%	50%
College & Palmerston	Toronto, ON	Rental Property	50%	50%
KING Toronto	Toronto, ON	Property Under Development	50%	50%
King Portland Centre	Toronto, ON	Rental Property	50%	50%
Sherwin Block	Calgary, AB	Rental Property	50%	—%
TELUS Sky	Calgary, AB	Property Under Development	33.33%	33.33%
The Well ⁽¹⁾	Toronto, ON	Property Under Development	50%	50%

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

	JUNE 30, 2019	DECEMBER 31, 2018
Total assets	\$997,817	\$898,833
Total liabilities	\$349,261	\$235,054

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Revenue	\$4,365	\$2,054	\$8,121	\$4,120
Expenses	(3,236)	(1,179)	(5,753)	(2,237)
Income before fair value adjustment on investment properties	1,129	875	2,368	1,883
Fair value loss on investment properties	(5,857)	(5,114)	(15,323)	(7,803)
Net loss	\$(4,728)	\$(4,239)	\$(12,955)	\$(5,920)

21. SEGMENTED INFORMATION

IFRS 8, *Operating Segments*, requires reportable segments to be determined based on internal reports that are regularly reviewed by the chief operating decision maker (“CODM”) for the purpose of allocating resources to the segment and assessing its performance. Allied has determined that its CODM is the President and Chief Executive Officer. Allied’s operating segments are managed by use of properties and geographical locations. Urban Data Centres are comprised of properties operating similar to data centres and colocation facilities. The urban office properties are managed by geographic location consisting of three areas. Allied has redefined the previous segments referred to as Eastern Canada, Central Canada and Western Canada to be known as Montréal and Ottawa, Toronto and Kitchener, and Calgary, Edmonton, Vancouver. The comparative periods have been updated to confirm to the revised segment naming convention.

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

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

Allied does not allocate interest expense to segments as debt is viewed by Management to be used for the purpose of acquisitions, development and improvement of all the properties. Similarly, general and administrative expenses, interest income, fair value of investment properties and fair value of derivative instruments are not allocated to operating segments.

The following summary tables present a reconciliation of net rental income to net income for the three and six months ended June 30, 2019, and 2018.

SEGMENTED UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Three months ended June 30, 2019	MONTREAL & OTTAWA	TORONTO & KITCHENER	CALGARY, EDMONTON & VANCOUVER	URBAN DATA CENTRES	TOTAL
Rental revenue from investment properties	\$31,466	\$50,276	\$14,130	\$21,939	\$117,811
Property operating costs	(15,525)	(18,430)	(5,748)	(8,215)	(47,918)
Net rental income	15,941	31,846	8,382	13,724	69,893
Interest expense					(14,198)
General and administrative expenses					(5,496)
Condominium marketing expense					(1,351)
Amortization of other assets					(362)
Interest income					4,270
Fair value gain on investment properties					52,116
Fair value loss on derivative instruments					(4,977)
Net income and comprehensive income					\$99,895

SEGMENTED UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Six months ended June 30, 2019	MONTREAL & OTTAWA	TORONTO & KITCHENER	CALGARY, EDMONTON & VANCOUVER	URBAN DATA CENTRES	TOTAL
Rental revenue from investment properties	\$62,439	\$99,317	\$27,411	\$45,130	\$234,297
Property operating costs	(31,511)	(37,502)	(11,662)	(16,680)	(97,355)
Net rental income	30,928	61,815	15,749	28,450	136,942
Interest expense					(29,136)
General and administrative expenses					(10,956)
Condominium marketing expenses					(2,209)
Amortization of other assets					(730)
Interest income					7,952
Fair value gain on investment properties					156,435
Fair value loss on derivative instruments					(15,226)
Net income and comprehensive income					\$243,072

SEGMENTED UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Three months ended June 30, 2018	MONTREAL & OTTAWA	TORONTO & KITCHENER	CALGARY, EDMONTON & VANCOUVER	URBAN DATA CENTRES	TOTAL
Rental revenue from investment properties	\$28,664	\$46,730	\$12,001	\$19,588	\$106,983
Property operating costs	(14,308)	(18,204)	(5,515)	(7,513)	(45,540)
Net rental income	14,356	28,526	6,486	12,075	61,443
Interest expense					(23,362)
General and administrative expenses					(4,048)
Amortization of other assets					(412)
Interest income					1,361
Fair value gain on investment properties					78,577
Fair value gain on derivative instruments					93
Net income and comprehensive income					\$113,652

SEGMENTED UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Six months ended June 30, 2018	MONTREAL & OTTAWA	TORONTO & KITCHENER	CALGARY, EDMONTON & VANCOUVER	URBAN DATA CENTRES	TOTAL
Rental revenue from investment properties	\$57,063	\$94,025	\$24,111	\$38,678	\$213,877
Property operating costs	(28,509)	(37,357)	(10,986)	(15,016)	(91,868)
Net rental income	28,554	56,668	13,125	23,662	122,009
Interest expense					(39,288)
General and administrative expenses					(7,909)
Amortization of other assets					(817)
Interest income					2,677
Fair value gain on investment properties					120,454
Fair value gain on derivative instruments					1,226
Net income and comprehensive income					\$198,352

22. INCOME TAXES

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

23. RELATED PARTY TRANSACTIONS

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

Allied engages in third-party property management business, including the provision of services for properties in which certain trustees of Allied have an ownership interest. For the three and six months ended June 30, 2019, real estate service revenue earned from these properties was \$111 and \$196 (for the three and six months ended June 30, 2018 - \$72 and \$148).

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:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2019	JUNE 30, 2018
Salary, bonus and other short-term employee benefits	\$989	\$945	\$2,008	\$1,891
Unit-based compensation	902	715	1,694	1,450
	\$1,891	\$1,660	\$3,702	\$3,341

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 lease liabilities. 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 June 30, 2019, the debt to gross book value ratio was 25.8% (December 31, 2018 - 29.4%) and debts having variable interest rates or maturities of less than one year aggregated to 4.7% of gross book value (December 31, 2018 - 3.0%).

On November 27, 2018, Allied filed a short form base shelf prospectus allowing for the issuance, from time to time, of Units and debt securities, or any combination thereof having an aggregate offering price of up to \$1,500,000. This document is valid for a 25-month period.

Allied has certain key financial covenants in its Unsecured Debentures, Unsecured Facility and Unsecured Term Loans. The key financial covenants include debt service ratios and leverage ratios, as defined in the respective agreements. These ratios are evaluated by Allied on an ongoing basis to ensure compliance with the agreements. Allied was in compliance with each of the key financial covenants under these agreements as at June 30, 2019.

(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 June 30, 2019, 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 June 30, 2019, the Unsecured Facility, which is at a floating interest rate and is exposed to changes in interest rates, had no outstanding balance (December 31, 2018 - \$95,000). In addition, there is a risk that interest rates will fluctuate from the date Allied commits to a debt to the date the interest rate is set with the lender. As part of its risk management program, Allied endeavours to maintain an appropriate mix of fixed rate and floating rate debt, to stagger the maturities of its debt and to minimize the time between committing to a debt and the date the interest rate is set with the lender.

The following table illustrates the annualized sensitivity of income and equity to a reasonably possible change in interest rates of +/- 1.0%. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

AS AT JUNE 30, 2019	-1.0%		+1.0%
	CARRYING AMOUNT	INCOME IMPACT	INCOME IMPACT
Mortgages and construction loans payable maturing within one year	\$347,827	\$3,478	\$(3,478)

(c) *Credit risk*

As Allied has provided loans and advances to facilitate property development, further credit risks arise in the event that borrowers default on the repayment of their amounts owing to Allied. Allied's loans and advances will be subordinate to prior ranking mortgages or charges. As at June 30, 2019, Allied had \$235,239 outstanding in loans receivable (December 31, 2018 - \$200,289). In the event of a large commercial real estate market correction, the fair market value of an underlying property may be unable to support the loan value. Allied mitigates this risk by obtaining corporate guarantees and/or registered mortgage charges.

Credit risk from user receivables arises from the possibility that users may experience financial difficulty and be unable to fulfill their lease commitments, resulting in Allied incurring a financial loss. Allied manages credit risk to mitigate exposure to financial loss by staggering lease maturities, diversifying revenue sources over a large user base, ensuring no individual user contributes a significant portion of Allied's revenues and conducting credit reviews of new users. Management reviews user receivables on a regular basis and reduces carrying amounts through the use of an allowance for doubtful accounts and the amount of any loss is recognized in the unaudited condensed consolidated statements of income and comprehensive income within property operating costs. As at June 30, 2019, and June 30, 2018, the allowance for doubtful accounts totals \$2,706 and \$2,365, 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:

	JUNE 30, 2019	JUNE 30, 2018
Less than 30 days	\$1,893	\$1,408
30 to 60 days	1,314	2,656
More than 60 days	5,268	4,487
Total	\$8,475	\$8,551

(D) *Liquidity risk*

Liquidity risk arises from the possibility of not having sufficient capital available to fund ongoing operations or the ability to refinance or meet obligations as they come due. Mitigation of liquidity risk is also managed through credit risk as discussed above. A significant portion of Allied's assets have been pledged as security under the related mortgages and other security agreements. Interest rates on the mortgages payable are between 3.59% and 5.58% for June 30, 2019 (December 31, 2018 - 3.59% and 5.58%).

As at June 30, 2019, Allied has entered into interest rate derivative contracts to limit its exposure to fluctuations in interest rates on \$205,034 of its variable rate mortgages payable and \$450,000 of its variable rate Unsecured Term Loans (December 31, 2018 - \$208,712 and \$450,000, respectively). Gains or losses arising from the change in fair values of the interest rate derivative contracts are recognized in the unaudited condensed consolidated statements of income and comprehensive income. For the three and six months ended June 30, 2019, Allied recognized as part of the change in fair value adjustment on derivative instruments a net loss of \$4,977 and \$15,226 (for the three and six months ended June 30, 2018 – a net gain of \$93 and \$1,226).

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

(E) *Maturity Analysis*

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

	REMAINING 2019	2020	2021	2022	2023	THERE- AFTER	TOTAL
Mortgages payable	\$39,888	\$58,684	\$158,529	\$146,117	\$261,560	\$236,198	\$900,976
Construction loans payable	86,778	387	387	387	11,878	—	\$99,817
Unsecured Debentures	10,803	246,606	13,173	163,173	7,272	214,544	\$655,571
Unsecured Term Loans	7,850	15,700	209,980	9,980	9,980	269,960	\$523,450
Total	\$145,319	\$321,377	\$382,069	\$319,657	\$290,690	\$720,702	\$2,179,814

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 June 30, 2019, and December 31, 2018, were \$774,287 and \$402,525, respectively.

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

Allied, through a financial intermediary, has issued letters of credit in the amount of \$14,760 (December 31, 2018 - \$14,545).

26. SUBSEQUENT EVENTS

On July 2, 2019, Allied completed the purchase of 1001 Rue Lenoir, Montréal, for total cash consideration of \$80,000.

On July 17, 2019, Allied completed the purchase of 700 de la Gauchetiere, Montréal, for a total purchase price of \$322,500, comprised of net cash consideration paid of \$173,513 and a mortgage assumption of \$148,987.

On July 31, 2019, Allied entered into an arrangement with Westbank to provide a credit facility, plus interest, for the initial pre-development costs for 720 Beatty in Vancouver. The credit facility bears an interest rate of 7.00% per annum. Subject to placement of permanent financing, Allied intends to acquire a 50% undivided interest in 720 Beatty.

2019 Outlook

LOW-MID-SINGLE-DIGIT % GROWTH IN SANOI

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

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

CONTINUED GROWTH IN NAV/UNIT

CONTINUED STRONG DEBT-METRICS

CONTINUED GROWTH IN UNENCUMBERED ASSETS

ALLIED PROPERTIES REIT

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