ALLIED

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST

URBAN OFFICE ENVIRONMENTS IN CANADA'S MAJOR CITIES

ANNUAL REPORT - DECEMBER 31, 2011

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ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST

ANNUAL REPORT DECEMBER 31, 2011

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LETTER TO UNITHOLDERS

Dear Fellow Unitholder:

2011 was a remarkable year for Allied. While our AFFO per unit was down 13%, our unit price was up 17%. We delivered a 23% total return to our unitholders, well above the norm for Canadian REITs. We achieved this by transitioning our balance sheet and portfolio to a new level and by transforming our platform. As a result, our outlook is positive.

TRANSITION

While remaining characteristically clean and conservative, our balance sheet strengthened considerably in 2011. Starting the year at $1.6 billion, the fair value of our assets grew to just under $2.1 billion by year-end. Acquisitions drove $345 million of the growth, with appreciation in value driving the remaining $182 million. We financed our acquisitions in the proven manner, raising $86 million in equity in March at $22 per unit and another $104 million in August at $23.50 per unit, in each case locking in an all-time low cost of equity. This and a steady increase in our unit price drove our market capitalization from $907 million at the beginning of the year to $1.3 billion by year-end, an increase of 44%. We also secured $300 million in first mortgage financing over the course of the year, most for terms of eight years or longer, at a weighted average interest rate of 4.8%. By year-end, our overall debt ratio was a conservative 45%, the weighted average interest rate on our mortgages had declined to 5.3% and the weighted average term of our mortgages had stretched out to five years.

A steady stream of leasing achievements transitioned our portfolio to a new level as well. We leased over 1.4 million square feet in 2011, bringing the leased area of our rental portfolio to 94% (excluding upgrade properties). We renewed or replaced 90% of our maturing leases, resulting in an overall increase of 6% in net rental income per square foot from the affected space. We also addressed most of our large-scale lease maturities in the next few years, bringing our weighted average lease term to just over five years and reducing the average annual maturity over the next five years to 9% of our rental portfolio. Other key portfolio attributes were also strengthened. Our tenant-mix improved considerably, particularly at Cité Multimédia in Montréal, which by year-end was 93.5%

leased to a diverse group of high-calibre tenants for longer than normal lease-terms. Our exposure to our top-10 tenants declined from 27% to 23% of gross revenue, continuing a long-established trend in risk reduction. While the risk of NOI volatility can never be eliminated, the material improvement in our key portfolio attributes certainly reduced this risk going forward.

TRANSFORMATION

Portfolio expansion and team building transformed our platform in 2011. By year-end, we had a national portfolio of urban office properties with three clear attributes—proximity to the core, distinctive internal and external environments and lower overall occupancy costs. In addition to enhancing geographic diversification and enabling us to participate in Western Canada's economic growth, this will enable us to serve our tenants better and to expand our universe of acquisition and value-creation opportunities. Our bolstered and realigned leadership team enabled us to empower our organization more fully in 2011. Our entire team, from our board to our building operators, coalesced around the core values of respect, focus, creativity, enthusiasm, teamwork and community building. Our team became stronger, better coordinated and more cohesive than ever.

Value-creation capability is a big part of our platform. Many older structures in the inner-cities afford real opportunity for physical and financial upgrade, enabling us to add value while the properties generate a very respectable current return on our capital. Others need to be redeveloped, enabling us to add value while the properties are carried as properties under development. Many of the buildings in our portfolio underutilize the land on which they sit. This creates opportunity for intensification. We're currently marketing 250,000 square feet of approved intensification potential in Toronto (Phase I of QRC West) and preparing another 750,000 square feet for marketing (171 Front Street West). In addition, we've put another three potential intensification projects aggregating approximately 1.2 million square feet into the municipal approval process. Although at an early stage, these projects have the potential to transform our platform further.

There's an expanding segment of our platform worth noting, our data-centre, hosting and interconnection capability. We acquired 151 Front Street West in Toronto in late 2009. It's one of eight internet hubs in North America and has performed exceptionally well for our unitholders. We expanded our capability by redeveloping a portion of 905 King Street West and by acquiring 60 Adelaide Street East, both of which are directly connected to 151 Front. In light of the burgeoning demand, we're now exploring potential avenues to expand our data-centre, hosting and interconnection capability, particularly in areas where our ability to afford direct access to 151 Front will enable us to serve tenants better.

OUTLOOK

We're well positioned for 2012. We expect our AFFO per unit to grow considerably, and we expect our value-creation activity to continue to accelerate. We also believe that our clean and conservative balance sheet, low debt ratio, moderate mortgage maturity schedule and abundant liquidity will provide stability and facilitate growth in most any environment.

THANKS

Everyone contributed last year, our board, our leadership team and our accounting, management and leasing teams across the country. Perhaps most importantly, our unitholders remained steadfast in their support of our business. To the Allied team and to Allied unitholders, I express sincere and deep thanks.

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

Yours truly,

Michael R. Emory
PRESIDENT AND CHIEF EXECUTIVE OFFICER

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION AS AT DECEMBER 31, 2011

PART I
—*Overview*

FORWARD-LOOKING DISCLAIMER

The terms "Allied Properties", "the REIT", "we", "us" and "our" in the following Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") refer to Allied Properties Real Estate Investment Trust and its consolidated financial position and results of operations for the year ended December 31, 2011. This MD&A is based on financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with our condensed consolidated financial statements and notes thereto for the year ended December 31, 2011. Historical results and percentage relationships contained in our condensed interim consolidated financial statements and MD&A, including trends that might appear, should not be taken as indicative of our future results, operations or performance. Unless otherwise indicated, all amounts in this MD&A are in thousands of Canadian dollars.

Certain information included in this Annual Report contains forward-looking statements within the meaning of applicable securities laws, including, among other things, statements concerning our objectives and our 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. Such forward-looking statements reflect Management's current beliefs and are based on information currently available to Management.

The forward-looking statements in this Annual Report 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 below in this MD&A under "Risks and Uncertainties", which could cause actual results, operations or performance to differ materially from the forward-looking statements in this Annual Report. 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, unitholder liability and taxation. Material assumptions that were made in formulating the forward-looking statements in this Annual Report include the following: that our current target markets remain stable, with no material increase in supply of directly-competitive office space; that acquisition capitalization rates remain reasonably constant; that the trend toward intensification within our target markets continues; and that the equity and debt markets continue to provide us with access to capital at a reasonable cost to fund our future growth and to refinance our mortgage debt as it matures. Although the forward-looking statements contained in this Annual Report 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 Annual Report are qualified by this forward-looking disclaimer. These statements are made as of March 6, 2012, and, except as required by applicable law, we undertake no obligation to update publicly or revise any such statements to reflect new information or the occurrence of future events or circumstances.

BUSINESS OVERVIEW AND STRATEGY

We are an unincorporated closed-end real estate investment trust created pursuant to the Declaration of Trust dated October 25, 2002, as amended and restated on February 6, 2003, May 14, 2008 and May 11, 2010 ("Declaration"). We are governed by the laws of Ontario. Our units are publicly traded on the Toronto Stock Exchange under the symbol AP.UN. Additional information on us, including our annual information form, is available on SEDAR at www.sedar.com.

We are a leading owner, manager and developer of urban office environments that enrich experience and enhance profitability for business tenants operating in Canada's major cities. Our objectives are to provide stable and growing cash distributions to unitholders and to maximize unitholder value through effective management and accretive portfolio growth.

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

The Class I value proposition includes (i) proximity to central business districts in areas well served by public transportation, (ii) distinctive internal and external environments that assist tenants in attracting, retaining and motivating employees and (iii) significantly lower overall occupancy costs than those that prevail in the central

business districts. The value proposition has proven appeal to a diverse base of business tenants, including the full range of service and professional firms, telecommunications and information technology providers, media and film groups and storefront retailers.

In addition to accommodating their employees in Class I office space, many of our tenants utilize sophisticated and extensive telecommunication and computer equipment. This is often a mission-critical need for our tenants. In an effort to serve this related need, we established extensive data-centre, hosting and interconnection capability in downtown Toronto through the acquisition of 151 Front Street West, the leading telecommunication interconnection point in Canada. We've since expanded our capability and are intent on continuing to do so with a view to serving our tenants' space requirements more fully.

PROPERTY PORTFOLIO

We completed our Initial Public Offering ("IPO") on February 20, 2003. We used the net proceeds of the IPO to acquire a portfolio of 14 predominantly Class I office properties in downtown Toronto with 820,000 square feet of gross leasable area ("GLA"). By the end of 2010, we had acquired another 44 office properties in downtown Toronto, 43 of them Class I office properties, bringing our total GLA in that market to 3.3 million square feet. We had also acquired 15 predominantly Class I office properties in downtown Montréal, eight in downtown Winnipeg, five in Québec City, two in Kitchener, one in Calgary and one in Vancouver, bringing our total portfolio at the end of 2010 to 90 properties with 6.3 million square feet of GLA.

In 2011, we sold a non-core property in Winnipeg for $2.8 million and acquired 18 properties for $345 million. The basic details of the properties acquired are set out in the table below:

PROPERTY	ACQUIRED	OFFICE GLA	RETAIL GLA	TOTAL GLA	PARKING SPACES
119-6th Avenue S.W., Calgary	April 15, 2011	63,063	0	63,063	25
129-8th Avenue S.W., Calgary	April 15, 2011	3,072	5,336	8,408	3
8-10 Bastion Square, Victoria	May 16, 2011	22,399	10,086	32,485	10
5455 Avenue de Gaspé, Montréal	June 10, 2011	523,014	270	523,284	150
948-950 Homer Street, Vancouver	June 24, 2011	22,099	23,290	45,389	7
388 Richmond Street West, Toronto	July 29, 2011	0	0	0	117
301 Markham Street, Toronto	July 29, 2011	0	0	0	46
Roberts Block, 603-605 11th Avenue S.W., Calgary	August 5, 2011	21,966	29,207	51,173	3
Metals Limited Building, 10190-104th Street N.W., Edmonton	August 8, 2011	16,814	5,767	22,581	0
Sun Tower, 128 West Pender Street, Vancouver	August 15, 2011	77,535	3,547	81,082	0
Kipling Square, 601-611 10th Avenue S.W., Calgary	August 15, 2011	43,606	2,592	46,198	13
Revillon Boardwalk Building, 10310-102nd Avenue N.W. and 10230-104th Street N.W., Edmonton	August 15, 2011	219,430	37,969	257,399	224
60 Adelaide Street East, Toronto	August 15, 2011	105,460	4,695	110,155	17
Leasehold Interest, 184 Front Street East, Toronto	August 15, 2011	80,734	6,291	87,025	54
Cooper Block, 809-10th Avenue S.W., Calgary	September 1, 2011	35,889	0	35,889	35
Alberta Hotel Building, 808-1st Street S.W., Calgary	September 1, 2011	17,325	30,244	47,569	0
Fashion Central, 805-1st Street S.W., Calgary	September 1, 2011	0	25,693	25,693	0
Art Central, 100-7th Avenue S.W., Calgary	September 1, 2011	12,542	14,675	27,217	0
Total		**1,264,948**	**199,662**	**1,464,610**	**704**

This brought our portfolio at the end of 2011 to 107 properties with nearly 7.8 million square feet of GLA.

We also announced the acquisition of two properties for $106.5 million, which we completed earlier in 2012. The basic details are set out in the table below:

PROPERTY	ACQUIRED	OFFICE GLA	RETAIL GLA	TOTAL GLA	PARKING SPACES
Leeson and Lineham Block, Calgary	January 17, 2012	25,305	5,176	30,481	4
Leasehold Interest, The Chambers, Ottawa	February 16, 2012	195,991	15,951	211,942	144
Total		**221,296**	**21,127**	**242,423**	**148**

We also have the following acquisitions pending, which are included in our calculation of future commitments, as set out below in "Liquidity and Commitments":

(I) an undivided 50% interest in 6,552 square feet of retail space and 131 underground commercial parking spaces to be constructed as part of the condominium project at 478 King Street West in Toronto, which is adjacent to three of our properties, 468 King Street West, 500-522 King Street West and the King-Brant underground commercial parking structure;

(II) an undivided 50% interest in 172 underground commercial parking spaces and 18,360 square feet of retail space to be constructed as part of a condominium project at 560 King Street West in Toronto, which is adjacent to our 544 King Street West; and

(III) an undivided 75% interest in 71 underground commercial parking spaces to be constructed as part of the condominium project at 650 King Street West in Toronto, which is adjacent to our 662 King Street West and in close proximity to our 602-606 King Street West.

Each acquisition is conditional on final condominium registration and is expected to close in 2012 or 2013, subject to normal conditions. We will manage the retail space and all three underground commercial parking structures on behalf of the co-owners. This will enhance our significant operating control over surface and underground commercial parking spaces and retail space in the King & Spadina area.

Five Toronto properties (134 Peter Street, also known as Phase I of QRC West, 364 Richmond Street West, 905 King Street West, 70 Richmond Street East and 36-40 Wellington Street East), one Kitchener property (The Breithaupt Block) and one Montréal property (4450 Saint-Laurent Boulevard) are currently properties under development ("Properties Under Development" or "PUDs"). They are undergoing redevelopment, development or intensification. See "Properties Under Development" below.

PROPERTY MANAGEMENT

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

SUSTAINABILITY

We are committed to sustainability, both as it relates to our business and to the physical environment within which we operate. Most of our buildings were created through the adaptive re-use of structures built over a century ago. They are recycled buildings, and the recycling has had considerably less impact on the environment than new construction of equivalent GLA would have had.

We are committed to obtaining BOMA BESt certification for as many of our existing buildings as possible. Certification is based on independently verified information and a systematic assessment of key areas of environmental performance and management. Level 1 certification involves independent verification that all BOMA BESt practices have been adopted. Level 2 through to Level 4 involve progressively better assessments of environmental performance and management. We currently have Level 3 certification for four buildings in Toronto, 469 King Street West, 99 Spadina Avenue, 193 Yonge Street and 204-214 King Street East, one building in Kitchener, 72 Victoria Street, and the seven buildings comprising Cité Multimédia in Montréal. We currently have Level 2 certification for two buildings in Toronto, 257 Adelaide Street West and Queen-Richmond Centre. We plan to put additional buildings forward for certification in 2012.

To the extent we undertake new construction through development or intensification, we are 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.

PERFORMANCE MEASURES

We measure the success of our strategies through key financial and operating performance measures.

FINANCIAL MEASURES

1. DISTRIBUTIONS

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

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

We did not increase distributions in 2009, 2010 or 2011.

2. FUNDS FROM OPERATIONS

Funds From Operations ("FFO") has a standardized definition, as described under "Funds From Operations" below. IFRS differs from previous Canadian Generally Accepted Accounting Principles ("GAAP") in its impact on the calculation of FFO. For the purposes of comparison, our FFO per unit in 2010 has been adjusted as though IFRS applied at the time. In the fourth quarter, FFO per unit (diluted) was $0.40, in-line with the comparable quarter and up 11.1% from the prior quarter. In 2011, FFO per unit (diluted) was $1.39, down 12.0% from 2010. The year-over-year decline stemmed from turnover vacancy, principally in our Montréal target market. Virtually all of the affected space has now been re-leased.

3. FFO PAY-OUT RATIO

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate FFO pay-out ratio, the ratio of actual distributions to FFO in a given period. In the fourth quarter, our FFO pay-out ratio was 81.9%. In 2011, our FFO pay-out ratio was 95.2%. These are abnormally high for the reasons mentioned above and are expected to return to normal levels in 2012.

4. ADJUSTED FUNDS FROM OPERATIONS

Increasing distributions cannot be achieved prudently without reference to adjusted funds from operations ("AFFO"). This financial measure takes account of regular maintenance capital expenditures and regular leasing expenditures while ignoring the impact of non-cash revenue, as described under "Adjusted Funds from Operations" below. In the fourth quarter, AFFO per unit (diluted) was $0.33, up 10.0% from the comparable quarter and up 22.2% from the prior quarter. In 2011, AFFO per unit (diluted) was $1.07, down 13.0% from 2010. The year-over-year decline stemmed from turnover vacancy, principally in our Montréal target market. Virtually all of the affected space has now been re-leased.

5. AFFO PAY-OUT RATIO

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate AFFO pay-out ratio, the ratio of actual distributions to AFFO in a given period. In the fourth quarter our AFFO pay-out ratio was 102.1%. In 2011, our AFFO pay-out ratio was 123.2%. These are abnormally high for the reasons mentioned above and are expected to return to normal levels in 2012.

6. DEBT RATIO

A conservative debt ratio mitigates unitholder risk. Expressed as a percentage of the fair value of our investment properties, our debt ratio on December 31, 2011, was 44.8%, up very slightly from 44.6% on December 31, 2010.

7. INTEREST-COVERAGE RATIO

A conservative interest coverage ratio mitigates unitholder risk. Expressed as interest expense in relation to EBITDA, our interest-coverage ratio in the fourth quarter was 3.1:1 and in 2011 was 2.8:1. Our interest-coverage ratio for the comparable quarter in 2010 was 3.0:1 and for 2010 was 3.1:1.

OPERATING MEASURES

1. TENANT RETENTION AND REPLACEMENT

We place a high value on tenant retention, as the cost of retention is typically lower than the cost of securing new tenancies. If retention is neither possible nor desirable, we strive for high-quality replacement tenants. Leases representing 987,107 square feet of GLA matured in 2011. This amount does not include month-to-month leases for 142,249 square feet of GLA that are routinely renewed at the end of each month by the tenants. By December 31, 2011, we had renewed leases representing 675,905 square feet of this GLA and re-leased another 214,193 square feet of this GLA, representing 90.2% of the GLA covered by the maturing leases.

2. LEASED AREA

We strive to maintain consistently high levels of occupancy and leased area. At December 31, 2011, our leased area was 94.3% (excluding upgrade properties and Properties Under Development) and 92.5% (excluding Properties Under Development). The chart below summarizes the year-end levels of GLA and leased area in our portfolio since the end of 2003:

	2003	2004	2005	2006	2007	2008	2009	2010	2011
GLA (sf)	984,856	1,636,343	2,321,507	3,415,279	4,761,211	5,350,208	5,804,550	6,082,586	7,481,333
% leased	97.5	99.2	97.0*	96.3*	97.9*	97.3*	96.1*	91.4*	92.5*

**excluding Properties Under Development*

3. SAME-ASSET NET OPERATING INCOME

We strive to maintain or increase same-asset net operating income ("NOI") over time. See "Net Operating Income" below. Same-asset refers to those properties that we owned and operated for the entire period in question and for the same period in the prior year. Ignoring the step-rent revenue, same-asset NOI was $27,505 in the fourth quarter, up 8.6% from the comparable quarter and up 16.8% from the prior quarter. Same-asset NOI in 2011 was $93,252, down 4.1% from 2010. The decrease resulted from turnover vacancy, principally in our Montréal target market. Virtually all of the affected space has now been re-leased.

4. LEASING EXPENDITURES

We monitor leasing expenditures carefully. Leases for 338,888 square feet of GLA commenced in the fourth quarter. $2,929 in leasing expenditures related to this space, representing $8.64 per leased square foot, within our normal range of $7 to $10 per leased square foot. Leases for 1,567,005 square feet of GLA commenced in 2011. $11,050 in leasing expenditures related to this space, representing $7.05 per leased square foot, at the low end of our normal range.

5. CAPITAL EXPENDITURES

We strive to maintain our properties in top physical condition. In the fourth quarter, we incurred $150 in regular maintenance capital expenditures, representing two cents per square foot of our portfolio, in-line with the amount per square foot in the fourth quarter of prior years. In 2011, we incurred $1,843 in regular maintenance capital expenditures, representing twenty-five cents per square foot of our portfolio, below our normal range of fifty to seventy-five cents per portfolio square foot per year.

SUMMARY

The following table summarizes the key financial and operating performance measures for the fourth quarter and the prior quarter.

	Q4 2011	Q3 2011	CHANGE	%
Period-end distribution level per unit annualized	$1.32	$1.32	$0.00	0.0%
FFO per unit (diluted)	$0.40	$0.36	$0.04	11.1%
FFO pay-out ratio	81.9%	93.2%	(11.3%)	
AFFO per unit (diluted)	$0.33	$0.27	$0.06	22.2%
AFFO pay-out ratio	102.1%	124.4%	(22.3%)	
Debt ratio as a percentage of fair value	44.8%	44.7%	0.1%	
Interest-coverage ratio	3.1:1	2.8:1	0.3:1	
Period-end leased area (excluding upgrade properties and PUD)	94.3%	91.8%	2.5%	
Same-asset NOI	$27,505	$23,544	$3,961	16.8%
Leasing expenditures	$2,929	$3,362	($433)	(12.9%)
Leasing expenditures per square foot	$8.64	$8.58	$0.06	0.7%
Maintenance capital expenditures	$150	$699	($549)	(78.5%)
Maintenance capital expenditures per portfolio square foot	$0.02	$0.09	($0.07)	(77.8%)

The following table summarizes the key financial and operating performance measures for the fourth quarter and the comparable quarter in 2010.

	Q4 2011	Q4 2010	CHANGE	%
Period-end distribution level per unit annualized	$1.32	$1.32	$0.00	0.0%
FFO per unit (diluted)	$0.40	$0.40*	$0.00	0.0%
FFO pay-out ratio	81.9%	82.5%*	(0.6%)	
AFFO per unit (diluted)	$0.33	$0.30*	$0.03	10.0%
AFFO pay-out ratio	102.1%	109.7%*	(7.6%)	
Debt ratio as a percentage of fair value	44.8%	44.6%	0.2%	
Interest-coverage ratio	3.1:1	3.0:1	0.1:1	
Period-end leased area (excluding upgrade properties and PUD)	92.5%	91.4%	1.1%	
Same-asset NOI	$27,505	$25,318	$2,187	8.6%
Leasing expenditures	$2,929	$3,377	($448)	(13.3%)
Leasing expenditures per square foot	$8.64	$8.58	$0.06	0.7%
Maintenance capital expenditures	$150	$839	($689)	(82.1%)
Maintenance capital expenditures per portfolio square foot	$0.02	$0.14	($0.12)	(85.7%)

**excluding one-time Management Restructuring Costs*

The following table summarizes the key financial and operating performance measures for 2011 and 2010.

	2011	2010	CHANGE	%
Period-end distribution level per unit annualized	$1.32	$1.32	$0.00	0.0%
FFO per unit (diluted)	$1.39	$1.58*	($0.19)	(12.0%)
FFO pay-out ratio	95.2%	83.3%*	11.9%	
AFFO per unit (diluted)	$1.07	$1.23*	($0.16)	(13.0%)
AFFO pay-out ratio	123.2%	107.0%*	16.2%	
Debt ratio as a percentage of fair value	44.8%	44.6%	0.2%	
Interest-coverage ratio	2.8:1	3.1:1	(0.3:1)	
Period-end leased area (excluding upgrade properties and PUD)	94.3%	91.4%	2.9%	
Renewal-replacement percentage of leases maturing	90.2%	72.1%	18.1%	
Same-asset NOI	$93,252	$97,242	($3,990)	(4.1%)
Leasing expenditures	$11,050	$10,485	$565	5.4%
Leasing expenditures per square foot	$7.05	$9.00	($1.95)	(21.7%)
Maintenance capital expenditures	$1,843	$3,209	($1,366)	(42.6%)
Maintenance capital expenditures per portfolio square foot	$0.25	$0.53	($0.28)	(52.8%)

**excluding one-time lease termination payment and Management Restructuring Costs*

BUSINESS ENVIRONMENT AND OUTLOOK

We operate in 10 target markets—downtown Toronto, downtown and midtown Montréal, downtown Ottawa, downtown Winnipeg, downtown Québec City, downtown Kitchener, downtown Calgary, downtown Edmonton, downtown Vancouver and downtown Victoria. The following is a brief description of our target markets and current outlook:

DOWNTOWN TORONTO

This target market includes 14.6 million square feet of office inventory in three sub-markets, Downtown East (2.2 million square feet), Downtown West (10.4 million square feet) and King West (2.0 million square feet). Approximately half of the office inventory in this target market falls within the Class I category. At December 31, 2011, the overall vacancy rate for the downtown Toronto office market was 4.7%, with the Downtown East, Downtown West and King West sub-markets finishing the quarter at 6.5%, 5.6% and 10.0%, respectively.[1]

DOWNTOWN AND MIDTOWN MONTRÉAL

This target market includes 17.8 million square feet of office inventory in three sub-markets, Downtown East (7.5 million square feet), Old Montréal (7.8 million square feet) and Mile End (2.5 million square feet). Approximately half of the office inventory in this target market falls within the Class I category. At December 31, 2011, the overall vacancy rate for the downtown Montréal office market was 6.4%, with the Downtown East and Old Montréal sub-markets finishing the quarter at 2.1% and 8.2%, respectively. [2]

DOWNTOWN OTTAWA

This target market includes 1.5 million square feet of office inventory, principally in the Downtown Core and Byward Market. Most of the office inventory in this target market falls within the Class I category. At December 31, 2011, the overall vacancy rate for the Ottawa office market was 5.9%.[3]

DOWNTOWN WINNIPEG

This target market includes 1.8 million square feet of office inventory, principally in the Exchange District. Most of the office inventory in this target market falls within the Class I category. At December 31, 2011, the overall vacancy rate for downtown Winnipeg office market was 8.0%.[4]

DOWNTOWN QUÉBEC CITY

This target market includes 1.5 million square feet of office inventory in the Saint-Roch office node. Most of the office inventory in this target market falls within the Class I category. At December 31, 2011, the vacancy rate for the downtown Québec City office market was 5.1%. [5]

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[1] Cushman & Wakefield, Fourth Quarter 2011 Statistical Summary, Toronto Office Market.
[2] Cushman & Wakefield, Fourth Quarter 2011 Statistical Summary, Montréal Office Market.
[3] Cushman & Wakefield, Fourth Quarter 2011 Statistical Summary, National Office Market.
[4] Cushman & Wakefield, Fourth Quarter 2011 Statistical Summary, National Office Market.
[5] Avison Young, National Office Market Report, Fourth Quarter 2011.

DOWNTOWN KITCHENER

This target market includes approximately one million square feet of existing and potential office inventory in the Warehouse District. Much of the office inventory in this target market falls within the Class I office category. At December 31, 2011, the overall vacancy rate in the downtown Kitchener office market was 15.5%.[6]

DOWNTOWN CALGARY

This target market includes approximately one million square feet of existing office inventory in the heart of the Downtown Core, including along the Stephen Avenue Mall (8th Avenue), and in the Warehouse District. Most of the office inventory in this target market falls within the Class I office category. At December 31, 2011, the overall vacancy rate in the downtown Calgary office market was 3.0%. [7]

DOWNTOWN EDMONTON

This target market includes approximately one million square feet of existing office inventory in the Downtown Core. At December 31, 2011, the overall vacancy rate in the downtown Edmonton office market was 11.4%.[8]

DOWNTOWN VANCOUVER

This target market includes approximately four million square feet of existing office inventory in the Downtown Core, including Yaletown, Crosstown and Gastown. Most of the office inventory in this target market falls within the Class I office category. At December 31, 2011, the overall vacancy rate in the downtown Vancouver office market was 3.7%.[9]

DOWNTOWN VICTORIA

This target market includes 2.4 million square feet of existing office inventory. Most of the office inventory in this target market falls within the Class I office category. At December 31, 2011, the overall vacancy rate in the Victoria office market was 7.7%.[10]

OUTLOOK

We are well positioned for 2012. We expect our AFFO per unit to grow considerably as a result of our leasing, acquisition and financing achievements in 2011, and we expect our value-creation activity to continue to accelerate. We also believe that our clean and conservative balance sheet, low debt ratio, moderate mortgage maturity schedule and abundant liquidity will provide stability and facilitate growth in most any environment.

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[6] Colliers International, Waterloo Region Market Report, Fourth Quarter 2011.
[7] Cushman & Wakefield, Fourth Quarter 2011 Statistical Summary, Calgary Office Market.
[8] Cushman & Wakefield, Fourth Quarter 2011 Statistical Summary, Edmonton Office Market.
[9] Cushman & Wakefield, Fourth Quarter 2011 Statistical Summary, Vancouver Office Market.
[10] Colliers International, Victoria Office Market Report, Fourth Quarter 2011.

PART II
—*Fourth Quarter Results*

The following sets out summary information and financial results for quarter ended December 31, 2011, and the comparable quarter, as well as the change between the two.

(In thousands except for per unit and % amounts)	Q4 2011	Q4 2010	CHANGE	%
Revenue from rental properties	57,097	46,905	10,192	21.7%
Rental property operating cost	22,427	20,877	1,550	7.4%
Net rental income	34,670	26,028	8,642	33.2%
Real estate service income	31	86	(55)	(64.0%)
Financing expense				
Interest	11,099	8,849	2,250	25.4%
Interest expense on finance lease – ground lease	1,949	-	1,949	-
Amortization of mortgage premium	(143)	27	(170)	(629.6%)
Amortization of financing cost	275	226	49	21.7%
Amortization				
Leasing costs, computer and office equipment	808	866	(58)	(6.7%)
Income from operations	20,713	16,146	4,567	28.3%
Less trust expense	1,640	690	950	137.7%
Net income before Management Restructuring Costs	19,073	15,456	3,617	23.4%
Management Restructuring Costs	-	1,407	(1,407)	(100.0%)
Net income	19,073	14,049	5,024	35.8%
Gain resulting from change in fair value-real estate	48,920	88,673	(39,753)	(44.8%)
Loss on derivative instruments	(1,809)	-	(1,809)	-
Fair value adjustment on owner-occupied property	(155)	264	(419)	(158.7%)

(In thousands except for per unit and % amounts)	Q4 2011	Q4 2010	CHANGE	%
Subtotal	46,956	88,937	(41,981)	(47.2%)
Net income and comprehensive income	66,029	102,986	(36,957)	(35.9%)
Weighted average units outstanding (diluted)	51,633	42,251	9,382	22.2%
Distributions	16,948	13,852	3,096	22.4%
FFO	20,706	16,782*	3,924	23.4%
FFO per unit (diluted)	$0.40	$0.40*	$0.00	0.0%
FFO pay-out ratio	81.9%	82.5%*	(0.6%)	
AFFO	16,594	12,630*	3,964	31.4%
AFFO per unit (diluted)	$0.33	$0.30*	$0.03	10.0%
AFFO pay-out ratio	102.1%	109.7%*	(7.6%)	
NOI	34,545	26,662	7,883	29.6%
Same-asset net operating income	27,505	25,318	2,187	8.6%
Fair value of investment properties	2,086,005	1,559,284	526,721	33.8%
Total debt (excludes premium on assumed debt)	933,878	695,501	238,377	34.3%
Total debt as a % of fair value of investment properties	44.8%	44.6%	0.2%	
Total GLA (s.f., excluding PUD)	7,481	6,083	1,398	23.0%
Leased GLA (s.f., excluding PUD)	6,917	5,558	1,359	24.5%
Leased GLA (% total GLA)	92.5%	91.4%	1.1%	

**excluding one-time Management Restructuring Costs*

NET RENTAL INCOME AND REAL ESTATE SERVICE INCOME

Net rental income for the quarter was $34,670, up 33.2% from the comparable quarter. The quarter-over-quarter change arose from the following: (i) a $2,467 increase in same-asset net rental income from properties owned for the entire quarter and the entire comparable quarter (which includes the quarter-over-quarter change in step-rent adjustments); and (ii) a $6,175 increase from properties not owned for the entire quarter and the entire comparable quarter. Net rental income per occupied square foot for the quarter was $20.05 annualized, as compared to $18.73 annualized in the comparable period.

The Property Manager provides real estate services to third-party property owners. Real estate service income for the quarter was $31, as compared to $86 in the comparable quarter.

FINANCING EXPENSE

Financing expense includes interest cost on mortgage debt and other credit facilities and the amortization of the premiums and discounts on assumed mortgages. Interest for the quarter increased by 23.4% from the comparable quarter, due largely to the financing expense associated with additional properties acquired in 2011.

AMORTIZATION

Under IFRS, we amortize leasing cost and tenant improvements on a straight-line basis over the term of the corresponding lease, as we did in the past under GAAP. Amortization for the quarter decreased by 6.7% from the comparable quarter, due largely to the amortization associated with leasing cost and tenant improvements in 2011.

TRUST EXPENSE

Trust expense includes expense not directly attributable to investment properties, such as officers' compensation, trustees' fees, professional fees for legal and audit services, trustees' and officers' insurance premiums and general administrative expenses. Trust expense for the quarter increased by 137.7% from the comparable quarter, due largely to higher salary and performance-bonus payments in the quarter.

NET INCOME

Net income for the quarter was $19,073, as compared to $15,456 in the comparable quarter. Under IFRS, we elected to treat acquisitions of investment properties as "asset acquisitions" rather than "business combinations". Accordingly, we capitalize the transaction costs associated with such acquisitions, as we did in the past under GAAP.

NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income for the quarter was $66,029, as compared to $102,986 in the comparable quarter. Under IFRS, we elected the "fair value" approach to investment properties, with the result that they are recorded at fair value on the condensed interim consolidated balance sheets. To assist in establishing fair value, we retained an independent appraiser, Cushman & Wakefield, to appraise our portfolio as at December 31, 2009, and to update the appraisals at the end of each subsequent quarter. Changes in fair value are recorded on the Statements of Income and Comprehensive Income. The fair value of our investment properties at the end of the fourth quarter was $2,086,005, up $71,919 from the prior quarter end, and up $526,721 from the comparable quarter in 2010. $372,995 of the increase from the comparable quarter resulted from acquisitions, with the remaining $153,726 resulting from appreciation in value.

CAPITAL EXPENDITURES

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

In the quarter, we incurred (i) $150 in regular maintenance capital expenditures ($0.02 per portfolio square foot) and (ii) $2,929 in leasing expenditures ($8.64 per leased square foot) in connection with new leases or lease-renewals for 338,888 square feet of GLA that commenced in the quarter.

We incurred $10,077 in revenue-enhancing capital and leasing expenditures in connection with space that was significantly reconfigured and retrofitted to accommodate high-value new tenancies and in connection with the completion of PUDs.

$545 of the salaries paid in the quarter were capitalized in connection with capital improvements to our rental properties and Properties Under Development. This amount was equivalent to approximately 4.3% of the associated development costs.

FUNDS FROM OPERATIONS

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 in its White Paper on Funds From Operations dated November 30, 2004. Essentially, the REALpac definition is net income with adjustments for non-cash and extraordinary items. Management believes that this definition is followed by most Canadian real estate investment trusts and that it is a useful measure of cash available for distributions. The following reconciles net income and comprehensive income for the quarter and comparable quarter, as presented in the condensed interim consolidated financial statements, with FFO.

(In thousands)	Q4 2011	Q4 2010
Net income and comprehensive income	66,029	102,986
Gain resulting from change in fair value in investment properties	(48,920)	(88,673)
Loss resulting from derivative instruments	1,809	-
Fair value adjustment on owner-occupied property	155	(264)
Amortization of owner-occupied property	15	-
Amortization of leasing cost and tenant improvements	1,618	1,326
Management Restructuring Costs	-	1,407
FFO	20,706	16,782

ADJUSTED FUNDS FROM OPERATIONS

AFFO is a non-IFRS financial measure used by most Canadian real estate investment trusts and should not be considered as an alternative to net income or comprehensive income, cash flow from operating activities or any other measure prescribed under IFRS. AFFO does not have any standardized meaning prescribed by IFRS. As computed by us, AFFO may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers AFFO to be a useful measure of cash available for distributions. The principal advantage of AFFO is that it starts from the standardized definition of FFO and takes account of maintenance capital expenditures and regular leasing expenditures while ignoring the impact of non-cash revenue. Because

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. The following, together with the preceding table, reconciles net income and comprehensive income for the quarter and comparable quarter, as presented in the condensed interim consolidated financial statements, with AFFO.

(In thousands)	Q4 2011	Q4 2010
FFO	20,706	16,782
Step-rent adjustments	(1,033)	64
Regular leasing expenditures	(2,929)	(3,377)
Maintenance capital expenditures	(150)	(839)
AFFO	16,594	12,630

NET OPERATING INCOME

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 us, 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. The following reconciles net rental income for the quarter and comparable quarter, as presented in the condensed interim consolidated financial statements, to NOI.

(In thousands)	Q4 2011	Q4 2010
Revenue from rental properties	57,097	46,905
Rental property operating cost	22,427	20,877
Net rental income	34,670	26,028
Amortization of tenant improvements	908	570
Step-rent adjustments	(1,033)	64
NOI	34,545	26,662

We operate in 10 urban markets in Canada—Québec City, Montréal, Ottawa, Toronto, Kitchener, Winnipeg Calgary, Edmonton, Vancouver and Victoria. For the purposes of analysing NOI, we group Québec City with Montréal and Ottawa as Eastern Canada, Toronto with Kitchener as Central Canada and Winnipeg with Calgary, Edmonton, Vancouver and Victoria as Western Canada. The following sets out the NOI by region for the quarter and the comparable quarter.

(In thousands)	Q4 2011	Q4 2010	CHANGE	% CHANGE
Eastern Canada*	7,114	7,110	4	0.1%
Central Canada	21,675	18,557	3,118	16.8%
Western Canada	5,756	995	4,761	478.5%
NOI	34,545	26,662	7,883	29.6%

**Operations in Ottawa did not commence until February 16, 2012.*

Our NOI in the quarter increased by 29.6% over the comparable quarter with a very large increase in Western Canada due to acquisitions in 2011, a respectable increase in Central Canada due primarily to rental growth and a negligible increase in Eastern Canada. This is discussed in further detail below under "Same-Asset Net Operating Income".

SAME-ASSET NET OPERATING INCOME

Our same-asset NOI in the quarter increased by 8.6% from the comparable quarter. This is best understood in the context of our same-asset NOI by region, as set out below:

(In thousands)	Q4 2011	Q4 2010	CHANGE	% CHANGE
Eastern Canada*	6,703	7,110	(407)	(5.7%)
Central Canada	19,802	17,291	2,511	14.5%
Western Canada	1,000	917	83	9.1%
NOI	27,505	25,318	2,187	8.6%

**Operations in Ottawa did not commence until February 16, 2012.*

There was a large but diminishing same-asset NOI decrease in Eastern Canada. This was the direct result of turnover vacancy at Cité Multimédia. Virtually all of the affected space has been re-leased. This began to have positive financial impact in the quarter and is expected to have full positive impact 2012.

The same-asset NOI increase in Central Canada stems largely from leasing success in 2010 and 2011. The more modest same-asset NOI increase in Western Canada stems from leasing success in Calgary, offset in part by an increase in vacancy in Winnipeg.

PART III
—*Quarterly History*

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

(In thousands except for per unit and % amounts)	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Revenue from rental properties	57,097	50,240	45,521	43,430	46,905	44,637	43,438	46,875
Rental property operating cost	22,427	22,138	21,670	20,515	20,877	19,122	18,526	20,664
Net rental income	34,670	28,102	23,851	22,915	26,028	25,515	24,912	26,211
Real estate service income	31	30	59	84	86	61	59	57
Financing expense	13,180	10,431	9,205	9,395	9,102	8,584	8,475	8,411
Amortization	808	861	848	766	866	570	546	536
Income from operations	20,713	16,840	13,857	12,838	16,146	16,422	15,950	17,321
Trust expense	1,640	1,349	1,307	1,134	690	1,369	1,326	1,439
Net gain on sale of rental property	-	-	-	1,131	-	-	-	-
Net income before Management Restructuring Costs	19,073	15,491	12,550	12,835	15,456	15,053	14,624	15,882
Management Restructuring Costs	-	-	-	-	1,407	-	-	-
Net income	19,073	15,491	12,550	12,835	14,049	15,053	14,624	15,882
Gain from change in fair value	48,920	945	19,136	31,518	88,673	2,260	4,727	2,141
Loss on derivative instruments	(1,809)	-	-	-	-	-	-	-
Gain / (loss) on future distribution liability to Unitholders	-	-	-	-	-	-	(915)	(38,395)
Financing costs associated with Unitholder distribution	-	-	-	-	-	-	(4,302)	(12,895)
Fair value adjustment on owner-occupied property	(155)	28	174	-	264	95	(25)	121

(In thousands except for per unit and % amounts)	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Subtotal	46,956	973	19,310	31,518	88,937	2,355	(515)	(49,028)
Net income and comprehensive income	66,029	16,464	31,860	44,353	102,986	17,408	14,109	(33,146)
Weighted average units (diluted)	51,633	49,214	46,659	43,162	42,251	39,799	39,204	39,119
Distributions	16,948	16,364	15,295	14,341	13,852	13,209	12,877	12,858
FFO	20,706	17,559	14,683	13,143	16,782*	15,920	15,446	15,246**
FFO per unit (diluted)	$0.40	$0.36	$0.32	$0.31	$0.40*	$0.40	$0.39	$0.39**
FFO pay-out ratio	81.9%	93.2%	104.2%	109.1%	82.5%*	83.0%	83.4%	84.3%**
AFFO	16,594	13,152	10,822	10,515	12,630*	11,549	11,839	13,320**
AFFO per unit (diluted)	$0.33	$0.27	$0.23	$0.24	$0.30*	$0.29	$0.30	$0.34**
AFFO pay-out ratio	102.1%	124.4%	141.3%	136.4%	109.7%*	114.4%	108.8%	96.5%**
Fair value	2,086,005	2,014,086	1,741,966	1,600,000	1,559,284	1,406,830	1,345,345	1,314,637
Total debt	933,878	900,531	755,410	671,453	695,501	643,475	646,273	620,013
Total debt as a % of fair value of investment properties	44.8%	44.7%	43.4%	42.0%	44.6%	45.7%	48.0%	47.2%
Total GLA (s.f., ex. PUD)	7,481	7,438	6,715	6,048	6,083	5,962	5,816	5,665
Leased GLA (s.f., ex. PUD)	6,917	6,827	6,167	5,596	5,558	5,662	5,524	5,379
Leased Area (% total GLA)	92.5%	91.8%	91.8%	92.5%	91.4%	95.0%	95.0%	95.0%

**excluding one-time Management Restructuring Costs*
***excluding one-time lease termination payment*

Factors that cause variation from quarter to quarter include but are not limited to our occupancy level, our debt ratio, our cost of capital, the extent to which we have cash that has not been deployed, the extent to which we have invested capital in PUDs, our same-asset NOI, our rate of property acquisition, our regular leasing expenditures and our regular maintenance capital expenditures.

PART IV
—2011 Results

The following sets out summary information and financial results for 2011 and 2010, as well as the change between the two.

(In thousands except for per unit and % amounts)	2011	2010	CHANGE	% CHANGE	***2009
Revenue from rental properties	196,288	181,855	14,433	7.9%	152,225
Rental property operating cost	86,750	79,189	7,561	9.5%	62,134
Net rental income	109,538	102,666	6,872	6.7%	90,091
Real estate service income	204	263	(59)	(22.4%)	263
Financing expense					
Interest	39,375	33,721	5,654	16.8%	28,155
Interest expense on finance lease – ground lease	1,949	-	1,949	-	-
Amortization of mortgage premium	(227)	17	(244)	(1,435.3%)	(22)
Amortization of financing cost	1,114	834	280	33.6%	641
Amortization					
Rental properties	-	-	-	-	18,447
Origination costs and acquired tenant relationships	-	-	-	-	19,373
Leasing costs, computer and office equipment	3,283	2,518	765	30.4%	3,705
Income from operations	64,248	65,839	(1,591)	(2.4%)	20,055
Less trust expense	5,430	4,824	606	12.6%	3,756
Add net gain on sale of rental property	1,131	-	1,131	-	-
Net income before Management Restructuring Costs	59,949	61,015	(1,066)	(1.7%)	16,299
Management Restructuring Costs	-	1,407	(1,407)	(100.0%)	-

(In thousands except for per unit and % amounts)	2011	2010	CHANGE	% CHANGE	***2009
Net income	59,949	59,608	341	0.6%	16,299
Gain resulting from change in fair value-real estate	100,519	97,801	2,718	2.8%	-
Loss on derivative instruments	(1,809)	-	(1,809)	-	-
Gain/(loss) on future distribution liability to Unitholders	-	(39,310)	39,310	(100.0%)	-
Financing costs associated with Unitholder distributions	-	(17,197)	17,197	(100.0%)	-
Fair value adjustment on owner-occupied property	47	455	(408)	(89.7%)	-
Subtotal	98,757	41,749	57,008	136.5%	-
Net income and comprehensive income (loss)	158,706	101,357	57,349	56.6%	16,299
Weighted average units outstanding (diluted)	47,697	40,087	7,610	19.0%	33,281
Distributions	62,948	52,796	10,152	19.2%	43,763
FFO	66,091	63,394*	2,697	4.3%	57,429
FFO per unit (diluted)	$1.39	$1.58*	($0.19)	(12.0%)	$1.73
FFO pay-out ratio	95.2%	83.3%*	11.9%		76.2%
AFFO	51,083	49,338*	1,745	3.5%	50,564
AFFO per unit (diluted)	$1.07	$1.23*	($0.16)	(13.0%)	$1.52
AFFO pay-out ratio	123.2%	107.0%*	16.2%		86.5%
NOI	111,745	102,587**	9,158	8.9%	89,405
Same-asset net operating income normalized	93,252	97,242**	(3,990)	(4.1%)	73,209
Fair value of investment properties	2,086,005	1,559,284	526,721	33.8%	1,155,158
Total debt (excludes premium on assumed debt)	933,878	695,501	238,377	34.3%	614,298
Total debt as a % of fair value of investment properties	44.8%	44.6%	0.2%		53.2%
Total GLA (s.f., excluding PUD)	7,481	6,083	1,398	23.0%	5,805
Leased GLA (s.f., excluding PUD)	6,917	5,558	1,359	24.5%	5,577
Leased GLA (% total GLA)	92.5%	91.4%	1.1%		96.1%

**excluding one-time lease termination payment and Management Restructuring Costs*
***excluding one-time lease termination payment*
****2009 GAAP figures, not restated for IFRS*

NET RENTAL INCOME AND REAL ESTATE SERVICE INCOME

Net rental income for 2011 was $109,538, up 6.7% from 2010. The change arose from the following: (i) a $7,015 decrease in same-asset net rental income from properties owned for the entire period and the entire comparable period (which includes the period-over-period change in step-rent adjustments); and (ii) a $13,887 increase from properties not owned for the entire period and the entire comparable period. Net rental income per occupied square foot for 2011 was $15.84, as compared to $18.47 in the comparable period. The decline year-over-year resulted from the acquisition of a significant amount of low-rent space in 2011, along with turnover vacancy in a significant amount of high-rent space in 2011.

The Property Manager provides real estate services to third-party property owners. Real estate service income for the period was $204, as compared to $263 in the comparable period.

FINANCING EXPENSE

Financing expense includes interest cost on mortgage debt and other credit facilities and the amortization of the premiums and discounts on assumed mortgages. Financing expense for 2011 increased by 16.5% from 2010, due largely to the financing expense associated with additional properties acquired in 2010 and 2011.

AMORTIZATION

Under IFRS, we amortize leasing cost and tenant improvements on a straight-line basis over the term of the corresponding lease, as we did in the past under GAAP. Amortization for 2011 increased by 30.4% from 2010, due largely to the amortization associated with leasing cost and tenant improvements in 2010 and 2011.

TRUST EXPENSE

Trust expense includes expense not directly attributable to investment properties, such as officers' compensation, trustees' fees, professional fees for legal and audit services, trustees' and officers' insurance premiums and general administrative expenses. Trust expense for 2011 increased by 12.6% from the comparable period, due largely to higher salary and performance-bonus payments in the year.

NET INCOME

Net income for 2011 was $59,949, as compared to $61,015 in 2010. Under IFRS, we elected to treat acquisitions of investment properties as "asset acquisitions" rather than "business combinations". Accordingly, we capitalize the transaction costs associated with such acquisitions, as we did in the past under GAAP.

Net income for the period included a gain of $1,131 on the sale of the Norlyn Building in Winnipeg, a non-core investment property sold in response to an unsolicited offer to purchase. We do not envisage selling investment property other than on a very infrequent and exceptional basis and only where the investment property doesn't fit within our investment and operating focus.

NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income for 2011 was $158,706, as compared to $101,357 in 2010. Under IFRS, we elected the "fair value" approach to investment properties, with the result that they are recorded at fair value on the condensed interim consolidated balance sheets. To assist in establishing fair value, we retained an independent appraiser, Cushman & Wakefield, to appraise our portfolio as at December 31, 2009, and to update the appraisals at the end of each subsequent quarter. Changes in fair value are recorded on the Statements of Income and Comprehensive Income. The fair value of our investment properties as the end of 2011 was $2,086,005, up $526,721 from 2010. $372,995 of the increase resulted from acquisitions, with the remaining $153,726 resulting from appreciation in value.

CAPITAL EXPENDITURES

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

In 2011, we incurred (i) $1,843 in regular maintenance capital expenditures ($0.25 per portfolio square foot) and (ii) $11,050 in leasing expenditures ($7.05 per leased square foot) in connection with new leases or lease-renewals for 1,567,005 square feet of GLA that commenced in the year.

We incurred $61,277 in revenue-enhancing capital and leasing expenditures in connection with space that was significantly reconfigured and retrofitted to accommodate high-value new tenancies and in connection with the completion of PUDs.

$1,673 of the salaries paid in 2011 were capitalized in connection with capital improvements to our rental properties and Properties Under Development. This amount was equivalent to approximately 3.1% of the associated development costs.

FUNDS FROM OPERATIONS

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 in its White Paper on Funds From Operations dated November 30, 2004. Essentially, the REALpac definition is net income with adjustments for non-cash and extraordinary items. Management believes that this definition is followed by most Canadian real estate investment trusts and that it is a useful measure of cash available for distributions. The following reconciles net income and comprehensive income for the period, as presented in the condensed interim consolidated financial statements, with FFO.

(In thousands)	2011	2010
Net income and comprehensive income	158,706	101,357
Gain on sale of property	(1,131)	-
Gain resulting from change in fair value in investment properties	(100,519)	(97,801)
Loss resulting from derivative instruments	1,809	-
Loss on future distribution liability to Unitholders	-	39,310
Financing costs associated with Unitholder distributions	-	17,197
Fair value adjustment on owner-occupied property	(47)	(455)
Amortization of leasing cost and tenant improvements	7,225	3,879
Amortization of owner-occupied property	48	-
One-time management restructuring costs	-	1,407
One-time lease termination payment	-	(1,500)
FFO	66,091	63,394

ADJUSTED FUNDS FROM OPERATIONS

AFFO is a non-IFRS financial measure used by most Canadian real estate investment trusts and should not be considered as an alternative to net income or comprehensive income, cash flow from operating activities or any other measure prescribed under IFRS. AFFO does not have any standardized meaning prescribed by IFRS. As computed by us, AFFO may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers AFFO to be a useful measure of cash available for distributions. The principal advantage of AFFO is that it starts from the standardized definition of FFO and takes account of maintenance capital expenditures and regular leasing expenditures while ignoring the impact of non-cash revenue. Because 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. The following, together with the preceding table, reconciles net income and comprehensive income for the period, as presented in the condensed interim consolidated financial statements, with AFFO.

FFO	66,091	63,394
Step-rent adjustments	(2,115)	(362)
Regular leasing expenditures	(11,050)	(10,485)
Maintenance capital expenditures	(1,843)	(3,209)
AFFO	51,083	49,338

SAME-ASSET NET OPERATING INCOME

Our same-asset NOI in 2011 decreased by 4.1% from 2010. This flows from lower occupancy, which is best understood in the context of our same-asset NOI by region, as set out below:

(In thousands)	2011	2010	CHANGE	% CHANGE
Eastern Canada*	21,732	29,848	(8,116)	(27.2%)
Central Canada	69,883	65,835	4,048	6.1%
Western Canada	1,637	1,559	78	5.0%
NOI	93,252	97,242	(3,990)	(4.1%)

**Operations in Ottawa did not commence until February 16, 2012.*

There was a large same-asset NOI decrease in Eastern Canada. This was the direct result of an unusually large amount of turnover vacancy at Cité Multimédia. Virtually all of the affected space has been re-leased. This began to have positive financial impact late in the year and is expected to have full positive impact in 2012.

The same-asset NOI increase in Central Canada stems largely from leasing success in 2010 and 2011. The same-asset NOI increase in Western Canada stems from leasing success in Calgary, offset in part by an increase in vacancy in Winnipeg.

PART V
—*Leasing*

STATUS

Leasing status as at December 31, 2011, is summarized in the following table:

TOTAL GLA*	OCCUPIED	% OCCUPIED	COMMITTED	% COMMITTED	LEASED	% LEASED
7,481,333	6,589,236	88.1%	327,669	4.4%	6,916,905	92.5%

**Excluding Properties Under Development*

Of 7,481,333 square feet of total GLA in our rental property portfolio, 6,589,236 square feet were occupied by tenants on December 31, 2011. Another 327,669 square feet were subject to contractual lease commitments with tenants whose leases commence subsequent to December 31, 2011, bringing the leased area to 6,916,905 square feet, 92.5% of our total GLA. Excluding upgrade properties, where we temporarily reduce occupancy in order to upgrade interior space, our leased area was 94.3%.

Leasing status during the fourth quarter and 2011 is summarized in the following table:

	OCCUPIED GLA ON AVERAGE	% OCCUPIED GLA ON AVERAGE
Fourth Quarter	6,510,256	87.0%
2011	6,424,969	85.9%

During the fourth quarter, average occupied area was 6,510,256 square feet, representing 87.0% of the total GLA in the portfolio. During 2011, average occupied area was 6,424,969 square feet, representing 85.9% of the total GLA in the portfolio.

We monitor the level of sub-lease space in our portfolio. We are unaware of any space being offered for sub-lease in our Victoria portfolio. We are aware of 22,366 square feet of space being offered for sub-lease in our Toronto portfolio, 2,903 square feet in out Montréal portfolio, 3,000 square feet in our Québec City portfolio, 2,324 square feet in our Kitchener portfolio, 5,180 square feet in our Edmonton portfolio, 18,590 square feet in our Vancouver portfolio and 4,200 square feet in our Winnipeg portfolio. This level of sub-lease space is consistent with past experience and does not represent an operating or leasing challenge to us, especially in light of the fact that almost all of the sub-lease space in question has limited remaining term. In our experience, prospective sub-tenants of such space will strive to enter into a direct leasing relationship with us and thereby obtain extended term. This tends to put us in a very good bargaining position opposite both the head-tenant and the sub-tenant.

ACTIVITY

Leasing activity as at December 31, 2011, is summarized in the following table:

(In thousands)	GLA	SF LEASED BY DECEMBER 31	% LEASED BY DECEMBER 31	SF UNLEASED ON DECEMBER 31*
Vacancy on January 1, 2011*	659,926	476,919	72.3%	183,007
Acquired Vacancy in 2011	156,613	17,283	11.0%	139,330
Arranged Vacancy in 2011	182,841	37,759	20.7%	145,082
Maturities in 2011	987,107	890,098	90.2%	97,009
Total	**1,986,487**	**1,422,059**		**564,428**

**Excluding Properties Under Development*

659,926 square feet of GLA was vacant at the beginning of 2011. By year-end, we leased 476,919 square feet of this GLA, leaving 183,007 square feet unleased at the end of the period.

Leases for 987,107 square feet of GLA matured in 2011. By the year-end, we renewed or replaced leases for 890,098 square feet of this GLA, leaving 97,009 square feet unleased.

We leased 1.42 million square feet of space in 2011. We finished the period with leased area of 94.3% (excluding upgrade properties and Properties Under Development), up 288 basis points from year-end 2010.

We renewed or replaced 90.2% of the GLA covered by leases that mature in 2011. With respect to those renewals and replacements (890,098 square feet of GLA in total), we achieved rental rates (i) above in-place rental rates for 48.6% of the GLA, (ii) equal to in-place rental rates for 13.7% of the GLA and below in-place rates for 37.7% of the GLA. This will result in an overall increase of 5.9% in net rental income per square foot from the GLA covered by the maturing leases.

The non-renewal of a large lease at Cité Multimédia reduced our leased area at year-end 2010 to 91.4%. Last year, we re-leased virtually all of the affected space to an existing tenant, SAP Labs (111,603 square feet), and to two new tenants, Desjardins (75,891 square feet) and Resolute Forest Products (96,101 square feet), in most instances for terms of 10 years. Finally, we expanded Sid-Lee's space in another part of the complex to 52,069 square feet for a term expiring on July 31, 2018.

With these and other lease transactions recently completed, we project that Cité Multimédia will have a higher level of stabilized net rent in 2012 than anticipated at the time of acquisition in 2007, a considerably improved tenant-mix and a better than normal lease-maturity schedule.

Other leasing highlights in 2011 included the following:

(i) the renewal of Algorithmic's lease of 55,814 square feet at 185 Spadina Avenue in Toronto for a term of 10 years from December 31, 2011;

(ii) the renewal of Publicis' lease of 64,821 square feet plus an expansion of 3,063 square feet at QRC in Toronto for a term of just under 11 years from December 31, 2011;

(iii) the renewal of Ubisoft's lease of 248,821 square feet at 5505 Saint-Laurent Boulevard in Montréal for a term of 10 years from February 1, 2013; and

(iv) the expansion of Kobo in two phases to 63,443 square feet at 135 Liberty Street and 53 Fraser Avenue in Toronto for a term expiring on March 31, 2018;

(v) the lease-up of the remaining office space (15,956 square feet) at 96 Spadina Avenue in Toronto;

(vi) the expansion of Critical Mass to 23,097 square feet at 312 Adelaide Street West in Toronto for a term of 10 years commencing December 1, 2011;

(vii) the expansion of AudienceView Ticketing to 15,300 square feet at 425 Adelaide Street West in Toronto for a term of five years commencing February 1, 2012;

(viii) the expansion of Dyson Canada to 9,099 square feet at 312 Adelaide Street West in Toronto for a term of five years commencing August 1, 2012;

(ix) the lease to McCain Foods of 45,561 square feet of space at 425-439 King Street West in Toronto for a term of 10 years from July 1, 2012, at net rental rates significantly above prior in-place rents;

(x) the early renewal of Autodesk's lease of 53,726 square feet of space at 204-214 King Street East in Toronto for a term of five years from December 1, 2012, at net rental rates significantly above prior in-place rents;

(xi) the early renewal of George Brown College's lease of 17,338 square feet of space at 204-214 King Street

East in Toronto for a term of five years from December 1, 2012, at net rental rates significantly above in-place rents; and

(xii) the extension of LG2 Lebarre Gauthier's lease of 28,079 square feet of space at 3575 Saint-Laurent Boulevard in Montréal to August 31, 2022.

Late last year, we leased our current head-office space at 255 Adelaide Street West to HDR Architecture for a term of 10 years commencing October 1, 2012, at a compelling level of net rent. Later this year, we'll move our head office to 425 Adelaide Street West, where we'll take up approximately 15,000 square feet, most of the remaining available space in the building. We'll be able to occupy the space more efficiently and at a lower effective cost than our current space. Furthermore, if the past is any indication, the space will become considerably more desirable once we've improved and occupied it.

Our leasing success last year and thus far this year has extended our weighted average lease term to 5.1 years and reduced the average annual amount of area maturing from 2012 to 2016 to 9.1% of our total rental portfolio. We believe this reduces the risk of NOI volatility going forward.

We also made rapid leasing progress on our two most recently acquired upgrade properties. We leased 11,568 square feet at 948 Homer Street in Vancouver at net rental rates significantly above prior in-place rents, taking advantage of the mark-to-market opportunity perceived at the time of acquisition. We also leased 13,000 square feet at 5455 Avenue de Gaspé in Montréal to Ubisoft. We believe this will be the first phase of a larger-scale expansion by Ubisoft into the property.

As part of our acquisition of 151 Front Street West in late 2009, we acquired Skywalk, an elevated walkway that connects Union Station on the east with The Toronto Convention Centre on the west. At the time of acquisition, Skywalk operated at a deficit. By the end of last year, we'd improved operations to the point where they were modestly profitable. We're now finalizing a 20-year lease of 7,000 square feet at Skywalk. When finalized, this lease will have an immediate and positive impact on profitability. A number of other developments in the surrounding area are also expected to boost the profitability of Skywalk going forward.

PART VI
—*Development*

PROPERTIES UNDER DEVELOPMENT

Our Properties Under Development are identified in the following table and described briefly below:

PUDS IN PROGRESS	ESTIMATED GLA
4450 Saint-Laurent, Montréal*	22,000
134 Peter and 364 Richmond West, Toronto, Phase I of QRC West*	390,000
905 King West, Toronto	112,096
70 Richmond Street East, Toronto	34,414
36-40 Wellington Street East, Toronto	24,180
The Breithaupt Block, Kitchener (50% Interest)**	88,000
Total	**670,690**

**Conditional on satisfactory pre-leasing*
***Total estimated GLA is 176,000 square feet*

4450 Saint-Laurent Boulevard, Montréal, includes 5,500 square feet of land adjacent to our Class I office building at 4446 Saint-Laurent Boulevard. Our plan is to construct on the land an office building with Class I attributes and approximately 22,000 square feet of GLA. The execution of this project, as currently conceived, is contingent upon achieving a level of pre-leasing satisfactory to Management and the Trustees.

Phase I of QRC West is a large-scale intensification project now underway. It involves the restoration of an existing Class I building and the addition of a new, LEED-certified component for combined leasable area of approximately 300,000 square feet. We've met the requirements for site-plan approval, completed building-permit drawings, initiated the renovation and retrofit of the existing Class I building and are working toward achieving the level of pre-leasing necessary to commence construction of the new component. We have now included 364

Richmond Street West as part of this project, as the opportunity exists to integrate it and upgrade its infrastructure on a very cost-effective basis.

905 King Street West is one of two redevelopments now underway. We've completed the retrofit necessary to put 60,000 square feet to a higher and better use, increasing its income generating potential. We've leased 20,000 square feet at higher than anticipated net rental rates and expect to lease the remaining 40,000 square feet this year.

70 Richmond Street East is a Class I building, the interior attributes of which were concealed by years of institutional-style office build-outs. On gaining vacant possession of the building on August 31, 2011, we initiated a complete interior restoration, removing all drop-ceilings, drywall coverings and carpeting to reveal a superb post-and-beam structural frame, exposed interior brick and hardwood floors. We have already made progress in re-leasing the space and expect to complete the lease-up in 2012, at which point it will become a rental property for accounting purposes.

36-40 Wellington Street East is a Class I building, the office infrastructure of which was very sub-standard. On gaining vacant possession of the office component early in 2011, we initiated a complete replacement of the office infrastructure with a view putting the building on a comparable footing with the remainder of our Toronto portfolio. We have since leased the entire office component (14,622 square feet over two floors) to Kroll Risk Compliance Solutions for a term of 10 years commencing fully by August 1, 2012, at which point it will become a rental property for accounting purposes.

The Breithaupt Block in Kitchener's Warehouse District is comprised of six former industrial buildings with approximately 176,000 square feet of space and two acres of surplus land. With Perimeter Development Corporation, we've initiated the redevelopment of this property for office use. On completion, scheduled for mid-2013, it will add depth to our Kitchener portfolio, with the surplus land affording additional value-creation potential down the road.

Properties Under Development are measured using a discounted cash flow model, net of costs to complete, as of the balance sheet date. The initial cost of Properties Under Development includes the acquisition cost of the property, direct development costs, realty taxes and borrowing costs directly attributable to the development. Borrowing costs associated with direct expenditures on Properties Under Development are capitalized. The amount of capitalized borrowing costs is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Practical completion is 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.

As at December 30, 2011, the fair value of our Properties Under Development was $83,347, which was equivalent to 4.0% of the fair value of our portfolio under IFRS.

INTENSIFICATION

The buildings on most of our 63 Toronto properties have considerably less GLA than is permissible under the current zoning. This affords us the opportunity to create additional GLA without land cost and with correspondingly higher returns on equity. The combined land area of our Toronto properties is approximately 1.1 million square feet or 24 acres. We have evaluated the Toronto portfolio on a property-by-property basis and have estimated that it is practically possible to create over two million square feet of additional GLA in the near term, market conditions permitting. Phase I of QRC West is a very good example of the intensification that is possible within our existing portfolio.

We have initiated the municipal approval process for a number of intensification opportunities. In each instance, the relevant properties are currently operating as rental properties and contributing to our NOI. We expect the completion of the municipal approval process to add value to the properties, whether or not we elect to initiate the actual intensification project.

QRC WEST, PHASE II

This project was made possible by our acquisition of 375-381 Queen Street West in late 2009. As currently conceived, it will be comprised of 46,000 square feet of office space over four storeys, with floor plates of around 12,000 square feet, and 28,000 square feet of retail space on two levels, with exceptional ceiling height (18 feet) at the grade level. Now that the site-plan approval has been finalized for QRC West, Phase I, we can proceed with the municipal approval process for Phase II. The height and density issues are straightforward, but certain shared-use issues will require more attention, particularly our wish to acquire one public laneway and our need to secure an aerial easement over another. We expect to complete the municipal approval process early this year. 375-381 Queen Street West is currently generating a solid levered return on our equity, especially now that we've placed a fully open, three-year mortgage on the property at an annual interest rate below 3.2%.

NORTHWEST CORNER KING & PETER

388 King Street West and 82 Peter Street are also rental properties generating a respectable levered return. These properties represent a large-scale intensification opportunity. Preliminary work suggests that over 700,000 square feet of useable area can be created on the land component of the two properties. The former property is subject to a long-term lease that will have to be renegotiated. Having finalized the plans for a large-scale, LEED certified, office building, we've now initiated the municipal approval process for this site, which we expect to complete later this year or early next.

KING & SPADINA

Although currently rental properties, 489, 495 and 499 King Street West constitute the best remaining development site at King & Spadina. 489 and 495 King Street West are small buildings with no historic value occupied for the most part by tenants pursuant to leases that we can terminate on six months' notice. 499 King Street West is a former car dealership currently operating as a restaurant/nightclub. We have a running right of early termination with the sole tenant starting in March of this year. 489, 495 and 499 King Street West comprise close

to 40,000 square feet of land. Preliminary work suggests that the site could support over 400,000 square feet of useable area. Having finalized the plans for a large-scale, LEED certified, office building, we've now initiated the municipal approval process for this site, which we expect to complete later this year or early next.

171 FRONT STREET WEST

As part of our acquisition of 151 Front Street West in late 2009, we acquired surplus land running between York and Simcoe Streets immediately to the south of the main structure. Municipal and site-plan approval is currently in place for an office development of 750,000 square feet of useable area. Given the singularly desirable location of the potential development, we are now upgrading the plans and evaluating the cost of construction with a view to initiating the marketing of the project to prospective large-scale users.

DATA-CENTRE, HOSTING AND INTERCONNECTION CAPABILITY

We currently own and operate 151 Front Street West, 905 King Street West and 60 Adelaide Street East in Toronto. 151 Front is one of eight internet hubs in North America. 905 King and 60 Adelaide are connected by fiber-optic cable to 151 Front, enabling the tenants of the respective buildings to interface electronically with one another. Although the three properties constitute significant data-centre, hosting and interconnection capability, we believe that demand is growing at a much faster rate than supply. Furthermore, we believe we are uniquely well positioned to satisfy the demand, in part because our ability to establish direct fibre-optic connections with 151 Front. Accordingly, we are exploring potential avenues to expand our data-centre, hosting and interconnection capability.

PART VII
—*Financial Condition*

ASSETS

Under IFRS, we elected the "Fair Value" approach to our investment properties and, accordingly, have recorded them at fair value in the consolidated balance sheets as at December 31, 2011. We retained an external appraiser, Cushman & Wakefield, to appraise our portfolio of investment properties in its entirety on December 31, 2009, and at the end of each subsequent quarter. For more information on the appraisal process, see "Critical Accounting Estimates" below.

The external valuation indicated fair value for our investment properties of $2,086,005 as at December 31, 2011, $526,721 above the fair value indicated by the external valuation for December 31, 2010. $372,995 of the increase in fair value from the comparable period resulted from acquisitions in 2011, with the remaining $153,726 resulting from appreciation in fair value in the intervening year.

In valuing our portfolio as at December 31, 2011, the appraiser used a range of capitalization rates ranging from 5.8% to 8.8%, the high-point being the capitalization rate associated with our property at 5455 Avenue de Gaspé, Montréal. The portfolio weighted average cap rate was 7.2%.

FINANCING

We finance our operations through three sources of capital: (I) mortgage debt secured by our rental properties, (II) secured short-term debt financing with a Canadian chartered bank and (III) equity. At December 31, 2011, we had mortgage debt of $933,878, no bank indebtedness and unitholders' equity of $1,141,558. As at December 31, 2010, we had mortgage debt of $670,017, bank indebtedness of $21,766 and unitholders' equity of $835,021. The increase in mortgage debt is due to $176,080 in new mortgage financing and the assumption of $48,776 of mortgage financing on acquisitions, net of reductions due to regular principal repayments. In addition, we refinanced the mortgage of 151 Front Street West in the second quarter with additional mortgage proceeds of approximately $73 million. The increase in unitholders' equity is due to units issued as described below and net income for the

period of $158,706, offset by distributions to unitholders of $62,948, and related IFRS transitional issues pertaining to unitholders' equity.

UNITHOLDERS' EQUITY

At December 31, 2011, we had a market capitalization of approximately $1,309,391 based on a closing unit price of $25.28 on the Toronto Stock Exchange. As at December 31, 2010, we had a market capitalization of approximately $907,465 based on a closing unit price of $21.54 on the Toronto Stock Exchange.

In 2011, we issued a total of 9,666,236 units. Costs incurred to issue the units were $8,612. Units were issued as follows: 3,921,500 units at $22.00 for gross proceeds of $86,273 pursuant to a bought deal that closed on March 14, 2011; 4,404,500 units at $23.50 for gross proceeds of $103,506 pursuant to a bought deal that closed on August 12, 2011 and August 31, 2011; 640,089 units under our distribution re-investment plan at an average price of $21.88 per unit for $14,003; and 700,147 units pursuant to exercised options. At December 31, 2011 and the date hereof, we had 51,795,525 units and 51,904,428 units issued and outstanding, respectively.

We adopted a Unit Option Plan at the time of our IPO. In May of 2004, we adopted a long-term incentive plan ("LTIP") whereby our trustees and officers ("Participants") may from time to time, at the discretion of the trustees and subject to regulatory approval, subscribe for units at a market price established in accordance with the provisions of the LTIP. The price for the units is payable as to 5% upon issuance and as to the balance ("LTIP Loan") over 10 years with interest on the LTIP Loan at an annual rate established in accordance with the provisions of the LTIP. The units issued pursuant to the LTIP are registered in the name of a Custodian on behalf of the Participants who are the beneficial owners. The units are pledged to us as security for payment of the LTIP Loan, and all distributions paid on the units are forwarded by the Custodian to us and applied first on account of interest on the LTIP Loan and then to reduce the outstanding balance of the LTIP Loan. In May of 2010, we amended the Unit Option Plan and the LTIP to limit the number of units authorized for issuance under the Unit Option Plan, the LTIP or any other equity compensation plan to 8.1% of the issued and outstanding units from time to time. At December 31, 2011 and the date hereof, we had options to purchase 1,213,325 units outstanding, of which 350,086 had vested, and 352,611 units issued under the LTIP.

In March of 2010 and in April of 2011, we adopted a restricted unit plan (the Restricted Unit Plan"), whereby restricted units ("Restricted Units") are granted to certain key employees of the Trust, at the discretion of the trustees. The Restricted Units are purchased in the open market. Employees who are granted Restricted Units have the right to vote and to receive distributions from the date of the grant. The Restricted Units vest (in the sense that such Units are not subject to forfeiture) as to one-third on each of the three anniversaries following the date of the grant. Whether vested or not, without the specific authority of the Governance and Compensation Committee, the Restricted Units may not be sold, mortgaged or otherwise disposed of for a period of six years following the date of the grant. The Restricted Unit Plan contains provisions providing for the forfeiture within specified time periods of unvested Restricted Units in the event the employee's employment is terminated. At December 31, 2011 and the date hereof, we had 72,796 Restricted Units granted under the Restricted Unit Plan.

MORTGAGES PAYABLE

Mortgages payable as at December 31, 2011, consisted of mortgage debt of $933,878. The following sets out the maturity schedule of our mortgage debt and the weighted average interest rate on the maturing mortgages.

(In thousands)	PERIODIC PRINCIPAL PAYMENTS	BALANCE DUE AT MATURITY	TOTAL PRINCIPAL	% OF TOTAL PRINCIPAL	WA INTEREST RATE
2012	24,874	64,832	89,706	9.6%	5.8%
2013	25,717	62,122	87,839	9.4%	5.1%
2014	22,035	195,513	217,548	23.3%	5.0%
2015	18,618	74,596	93,214	10.0%	5.4%
2016	16,870	70,244	87,114	9.3%	5.1%
Thereafter	44,511	313,946	358,457	38.4%	5.4%
Total	**152,625**	**781,253**	**933,878**	**100.0%**	

The principal balances due at maturity by type of lender are as follows:

(In thousands)	DIRECT MORTGAGE LENDER	CONDUIT MORTGAGE LENDER
2012	52,553	12,279
2013	62,122	-
2014	176,630	18,883
2015	46,243	28,353
2016	58,703	11,541
Thereafter	287,626	26,320
Total	**683,877**	**97,376**

Interest rates on the mortgage debt are between 2.39% and 8.10% with a weighted average interest rate of 5.3%. The weighted average term of the mortgage debt is five years. Each individual mortgage loan is secured by a mortgage registered on title of a rental property and by security agreements covering assignment of rents and personal property with respect to such property. The mortgage debt provides the holder with recourse to our assets. We attempt to stagger the maturity of our mortgages and to have mortgages maturing each year to be in a position to upward finance the principal amount of maturing mortgages as needed. Additionally, we attempt to maintain 15 to 20% of our rental properties free from traditional long-term mortgage financing with a view to providing these assets as security for bank credit facilities.

BANK CREDIT FACILITY

At December 31, 2011, we had a $70,000 revolving credit facility ("Facility") with a Canadian chartered bank bearing interest at bank prime plus 75 basis points or bankers' acceptance plus 200 basis points and maturing on August 31, 2012. The credit facility is secured by a combination of mortgage charges and security agreements on certain of our rental properties. In 2011, the average borrowings under the Facility were $13,100. At December 31, 2011, the borrowings under the Facility were $0.

LIQUIDITY AND COMMITMENTS

Net operating income generated from our rental properties is the primary source of liquidity to fund our financing expense, trust expense and distributions to unitholders.

We expect that increased financing on maturing mortgages will provide sufficient cash flow to fund mortgage repayments. We plan to fund anticipated ongoing commitments, obligations, capital expenditures and leasing expenditures by using retained cash flow from operations and availing ourselves of borrowing capacity under the Facility.

The Facility, new mortgage financing and the access to the public equity markets will provide the necessary capital we require for acquisitions. Our acquisition capacity, meaning our ability to use un-utilized borrowing capacity while not exceeding the limit stipulated in our Declaration of Trust is approximately $528 million.

As December 31, 2011, we had future commitments as set out below.

(In thousands)	DECEMBER 31, 2011
Building renovations and maintenance capital expenditures	2,700
Revenue-enhancing capital	1,138
Expenses	618
Conditional and unconditional acquisitions	115,400
Total	**119,856**

We have provided a guarantee to a Canadian chartered bank to support a $21.8 million construction lending facility to assist with the financing of construction costs associated with The Breithaupt Block, in which we have a 50% ownership interest. The balance outstanding under the facility as at December 31, 2011 was $8.3 million.

PART VIII
—*Accounting*

CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used in preparing our consolidated financial statements are described in Note 3 to our consolidated financial statements for the year ended December 31, 2011. The following is a discussion of Management's estimates that are most important to the presentation of our results of operations and financial condition and are most subjective as a result of matters that are inherently uncertain.

FAIR VALUE OF INVESTMENT PROPERTIES

Investment properties are appraised quarterly and are included in the consolidated balance sheet as at December 31, 2011, at their fair value. Fair value is based on independent appraisals prepared by Cushman & Wakefield, an external professional appraiser with appropriate expertise, and is supported by objective market data. Any gain or loss resulting from a change in the fair value of our investment properties is immediately recognized under IFRS.

The independent appraisals are based in large measure on the income approach to determining fair value. The income approach is derived from either of, or a combination of, two methods: the overall capitalization rate method, whereby the net operating income is capitalized at an appropriate overall capitalization rate; and the discounted cash flow method, whereby the income and expense are projected over the anticipated term of the investment and combined with a terminal value, all of which is discounted using an appropriate discount rate. Valuations of investment properties are most sensitive to changes in assumptions as to appropriate capitalization and discount rates.

The initial cost of Properties Under Development includes the acquisition cost of the property, direct development costs, realty taxes and borrowing cost directly attributable to the development. Borrowing cost associated with direct expenditures on Properties Under Development is 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. Where borrowings are associated with specific developments, the amounts capitalized is the gross cost incurred on those borrowings. Borrowing costs are capitalized from the commencement of the development until the date of practical completion where the property is substantially ready for its intended use. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. Practical completion is 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. If space is pre-leased at or prior to the property being substantially ready for its intended use, and the lease requires tenant improvements, which enhance the value of the property, practical completion is considered to occur when such improvements are completed.

CHANGES IN ACCOUNTING POLICIES —ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The transition date to IFRS from GAAP was January 1, 2011. Accordingly, we have issued condensed interim consolidated financial statements for the quarter ended September 30, 2011, in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting and are using the accounting policies which we expect to adopt in our consolidated financial statements for the year ending December 31, 2011, based on currently effective standards complete with comparative information.

Although IFRS is based on a conceptual framework similar to GAAP, significant differences exist with respect to recognition, measurement and disclosure. The significant differences that impact on our consolidated financial statements include the following:

INVESTMENT PROPERTY

IFRS defines investment property as a property (land or a building) held to earn rental income, capital appreciation or both. A key characteristic of an investment property is that it generates cash flow largely independent of the other assets held by an entity. All of our income properties and Properties Under Development qualify as investment property under IFRS. As noted above, we have chosen the "fair value" approach to investment properties for our IFRS financial statements. Accordingly, investment properties are recorded at fair value on the condensed interim consolidated balance sheets. Periodic changes in fair value are recorded in the condensed interim consolidated statements of income and comprehensive income. This could lead to increased volatility in reported net income and comprehensive income but should not impact FFO or AFFO.

PROPERTIES UNDER DEVELOPMENT

Properties Under Development are considered investment properties. Under IFRS, operating revenues and expenses cannot be capitalized and subject to meeting certain tests, capitalization of interest costs directly attributable to a Properties Under Development is required. We have chosen the "Fair Value" approach to Properties Under Development for our going forward IFRS financial statements.

IMPAIRMENT

Impairment is not applicable to the fair value approach and therefore will not have a significant impact to our financial statements.

LEASES

GAAP and IFRS both require that tenant allowances be capitalized and amortized as a reduction to rental revenue over the term of the leases. Under GAAP, we capitalized and amortized tenant improvements and certain other leasing costs through amortization expense. Under IFRS, portions of such costs are likely to be considered leasing incentives and will be amortized as a reduction to rental revenue over the term of the leases.

BUSINESS COMBINATIONS

Both IFRS and GAAP require the acquisition method of accounting for all business combinations, however significant differences exist between the two standards. GAAP allows the capitalization of transaction costs, whereas IFRS does for an asset purchase but not for a business combination, in which case the transaction costs are expensed as incurred. Transaction costs typically include land transfer taxes, appraisal fees and due-diligence expenditures. We have elected to use the asset purchase alternative.

EQUITY – TRUST UNITS

Under GAAP trust units are presented as equity on our condensed interim consolidated balance sheets. Based on our understanding, as at January 1, 2010, our trust units met the definition of a liability as under our Declaration of Trust we had a mandatory requirement to distribute taxable income. Many Canadian REITs have modified their Declaration of Trust to eliminate the mandatory distribution and leave distributions to the discretion of the Trustees. At our Annual and Special Meeting on May 11, 2010, unitholders approved the elimination of mandatory distributions. As a result, our Units have been presented as liabilities as at the date of transition to IFRS, January 1, 2010 and up until May 11, 2010, when the Declaration of Trust was amended.

INCOME TAXES

Under the current IFRS income tax standard, we may be required to recognize deferred income taxes, notwithstanding that we meet the REIT exemption under the SIFT rules.

PART IX

—*Disclosure Controls and Internal Controls*

Management maintains appropriate information systems, procedures and controls to ensure that information that is publicly disclosed is complete, reliable and timely. The Chief Executive Officer and Chief Financial Officer evaluated the design and operating effectiveness of our disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) at December 31, 2011 and have concluded that such disclosure controls and procedures were appropriately designed and were operating effectively.

Management is responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS (previously in accordance with GAAP). The Chief Executive Officer and Chief Financial Officer assessed, or caused an assessment under their direct supervision of the design and operating effectiveness of our internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) at December 31, 2011, using the Committee of Sponsoring Organizations Internal Control – Integrated Framework. Based on that assessment, the Chief Executive Officer and the Chief Financial Officer determined that our internal controls over financial reporting were appropriately designed and were operating effectively.

Our conversion from GAAP to IFRS has had a significant impact on internal control over financial reporting. We have identified areas that have had an impact on our internal control over financial reporting as they relate to our initial reporting of IFRS financial statements, including related note disclosures, as well as on-going financial reporting, and the inclusion of fair value reports from a third party appraiser.

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 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.

PART X

—*Related Party Transactions*

Allied Canadian Development Corporation ("ACDC") is a company controlled by the President and Chief Executive Officer of the REIT and in which the Executive Vice President of the REIT has an interest. We have an option agreement ("Option Agreement") with ACDC, pursuant to which it must offer to sell to us at fair market value all developed or redeveloped office properties upon substantial completion. Seven of the properties in our portfolio were acquired pursuant to the Option Agreement. ACDC has no properties under development or redevelopment at this time. While the Option Agreement permits it to engage in development and redevelopment activity on an ongoing basis, ACDC is not currently pursuing office development or redevelopment opportunities and does not expect to do so in the foreseeable future.

PART XI
—*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.

Our portfolio is focused on a particular asset class in 10 metropolitan real estate markets in Canada. This focus enables Management to capitalize on certain economies of scale and competitive advantages that would not otherwise be available.

FINANCING AND INTEREST RATE RISK

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

Interest rates on our mortgage debt are between 2.4% and 8.1% with a weighted average interest rate of 5.3%. The weighted average term of our mortgage debt is five years.

TENANT CREDIT RISK

We are subject to credit risk arising from the possibility that tenants may not be able to fulfill their lease obligations. We strive to mitigate this risk by maintaining a diversified tenant-mix and limiting exposure to any single tenant. The following sets out our tenant-mix on the basis of percentage of rental revenue for the year ended December 31, 2011:

CATEGORY	% OF RENTAL REVENUE YEAR ENDED DECEMBER 31, 2011
Business service and professional	20.2%
Telecommunications and information technology	34.8%
Retail (head office and storefront)	15.4%
Media and entertainment	11.6%
Financial services	5.3%
Educational and institutional	2.4%
Government	0.7%
Other	9.6%

The following sets out the percentage of rental revenue from our top-10 tenants by rental revenue for the year ended December 31, 2011:

TENANT	% OF RENTAL REVENUE YEAR ENDED DECEMBER 31, 2011
Equinix	4.5%
Ubisoft	3.0%
Visa Desjardins	2.7%
Allstream Inc.	2.6%
Bell Canada	2.0%
Cologix	1.9%
TELUS	1.7%
Peer 1 Network Enterprises	1.7%
Cossette	1.7%
Autodesk Canada	1.2%

LEASE ROLL-OVER RISK

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

94.3% of the GLA in our portfolio was leased at December 31, 2011 (excluding upgrade properties and Properties Under Development). The weighted average term to maturity of our leases at that time was 5.1 years. The following sets out, as of today's date, the total GLA of the leases that mature to the end of 2016, assuming tenants do not exercise renewal options, the percentage of total GLA represented by the maturing leases, the weighted average in-place net rental rate on the maturing leases and the weighted average market net rental

rate on the space covered by the maturing leases. The square footage maturing by December 31, 2012, does not include month-to-month leases for 142,249 square feet of GLA that are routinely renewed at the end of each month by the tenants. The weighted average market net rental rate is based on Management's current estimates and is supported in part by independent appraisals of certain of the 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.

YEAR ENDED	SQUARE FEET	% OF TOTAL GLA	WA RENTAL RATE	WA MARKET RATE
December 31, 2012	769,856	10.3%	$15.22	$16.69
December 31, 2013	1,002,582	13.4%	$17.26	$19.22
December 31, 2014	528,706	7.1%	$18.93	$20.41
December 31, 2015	604,881	8.1%	$15.71	$16.66
December 31, 2016	552,371	7.4%	$22.33	$25.92

The following sets out lease maturity information for our 10 target markets, with Québec City, Montréal, and Ottawa being combined as Eastern Canada, Toronto and Kitchener being combined as Central Canada, and Winnipeg, Calgary, Edmonton, Vancouver and Victoria being combined as Western Canada.

1. EASTERN CANADA YEAR ENDED	SQUARE FEET	% OF TOTAL GLA	WA RENTAL RATE	WA MARKET RATE
December 31, 2012	266,622	3.6%	$9.47	$11.13
December 31, 2013	394,308	5.3%	$7.52	$11.50
December 31, 2014	123,141	1.6%	$10.80	$13.33
December 31, 2015	137,906	1.8%	$9.82	$10.53
December 31, 2016	94,707	1.3%	$12.80	$14.02

**Operations in Ottawa did not commence until February 16, 2012.*

2. CENTRAL CANADA YEAR ENDED	SQUARE FEET	% OF TOTAL GLA	WA RENTAL RATE	WA MARKET RATE
December 31, 2012	328,356	4.4%	$20.86	$21.34
December 31, 2013	483,131	6.5%	$25.57	$25.97
December 31, 2014	195,330	2.6%	$23.73	$25.45
December 31, 2015	332,132	4.4%	$16.89	$18.04
December 31, 2016	304,297	4.1%	$26.18	$31.78

3. WESTERN CANADA

YEAR ENDED	SQUARE FEET	% OF TOTAL GLA	WA RENTAL RATE	WA MARKET RATE
December 31, 2012	174,878	2.3%	$13.38	$16.43
December 31, 2013	125,143	1.7%	$15.84	$17.50
December 31, 2014	210,235	2.8%	$19.22	$19.88
December 31, 2015	134,843	1.8%	$18.85	$19.53
December 31, 2016	153,367	2.1%	$20.58	$21.66

In evaluating our lease roll-over risk, it is informative to determine our sensitivity to a decline in occupancy. For every full-year decline of 100 basis points in occupancy at our average rental rate per square foot, our annual AFFO would decline by approximately $0.04 (approximately four cents per unit). The decline in AFFO per unit would be more pronounced if the decline in occupancy involved space leased above our average rental rate per square foot and less pronounced if the decline in occupancy involved space leased below our average rental rate per square foot.

ENVIRONMENTAL RISK

As an owner of real estate, we are subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that we 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 our ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims against us. We are not aware of any material non-compliance with environmental laws at any of the properties in our portfolio. We are also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the properties in our portfolio or any pending or threatened claims relating to environmental conditions at the properties in our portfolio.

DEVELOPMENT RISK

As an owner of Properties Under Development, we are subject to development risks, such as construction delays, cost over-runs and the failure of tenants to take occupancy and pay rent in accordance with lease arrangements. In connection with all Properties Under Development, we incur 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 by ensuring that Properties Under Development do not represent a large component of our GBV. At December 31, 2011, the fair value of Properties Under Development was equivalent to 4.0% of the fair value of our portfolio under IFRS.

TAXATION RISK

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

PART XII
—*Subsequent Events*

On January 15, 2012, we completed the previously announced acquisition of the Leeson and Lineham Block, 209 – 8th Avenue, Calgary. On the date of closing we arranged financing in the principal amount of $6,300 for a term of five years bearing interest at 3.97% per year and payable in blended instalments of principal and interest based on a 25-year amortization.

On January 31, 2012, we completed the previously announced sale of 67 Richmond Street West, Toronto.

On February 6, 2012, we committed to an upward financing of 405 Saint-Joseph, Québec City, in the principal amount of $3,550 for a term of seven years, bearing interest at 4.35% per year and payable in blended instalments of principal and interest based on a 25-year amortization.

On February 6, 2012, we completed the upward financing of 809 – 10th Avenue S.W., Calgary, in the principal amount of $6,000 for a term of 10 years, bearing interest at 4% per year and payable in blended instalments of principal and interest based on a 25-year amortization.

On February 7, 2012, we completed the upward financing of the Keg Building, 603 – 605 11th Avenue S.W., Calgary, in the principal amount of $10,000 for a term of five years, bearing interest at 4.2% per year and payable in blended instalments of principal and interest based on a 25-year amortization.

On February 14, 2012, we committed to an upward financing of Fashion Central, 805 – 1st Street S.W., Calgary, in the principal amount of $10,600 for a term of five years, bearing interest at approximately 4.0% per year and payable in blended instalments of principal and interest based on a 25-year amortization.

On February 16, 2012, we completed the previously announced acquisition of The Chambers, 40 – 46 Elgin Street, Ottawa.

On February 29, 2012, we announced the acquisition of the Woodstone Building, 1207 & 1215 – 13th Street S.E. in Calgary, 535 Yates Street in Victoria, and 5445 Avenue de Gaspé in Montréal for an aggregate purchase price of $46.7 million.

On February 29, 2012, we committed to financing of 535 Yates Street, Victoria, in the principal amount of $2,500 for a term of 10 years, bearing interest at approximately 4.25% per year and payable in blended instalments of principal and interest based on a 25-year amortization.

PART XIII
—*Property Table*

DECEMBER 31, 2011 PROPERTIES	OFFICE GLA	RETAIL GTA	TOTAL GTA	% TOTAL GTA	OFFICE VACANT	RETAIL VACANT	LEASED	TOTAL LEASED %
301 Markham Parking	-	-	-		-	-	-	0.0%
555 College	42,546	19,145	61,691		-	-	61,691	100.0%
860 Richmond W	24,199	-	24,199		4,251	-	19.948	82.4%
The Castle	127,177	34,323	161,440			-	161,440	100.0%
King West	193,862	53,468	247,330	3.3%	4,251	-	243,079	98.3%
141 Bathurst (+land)	10,558	-	10,558		-	-	10,558	100.0%
183 Bathurst	24,879	7,940	32,819		5,100	-	27,719	84.5%
420 Wellington W	33,813	3,137	36,950		-	-	36,950	100.0%
425 Adelaide W	74,966	4,104	79,070		6,201	-	72,869	92.2%
425-439 King W	75,299	17,297	92,596		-	-	92,596	100.0%
441-443 King W	8,320	3,065	11,385		-	-	11,385	100.0%
445-455 King W	28,054	23,048	51,102		-	-	51,102	100.0%
468 King W	65,027	-	65,027		-	-	65,027	100.0%
469 King W	64,334	11,250	75,584		-	-	75,584	100.0%
489 King W	21,421	4,850	26,271		-	-	26,271	100.0%
495 King W	10,698	-	10,698		-	-	10,698	100.0%
499 King W	-	8,400	8,400		-	-	8,400	100.0%
500-522 King W	94,892	34,238	129,130		-	-	129,130	100.0%
544 King W	17,006	-	17,006		-	-	17,006	100.0%
579 Richmond W	29,043	-	29,043		8,300	-	20,743	71.4%
602-606 King W	39,727	24,320	64,047		-	-	64,047	100.0%
662 King W	30,774	2,126	32,900		-	-	32,900	100.0%
96 Spadina	81,052	9,361	90,413		-	-	90,413	100.0%
King-Brant Parking	-	-	-		-	-		0.0%
King West Central	709,863	153,136	862,999	11.5%	19,601	-	843,398	97.7

DECEMBER 31, 2011 PROPERTIES	OFFICE GLA	RETAIL GTA	TOTAL GTA	% TOTAL GTA	OFFICE VACANT	RETAIL VACANT	LEASED	TOTAL LEASED %
116 Simcoe	15,289	-	15,289		-	-	15,289	100.0%
151 Front & 20 York	275,095	35,239	310,334		8,239	-	302,095	97.3%
179 John	67,022	-	67,022		3,752	-	63,270	94.4%
185 Spadina	55,814	-	55,814		-	-	55,814	100.0%
200 Adelaide W	28,024	-	28,024		-	-	28,024	100.0%
208-210 Adelaide W	12,422	-	12,422		-	-	12,422	100.0%
217-225 Richmond W	35,393	13,510	48,903		-	-	48,903	100.0%
257 Adelaide W	47,024	-	47,024		-	-	47,024	100.0%
312 Adelaide W	65,343	5,665	71,008		8,399	-	62,609	88.2%
331-333 Adelaide W	20,503	3,210	23,713		-	-	23,713	100.0%
358-360 Adelaide W	54,250	-	54,250		-	-	54,250	100.0%
388 King W	32,201	11,765	43,966		10,182	-	33,784	76.8%
388 Richmond W Parking	-	-	-		-	-	-	0.0%
375-381 Queen W	23,891	11,088	34,979		-	-	34,979	100.0%
82 Peter	38,811	8,287	47,098		-	-	47,098	100.0%
99 Spadina	50,082	-	50,082		-	-	50,082	100.0%
Entertainment District	821,164	88,764	909,928	12.2%	30,572	-	879,356	96.6%
67 Richmond W	39,192	5,804	44,996		-	-	44,996	100.0%
193 Yonge	34,836	16,318	51,154		-	-	51,154	100.0%
Downtown	74,028	22,122	96,150	1.3%	-	-	96,150	100.0%
106 Front E	24,386	10,109	34,495		-	-	34,495	100.0%
184 Front E	80,734	6,291	87,025		10,453	-	76,572	88.0%
35-39 Front E	30,812	17,850	48,662		-	-	48,662	100.0%
41-45 Front E	20,024	19,811	39,835		-	-	39,835	100.0%
45-55 Colborne	28,204	15,039	43,243		-	-	43,243	100.0%
49 Front E	9,275	10,441	19,716		4,300	-	15,416	78.2%
50 Wellington E	21,815	11,049	32,864		-	-	32,864	100.0%
60 Adelaide E	105,460	4,695	110,155		8,565	-	101,590	92.2%
St. Lawrence Market	302,710	95,285	415,995	5.6%	23,318	-	392,677	94.4%
145 Berkeley	8,124	2,687	10,811		4,278	-	6,533	60.4%
204-214 King E	128,970	5,460	134,430		-	-	134,430	100.0%
230 Richmond E	73,767	-	73,767		-	-	73,767	100.0%
252-264 Adelaide E	49,400	-	49,400		9.623	-	39,777	80.5%
489 Queen E	32,905	-	32,905		-	2,663	30,242	91.9%
Dominion Square	69,271	38.050	107,321		11,569	-	95,752	89.2%
Queen Richmond Centre	164,096	59,338	223,434		8,586	-	214,848	96.2%
QRC South	41,364	-	41,364		3,507	-	37,857	91.5%
Queen Richmond	567,897	105,535	673,432	9.0%	37,563	2,663	633,206	94.0%
Total Toronto	**2,687,524**	**518,310**	**3,205,834**	**42.9%**	**115,305**	**2,663**	**3,087,866**	**96.3%**

PROPERTIES	OFFICE GLA	RETAIL GLA	TOTAL GLA	% TOTAL GLA	OFFICE VACANT	RETAIL VACANT	LEASED	TOTAL LEASED %
3575 Saint-Laurent	168,679	17,464	186,143		13,159	-	172,984	92.9%
400 Atlantic	86,284	-	86,284		5,228	-	81,056	93.9%
425 Viger W (+land)	205,193	820	206,013		-	-	206,013	100.0%
4446 Saint-Laurent	76,965	7,667	84,632		7,445	-	77,187	91.2%
5455 Avenue de Gaspé*	523,014	270	523,284		76,581	-	446,703	85.4%
5505 Saint-Laurent	255,760	2,524	258,284		-	-	258,284	100.0%
451-481 Saint Catherine	22,222	8,434	30,656		3,480	-	27,176	88.6%
6300 Avenue du Parc*	216,423	950	217,373		67,230	-	150,143	69.1%
645 Wellington*	125,738	5,139	130,877		43,513	-	87,364	66.8%
111 Duke: Phase IV	368,956	5,200	374,156		24,261	-	349,895	93.5%
50 Queen: Phase I	28,192	-	28,192		9,127	-	19,065	67.6%
700 Wellington: Phase V	130,154	-	130,154		3,553	-	126,601	97.3%
75 Queen: Phase VI & VII	249,262	2,128	251,390		11,490	-	239,900	95.4%
80 Queen: Phase II	70,122	-	70,122		10,961	-	59,161	84.4%
87 Prince: Phase III	106,915	1,065	107,980		3,201	-	104,779	97.0%
Total Montréal	2,633,879	51,661	2,685,540	35.9%	279,229	-	2,406,311	89.6%
Total Montréal Excluding Upgrades	1,768,704	45,302	1,814,006		91,905	-	1,722,101	94.9%
115 Bannatyne	38,616	-	38,616		-	-	38,616	100.0%
123 Bannayne	20,518	-	20,518		-	-	20,518	100.0%
138 Portage E	39,400	-	39,400		11,197	-	28,203	71.6%
163 Garry	9,000	5,800	14,800		-	-	14,800	100.0%
250 McDermot	41,447	10,040	51,487		22,615	-	28,872	56.1%
50-70 Arthur	107,090	15,100	122,190		29,295	3,800	89,095	72.9%
1500 Notre Dame	109,516	-	109,516		31,816	-	77,700	70.9%
Total Winnipeg	365,587	30,940	396,527	5.3%	94,923	3,800	297,804	75.1%
390 Charest	66,751	6,348	73,099		4,091	-	69,008	94.4%
410 Charest	-	24,937	24,937		-	3,700	21,237	85.2%
420 Charest	43,240	13,784	57,024		745	-	56,279	98.7%
622 Saint-Joseph	2,720	3,300	6,020		-	-	6,020	100.0%
633 Saint-Joseph	15,388	6,000	21,388		-	-	21,388	100.0%
Total Québec City	128,099	54,369	182,468	2.4%	4,836	3,700	173,932	95.3%
72 Victoria	87,057	-	87,057		4,211	-	82,846	95.2%
Total Kitchener	87,057	-	87,057	1.2%	4,211	-	82,846	95.2%

PROPERTIES

	OFFICE GLA	RETAIL GLA	TOTAL GLA	% TOTAL GLA	OFFICE VACANT	RETAIL VACANT	LEASED	TOTAL LEASED %
100-7th Ave	12,542	14,675	27,217		-	5,927	21,290	78.2%
119-6th Ave SW	63,063	-	63,063		-	-	63,063	100.0%
129-8th Ave SW	3,072	5,336	8,408		2,288	-	6,120	72.8%
601-611 10th Ave SW	43,606	2,592	46,198		-	-	46,198	100.0%
603-605 11th Ave SW	21,966	29,207	51,173		2,840	-	48,333	94.5%
604-1st St SW	66,750	21,265	88,015		2,371	-	85,644	97.3%
805-1st St SW	-	25,693	25,693		-	3,914	21,779	84.8%
808-1st St SW	17,325	30,244	47,569		-	-	47,569	100.0%
809-10th Ave SW	35,889	-	35,889		5,315	-	30,574	85.2%
Total Calgary	264,213	129,012	393,225	5.3%	12,814	9,841	370,570	94.2%
128 West Pender	77,535	3,547	81,082		-	-	81,082	100.0%
840 Cambie	91,746	-	91,746		-	-	91,746	100.0%
948-950 Homer*	22,099	23,290	45,389		-	-	45,389	100.0%
Total Vancouver	191,380	26,837	218,217	2.9%	-	-	218,217	100.0%
8-10 Bastion Sq. & 1205-1213 Wharf	22,399	10,086	32,485		-	3,606	28,879	88.9%
Total Victoria	22,399	10,086	32,485	0.4%	-	3,606	28,879	88.9%
10190-104 St NW	16,814	5,767	22,581		-	-	22,581	100.0%
10310-102nd Ave NW & 10230-104th St NW	219,430	37,969	257,399		29,500	-	227,899	88.5%
Total Edmonton	236,244	43,736	279,980	3.7%	29,500	-	250,480	89.5%
Total	**6,616,382**	**864,951**	**7,481,333**	**100.0%**	**540,818**	**23,610**	**6,916,905**	**92.5%**
Total Excluding Upgrades	**5,729,108**	**835,302**	**6,564,410**		**353,494**	**23,610**	**6,187,306**	**94.3%**

**Upgrade Properties*

PROPERTIES UNDER DEVELOPMENT

134 Peter, Toronto	30,151	19,518	49,669
364 Richmond Toronto	22,956	17,300	40,256
The Breithaupt Block, Kitchner	88,000	-	88,000
70 Richmond E, Toronto	34,414	-	34,414
36-40 Wellington E	24,180	-	24,180
905 King W, Toronto	103,105	8,991	112,096
4450 Saint-Laurent, Montréal	-	-	-
Total PUD	**302,806**	**45,809**	**348,615**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

Michael R. Emory
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Peter E. Sweeney, CA
VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Allied Properties Real Estate Investment Trust:

We have audited the accompanying consolidated financial statements of Allied Properties Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of changes in equity, income and comprehensive income and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances,

but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Allied Properties Real Estate Investment Trust as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

BDO Canada LLP

CHARTERED ACCOUNTANTS, LICENSED PUBLIC ACCOUNTANTS
TORONTO, ONTARIO | MARCH 6, 2012

ALLIED PROPERTIES REIT CONSOLIDATED BALANCE SHEETS

(In thousands)	NOTES	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Assets				
Non-current assets				
Investment properties	5	$2,015,120	$1,519,146	$1,282,057
Equipment	7	554	463	634
Other assets	8	82,894	51,437	31,458
Total non-current assets		**2,098,568**	**1,571,046**	**1,314,149**
Current assets				
Cash and cash equivalents	9	34,203	1,887	1,270
Accounts receivable	6	19,700	8,554	8,978
Prepaid expenses and deposits		2,081	1,517	1,585
Total current assets		**55,984**	**11,958**	**11,833**
Total assets		**$2,154,552**	**$1,583,004**	**$1,325,982**
Liabilities				
Non-current liabilities				
Mortgages payable	6, 13	$839,943	$625,036	$570,676
Land lease obligations	11	12,459	-	-
Total non-current liabilities		**852,402**	**625,036**	**570,676**
Current liabilities				
Mortgages payable	6, 13	89,706	44,981	22,943
Land lease obligations	11	837	-	-
Bank indebtedness	6, 13	-	21,766	16,923
Accounts payable and other liabilities	6	64,351	51,566	44,064
Distribution payable to Unitholders	6, 22	5,698	4,634	4,295
Total current liabilities		160,592	122,947	88,225
Future distribution liability to Unitholders	14	-	-	752,177
Total liabilities		**1,012,994**	**747,983**	**1,411,078**
Unitholders' equity	14	**1,141,558**	**835,021**	**(85,096)**
Total liabilities and Unitholders' equity		**$2,154,552**	**$1,583,004**	**$1,325,982**

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

Gordon Cunningham
TRUSTEE

Michael R. Emory
TRUSTEE

ALLIED PROPERTIES REIT CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In thousands)	NOTES	FOR THE YEAR ENDED DECEMBER 31, 2011	FOR THE YEAR ENDED DECEMBER 31, 2010
Revenues			
Rental properties	5	$198,848	$182,893
Amortization of tenant improvements		(4,322)	(1,783)
Amortization of straight-line rent		1,762	745
		196,288	181,855
Real estate service		204	263
		196,492	182,118
Expenses			
Rental property operating costs		86,750	79,189
Financing		42,211	34,572
Trust		5,430	6,231
Amortization of leasing costs and other assets		3,283	2,518
		137,674	122,510
Income before undernoted		58,818	59,608
Change in fair value adjustment on investment properties	5	101,650	97,801
Change in fair value adjustment on derivative instruments	13	(1,809)	-
Change in fair value adjustment on future distribution liability to Unitholders' equity	14	-	(39,310)
Financing costs associated with Unitholder distributions	14	-	(17,197)
		99,841	41,294
Income		158,659	100,902
Fair value adjustment on owner-occupied property		47	455
Comprehensive income for the year		$158,706	$101,357

See Note 17-Net income per unit.
The accompanying notes are an integral part of these consolidated financial statements.

ALLIED PROPERTIES REIT CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	NOTES	FOR THE YEAR ENDED DECEMBER 31, 2011	FOR THE YEAR ENDED DECEMBER 31, 2010
Cash Flows			
Operating activities			
Income for the year		$158,659	$100,902
Change in fair value adjustment on investment properties (net of sale)	5	(98,568)	(97,801)
Change in fair value adjustment on future distribution liability to Unitholders	14	-	39,310
Change in fair value adjustments on Freehold Interest in Land Leases		(1,958)	-
Change in fair value adjustments on derivative instruments		1,809	-
Financing costs associated with Unitholder distributions	14	-	17,197
Amortization owner occupied properties		48	-
Amortization of equipment	7	225	327
Amortization of customer relationships		108	96
Amortization of leasing costs		2,902	2,095
Amortization of tenant improvements		4,322	1,782
Amortization of straight-line rent (revenue)		(1,762)	(745)
Amortization of straight-line rent (expenses)		(353)	383
Change in other non-cash operating items		8,507	2,313
Change in other non-cash financing items		3,063	834
Compensation expense	15	1,519	1,777
Amortization, premium on assumed mortgages		(227)	17
Cash provided by operating activities		78,294	68,487
Investing activities			
Capital expenditures, rental properties and other assets (net of assumed mortgages)		(316,303)	(84,635)
Capital expenditures, properties under development		(29,003)	(19,447)
Net proceeds on sale of rental property		1,132	-
Tenant leasing costs		(9,761)	(8,856)
Tenant improvements		(26,615)	(13,990)
Cash provided by (used in) investing activities		(380,550)	(126,928)

ALLIED PROPERTIES REIT CONSOLIDATED STATEMENTS OF CASH FLOWS *(continued)*

(In thousands)	NOTES	FOR THE YEAR ENDED DECEMBER 31, 2011	FOR THE YEAR ENDED DECEMBER 31, 2010
Financing Activities			
Financing cost		(2,237)	-
Proceeds from new mortgages payable		248,631	65,655
Repayment of mortgages payable	6, 13	(37,263)	(20,078)
Distributions paid to Unitholders	22	(47,881)	(45,443)
Proceeds of public offering (net of issue costs)	14	181,167	54,780
Proceeds from exercise of unit options	15	13,795	-
Proceeds from units issued under the LTIP (net of issue costs)	16	592	443
Restricted unit plan	15	(466)	(1,142)
Net increase (decrease) in bank indebtedness		(21,766)	4,843
Cash provided by (used in) financing activities		334,572	59,058
Increase in cash and cash equivalents		32,316	617
Cash and cash equivalents, beginning of year		1,887	1,270
Cash and cash equivalents, end of year		$34,203	$1,887
Other cash flow information			
Interest		$42,439	$36,224
Financing costs associated with Unitholder distributions		-	17,197
Supplemental cash flow information			
Units issued under DRIP		14,003	7,014
Mortgages assumed on acquisition of properties		$48,776	$30,145

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

ALLIED PROPERTIES REIT CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands)	NOTES	TRUST UNITS	RETAINED EARNINGS	CUMULATIVE COMPREHENSIVE INCOME	CONTRIBUTED SURPLUS	TOTAL
Balance at January 1, 2010	14	$ -	($85,096)	$ -	$ -	($85,096)
Reclassification of future distribution liability to Unitholders	14	792,104	-	-	-	792,104
Income		-	100,902	455	-	101,357
Public offering		54,780	-	-	-	54,780
Distributions	14	-	(35,636)	-	-	(35,636)
Distribution reinvestment plan	14	5,777	-	-	-	5,777
Unit option plan – options exercised	15	-	-	-	-	-
Contributed surplus – unit option plan	15	-	-	-	1,121	1,121
Restricted unit plan	15	-	-	-	262	262
Long-Term incentive plan	16	352	-	-	-	352
Balance at December 31, 2010		**$853,013**	**($19,830)**	**$455**	**$1,383**	**$835,021**
Balance at January 1, 2011	14	$853,013	$19,830	$455	$1,383	$835,021
Reclassification of future distribution liability to Unitholders	14	-	-	-	-	-
Income		-	158,659	47	-	158,706
Public offering		181,167	-	-	-	181,167
Distributions	14	-	(62,948)	-	-	(62,948)
Distribution reinvestment plan	14	14,003	-	-	-	14,003
Unit option plan – options exercised	15	13,964	-	-	(169)	13,795
Contributed surplus – unit option plan	15	-	-	-	1,111	1,111
Restricted unit plan	15	(466)	-	-	577	111
Long-Term incentive plan	16	592	-	-	-	592
Balance at December 31, 2011		**$1,062,273**	**$75,881**	**$502**	**$2,902**	**$1,141,558**

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

ALLIED PROPERTIES REIT NOTES TO IFRS CONSOLIDATED FINANCIAL STATEMENTS (IN THOUSANDS OF DOLLARS EXCEPT PER UNIT AND UNIT AMOUNTS)

December 31, 2011 and December 31, 2010

1. NATURE OF OPERATIONS

Allied Properties Real Estate Investment Trust ("Allied Properties REIT") is an unincorporated closed-end real estate investment trust created pursuant to the Declaration of Trust dated October 25, 2002, subsequently amended and restated on February 6, 2003, May 14, 2008 and May 11, 2010. Allied Properties REIT is governed by the laws of the Province of Ontario and began operations on February 19, 2003. The units of the Trust are traded on the Toronto Stock Exchange. Allied Properties REIT is the ultimate parent of its group of companies.

Allied Properties REIT is a leading owner, manager and developer of sustainable urban office environments that enrich experience and enhance profitability for business tenants operating in Canada's major cities. Allied Properties REIT's objectives are to provide stable and growing cash distributions to Unitholders and to maximize Unitholder value through effective management and accretive portfolio growth.

Allied Properties REIT is an investor in a property under development in which it has a 50% ownership interest and accounts for its investment on an equity basis.

Allied Properties REIT is domiciled in Ontario, Canada. The address of Allied Properties REIT's registered office and its principal place of business is 255 Adelaide Street West, Toronto, Ontario, M5H 1X9.

2. BASIS OF PRESENTATION

(A) *Statement of Compliance*

The consolidated financial statements of Allied Properties REIT for the year ending December 31, 2011, are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies set out below were consistently applied to all the years presented unless otherwise noted.

Allied Properties REIT's consolidated financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Canadian GAAP differs in some areas from IFRS. Certain information and footnote disclosures are provided in notes along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, financial performance, cash flows and financial position.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying Allied Properties REIT's accounting policies.

The consolidated financial statements are presented in accordance with IAS 1 – Presentation of Financial Statements. Allied Properties REIT has elected to present the Consolidated Statements of Income and Comprehensive Income in one statement.

The consolidated financial statements for the year ending December 31, 2011 (including comparatives) were approved and authorized for issue by the Board of Trustees on March 6, 2012.

(B) *Basis of Measurement*

The consolidated financial statements have been prepared on a historical cost basis, as modified by the revaluation of investment properties and owner occupied property.

The consolidated financial statements are presented in Canadian dollars, which is also Allied Properties REIT's functional currency, and all values are rounded to the nearest thousand (CDN $'000), unless otherwise indicated.

The preparation of these consolidated financial statements requires Allied Properties REIT to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates, which, by their nature, are uncertain. The impact of such estimates is pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant estimates and assumptions include the fair values assigned to investment properties, useful lives of assets used to calculate amortization and allowances for doubtful accounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) *Investment Properties*

Investment properties are properties held to earn rentals and are accounted for using the fair value model. Rental income and operating expenses from investment properties are reported within 'revenue' and 'expenses' respectively. Investment properties include rental properties and properties under development.

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

Investment properties are appraised quarterly and are included in the Consolidated Balance Sheets at their fair values. Fair value is based on valuations prepared by external professional appraisers with sufficient

experience with respect to both the location and the nature of the investment property and supported by market evidence. Any gain or loss resulting from a change in the fair value of an investment property is immediately recognized. The fair value of each investment property is based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the balance sheet date, less future estimated cash outflows in respect of such properties.

Allied Properties REIT has elected to treat its owner-occupied property on a fair value basis and includes this property as part of its investment properties, and amortizes the components of this owner-occupied property respectively. Accordingly, amortization is recorded on the building, elevator and heating and air conditioning components based on their respective fair value over their estimated useful lives. Any gain or loss resulting from a change in the fair value of an owner-occupied property is recognized in other comprehensive income.

The external professional appraisers engaged by Allied Properties REIT use the income approach to determine fair value. The income approach is one in which the fair value is estimated by capitalizing the net rental income, which the investment property can reasonably be expected to produce over its remaining economic life. The income approach is derived from two methods: the overall capitalization rate method whereby the net operating income is capitalized at the requisite overall capitalization rate; and/or the discounted cash flow method in which the income and expenses are projected over the anticipated term of the investment plus a terminal value discounted using an appropriate discount rate. Allied Properties REIT uses the discounted cash flow method to measure the fair value of its investment properties. Properties under development are measured using both a comparable sales method and a discounted cash flow model, net of costs to complete, as of the balance sheet date. Valuations of investment properties are most sensitive to changes in discount rates and capitalization rates.

The initial cost of properties under development includes the acquisition cost of the property, direct development costs, realty taxes and borrowing costs attributable to the development. Borrowing costs associated with direct expenditures on properties under development are capitalized. The amount of capitalized borrowing costs is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Where borrowings are associated with specific developments, the amounts capitalized is based on the gross cost incurred on those borrowings. Borrowing costs are capitalized from the commencement of the development until the date of practical completion where the property is substantially ready for its intended use. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. Practical completion is 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. If Allied Properties REIT has pre-leased space at or prior to the property being substantially ready for its intended use, and the lease requires tenant improvements, which enhance the value of the property, practical completion is considered to occur when such improvements are completed.

(B) *Land Leases*

Allied Properties REIT has applied judgment in determining whether certain land leases, where Allied Properties REIT is the lessee, are operating leases or finance leases. Allied Properties REIT has determined that pursuant to the long term contractual obligations in the land lease agreements, that the land leases are finance leases and accordingly are classified as investment properties.

(C) *Revenue Recognition*

Rental revenue includes rents from tenants under leases, property tax and operating cost recoveries, parking income and incidental income. Rental revenue with respect to rents from tenants under lease is recognized on a straight-line basis over the term of the lease. Operating cost recoveries are recognized in the period that recoverable costs are chargeable to tenants. Real estate services' revenue is recorded on an accrual basis as services are provided.

(D) *Borrowing Costs*

Borrowing costs directly attributable to the construction of a qualifying asset are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use. Other borrowing costs are expensed in the period in which they are incurred and reported in 'financing expenses'.

(E) *Other assets*

Other assets - non-current include tenant improvements and inducements, which are costs that Allied Properties REIT incurs to enter into a lease agreement when negotiating a new or renewed operating lease. Allied Properties REIT recognizes the aggregate cost of tenant improvements as a reduction of rental income over the lease term, on a straight-line basis.

Other assets - non-current also include straight-line rent, which is used to straight-line revenue from operating leases over the term of the lease as required by IFRS. Allied Properties REIT recognizes the aggregate cost/ benefit of straight-line rent as a reduction/ increase of rental income over the lease term, on a straight-line basis.

Other assets - non-current also include leasing commissions and other related leasing costs, which are initial direct costs that are incremental and directly attributable to negotiating and arranging a lease. These costs are recognized as an expense over the lease term on a straight-line basis.

(F) *Equipment*

Computer and office equipment are carried at acquisition cost less subsequent depreciation and impairment losses. Depreciation is recognized on a straight-line basis to write down the cost over estimated useful lives of three to five years.

Material residual value estimates and estimates of useful life are updated as required, at least annually. Gains or losses arising on the disposal of equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized as profit or loss.

(G) *Impairment of Non-Financial Assets*

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Currently, Allied Properties REIT does not carry any goodwill. Accordingly, all individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in use, Allied Properties REIT estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. Impairment losses for cash-generating units are charged pro rata to the assets in that cash-generating unit. Assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

(H) *Financial Instruments*

Allied Properties REIT's cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less.

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

ASSET/LIABILITY	CLASSIFICATION	MEASUREMENT
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Mortgages payable	Other financial liabilities	Amortized cost
Land lease obligations	Other financial liabilities	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Accounts payable and other liabilities	Other financial liabilities	Amortized cost
Distributions payable to Unitholders	Other financial liabilities	Amortized cost
Future distribution liability to Unitholders (1)	Held for trading	Fair value
Unit-based options (1)	Held for trading	Fair value
Interest rate swaps	Held for trading	Fair value

(1) *Future distribution liability to Unitholders and Unit-based options were classified as liabilities until May 11, 2010 as disclosed in Note 14.*

FINANCIAL ASSETS

Financial assets are classified into one of the following four categories: loans and receivables; fair value through profit or loss; held-to-maturity; and available-for-sale. Financial assets are initially measured at fair value. Subsequent measurement and recognition of the changes in fair value of financial instruments depends upon their initial classifications.

Allied Properties REIT had no held-to-maturity or available-for-sale financial assets as at December 31, 2011 and December 31, 2010.

At the end of each reporting period, Allied Properties REIT assesses whether there is objective evidence that a financial asset that is not carried at fair value through profit and loss, is impaired. Impairments are measured as the excess of the carrying amount over the fair value and are recognized in the statements of income and comprehensive income.

FINANCIAL LIABILITIES

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

Allied Properties REIT measures its bank indebtedness, accounts payable and other liabilities, distributions payable, land lease obligations and mortgages payable at amortized cost using the effective interest method. As disclosed in Note 14, Allied Properties REIT measured its future distribution liability to Unitholders and unit-based options at fair value until May 11, 2010.

All interest-related charges are reported in profit or loss and are included within 'finance costs', financing costs associated with Unitholder distributions or 'finance income', except for those interest-related charges capitalized to properties under development and also to investment properties.

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

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

Currently Allied Properties REIT does not have any fair-value or cash flow hedges.

Allied Properties REIT has entered into interest rate derivative contracts to limit its exposure to fluctuations in the interest rates on variable rate mortgages. Gains or losses arising from the change in fair values of the interest rate derivative contracts are recognized in the Statement of Income and Comprehensive Income.

(I) *Unitholders' Equity*

Please see Note 14 for discussion on reclassification of Unitholders' equity on the date of transition and for the year ending December 31, 2011.

Unit capital represents the nominal value of units that have been issued. Any transaction costs associated with the issuing of units are deducted from unit proceeds.

Unitholders' equity includes all current and prior period retained income. Distributions payable to Unitholders are included in 'distributions payable to Unitholders' when the distributions have been approved prior to the reporting date.

(J) *Distribution Reinvestment Plan (DRIP)*

Allied Properties REIT has instituted a DRIP whereby Canadian Unitholders may elect to have their distributions automatically reinvested in additional units. Unitholders who so elect will receive a further distribution of units equal in value to 5% of each distribution that was reinvested. No commissions, service charges or brokerage fees are payable by participants in connection with the DRIP.

(K) *Short-Term Employee Benefits*

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

(L) *Unit-Based Payments*

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

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

(M) *Provisions*

Provisions are recognized when Allied Properties REIT has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date. Where a provision is measured using cash flow estimated to settle the present obligation, its carrying amount is the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Allied Properties REIT does not have any provisions as of the date of this report.

(N) *Per Unit Calculations*

Basic net income per unit is calculated by dividing net income by the weighted average number of units outstanding for the period, excluding those units issued under the Long Term Incentive Plan, which are not fully paid up.

Diluted net income per unit is calculated using the denominator of the basic calculation described above adjusted to include the potentially dilutive effect of outstanding unit purchase options. The denominator is increased by the total number of additional units that would have been issued by Allied Properties REIT assuming exercise of all unit purchase options with exercise prices below the average market price for the year. The calculation of net income per unit on a diluted basis also includes those units issued under the Long Term Incentive Plan, which are not fully paid up.

Please see Note 14 for discussion on reclassification of Unitholders' equity.

(O) *Standards, Amendments and Interpretations to Existing Standards That Are Not Yet Effective and Have Not Been Adopted Early by Allied Properties REIT*

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

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

Amendments to IFRS 7 Disclosures – Transfers of Financial Assets (effective from July 1, 2011)

The amendments introduce new disclosure requirements about transfers of financial assets including disclosures for:

- financial assets that are not de-recognized in their entirety; and
- financial assets that are de-recognized in their entirety but for which the entity retains continuing involvement

Allied Properties REIT has made an assessment of the impact of this amendment and it does not have a material impact on the Allied Properties REIT's financial statements.

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and de-recognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after January 1, 2015. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

IFRS 10 – Consolidated Financial Statements builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company (effective from January 1, 2013).

IFRS 11 – Joint Arrangements establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled (effective from January 1, 2013).

IFRS 12 – Disclosure of Interest in Other Entities provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities (effective from January 1, 2013).

IFRS 13 – Fair Value Measurement defines fair value, requires disclosure of fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards (effective from January 1, 2013).

IAS 28 – Investments in Associates and Joint Ventures revised the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures (effective from January 1, 2013).

4. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Allied Properties REIT and its subsidiaries listed below:

- Nominee corporations
- Allied Properties Management Trust
- Allied Properties Management Limited Partnership
- Allied Properties Management GP Limited

Subsidiaries are entities over which Allied Properties REIT has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefit from its activities. Allied Properties REIT has a shareholding of 100% of the voting rights in its subsidiaries. Subsidiaries are fully consolidated from the date control is transferred to Allied Properties REIT, and are de-consolidated from the date control ceases. Intercompany transactions between subsidiaries are eliminated on consolidation. All subsidiaries have a reporting date of December 31.

5. INVESTMENT PROPERTIES

Changes to the carrying amounts of investment properties presented in the Consolidated Balance Sheets can be summarized as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2011	FOR THE YEAR ENDED DECEMBER 31, 2010
Balance beginning of the period	1,519,146	1,282,056
Additions:		
Results from acquisitions	349,483	100,630
Results from subsequent expenditure recognized in the carrying amount of an asset	30,963	38,204
Change in fair value adjustments	100,573	98,256
Freehold interest in land lease	14,955	-
Balance end of the period	2,015,120	1,519,146

Included in the amounts noted above is $4,801 ($4,613 as at December 31, 2010) which represents Allied Properties REIT's owner-occupied property as at December 31, 2011.

The following interest rate sensitivity table outlines the impact of a 0.25% change in the market capitalization rate on investment properties. A 0.25% change is considered a reasonable level of fluctuation on market capitalization rates. As at December 31, 2011 the average weighted capitalization rate was 7.2% (December 31, 2010 – 7.3%).

FOR THE YEAR ENDED DECEMBER 31, 2011

		-0.25%	+0.25%
	Fair Value	Change	Change
Fair value	$2,071,000	$73,000	($71,000)

FOR THE YEAR ENDED DECEMBER 31, 2010

		-0.25%	+0.25%
	Fair Value	Change	Change
Fair value	$1,559,000	$10,000	($86,000)

The following amounts were recognized in income:

	FOR THE YEAR ENDED DECEMBER 31, 2011	FOR THE YEAR ENDED DECEMBER 31, 2010
Rental income from investment properties	196,288	181,855
Direct operating expenses from rental properties	(83,819)	(76,180)
Direct operating expenses from properties under development	(2,931)	(3,009)

Investment properties are subject to operating leases with tenants. Lease contracts are all typically non-cancellable for periods ranging from 3 to 10 years from the commencement of the lease.

Future minimum lease income as a lessor is as follows:

	JANUARY 1, 2012 THROUGH DECEMBER 31, 2012	JANUARY 1, 2013 THROUGH DECEMBER 31, 2016	THEREAFTER	TOTAL
Future minimum rental income	244,816	657,025	387,450	1,289,291

Reconciliation between the valuation obtained and the adjusted valuation included in the financial statements is as follows:

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Total fair market value	2,086,005	1,559,283	1,306,916
Less			
Straight-line rent	(8,913)	(7,348)	(6,857)
Tenant inducement	(43,061)	(20,773)	(8,565)
Leasing commission	(23,057)	(16,198)	(9.437)
Other	4,146	4,182	-
Adjusted fair market value	2,015,120	1,519,146	1,282,057

Other represents Allied Properties REIT's 50% partnership interest in a property under development.

6. FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments presented in the Consolidated Balance Sheets relate to the following categories of financial assets and liabilities:

	DECEMBER 31, 2011	BALANCE AS AT DECEMBER 31, 2010	JANUARY 1, 2010
Financial assets			
Loans and receivables			
Cash	34,203	1,887	1,270
Accounts receivable	19,700	8,554	8,978
	53,903	10,441	10,248
Financial liabilities measured at amortized cost			
Mortgages payable	929,649	670,017	593,619
Land lease obligations	13,296	-	-
Bank indebtedness	-	21,766	16,923
Accounts payable and other liabilities	64,351	51,566	44,064
Distributions payable to Unitholders	5,698	4,634	4,295
	1,012,994	747,983	658,901
Financial liabilities measured at fair value through profit and loss			
Future distribution liability to Unitholders	-	-	752,177

The fair value of Allied Properties REIT's financial assets and liabilities with current maturities approximate their recorded values as at December 31, 2011 and December 31, 2010. The fair value of the mortgages payable and land lease obligations are $900,464 and $14,955, respectively. (December 31, 2010; $698,183 and $nil, January 1, 2010: $592,304 and $nil).

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

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

	FOR THE YEAR ENDED DECEMBER 31, 2011	FOR THE YEAR ENDED DECEMBER 31, 2010
Allowance for doubtful accounts beginning of period	1,129	1,183
Provision for impairment of trade receivables	239	1,159
Reversal of provision for impairment	(374)	(1,213)
Allowance for doubtful accounts end of period	994	1,129

Allied Properties REIT has recognized the following items in the Consolidated Statements of Income and Comprehensive Income:

	FOR THE YEAR ENDED DECEMBER 31, 2011	FOR THE YEAR ENDED DECEMBER 31, 2010
Total interest expense on: Financial liabilities measured at amortized cost	44,061	37,051
Interest expense capitalized into investment property	3,799	2,479
Interest expense on finance lease – ground lease	1,949	-
Financing costs associated with Unitholders' distributions	-	17,197

The borrowing costs have been capitalized at a rate of 5.3% per annum (December 31, 2010 – 5.7%).

A description Allied Properties REIT's risk management objectives and policies for financial instruments is provided in Note 13.

7. EQUIPMENT

The carrying amounts for equipment can be analysed as follows:

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Computer and office equipment			
Opening balance	463	634	-
Additions	336	158	1,183
Amortization	(245)	(329)	(549)
Balance end of the period	554	463	634

8. OTHER ASSETS

Other assets non-current include:

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Tenant improvement allowances	43,061	20,772	8,564
Leasing commissions	23,057	16,198	9,437
Straight-line rents	8,913	7,348	6,857
Escrow accounts held by mortgagees	7,527	6,688	6,072
Third-party management contracts	336	431	528
Balance end of the period	82,894	51,437	31,458

All amortization and impairment charges (or reversal if any) are included as follows within the Consolidated Statements of Income and of Comprehensive Income:

- Tenant Improvements and Inducements – amortized in 'amortization of tenant improvements' account and offset against rental revenue.
- Straight-Line Rent – amortized in 'amortization of straight-line rent' account and offset against rental revenue.
- Leasing Commissions – amortized in 'amortization of leasing costs' account and recorded as an expense.

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	DECEMBER 31, 2011	DECEMBER 31, 2010	JANUARY 1, 2010
Cash at bank and in hand	506	1,459	1,096
Short-term deposits	33,697	428	174
Total cash and cash equivalents	34,203	1,887	1,270

Allied Properties REIT did not have any investing and financing transactions that do not require the use of cash or cash equivalents which would be excluded from a statement of cash flows.

There are no significant cash and cash equivalent balances held by Allied Properties REIT that are not available for use.

10. INCOME TAXES

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

11. LAND LEASE OBLIGATIONS

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

	2012	JANUARY 1, 2013 THROUGH DECEMBER 31, 2016	THEREAFTER	TOTAL
Future minimum lease payments	920	3,168	72,607	76,695
Amounts representing interest	83	435	62,881	63,399
Present value of lease payments	837	2,733	9,726	13,296

To discount the values on the minimum lease payments under the finance leases, Allied Properties REIT used discount rates between 6.1% and 7.1%

During the year, minimum lease payments of $473 were paid by Allied Properties REIT (December 31, 2010: $315). No sublease payments or contingent rent payments were made or received. No sublease income is expected as all assets held under lease agreements are used exclusively by Allied Properties REIT.

Allied Properties REIT's finance lease agreements do contain contingent rent clauses. Contingent rental payments are recognized to the Consolidated Statement of Income and Comprehensive Income as required when contingent criteria are met. None of the finance lease agreements contain renewal or purchase options or escalation clauses or any restrictions concerning distributions, additional debt and further leasing.

12. CAPITAL MANAGEMENT

Please see Note 14 for discussion on reclassification of Unitholders' equity.

Allied Properties REIT defines capital as the aggregate of Unitholders' equity, future distribution liability to Unitholders, mortgages payable, land lease obligations and bank indebtedness. Allied Properties REIT manages its capital to comply with investment and debt restrictions pursuant to the Declaration of Trust; to comply with debt covenants; to ensure sufficient operating funds are available to fund business strategies; to fund leasing and capital expenditures; to fund acquisitions and development of properties; and to provide stable and growing cash distributions to Unitholders.

Various debt, equity and earnings distributions ratios are used to monitor capital adequacy and requirements. For debt management, debt to gross book value, debt average term to maturity, variable debt as a percentage of total debt are the primary ratios used in capital management. The Declaration of Trust requires Allied Properties REIT to maintain debt to gross book value, as defined by the Declaration of Trust, of less than 60% (65% of gross book value, including the principal amount of indebtedness outstanding pursuant to convertible debentures) and the variable rate debt and debt having maturities of less than one year to not exceed 15% of gross book value. As at December 31, 2011 and December 31, 2010, variable rate debt and debt having maturities of less than one year aggregated to 7.0% and 4.2%, respectively.

Summary of quantitative data representing capital managed by Allied Properties REIT is as follows:

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Mortgages payable	929,649	670,017	593,619
Land lease obligations	13,296	-	-
Bank indebtedness	-	21,766	16,923
Future distribution liability to Unitholders	-	-	752,177
Unitholders' equity (deficiency)	1,141,558	835,021	(85,096)
	2,084,503	**1,526,804**	**1,277,623**

13. FINANCIAL INSTRUMENT RISK MANAGEMENT

Except as noted below, Allied Properties REIT does not require, hold or issue derivative financial instruments for hedging or trading purposes. Allied Properties REIT is subject to the following risks related to its financial instruments.

(A) *Market Risk*

Market risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market prices. Allied Properties REIT is exposed to interest rate risk on its borrowings.

Substantively all of Allied Properties REIT's mortgages payable at December 31, 2011 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 Properties REIT's fixed interest rate, term debt due to the expected requirement to refinance such debts upon maturity. Bank indebtedness is at floating rate interest rates and is exposed to changes in interest rates. As fixed rate debt matures and as Allied Properties REIT utilizes additional floating rate debt under the revolving credit facilities, Allied Properties REIT will be further exposed to changes in interest rates. There is a risk that interest rates will fluctuate from the date Allied Properties REIT commits to a debt to the date the interest rate is set with the lender.

As part of its risk management program, Allied Properties REIT 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 sensitivity of income and equity to a reasonably possible change in interest rates of +/- 1% (December 31, 2011, and December 31, 2010: +/- 1%). 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.

For the Year Ended December 31, 2011		-1%	-1%	+1%	+1%
	CARRYING AMOUNT	INCOME	UNITHOLDERS EQUITY	INCOME	UNITHOLDERS EQUITY
Bank indebtedness	$0	$0	$0	$0	$0
Mortgages payable maturing within one year	$89,706	$897	$897	($897)	($897)

For the Year Ended December 31, 2010		-1%	-1%	+1%	+1%
	CARRYING AMOUNT	INCOME	UNITHOLDERS EQUITY	INCOME	UNITHOLDERS EQUITY
Bank indebtedness	$21,766	$218	$218	($218)	($218)
Mortgages payable maturing within one year	$44,981	$450	$450	($450)	($450)

(B) *Credit Risk*

Credit risk from tenant receivables arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments, resulting in Allied Properties REIT incurring a financial loss. Allied Properties REIT manages credit risk to mitigate exposure to financial loss by staggering lease

maturities, diversifying revenue sources over a large tenant base, ensuring no individual tenant contributes a significant portion of Allied Properties REIT's revenues and conducting credit reviews of new tenants. Management reviews tenant receivables on a regular basis and reduces carrying amounts through the use of allowance for doubtful accounts and the amount of any loss is recognized in the Consolidated Statements of Income and Comprehensive Income within rental property operating cost. As at December 31, 2011 and December 31, 2010, allowances for doubtful accounts were $994 and $1,129, respectively.

The following sets out our tenant-mix on the basis of percentage of rental revenue for the year ended December 31, 2011:

CATEGORY	% OF RENTAL REVENUE YEAR ENDED DECEMBER 31, 2011	% OF RENTAL REVENUE YEAR ENDED DECEMBER 31, 2010
Business service and professional	20.2%	22.3%
Telecommunications and information technology	34.8%	36.5%
Retail (head office and storefront)	15.4%	13.6%
Media and entertainment	11.6%	13.1%
Financial services	5.3%	4.1%
Educational and institutional	2.4%	1.9%
Government	0.7%	0.9%
Other	9.6%	7.6%

Allied Properties REIT 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 Properties REIT's maximum exposure to credit risk.

None of Allied Properties REIT's financial assets are secured by collateral or other credit enhancements.

Some of the unimpaired trade receivables are past due as at the reporting date. Trade receivables past due but not impaired can be shown as follows:

	DECEMBER 31 2011	DECEMBER 31 2010	JANUARY 1 2010
Less than 30 days	1,172	1,028	2,333
30 to 60 days	234	243	550
More than 60 days	2,234	1,884	1,775
Total	**3,640**	**3,155**	**4,658**

(c) *Liquidity Risk*

Liquidity risk arises from the possibility of not having sufficient capital available to Allied Properties REIT. Mitigation of liquidity risk is discussed above in the Note 12 - Capital Management. Substantially all of Allied Properties REIT's assets have been pledged as security under the related mortgages and other security agreements. Interest rates on the mortgages payable are between 2.4% and 8.1% for December 31, 2011 and December 2010.

Allied Properties REIT has a $70,000 revolving credit facility with a Canadian chartered bank, which matures August 31, 2012 and bears interest at bank prime plus 75 basis points or bankers' acceptance plus 200 basis points. Security for the facility consists of first and second mortgage charges on seven rental properties and security agreements covering assignment of rents and personal property with respect to the seven properties. The credit facility has a number of covenants which were met as at December 31, 2011. At December 31, 2011 the amount outstanding under the credit facility was $0 (December 31, 2010 $21,766).

Bank indebtedness, accounts payable and other liabilities and distributions payable to Unitholders are payable within one year.

A maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities can be presented as follows:

AS AT DECEMBER 31, 2011	PRINCIPAL REPAYMENTS	BALANCE DUE AT MATURITY	TOTAL
Year ended December 31, 2012	$24,874	$64,832	$89,706
Year ended December 31, 2013	25,717	62,122	87,839
Year ended December 31, 2014	22,035	195,513	217,548
Year ended December 31, 2015	18,618	74,596	93,214
Year ended December 31, 2016	16,870	70,244	87,114
Thereafter	44,511	313,946	358,457
	$152,625	**$781,253**	**$933,878**
Net discount on assumed mortgages (net of accumulated amortization of $1,537)			635
Financing costs (net of accumulated amortization of $3,571)			(4,864)
			$929,649

AS AT DECEMBER 31, 2010	PRINCIPAL REPAYMENTS	BALANCE DUE AT MATURITY	TOTAL
Year ended December 31, 2011	$17,432	$27,549	$44,981
Year ended December 31, 2012	17,461	36,805	54,266
Year ended December 31, 2013	18,132	62,122	80,254
Year ended December 31, 2014	14,085	161,664	175,749
Year ended December 31, 2015	10,427	68,665	79,092
Thereafter	23,891	215,501	239,392
	$101,428	$572,306	$673,734
Net discount on assumed mortgages (net of accumulated amortization of $1,309)			24
Financing costs (net of accumulated amortization of $2,626)			(3,741)
			$670,017

Allied Properties REIT has entered into interest rate derivative contracts to limit its exposure to fluctuations in the interest rates on approximately $138 million of its variable rate mortgages payable as at December 31, 2011. Gains or losses arising from the change in fair values of the interest rate derivative contracts are recognized in the Statement of Income and Comprehensive Income. During the year ended December 31, 2011, Allied Properties REIT recognized, as part of change in fair value adjustment on derivative instruments, a net loss of $1.8 million (2010 $nil).

14. UNITHOLDERS' EQUITY

Prior to an amendment dated May 11, 2010 to the Allied Properties REIT's Declaration of Trust, units issued by Allied Properties REIT met the definition of 'liability' under IFRS rather than 'equity' (these units were previously categorized as equity under Canadian GAAP). This interpretation is influenced by Subsection 10.2(a) and (b) of the Declaration of Trust which required Allied Properties REIT to distribute an amount equal to not less than 75% of the distributable income for a period or such greater percentage of Distributable Income as the Trustees in their discretion consider appropriate in the circumstances, proportionately to the Unitholders on the record date for distribution and that the total amount due and payable by Allied Properties REIT for distribution on or by December 31 of any year shall not be less that the amount of net income necessary to ensure Allied Properties REIT will not be liable to pay income tax under Part I of the Income Tax Act.

Under IFRS, a liability arises where a "financial instrument" contains a "contractual obligation to deliver cash or another financial asset to another entity" (such as a mandatory requirement to distribute taxable income pursuant to Subsection 10.2(a) and (b) of the Declaration of Trust). As a result, upon initial adoption of IFRS, the units were considered to be a liability. Accordingly, and as part of the Allied Properties REIT's transition to IFRS, the trustees resolved, subject to approval of the Unitholders, to amend the Declaration of Trust to delete Subsection 10.2(a) and the reference in Subsection 10.2(b) to distribution of future taxable income,

thus permitting greater discretion to Allied Properties REIT- in this regard, similar to the amendments made by many other real estate investment trusts. Since IFRS has now been adopted commencing January 1, 2011 and must be comparative to 2010, the financial information for 2010 has been prepared in accordance with IFRS. Therefore, the implementation of this change ensures that Allied Properties REIT is able to account for its issued and outstanding units and distributions paid as part of Unitholders' equity subsequent to May 11, 2010. However, for the period prior to May 11, 2010, the units are deemed to be a liability, are measured at fair value and changes in fair value are recognized in profit or loss. In addition, distributions made to Unitholders during this period are classified as financing costs. For reporting periods subsequent to May 11, 2010, the units will be classified as equity for financial reporting purposes, and distributions to Unitholders will be classified as such. Prior to May 11, 2010, and in addition to the units of Allied Properties REIT, all unit-based payments are deemed to be settled by a financial liability and are also classified as financial liabilities and measured at fair value until the amendment to the Declaration of Trust noted above.

For all future quarterly and annual disclosures, Allied Properties REIT is authorized to issue an unlimited number of trust units, each of which represents a Unitholders' proportionate undivided beneficial interest in Allied Properties REIT. No Unitholder has or is deemed to have any right of ownership in any of the assets of Allied Properties REIT. As determined by Allied Properties REIT's trustees, Allied Properties REIT distributes its distributable income, as defined by the Declaration of Trust and amended on May 11, 2010 which allows these units to be classified as equity. All future disclosures will be in equity.

The number of units issued and outstanding are as follows:

	UNITS
Units outstanding, January 1, 2010	**39,041,359**
Units issued pursuant to offering on September 15, 2010	2,732,400
Units issued under the Distribution Reinvestment Plan	355,530
Units outstanding, December 31, 2010	**42,129,289**
Units issued pursuant to offering on March 14, 2011	3,921,500
Units issued pursuant to offering on August 12, 2011	3,830,000
Units issued pursuant to exercise of over-allotment on August 31, 2011	574,500
Units issued under the Distribution Reinvestment Plan	640,089
Units issued under unit option plan	700,147
Units outstanding, December 31, 2011	**51,795,525**

	DECEMBER 31, 2011	DECEMBER 31, 2010
The number of units issued and fully paid	51,795,525	42,129,289
The number of units issued but not fully paid	-	-

Allied Properties REIT does not hold any of its own trust units. Allied Properties REIT does not reserve any trust units for issue under options and contracts.

Units issued pursuant to the public offing are net of unit issue cost for the years ended December 31, 2011 and December 31, 2010 were $8,612 and $2,737 respectively.

15. UNIT OPTION AND RESTRICTED UNIT PLANS

Please see Note 14 for discussion on reclassification of Unitholders' equity.

Allied Properties REIT 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 the trustees and certain employees of Allied Properties REIT. The Unit Option Plan complies with the requirements of the Toronto Stock Exchange. The exercise price of any option granted will not be less than the closing market price of the units on the day preceding the date of grant. The options may have a maximum term of ten years from the date of grant. All options are settled in units.

On December 17, 2007, 710,000 options were granted to trustees and officers with an exercise price of $21.13 and expiring on December 17, 2012. 128,331 options vested on December 17, 2008, 236,664 options vested on December 17, 2009 and 233,336 options vested on December 17, 2010. 118,333 options have expired. 500,000 options have been exercised.

On December 15, 2008, 3,750 options were granted to trustees and employees with an exercise price of $10.87 and expiring on December 15, 2013. 1,249 options vested on December 15, 2009, 1,250 options vest on December 15, 2010 and 1,251 options vested on December 15, 2011. 2,499 options have been exercised.

On January 15, 2009, 130,000 options were granted to employees and officers with an exercise price of $12.34 and expiring on January 15, 2014. 43,333 options vested on January 15, 2010 and 43,333 options vested on January 15, 2011, and 43,334 options will vest on January 15, 2012, provided that certain performance achievements are met. 89,800 options have been exercised.

On March 9, 2010, 895,176 options were granted to trustees, officers and employees with an exercise price of $19.39 and expiring on March 9, 2015. 105,264 options vested at December 31, 2010 and 263,303 options vested on March 9, 2011. 263,304 and 263,305 options will vest on March 9, 2012 and March 9, 2013, respectively. 108,264 options have been exercised.

On March 31, 2011, 293,295 options were granted to trustees and officers with an exercise price of $21.91 and expiring on March 31, 2016. 97,761 options with vest on March 31, 2012, 97,763 on March 31, 2013 and 97,771 on March 31, 2014.

Allied Properties REIT 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.

Compensation expense for the years ended December 31, 2011 and 2010 were $1,005 and $1,062 respectively.

	December 31, 2011		December 31, 2010	
	THE RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	THE RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)
Units outstanding at the end of the period	10.87-21.91	3.24	10.87-21.13	3.28

	December 31, 2011		December 31, 2010	
	NUMBER OF UNITS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF UNITS	WEIGHTED AVERAGE EXERCISE PRICE
Balance at the beginning of the period	1,620,177	19.44	735,001	19.53
Granted during the period	293,295	21.91	895,176	19.39
Forfeited during the period	-	-	(10,000)	21.13
Exercised during the period	(700,147)	19.70	-	-
Balance at end of the period	1,213,325	19.89	1,620,177	19.44
Units exercisable at the end of the period	350,086	19.88	742,347	20.34

Average unit price during the year was $21.77.

Allied Properties REIT 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.

Certain employees of Allied Properties REIT may be granted Restricted Units pursuant to the terms of the Restricted Unit Plan, which are subject to vesting conditions and disposition restrictions, in order to provide a long-term compensation incentive. The Restricted Units remain subject to forfeiture until the participant has held his or her position with Allied Properties REIT for a specific period of time. Full vesting of Restricted Units will not occur until the participant has remained employed by Allied Properties REIT for three years from the date of grant. Units required under the Restricted Unit Plan are acquired in the secondary market through a custodian and then distributed to the individual participant accounts. During 2011, 20,786 (55,659 for 2010) units of Allied Properties REIT were acquired in the secondary market for the Restricted Unit Plan and are included in the units outstanding.

Allied Properties REIT utilizes the Black-Scholes Model for unit options valuation and the binomial option pricing model for Restricted Unit Plan options. Binomial option pricing model incorporates into the measurement factors specific to the share incentive plan such as market conditions by means of actuarial modeling.

Details and assumptions utilized in the calculation using the Black-Scholes Model for option valuation are as follows:

	MARCH 2011	MARCH 2010
Unit options granted	293,295	895,176
Unit option holding period (years)	5	5
Volatility rate	23.5%	24.1%
Distribution yield	6.0%	6.5%
Risk free interest rate	2.8%	1.7%
Value of options granted	$707	$1,876

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

For the Unit Option Plan, in total, $1,005 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) has been included in profit or loss for December 31, 2011 (December 31, 2010: $1,062) and credited to Unitholders' equity.

For the Restricted Unit Plan, in total, $514 of employee remuneration expense (all of which related to equity-settled share-based payment transactions) has been included in profit or loss for December 31, 2011 (December 31, 2010: $425) and credited to Unitholders' equity.

16. LONG-TERM INCENTIVE PLAN

Officers and trustees of Allied Properties REIT have been granted the right to participate in a LTIP, whereby the participants may subscribe for units for a purchase price equal to the weighted average trading price of the units for five trading days preceding the date of the grant. The purchase price is payable as to 5% upon issuance and as to the balance ("installment loan receivable") over a term not exceeding 10 years. The installment loan receivable bears interest at rates of 3% or 5% per annum on any outstanding balance and is a direct, personal obligation of the participant. The units issued under the LTIP are held by a custodian for the benefit of the participants until the installment loan receivable has been paid in full. The value of these units held by the Custodian as at December 31, 2011 and December 31, 2010 were $8,914 and $8,143 respectively. Cash distributions paid in respect of the units issued under the LTIP are applied first to the interest and then to reduce the balance of the installment loan receivable.

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

UNITS ISSUED UNDER THE LTIP	CUMULATIVE AS AT DECEMBER 31 2011	YEAR ENDED DECEMBER 31 2011	CUMULATIVE AS AT DECEMBER 31 2010
Number of units issued	412,293	-	412,293
Units issued	6,282	-	6,282
Compensation cost	474	-	474
	6,756	-	6,756
LTIP installment loan receivables	(5,852)	-	(5,852)
Interest on installment loans receivable	(972)	(122)	(850)
Distributions applied against installment loans receivable	3,126	474	2,652
Repayments of installment loans	467	240	227
	(3,231)	592	(3,823)
	3,525	592	2,933

UNITS ISSUED UNDER THE LTIP	CUMULATIVE AS AT DECEMBER 31 2010	YEAR ENDED DECEMBER 31 2010	CUMULATIVE AS AT DECEMBER 31 2009
Number of units issued	412,293	-	412,293
Units issued	6,282	-	6,282
Compensation cost	474	-	474
	6,756	-	6,756
LTIP installment loan receivables	(5,852)	-	(5,852)
Interest on installment loans receivable	(850)	(143)	(707)
Distributions applied against installment loans receivable	2,652	504	2,148
Repayments of installment loans	227	82	145
	(3,823)	443	(4,266)
	$2,933	$443	$2,490

17. INCOME PER UNIT

Please see Note 14 for discussion on reclassification of Unitholders' equity.

Both the basic and diluted income per unit have been calculated using the income attributable to Unitholders of Allied Properties REIT as the numerator. As a result, the change in fair value adjustment on future distribution liability to Unitholders' equity and financing costs associated with Unitholder distributions have been excluded from the calculation for the year ended December 31, 2010.

The weighted average number of units for the purposes of diluted income per unit is to the weighted average number of ordinary units used in the calculation of basic income per unit as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2011	FOR THE YEAR ENDED DECEMBER 31, 2010
Basic	47,102,069	39,607,858
Unit option plan	238,700	98,308
Long-term incentive plan	356,653	381,185
Fully diluted	47,697,422	40,087,351

There were no anti-dilutive instruments for the years ended December 31, 2011 and 2010.

The income per unit (basic and fully diluted) were as follows:

	NOTES	FOR THE YEAR ENDED DECEMBER 31, 2011	FOR THE YEAR ENDED DECEMBER 31, 2010
Income per unit	22		
Basic	14	$3.37	$2.55
Fully diluted	14	$3.33	$2.52

The weighted average number of units outstanding for the year ended December 31, 2010 are calculated based on all outstanding units being treated as equity for the entire respective period. No adjustment has been made to reflect these units as a liability for the period January 1, 2010 to May 10, 2010 (see Note 14 for discussion on reclassification of Unitholders' equity).

18. COMMITMENTS AND CONTINGENCIES

Allied Properties REIT has entered into commitments for acquisitions, building renovations with respect to leasing activities and for repairs and operating costs. The commitments as at December 31, 2011 and December 31, 2010 were $4,456 and $3,733, respectively.

Allied Properties REIT has provided its guarantee to a Canadian chartered bank to support a $21.8 million construction lending facility to assist with the financing of construction costs associated with a property under development in which Allied Properties REIT has a 50% ownership interest (please see Note 5). The balance outstanding under the facility as at December 31, 2011 was $8.3 million.

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

Allied Properties REIT, through a financial intermediary, has issued letters of credit in the amount of $2,676

representing deposits on several of the conditional purchase agreements noted above, and $1,320 representing other financing requirements.

19. OPERATING SEGMENTS

Allied Properties REIT owns and operates primarily retail and office real estate assets located in Canada. Management, in measuring Allied Properties REIT's performance or making operating decisions, does not distinguish or group its operations on a geographical or other basis. Accordingly, Allied Properties REIT has a single reportable segment for disclosure purposes.

20. RELATED PARTY TRANSACTIONS

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

Allied Properties REIT engages in third-party property management business, including the provision of services for properties in which certain trustees of Allied Properties REIT have an ownership interest. For the year ended December 31, 2011 real estate service revenue earned from these properties was $239 and $240 for the year ended December 31, 2010.

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:

	FOR THE YEAR ENDED DECEMBER 31, 2011	FOR THE YEAR ENDED DECEMBER 31, 2010
Salary, bonus and other short-term employee benefits	$2,891	$2,107
Share-based payments	1,248	1,474
	$4,139	$3,581

21. SUBSEQUENT EVENTS

On January 15, 2012, Allied Properties REIT completed the acquisition of the Leeson and Lineham Block, 209 – 8th Avenue, Calgary. On the date of closing Allied Properties REIT arranged financing in the principal amount of $6,300 for a term of five years bearing interest at 3.97% per year and payable in blended instalments of principal and interest based on a 25-year amortization.

On January 31, 2012, Allied Properties REIT completed the sale of 67 Richmond Street West, Toronto for $13.5 million.

On February 6, 2012, Allied Properties REIT committed to an upward financing of 405 Saint-Joseph, Québec City, in the principal amount of $3,550 for a term of seven years, bearing interest at 4.35% per year and payable in blended instalments of principal and interest based on a 25-year amortization.

On February 6, 2012, Allied Properties REIT completed the upward financing of 809 – 10th Avenue S.W., Calgary, in the principal amount of $6,000 for a term of 10 years, bearing interest at 4% per year and payable in blended instalments of principal and interest based on a 25-year amortization.

On February 7, 2012, Allied Properties REIT completed the upward financing of the Keg Building, 603 – 605 11th Avenue S.W., Calgary, in the principal amount of $10,000 for a term of five years, bearing interest at 4.2% per year and payable in blended instalments of principal and interest based on a 25-year amortization.

On February 14, 2012, Allied Properties REIT committed to an upward financing of Fashion Central, 805 – 1st Street S.W., Calgary, in the principal amount of $10,600 for a term of five years, bearing interest at approximately 4.0% per year and payable in blended instalments of principal and interest based on a 25-year amortization.

On February 16, 2012, Allied Properties REIT completed the acquisition of The Chambers, 40 – 46 Elgin Street, Ottawa for a purchase price of $96 million.

On February 29, 2012, Allied Properties REIT announced the acquisition of the Woodstone Building, 1207 & 1215 – 13th Street S.E. in Calgary, 535 Yates Street in Victoria, and 5445 Avenue de Gaspé in Montréal for an aggregate purchase price of $45.4 million.

On February 29, 2012, Allied Properties REIT committed to financing of 535 Yates Street, Victoria, in the principal amount of $2,500 for a term of 10 years, bearing interest at approximately 4.25% per year and payable in blended instalments of principal and interest based on a 25-year amortization.

22. FIRST-TIME ADOPTION OF IFRS

Please see Note 14 for discussion on reclassification of Unitholders' equity.

Allied Properties REIT has adopted IFRS effective January 1, 2010, its date of transition. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS.

Allied Properties REIT's accounting policies presented in Note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative financial performance presented in these financial statements for the year ended December 31, 2010, and the

comparative balance sheet as at January 1, 2010. An explanation of how the transition from Canadian GAAP to IFRS has affected Allied Properties REIT's balance sheet, financial performance and cash flows set out in the following tables and the accompanying notes.

IFRS 1 – FIRST-TIME ADOPTION OF IFRS

IFRS 1 applies when an entity first adopts IFRS. The general provisions in IFRS 1 require retrospective application of IFRS to the first reporting period. However, the standard provides certain mandatory exceptions and allows specific exemptions from this general retrospective application.

The significant options selected by Allied Properties REIT are as follows:

SHARE-BASED PAYMENTS – IFRS 2, Share-based Payments, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. Allied Properties REIT elected to take the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date. In addition, Allied Properties REIT did not apply IFRS 2 to liabilities arising from share-based payment transactions that were settled before the date of transition to IFRS.

BUSINESS COMBINATIONS – Allied Properties REIT has elected to take the exemption for business combinations in IFRS 1 to not apply IFRS 3 retrospectively to business combinations prior to January 1, 2010. Accordingly, Allied Properties REIT has not restated business combinations that took place prior to the date of transition.

LEASES – Allied Properties REIT made the same determination of whether an arrangement contained a lease in accordance with its previous GAAP as that required by IFRIC 4 but at a date other than that required by IFRIC 4. Allied Properties REIT did not reassess that determination when it adopted IFRS.

BORROWING COSTS – Allied Properties REIT has elected to apply IAS 23 - Borrowing Costs prospectively after the date of transition.

ALLIED PROPERTIES REIT RECONCILIATION OF CONSOLIDATED BALANCE SHEETS

(In thousands)

JANUARY 1, 2010	NOTES	PREVIOUS GAAP	EFFECT OF TRANSITION TO IFRS	IFRS
Assets				
Non-current assets				
Investment properties	c	$1,017,883	$264,174	$1,282,057
Properties under development	c	41,928	(41,928)	-
Intangibles	c, d	43,751	(43,751)	-
Equipment		-	634	634
Other assets	c, d	50,326	(18,868)	31,458
Total non-current assets		**1,153,888**	**160,261**	**1,314,149**
Current assets				
Cash		1,270	-	1,270
Accounts receivable	c, d	-	8,978	8,978
Other assets		-	1,585	1,585
Total current assets		**1,270**	**10,563**	**11,833**
Total assets		**$1,155,158**	**$170,824**	**$1,325,982**
Liabilities				
Non-current liabilities				
Mortgages payable	g	$593,619	($22,943)	$570,676
Total non-current liabilities		593,619	(22,943)	570,676
Current liabilities				
Mortgages payable	g	-	22,943	22,943
Bank indebtedness		16,923	-	16,923
Accounts payable and other liabilities	c, d	58,795	(14,731)	44,064
Distribution payable to Unitholders	f	4,295	-	4,295
Total current liabilities		**80,013**	**8,212**	**88,225**
Future distribution liability to Unitholders	f	-	752,177	752,177
Total liabilities		**673,632**	**737,446**	**1,411,078**
Unitholders' equity (deficiency)		**481,526**	**(566,622)**	**(85,096)**
Total liabilities and Unitholders' equity		**$1,155,158**	**$170,824**	**$1,325,982**

ALLIED PROPERTIES REIT RECONCILIATION OF CONSOLIDATED BALANCE SHEETS

(In thousands)

DECEMBER 31, 2010	NOTES	PREVIOUS GAAP	EFFECT OF TRANSITION TO IFRS	IFRS
Assets				
Non-current assets				
Investment properties	c	$1,114,920	$404,226	$1,519,146
Properties under development	c	49,624	(49,624)	-
Intangibles	c, d	32,485	(32,485)	-
Equipment		-	463	463
Other assets	c, d	59,595	(8,158)	51,437
Total non-current assets		**1,256,624**	**314,422**	**1,571,046**
Current assets				
Cash		1,887	-	1,887
Accounts receivable	c, d	-	8,554	8,554
Other assets		-	1,517	1,517
Total current assets		**1,887**	**10,071**	**11,958**
Total assets		**$1,258,511**	**$324,493**	**$1,583,004**
Liabilities				
Non-current liabilities				
Mortgages payable	g	$670,017	($44,981)	$625,036
Total non-current liabilities		670,017	(44,981)	625,036
Current liabilities				
Mortgages payable	g	-	44,981	44,981
Bank indebtedness		21,766	-	21,766
Accounts payable and other liabilities	c, d	52,103	(537)	51,566
Distribution payable to Unitholders	f	4,634	-	4,634
Total current liabilities		**78,503**	**44,444**	**122,947**
Future distribution liability to Unitholders	f	-	-	-
Total liabilities		**748,520**	**(537)**	**747,983**
Unitholders' equity		**509,991**	**325,030**	**835,021**
Total liabilities and Unitholders' equity		**$1,258,511**	**$324,493**	**$1,583,004**

ALLIED PROPERTIES REIT RECONCILIATION OF CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In thousands)

DECEMBER 31, 2010	NOTES	PREVIOUS GAAP	EFFECT OF TRANSITION TO IFRS	IFRS
Revenue				
Rental properties	c, d	$183,854	($961)	$182,893
Amortization of tenant improvements	c, d	-	(1,783)	(1,783)
Amortization of straight-line rent	c, d	-	745	745
		183,854	(1,999)	181,855
Real estate services		613	(350)	263
		184,467	**(2,349)**	**182,118**
Expenses				
Rental property operating costs	c, d	77,646	1,543	79,189
Real estate services		350	(350)	-
Financing	c, d	34,439	133	34,572
Trust	c, d	6,080	151	6,231
Amortization of rental properties	c, d	22,725	(22,725)	-
Amortization of intangibles	c, d	20,772	(20,772)	-
Amortization of leasing costs and other assets		2,096	422	2,518
Amortization of other assets	c, d	1,819	(1,819)	-
		165,927	**(43,417)**	**122,510**
Income before undernoted		18,540	41,068	59,608
Change in fair value adjustment on investment properties	c	-	97,801	97,801
Change in fair value adjustment on future distribution liability to Unitholders	f	-	(39,310)	(39,310)
Financing costs associated with Unitholder distributions		-	(17,197)	(17,197)
		-	**41,294**	**41,294**
Income (loss)		18,540	82,362	100,902
Fair value adjustment on owner-occupied property		-	455	455
Comprehensive income for the period		**$18,540**	**$82,817**	**$101,357**

ALLIED PROPERTIES REIT NOTES TO RECONCILIATION OF FINANCIAL STATEMENTS FROM PREVIOUS GAAP TO IFRS

December 31, 2011

As stated in Note 2 above, Allied Properties REIT's consolidated financial statements for the year ended December 31, 2011 will be the first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 2010 (the date of transition).

In preparing its opening IFRS balance sheet, Allied Properties REIT has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected Allied Properties REIT's financial position, operating results and cash flows is set out in the reconciled financial statements noted above and the following accompanying notes.

(a) ELECTED EXEMPTIONS FROM FULL RETROSPECTIVE APPLICATION

In preparing the consolidated financial statements in accordance with IFRS 1, Allied Properties REIT has elected to apply exemptions related to business acquisitions that occurred prior to January 1, 2010, share based payments, leases and borrowing costs. The remaining optional exemptions are either not applicable to Allied Properties REIT or not utilized in the transition to IFRS.

(b) MANDATORY EXCEPTIONS FROM FULL RETROSPECTIVE APPLICATION

In accordance with IFRS 1, Allied Properties REIT has applied the mandatory exception from full retrospective application of IFRS with respect to estimates. Hindsight was not used to create or revise estimates and accordingly the estimates previously made by Allied Properties REIT are consistent with their application under IFRS as at January 1, 2010. The remaining mandatory exceptions are not applicable to Allied Properties REIT.

(c) INVESTMENT PROPERTIES AND PROPERTIES UNDER DEVELOPMENT

Allied Properties REIT considers its properties to be investment properties under IAS 40 – Investment Property. Investment properties are properties held to earn rental income or for capital appreciation, or both.

Allied Properties REIT has chosen the fair value model to measure all of its investment property. As a result, investment properties have been recognized at fair market value at the date of transition and each quarter thereafter. Under previous Canadian GAAP, investment properties were measured on an amortized cost basis.

Under IFRS, properties under development are treated as investment properties. Under previous Canadian GAAP, some costs and income, such as administrative and other general overheads and any incidental operating income, were capitalized to properties under development. These items are recognized in net income under IFRS.

Pursuant to IAS16, Allied Properties REIT has elected to treat its owner-occupied property on a fair value basis and includes this property as part of its investment properties, and amortizes the components of this owner-occupied property respectively. Accordingly, amortization is recorded on the building, elevator and heating and air conditioning components based on their respective fair value over their estimated useful lives.

The adjustment to Unitholders' equity represents the cumulative change in fair value in respect of Allied Properties REIT's investment properties, inclusive of related intangible assets, leasing costs, intangible costs, intangible liabilities, straight-line rent receivable, tenant inducements and tenant improvements which were recorded separately under previous Canadian GAAP.

Allied Properties REIT considers property acquisitions to be asset acquisitions, and all transaction costs associated with the acquisition of property are capitalized to the property which is consistent with the previous Canadian GAAP treatment.

(D) TENANT IMPROVEMENTS

Under Canadian GAAP, tenant improvements and certain other leasing costs were capitalized and amortized through amortization expense by Allied Properties REIT. Under IFRS, such costs are generally considered leasing incentives and are amortized as a reduction against rental revenue over the term of the lease.

(E) UNIT-BASED PAYMENTS

Allied Properties REIT's unit options are to be settled by redeemable trust units. On the date of transition and until the date amendment of the trust agreement, Allied Properties REIT's trust units were classified as liabilities (see Note 14 – Unitholders' Equity). Due to the fact that during this period the trust units are classified as liabilities, these unit-based payments are considered to be cash-settled, and are therefore recorded as a liability at fair value as at the date of transition and at each reporting date until May 11, 2010. Any change in the fair value of the liability is recognized as compensation expense in net income for the period. Unit options granted by Allied Properties REIT vest equally over a period of up to six years. In accordance with IFRS, Allied Properties REIT treats each installment as a separate unit option grant as each installment has a different vesting period. Under previous GAAP, the fair value at the grant date of the options granted and vested under the unit option plan were recorded to contributed surplus, and unit option installments were not treated as separate unit option grants.

(F) TRUST UNITS

In accordance with IAS 32 – Financial Instruments: Presentation, until May 11, 2010, Allied Properties REIT's trust units were classified as liabilities (see Note 14 – Unitholders' Equity) and measured at fair value

with gains and losses recognized to net income. On May 11, 2010, Allied Properties REIT amended it Declaration of Trust in order to make distributions non-mandatory, and thereby, permit classification of the trust units as equity. Distributions paid to Unitholders during the period from January 1, 2010 – May 11, 2010 are classified as financing costs. Under previous GAAP, trust units and distributions on those units were classified as Unitholders' Equity.

(g) CLASSIFICATION

Under previous GAAP, Allied Properties REIT did not present a classified balance sheet. Under IAS 1 – Presentation of Financial Statements, Allied Properties REIT presents current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet.

(h) CHANGES TO THE CASH FLOW STATEMENT

There were no material adjustments to cash from operations, cash used in investing activities and cash provided from financial activities as a result of the transition to IFRS, other than the impact of the adjustments discussed above.

ALLIED