

Interim Condensed Consolidated Financial Statements of

**ARTIS REAL ESTATE  
INVESTMENT TRUST**

Three and six months ended June 30, 2020 and 2019  
(Unaudited)

(In Canadian dollars)

# Interim Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands of Canadian dollars)

	Note	June 30, 2020	December 31, 2019
<b>ASSETS</b>			
Non-current assets:			
Investment properties	4	\$ 4,646,665	\$ 4,618,719
Investment properties under development	4	120,493	102,590
Investments in joint ventures	5	200,246	186,610
Property and equipment		8,256	7,786
Notes receivable	6	97,258	93,832
Deferred rents receivable	7	1,337	—
		5,074,255	5,009,537
Current assets:			
Investment properties held for sale	4	80,551	221,915
Inventory properties		14,769	14,632
Deposits on investment properties		1,322	—
Prepaid expenses and other assets		7,228	10,533
Notes receivable	6	1,622	3,996
Accounts receivable and other receivables	7	18,854	21,013
Cash held in trust		9,207	5,938
Cash		28,757	42,455
		162,310	320,482
<b>Total assets</b>		<b>\$ 5,236,565</b>	<b>\$ 5,330,019</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
Non-current liabilities:			
Mortgages and loans payable	8	\$ 884,151	\$ 1,005,196
Senior unsecured debentures	9	—	249,372
Credit facilities	10	1,026,473	886,522
Other long-term liabilities		1,942	1,000
		1,912,566	2,142,090
Current liabilities:			
Mortgages and loans payable	8	529,865	396,152
Senior unsecured debentures	9	249,643	199,959
Security deposits and prepaid rent		34,740	32,834
Accounts payable and other liabilities		95,897	88,231
		910,145	717,176
<b>Total liabilities</b>		<b>2,822,711</b>	<b>2,859,266</b>
<b>Unitholders' equity</b>		<b>2,413,854</b>	<b>2,470,753</b>
Commitments, contingencies and guarantees	19		
Subsequent events	23		
<b>Total liabilities and unitholders' equity</b>		<b>\$ 5,236,565</b>	<b>\$ 5,330,019</b>

See accompanying notes to interim condensed consolidated financial statements.

# Interim Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands of Canadian dollars, except unit and per unit amounts)

	Note	Three months ended		Six months ended	
		June 30,		June 30,	
		2020	2019	2020	2019
Revenue	13	\$ 114,038	\$ 133,928	\$ 232,579	\$ 267,475
Expenses:					
Property operating		27,877	31,655	57,436	66,135
Realty taxes		19,022	21,740	38,852	42,329
Total operating expenses		46,899	53,395	96,288	108,464
Net operating income		67,139	80,533	136,291	159,011
Other income (expenses):					
Corporate expenses		(2,663)	(4,113)	(3,476)	(8,230)
Interest expense	14	(21,065)	(27,916)	(45,624)	(55,168)
Interest income		1,371	510	2,867	951
Net income (loss) from investments in joint ventures	5	5,615	(691)	6,598	1,966
Fair value gain (loss) on investment properties	4	8,283	(24,508)	(133,152)	(43,035)
Foreign currency translation gain (loss)		190	3,435	(912)	10,148
Transaction costs		—	(137)	—	(137)
Fair value loss on derivative instruments and other transactions	15	(3,961)	(7,195)	(18,782)	(19,540)
Income (loss) before income taxes		54,909	19,918	(56,190)	45,966
Income tax expense	16	(159)	(46)	(390)	(738)
Net income (loss)		54,750	19,872	(56,580)	45,228
Other comprehensive (loss) income that may be reclassified to net income (loss) in subsequent periods:					
Unrealized foreign currency translation (loss) gain		(51,929)	(28,648)	60,525	(56,436)
Unrealized foreign currency translation (loss) gain on investments in joint ventures		(6,063)	(2,251)	7,010	(4,729)
Other comprehensive income that will not be reclassified to net income (loss) in subsequent periods:					
Unrealized gain from remeasurements of net pension obligation		—	269	—	671
Other comprehensive (loss) income		(57,992)	(30,630)	67,535	(60,494)
Total comprehensive (loss) income		\$ (3,242)	\$ (10,758)	\$ 10,955	\$ (15,266)
Basic income (loss) per unit attributable to common unitholders	11	\$ 0.37	\$ 0.10	\$ (0.48)	\$ 0.24
Diluted income (loss) per unit attributable to common unitholders	11	0.36	0.10	(0.50)	0.24
Weighted-average number of common units outstanding:					
Basic	11	136,342,845	142,980,563	136,870,056	145,756,644
Diluted	11	137,569,690	142,980,563	138,074,317	145,756,644

See accompanying notes to interim condensed consolidated financial statements.

# Interim Condensed Consolidated Statements of Changes in Unitholders' Equity

(Unaudited)

(In thousands of Canadian dollars)

	Common units capital contributions	Retained earnings	Accumulated other comprehensive income (loss)	Contributed surplus	Total common equity	Total preferred equity	Total
Unitholders' equity, December 31, 2018	\$ 1,959,647	\$ 143,169	\$ 246,716	\$ 11,632	\$ 2,361,164	\$ 376,881	\$ 2,738,045
Changes for the period:							
Issuance of common units, net of issue costs (note 11)	782	—	—	—	782	—	782
Units acquired and cancelled through normal course issuer bid (note 11)	(122,096)	—	—	21,936	(100,160)	(4,022)	(104,182)
Units acquired through normal course issuer bid, not cancelled at period end (note 11)	—	—	—	33	33	(235)	(202)
Net income	—	45,228	—	—	45,228	—	45,228
Other comprehensive loss	—	—	(60,494)	—	(60,494)	—	(60,494)
Distributions	—	(47,927)	—	—	(47,927)	—	(47,927)
Unitholders' equity, June 30, 2019	1,838,333	140,470	186,222	33,601	2,198,626	372,624	2,571,250
Changes for the period:							
Issuance of common units, net of issue costs (note 11)	294	—	—	—	294	—	294
Redemption of preferred units (note 11)	—	—	—	(2,753)	(2,753)	(75,710)	(78,463)
Units acquired and cancelled through normal course issuer bid (note 11)	(39,880)	—	—	2,425	(37,455)	(2,430)	(39,885)
Net income	—	77,509	—	—	77,509	—	77,509
Other comprehensive loss	—	—	(11,174)	—	(11,174)	—	(11,174)
Distributions	—	(48,778)	—	—	(48,778)	—	(48,778)
Unitholders' equity, December 31, 2019	1,798,747	169,201	175,048	33,273	2,176,269	294,484	2,470,753
Changes for the period:							
Issuance of common units, net of issue costs (note 11)	519	—	—	—	519	—	519
Units acquired and cancelled through normal course issuer bid (note 11)	(30,176)	—	—	12,058	(18,118)	(2,331)	(20,449)
Net loss	—	(56,580)	—	—	(56,580)	—	(56,580)
Other comprehensive income	—	—	67,535	—	67,535	—	67,535
Distributions	—	(47,924)	—	—	(47,924)	—	(47,924)
Unitholders' equity, June 30, 2020	\$ 1,769,090	\$ 64,697	\$ 242,583	\$ 45,331	\$ 2,121,701	\$ 292,153	\$ 2,413,854

See accompanying notes to interim condensed consolidated financial statements.

# Interim Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands of Canadian dollars)

	Note	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Cash provided by (used in):					
Operating activities:					
Net income (loss)		\$ 54,750	\$ 19,872	\$ (56,580)	\$ 45,228
Adjustments for:					
Distributions from joint ventures		1,825	615	2,787	1,694
Net (income) loss from investments in joint ventures	5	(5,615)	691	(6,598)	(1,966)
Fair value (gain) loss on investment properties	4	(8,283)	24,508	133,152	43,035
Fair value loss on derivative instruments and other transactions	15	3,961	7,195	18,782	19,540
Unrealized foreign currency translation (gain) loss		(187)	(3,941)	1,684	(10,190)
Other items not affecting cash	17	6,428	6,874	9,587	13,335
Changes in non-cash operating items	17	(2,431)	(10,146)	(6,356)	(3,570)
		50,448	45,668	96,458	107,106
Investing activities:					
Acquisitions of investment properties, net of related debt	3	—	(5,140)	—	(5,140)
Proceeds from dispositions of investment properties, net of costs and related debt	3	11,390	127,488	81,868	127,488
Proceeds from disposition of note receivable	6	—	—	8,372	—
Additions to investment properties		(8,054)	(14,528)	(13,635)	(18,975)
Additions to investment properties under development		(15,346)	(22,079)	(34,204)	(51,211)
Additions to tenant inducements and leasing commissions		(11,604)	(19,193)	(29,520)	(31,669)
Additions to joint ventures	5	(112)	(4,924)	(288)	(13,267)
Additions to property and equipment		—	(807)	(13)	(1,478)
Issuances of notes receivable		(11)	(5,485)	(21)	(7,588)
Notes receivable principal repayments		343	2,859	999	3,971
Change in deposits on investment properties		—	—	(1,304)	32
Change in cash held in trust		(1,313)	419	(3,160)	2,432
		(24,707)	58,610	9,094	4,595
Financing activities:					
Repayment of mortgages and loans payable		(29,224)	(11,779)	(39,154)	(38,342)
Advance of mortgages and loans payable, net of financing costs		49,172	(5)	49,137	74
Issuance of senior unsecured debentures, net of financing costs	9	—	42	—	248,946
Repayment of senior unsecured debentures	9	—	—	(200,000)	(200,000)
Advance of revolving credit facilities		12,500	77,750	79,000	345,807
Repayment of revolving credit facilities, including financing costs		(45,000)	(57,409)	(142,721)	(284,604)
Advance of non-revolving credit facilities, net of financing costs		—	—	199,644	—
Repayment of lease liabilities		(47)	(19)	(106)	(33)
Purchase of common units under normal course issuer bid	11	(12,842)	(41,385)	(18,868)	(100,656)
Purchase of preferred units under normal course issuer bid	11	(1,006)	(1,724)	(1,581)	(3,728)
Distributions paid on common units		(18,339)	(19,308)	(37,273)	(37,512)
Distributions paid on preferred units		(4,350)	(5,407)	(8,729)	(10,834)
		(49,136)	(59,244)	(120,651)	(80,882)
Foreign exchange (loss) gain on cash held in foreign currency		(887)	(1,605)	1,401	(2,365)
(Decrease) increase in cash		(24,282)	43,429	(13,698)	28,454
Cash, beginning of period		53,039	51,168	42,455	66,143
Cash, end of period		\$ 28,757	\$ 94,597	\$ 28,757	\$ 94,597

See accompanying notes to interim condensed consolidated financial statements.

# Notes to Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2020 and 2019 (Unaudited)

(In thousands of Canadian dollars, except unit and per unit amounts)

## Note 1. Organization

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Artis Real Estate Investment Trust (the "REIT") is an unincorporated closed-end real estate investment trust created under, and governed by, the laws of the Province of Manitoba. The REIT was created pursuant to the Declaration of Trust dated November 8, 2004, as most recently amended and restated on April 15, 2020 (the "Declaration of Trust"). The purpose of the REIT is to directly, or indirectly, own, manage, lease and (where appropriate) develop primarily office, retail and industrial properties in Canada and the United States (the "U.S."). The registered office of the REIT is 600 - 220 Portage Avenue, Winnipeg, Manitoba, R3C 0A5.

The Declaration of Trust provides that the REIT may make cash distributions to unitholders of the REIT. The amount distributed annually (currently \$0.54 per common unit, \$1.4155 per Series A Unit, \$1.3680 per Series E Unit and \$1.50 per Series I Unit) is set by the Board of Trustees.

## Note 2. Significant accounting policies

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(a) Basis of presentation and measurement:

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting*. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed.

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2019, except for those policies and standards adopted as described in note 2 (c). These interim condensed consolidated financial statements have been prepared on a going concern basis and have been presented in Canadian dollars rounded to the nearest thousand unless otherwise indicated.

These interim condensed consolidated financial statements should be read in conjunction with the REIT's consolidated financial statements for the year ended December 31, 2019.

(b) Use of estimates and judgments:

The preparation of the interim condensed consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. The critical accounting estimates and judgments have been set out in note 2 to the REIT's consolidated financial statements for the year ended December 31, 2019. There have been no changes to the critical accounting estimates and judgments during the six months ended June 30, 2020.

(c) New or revised accounting standards adopted during the period:

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 – *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. The amendments apply to business combinations for which the acquisition date is on or after January 1, 2020. The REIT will apply the amendments to acquisitions completed on or after January 1, 2020.

**Note 3. Acquisitions and dispositions of investment properties**

## Acquisitions:

The REIT did not acquire any properties during the six months ended June 30, 2020.

On May 15, 2019, the REIT acquired an additional 15% interest in the Centre 70 Building, an office property located in Calgary, Alberta for total consideration of \$3,023. Prior to the acquisition date, the REIT owned 85% of this investment property as a joint operation and recorded its proportionate share of the assets, liabilities, revenues, expenses and cash flows in its consolidated financial statements. As a result of this acquisition, the REIT owns 100% of the property and accounts for it on a 100% consolidated basis. The REIT accounted for this acquisition as step acquisition and recorded a bargain purchase gain of \$1,106.

On May 16, 2019, the REIT acquired an additional 5% interest in Park 8Ninety I, an industrial property located in the Greater Houston Area, Texas for total consideration of \$6,261. Prior to the acquisition date, the REIT owned 95% of this investment property and the property was classified as joint venture and accounted for using the equity method. As a result of this acquisition, the REIT owns 100% of the property and accounts for it on a consolidated basis. The REIT accounted for this acquisition as step acquisition and remeasured its existing 95% interests to fair value at the acquisition date.

These acquisitions have been accounted for using the acquisition method, with the results of operations included in the REIT's accounts from the date of acquisition. The net assets acquired, excluding the acquisitions of joint ventures, were as follows:

	Three months ended June 30, 2020		Six months ended June 30, 2019	
Investment properties	\$ —	\$ 7,643	\$ —	\$ 7,643
Long-term debt, including acquired above- and below-market mortgages, net of financing costs	—	(1,326)	—	(1,326)
Other net liabilities	—	(71)	—	(71)
	—	6,246	—	6,246
Consideration was comprised of the following:				
Cash consideration	—	5,140	—	5,140
Bargain purchase gain	—	1,106	—	1,106
<b>Total consideration</b>	<b>\$ —</b>	<b>\$ 6,246</b>	<b>\$ —</b>	<b>\$ 6,246</b>
Transaction costs expensed	\$ —	\$ 137	\$ —	\$ 137

## Dispositions:

The REIT disposed of the following properties during the six months ended June 30, 2020:

Property	Property count	Location	Disposition date	Asset class
Centre 15 Building	1	Calgary, AB	January 21, 2020	Office
Calgary Office Portfolio <sup>(1)</sup>	2	Calgary, AB	January 30, 2020	Office
800 5th Avenue	1	Calgary, AB	January 31, 2020	Office
1165 Kenaston Street	1	Ottawa, ON	March 31, 2020	Office

(1) Disposition includes a parcel of development land.

On January 24, 2020, the REIT contributed industrial development land located in the Greater Houston Area, Texas, to the Park 8Ninety IV joint venture arrangement.

The cash proceeds from the sale of the above properties, net of costs and related debt, were \$81,868. In conjunction with the sale of 800 5th Avenue, the REIT also received a note receivable in the amount of \$10,000, which is secured by the property (note 6). The assets and liabilities associated with the properties were derecognized.

The REIT disposed of the following properties during the six months ended June 30, 2019:

Property	Property count	Location	Disposition date	Asset class
169 Inverness Drive West I & II	1	Greater Denver Area, CO	April 9, 2019	Office
Reenders Square	1	Winnipeg, MB	May 21, 2019	Retail
Britannia Building	1	Calgary, AB	May 22, 2019	Office
Nanaimo Portfolio	4	Nanaimo, BC	June 17, 2019	Office & Retail
1700 Broadway	1	Greater Denver Area, CO	June 27, 2019	Office

The proceeds from the sale of the above properties, net of costs and related debt, were \$127,488. The assets and liabilities associated with the properties were derecognized.

#### **Note 4. Investment properties, investment properties under development and investment properties held for sale**

	Six months ended June 30, 2020		
	Investment properties	Investment properties under development	Investment properties held for sale
Balance, beginning of period	\$ 4,618,719	\$ 102,590	\$ 221,915
Additions:			
Capital expenditures	13,526	32,692	109
Capitalized interest <sup>(1)</sup>	—	1,478	34
Leasing commissions	5,048	136	71
Straight-line rent adjustments	2,214	—	79
Tenant inducement additions, net of amortization	12,004	253	(32)
Contribution to investments in joint ventures <sup>(2)</sup>	—	(2,529)	—
Dispositions	—	(135)	(130,833)
Foreign currency translation gain	102,847	675	—
Fair value loss	(106,049)	(2,969)	(24,134)
Reclassification of investment properties under development	11,698	(11,698)	—
Reclassification of investment properties held for sale	(13,342)	—	13,342
Balance, end of period	\$ 4,646,665	\$ 120,493	\$ 80,551

(1) During the six months ended June 30, 2020, interest was capitalized to investment properties under development at a weighted-average effective interest rate of 2.95%.

(2) On January 24, 2020, the REIT contributed land under development to Park 8Ninety IV, a joint venture arrangement.



Year ended  
December 31, 2019

	Investment properties	Investment properties under development	Investment properties held for sale
Balance, beginning of year	\$ 4,941,825	\$ 119,604	\$ 320,465
Additions:			
Acquisitions	71,635	—	—
Reclassification from investments in joint ventures <sup>(1)</sup>	66,765	—	—
Capital expenditures	42,116	82,994	3,650
Capitalized interest <sup>(2)</sup>	—	3,740	—
Leasing commissions	14,415	1,168	1,158
Straight-line rent adjustments	5,446	—	631
Tenant inducement additions, net of amortization	16,133	2,762	1,532
Dispositions	(162,475)	—	(385,289)
Foreign currency translation loss	(106,548)	(1,964)	(1,812)
Fair value gain (loss)	19,400	2,601	(116,728)
Reclassification of investment properties under development	95,827	(95,827)	—
Reclassification of investment properties held for sale	(385,820)	(12,488)	398,308
Balance, end of year	\$ 4,618,719	\$ 102,590	\$ 221,915

(1) On May 16, 2019, the REIT increased its ownership interest in Park 8Ninety 1 to 100%. See note 3 for further information.

(2) During the year ended December 31, 2019, interest was capitalized to investment properties under development at a weighted-average effective interest rate of 3.81%.

During the six months ended June 30, 2020, the REIT reclassified one retail property from investment properties under development to investment properties.

The REIT had two office properties, one retail property and two parcels of development land classified as investment properties held for sale that were listed with external brokers or under conditional sale agreements at June 30, 2020 (December 31, 2019, seven office properties, one retail property and one parcel of development land). The properties held for sale had an aggregate mortgage payable balance of \$16,605 at June 30, 2020 (December 31, 2019, \$66,587). This balance is not accounted for as held for sale but is included in current liabilities as the REIT intends to repay or have the purchaser assume the mortgages upon disposition of the related investment properties.

Investment properties include right-of-use assets held under a lease with an aggregate fair value of \$13,903 at June 30, 2020 (December 31, 2019, \$13,997). The lease payments required under this lease were fully paid at the time of acquisition of the property.

At June 30, 2020, investment properties with a fair value of \$2,943,307 (December 31, 2019, \$3,031,195) were pledged as security under mortgage agreements.

The REIT obtains external valuations for a selection of properties representing various geographical regions and asset classes across its portfolio. For the three and six months ended June 30, 2020, properties (including the REIT's ownership interest in properties held in joint venture arrangements) with an appraised value of \$170,565 and \$397,315 (three and six months ended June 30, 2019, \$160,490 and \$322,487), were appraised by qualified external valuation professionals. The REIT uses similar assumptions and valuation techniques in its internal valuations as used by the external valuation professionals. Internal valuations are performed by the REIT's valuations team who report directly to the Chief Financial Officer. The valuations processes and results are reviewed by management on a quarterly basis.

The REIT determines the fair value of investment properties based upon either the discounted cash flow method or the overall capitalization method. Under the discounted cash flow method, expected future cash flows are discounted using an appropriate rate based on the risk of the property. Expected future cash flows for each investment property are based upon, but not limited to, rental income from current leases, budgeted and actual expenses, and assumptions about rental income from future leases. The REIT uses leasing history, market reports, tenant profiles and building assessments, among other things, in determining the most appropriate assumptions. Discount and capitalization rates are estimated using market surveys, available appraisals and market comparables. Under the overall capitalization method, year one net income is stabilized and capitalized at a rate appropriate for each investment property. The stabilized net income incorporates allowances for vacancy, management fees and structural repair reserves. The resulting capitalized value is further adjusted, where appropriate, for costs to stabilize the net income and non-recoverable capital expenditures. There were no changes to the REIT's internal valuation methodology during the six months ended June 30, 2020 and year ended December 31, 2019.

A change in the discount or capitalization rates used could have a material impact on the fair value of the REIT's investment properties. When discount or capitalization rates compress, the estimated fair values of investment properties increase. When discount or capitalization rates expand, the estimated fair values of investment properties decrease.

A change in estimated future rental income and expenses could have a material impact on the fair value of the REIT's investment properties. Estimated rental income and expenses are affected by, but not limited to, changes in rent and expense growth and occupancy rates.

Emergency measures enacted by governments in response to the COVID-19 pandemic, including travel restrictions, physical distancing and the temporary closure of non-essential businesses, have created significant estimation uncertainty in the determination of the fair value of investment properties as at June 30, 2020. The REIT has made assumptions with respect to the duration and severity of these emergency measures as well as the duration of the subsequent economic recovery in estimating the amount and timing of future cash flows generated from investment properties and used in the determination of fair value. As a result of this significant estimation uncertainty there is a risk that the assumptions used to determine fair values as at June 30, 2020 may change as more information becomes available, resulting in a material adjustment to the fair value of investment properties in future reporting periods.

Under the fair value hierarchy, the fair value of the REIT's investment properties is considered a Level 3, as described in note 22.

The REIT has used the following rates and investment horizons in estimating the fair value of investment properties:

	June 30, 2020			December 31, 2019		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Canada:						
Discount rate	9.75 %	5.00 %	7.27 %	9.50%	5.00%	7.38%
Terminal capitalization rate	9.00 %	3.75 %	6.25 %	9.00%	3.75%	6.34%
Capitalization rate	9.00 %	3.75 %	6.11 %	9.00%	3.75%	6.23%
Investment horizon (years)	12.0	10.0	10.4	11.0	10.0	10.3
U.S.:						
Discount rate	9.50 %	6.25 %	7.83 %	9.00%	6.25%	7.86%
Terminal capitalization rate	8.50 %	5.25 %	6.82 %	8.00%	5.25%	6.86%
Capitalization rate	8.00 %	5.00 %	6.69 %	8.00%	5.00%	6.73%
Investment horizon (years)	11.0	10.0	10.3	12.0	10.0	10.4
Total portfolio:						
Discount rate	9.75 %	5.00 %	7.48 %	9.50%	5.00%	7.55%
Terminal capitalization rate	9.00 %	3.75 %	6.47 %	9.00%	3.75%	6.53%
Capitalization rate	9.00 %	3.75 %	6.33 %	9.00%	3.75%	6.41%
Investment horizon (years)	12.0	10.0	10.4	12.0	10.0	10.3

The above information represents the REIT's entire portfolio of investment properties, excluding properties held in the REIT's investments in joint ventures.

**Note 5. Joint arrangements**

The REIT has interests in the following joint arrangements:

Property	Principal purpose	Type of arrangement	Ownership interest	
			June 30, 2020	December 31, 2019
Park 8Ninety II	Investment property	Joint venture	95 %	95 %
Park 8Ninety IV	Investment property	Joint venture	95 %	95 %
Corridor Park	Investment property	Joint venture	90 %	90 %
Millwright Building	Investment property	Joint venture	80 %	80 %
Tower Business Center	Investment property	Joint venture	80 %	80 %
Graham Portfolio	Investment property	Joint venture	75 %	75 %
The Point at Inverness	Investment property	Joint venture	50 %	50 %
Cliveden Building	Investment property	Joint operation	50 %	50 %
Kincaid Building	Investment property	Joint operation	50 %	50 %

The REIT has assessed the above investment properties as joint arrangements as decisions about the relevant activities require unanimous consent of the parties sharing control. The REIT has determined the type of arrangement based upon the ownership structure of each individual investment property.

During the six months ended June 30, 2020, the REIT contributed \$288 to Tower Business Center, Park 8Ninety II and Park 8Ninety IV joint venture arrangements. In addition, the REIT contributed land under development of \$2,529 to the Park 8Ninety IV joint venture arrangement.

The REIT is contingently liable for the obligations of certain joint arrangements. As at June 30, 2020, the co-owners' share of mortgage liabilities was \$43,832 (December 31, 2019, \$40,816). Management believes that the assets available from its joint arrangements are sufficient for the purpose of satisfying such obligations.

Summarized financial information of the REIT's share in its joint venture arrangements is as follows:

	June 30, 2020	December 31, 2019
Non-current assets:		
Investment properties	\$ 272,133	\$ 306,051
Investment properties under development	13,650	—
Current assets:		
Investment property held for sale	55,823	—
Prepaid expenses and other assets	148	86
Accounts receivable and other receivables	445	1,281
Cash	11,950	9,207
<b>Total assets</b>	<b>354,149</b>	<b>316,625</b>
Non-current liabilities:		
Mortgages and loans payable	109,579	93,977
Current liabilities:		
Mortgages and loans payable	33,147	27,598
Security deposits and prepaid rent	4,373	3,483
Accounts payable and other liabilities	6,804	4,957
<b>Total liabilities</b>	<b>153,903</b>	<b>130,015</b>
<b>Investments in joint ventures</b>	<b>\$ 200,246</b>	<b>\$ 186,610</b>

**Notes to interim condensed consolidated financial statements continued**

	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Revenue	\$ 5,593	\$ 4,315	\$ 10,879	\$ 9,357
Expenses:				
Property operating	1,357	1,192	2,738	2,503
Realty taxes	1,190	961	2,354	2,038
<b>Total operating expenses</b>	<b>2,547</b>	<b>2,153</b>	<b>5,092</b>	<b>4,541</b>
Net operating income	3,046	2,162	5,787	4,816
Other income (expenses):				
Interest expense	(1,202)	(977)	(2,550)	(2,170)
Interest income	1	1	4	3
Fair value gain (loss) on investment properties	3,770	(1,877)	3,357	(683)
<b>Net income (loss) from investments in joint ventures</b>	<b>\$ 5,615</b>	<b>\$ (691)</b>	<b>\$ 6,598</b>	<b>\$ 1,966</b>

**Note 6. Notes receivable**

	June 30, 2020	December 31, 2019
Note receivable, maturing in July 2022, bearing interest at 5.05% per annum, interest-only monthly payment until maturity, secured by an office property.	\$ 79,000	\$ 79,000
Note receivable, maturing in January 2024, bearing interest at 5.00% per annum, interest-only monthly payment until maturity, secured by an office property.	10,000	—
Note receivable from tenant maturing in May 2023, bearing interest at 5.89% per annum, repayable in varying blended monthly installments. <sup>(1)</sup>	—	8,554
Note receivable from tenant, maturing in November 2031, bearing interest at 8.50% per annum, repayable in blended monthly installments of US\$50.	5,992	5,856
Other notes receivable	3,888	4,418
	98,880	97,828
Current portion	1,622	3,996
Non-current portion	\$ 97,258	\$ 93,832

(1) The outstanding balance of this note receivable in the amount of \$8,372 was sold as part of the Calgary Office Portfolio disposition. See note 3 for further information.

**Note 7. Accounts receivable and other receivables**

	June 30, 2020	December 31, 2019
Rents receivable	\$ 11,970	\$ 8,108
Deferred rents receivable	4,140	—
Allowance for doubtful accounts	(3,042)	(406)
Accrued recovery income	2,163	5,352
Other receivables	4,960	7,959
	20,191	21,013
Non-current portion of deferred rents receivable (net of related allowance for doubtful accounts of \$426)	1,337	—
Current portion	\$ 18,854	\$ 21,013

As a result of the COVID-19 pandemic and the related emergency measures enacted by governments, a number of tenants have had to limit operations or close their businesses temporarily, with the retail tenants most significantly impacted. The deferred rents receivable represents the amount of rents deferred for certain qualifying tenants with 87% of the repayment terms ending on or before December 31, 2021. Refer to note 21 for further discussion on credit risk and allowance for doubtful accounts.

**Note 8. Mortgages and loans payable**

	June 30, 2020	December 31, 2019
Mortgages and loans payable	\$ 1,416,229	\$ 1,403,401
Net above- and below-market mortgage adjustments	2,946	3,170
Financing costs	(5,159)	(5,223)
	1,414,016	1,401,348
Current portion	529,865	396,152
Non-current portion	\$ 884,151	\$ 1,005,196

Certain of the REIT's investment properties have been pledged as security under mortgages and other security agreements. As at June 30, 2020, 32.3% of the REIT's mortgages and loans payable bear interest at fixed rates (December 31, 2019, 32.1%), and a further 34.2% of the REIT's mortgages and loans payable bear interest at variable rates with interest rate swaps in place (December 31, 2019, 27.1%). The weighted-average effective rate on all mortgages and loans payable was 3.28% and the weighted-average nominal rate was 3.09% at June 30, 2020 (December 31, 2019, 3.94% and 3.77%, respectively). Maturity dates range from July 1, 2020 to June 1, 2031.

The REIT's mortgage providers have various financial covenants. The REIT monitors these covenants, which are primarily debt service coverage ratios. Mortgages and loans payable with maturities within 12 months or are payable on demand as a result of a financial covenant breach are classified as current liabilities.

**Note 9. Senior unsecured debentures**

On February 22, 2019, under the August 23, 2018 short form base shelf prospectus, the REIT issued 3.674% Series C senior unsecured debentures for gross proceeds of \$250,000. Interest is payable semi-annually on February 22 and August 22 in each year. These debentures are not redeemable by the REIT prior to maturity and rank equally with all other indebtedness of the REIT.

On March 27, 2019, upon maturity, the REIT repaid the outstanding face value of the 3.753% Series A senior unsecured debentures in the amount of \$200,000.

On February 7, 2020, upon maturity, the REIT repaid the outstanding face value of the Series B senior unsecured debentures in the amount of \$200,000.

Interest expense on the senior unsecured debentures is determined by applying the effective interest rate to the outstanding liability balance. The difference between actual cash interest payments and interest expense is an accretion to the liability.

Particulars of the REIT's outstanding senior unsecured debentures are as follows:

Senior unsecured debenture issue	Issue date	Maturity date	Applicable interest rate
Series C	February 22, 2019	February 22, 2021	3.674 %

	Face value	Unamortized financing costs	Carrying value	Current portion	Non-current portion
Series C	\$ 250,000	\$ (357)	\$ 249,643	\$ 249,643	\$ —
June 30, 2020	\$ 250,000	\$ (357)	\$ 249,643	\$ 249,643	\$ —
December 31, 2019	450,000	(669)	449,331	199,959	249,372

During the three and six months ended June 30, 2020, financing cost amortization of \$137 and \$312 (2019, accretion to the liability of \$nil and \$51 and financing cost amortization of \$211 and \$445) were recorded.

In accordance with the Series C senior unsecured debenture supplemental indenture, the REIT must maintain various financial covenants. As at June 30, 2020, the REIT was in compliance with these requirements.

#### Note 10. Credit facilities

The REIT has unsecured revolving term credit facilities in the aggregate amount of \$700,000, which can be utilized for general corporate and working capital purposes, short-term financing of investment property acquisitions and the issuance of letters of credit. The REIT can draw on the facilities in Canadian or US dollars.

On February 6, 2020, the REIT entered into a two-year unsecured non-revolving term credit facility agreement in the amount of \$200,000. In 2017, the REIT entered into two five-year unsecured non-revolving term credit facility agreements in the aggregate amount of \$300,000. All non-revolving credit facilities can be utilized for general corporate and working capital purposes, property acquisitions and development financing.

The REIT's unsecured credit facilities are summarized as follows:

	June 30, 2020			December 31, 2019		
	Borrowing capacity	Amounts drawn	Available to be drawn	Amounts drawn	Available to be drawn	Applicable interest rates <sup>(1)</sup>
Revolving facilities maturing December 14, 2021	\$ 400,000	\$ 344,532	\$ 55,468	\$ 341,117	\$ 58,883	BA rate plus 1.70% or prime plus 0.70% or LIBOR plus 1.70% or U.S. base rate plus 0.70%
Revolving facility maturing April 29, 2023	300,000	183,500	116,500	246,994	53,006	BA rate plus 1.70% or prime plus 0.70% or LIBOR plus 1.70% or U.S. base rate plus 0.70%
Non-revolving facility maturing February 4, 2022	200,000	200,000	—	—	—	2.22%
Non-revolving facility maturing July 6, 2022	150,000	150,000	—	150,000	—	3.57 %
Non-revolving facility maturing July 18, 2022	150,000	150,000	—	150,000	—	3.50 %
Financing costs		(1,559)		(1,589)		
<b>Total credit facilities</b>	<b>\$1,200,000</b>	<b>\$1,026,473</b>	<b>\$171,968</b>	<b>\$ 886,522</b>	<b>\$ 111,889</b>	

(1) The REIT has entered into interest rate swaps on the non-revolving credit facilities.

For purposes of the credit facilities, the REIT must maintain various financial covenants. As at June 30, 2020, the REIT was in compliance with these requirements.

#### Note 11. Unitholders' equity

##### (a) Common units:

###### (i) Authorized:

In accordance with the Declaration of Trust, the REIT may issue an unlimited number of common units, with each unit representing an equal undivided interest in any distributions from the REIT, and in the net assets in the event of termination or wind-up of the REIT. All units are of the same class with equal rights and restrictions.

###### (ii) Issued and outstanding:

	Number of units	Amount
Balance at December 31, 2018	150,282,829	\$ 1,959,647
Restricted units redeemed	51,981	606
Deferred units redeemed	39,546	470
Units acquired and cancelled through normal course issuer bid	(12,417,833)	(161,976)
Balance at December 31, 2019	137,956,523	1,798,747
Restricted units redeemed	36,645	325
Deferred units redeemed	21,218	194
Units acquired and cancelled through normal course issuer bid	(2,314,410)	(30,176)
Balance at June 30, 2020	135,699,976	\$ 1,769,090

## (b) Preferred units:

In accordance with the Declaration of Trust, the REIT may issue an unlimited number of preferred units. Particulars of the REIT's outstanding preferred units are as follows:

	Series A	Series E	Series G	Series I	Total
Number of units outstanding at December 31, 2018	3,445,400	3,996,200	3,196,200	5,000,000	15,637,800
Units acquired and cancelled through normal course issuer bid	(58,100)	(162,300)	(57,700)	—	(278,100)
Preferred units redeemed	—	—	(3,138,500)	—	(3,138,500)
Number of units outstanding at December 31, 2019	3,387,300	3,833,900	—	5,000,000	12,221,200
Units acquired and cancelled through normal course issuer bid	(26,100)	(36,170)	—	(34,460)	(96,730)
Number of units outstanding at June 30, 2020	3,361,200	3,797,730	—	4,965,540	12,124,470

The carrying value of the REIT's outstanding preferred units are as follows:

	Series A	Series E	Series G	Series I	Total
Annual distribution rate	5.662 %	5.472 %	5.000 %	6.000 %	
Distribution rate reset date	September 30, 2022	September 30, 2023	—	April 30, 2023	
Carrying value at December 31, 2018	\$ 82,034	\$ 96,445	\$ 77,098	\$ 121,304	\$ 376,881
Units acquired and cancelled through normal course issuer bid	(1,383)	(3,916)	(1,388)	—	(6,687)
Preferred units redeemed	—	—	(75,710)	—	(75,710)
Carrying value at December 31, 2019	80,651	92,529	—	121,304	294,484
Units acquired and cancelled through normal course issuer bid	(621)	(874)	—	(836)	(2,331)
Carrying value at June 30, 2020	\$ 80,030	\$ 91,655	\$ —	\$ 120,468	\$ 292,153
Face value at June 30, 2020	\$ 84,030	\$ 94,943	\$ —	\$ 124,139	\$ 303,112
Face value at December 31, 2019	84,683	95,847	—	125,000	305,530

The REIT may redeem the Series A, Series E or Series I Units on the respective distribution rate reset date and every five years thereafter. The holders of the Series A, Series E and Series I Units have the right to reclassify their Units into Series B, Series F and Series J Units, respectively, on the distribution rate reset date and every five years thereafter.

The Series A Units, Series E Units and Series I Units rank equally with each other and with the outstanding Series B Units, Series F Units and Series J Units into which they may be reclassified, and rank in priority to the trust units.



## (c) Normal course issuer bid:

On December 13, 2019, the REIT announced that the Toronto Stock Exchange ("TSX") approved the renewal of its normal course issuer bid ("NCIB"). Under the renewed bid, the REIT has the ability to purchase for cancellation up to a maximum of 10% of the REIT's public float of common units and preferred units as at December 5, 2019 as follows:

	Public float	10% of public float
Common units	119,019,978	11,901,997
Preferred unit series:		
Series A	3,387,300	338,730
Series E	3,835,700	383,570
Series I	4,900,000	490,000

Purchases will be made at market prices through the facilities of the TSX and all common units and preferred units acquired by the REIT under this bid will be cancelled. This bid will remain in effect until the earlier of December 16, 2020, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the six months ended June 30, 2020, the REIT acquired 2,314,410 common units at market prices aggregating \$18,868, resulting in contributed surplus of \$11,308, which was the excess of stated capital over redemption proceeds. During the six months ended June 30, 2020, the REIT also acquired 26,100, 36,170 and 34,460 Series A, E and I Units, respectively, at market prices aggregating \$1,581, resulting in contributed surplus of \$750, which was the excess of stated capital over redemption proceeds.

During the year ended December 31, 2019, the REIT acquired 12,417,833 common units at market prices aggregating \$138,403, resulting in contributed surplus of \$23,573, which was the excess of stated capital over redemption proceeds. During the year ended December 31, 2019, the REIT also acquired 58,100, 162,300 and 57,700 Series A, E and G Units, respectively, at market prices aggregating \$5,866, resulting in contributed surplus of \$821, which was the excess of stated capital over redemption proceeds.

## (d) Short form base shelf prospectus:

On August 23, 2018, the REIT issued a short form base shelf prospectus. The REIT may from time to time during the 25-month period that this short form base shelf prospectus is valid, offer and issue the following securities up to a maximum of \$1,000,000 (i) common units of the REIT; (ii) preferred units, which may be issuable in series; (iii) debt securities, which may consist of debentures, notes or other types of debt and may be issuable in series; (iv) unit purchase warrants; and (v) subscription receipts to purchase trust securities. As at June 30, 2020, the REIT had issued senior unsecured debentures under one offering in the amount of \$250,000 under this short form base shelf prospectus.

(e) Weighted-average common units:

	Three months ended		Six months ended	
	2020	June 30, 2019	2020	June 30, 2019
Net income (loss)	\$ 54,750	\$ 19,872	\$ (56,580)	\$ 45,228
Adjustment for distributions to preferred unitholders (note 12)	(4,344)	(5,405)	(8,723)	(10,839)
Net income (loss) attributable to common unitholders	50,406	14,467	(65,303)	34,389
Adjustment for restricted units	(408)	—	(1,698)	—
Adjustment for deferred units	(226)	—	(2,133)	—
Diluted net income (loss) attributable to common unitholders	\$ 49,772	\$ 14,467	\$ (69,134)	\$ 34,389

The weighted-average number of common units outstanding was as follows:

Basic common units	136,342,845	142,980,563	136,870,056	145,756,644
Effect of dilutive securities:				
Restricted units	724,784	—	713,341	—
Deferred units	502,061	—	490,920	—
Diluted common units	137,569,690	142,980,563	138,074,317	145,756,644
Net income (loss) per unit attributable to common unitholders:				
Basic	\$ 0.37	\$ 0.10	\$ (0.48)	\$ 0.24
Diluted	0.36	0.10	(0.50)	0.24

The computation of diluted net income (loss) per unit attributable to common unitholders includes restricted units and deferred units when these instruments are dilutive. For the three and six months ended June 30, 2020, there were no anti-dilutive units. For the three and six months ended June 30, 2019, restricted units and deferred units were anti-dilutive, for an aggregate total of 612,140 units and 589,853 units, respectively.

## Note 12. Distributions to unitholders

Total distributions declared to unitholders were as follows:

	Three months ended		Three months ended	
	June 30, 2020		June 30, 2019	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	\$ 18,338	\$ 0.14	\$ 19,135	\$ 0.14
Preferred unitholders - Series A	1,189	0.35	1,200	0.35
Preferred unitholders - Series E	1,297	0.34	1,345	0.34
Preferred unitholders - Series G	—	—	985	0.31
Preferred unitholders - Series I	1,858	0.38	1,875	0.38

	Six months ended June 30, 2020		Six months ended June 30, 2019	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	\$ 36,934	\$ 0.27	\$ 38,953	\$ 0.27
Preferred unitholders - Series A	2,385	0.71	2,409	0.71
Preferred unitholders - Series E	2,605	0.68	2,702	0.68
Preferred unitholders - Series G	—	—	1,978	0.63
Preferred unitholders - Series I	3,733	0.75	3,750	0.75

**Note 13. Revenue**

The REIT's revenue is made up of the following significant categories:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Base rent	\$ 75,295	\$ 83,741	\$ 150,550	\$ 165,733
Operating cost and realty tax recoveries	40,754	48,167	84,602	98,147
Parking and other revenue	3,080	5,605	6,964	11,084
Tenant inducements amortized to revenue	(6,282)	(5,831)	(12,040)	(11,296)
Straight-line rent adjustments	1,052	1,411	2,293	2,924
Lease termination income	139	835	210	883
	\$ 114,038	\$ 133,928	\$ 232,579	\$ 267,475

Refer to note 18 for a disaggregation of revenue by reportable geographical region.

**Note 14. Interest expense**

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Interest on mortgages and loans payable	\$ 11,547	\$ 16,636	\$ 24,573	\$ 33,092
Interest on senior unsecured debentures	2,296	3,948	5,277	8,367
Interest on credit facilities	6,477	6,380	14,309	11,883
Net amortization of above- and below-market mortgages fair value adjustments	(194)	(35)	(382)	(64)
Amortization of financing costs	939	987	1,847	1,941
Accretion on liability component of debentures	—	—	—	(51)
	\$ 21,065	\$ 27,916	\$ 45,624	\$ 55,168

**Note 15. Fair value loss on derivative instruments and other transactions**

The REIT recorded (losses) gains on the following:

	Three months ended		Six months ended	
	2020	June 30, 2019	2020	June 30, 2019
Interest rate swaps	\$ (3,186)	\$ (6,754)	\$ (21,355)	\$ (15,239)
Foreign currency contracts	(338)	(1,547)	3,010	(5,792)
Other derivatives	(437)	—	(437)	385
Bargain purchase gain <sup>(1)</sup>	—	1,106	—	1,106
	\$ (3,961)	\$ (7,195)	\$ (18,782)	\$ (19,540)

(1) The REIT realized a bargain purchase gain related to the step acquisition of the Centre 70 Building during the six months ended June 30, 2019. See note 3 for further information.

**Note 16. Income taxes**

(a) Canadian taxes:

The REIT currently qualifies as a mutual fund trust and a real estate investment trust ("REIT") for Canadian income tax purposes. Under current tax legislation, income distributed annually by the REIT to unitholders is a deduction in the calculation of its taxable income. As the REIT intends to distribute all of its taxable income to its unitholders, the REIT does not record a provision for current Canadian income taxes.

(b) U.S. taxes:

The REIT's U.S. properties are owned by subsidiaries that are REITs for U.S. income tax purposes. These subsidiaries intend to distribute all of their U.S. taxable income to Canada and are entitled to deduct such distributions for U.S. income tax purposes. As a result, the REIT does not record a provision for current federal U.S. income taxes on the taxable income earned by these subsidiaries. These U.S. subsidiaries are subject to certain state taxes and a 30% to 35% withholding tax on distributions to Canada. Any withholding taxes paid are recorded with the related distributions.

The REIT is subject to federal and state taxation in the U.S. on the taxable income earned by its U.S. management subsidiary.

**Note 17. Supplemental cash flow information**

(a) Other items not affecting cash:

	Three months ended		Six months ended	
	2020	June 30, 2019	2020	June 30, 2019
Tenant inducements amortized to revenue	\$ 6,282	\$ 5,831	\$ 12,040	\$ 11,296
Straight-line rent adjustments	(1,052)	(1,411)	(2,293)	(2,924)
Depreciation of property and equipment	343	288	681	558
Unit-based compensation	110	641	(2,306)	1,707
Other long-term employee benefits	—	573	—	872
Amortization of above- and below-market mortgages, net	(194)	(35)	(382)	(64)
Amortization of financing costs included in interest expense	939	987	1,847	1,941
Accretion on liability component of debentures	—	—	—	(51)
	\$ 6,428	\$ 6,874	\$ 9,587	\$ 13,335

(b) Changes in non-cash operating items:

	Three months ended		Six months ended	
	2020	June 30, 2019	2020	June 30, 2019
Inventory properties	\$ (59)	\$ (866)	\$ (137)	\$ (1,607)
Prepaid expenses and other assets	771	1,203	2,377	1,094
Accounts receivable and other receivables	1,084	(692)	1,077	(1,428)
Security deposits and prepaid rent	2,010	1,204	1,192	1,858
Accounts payable and other liabilities	(6,237)	(10,995)	(10,865)	(3,487)
	\$ (2,431)	\$ (10,146)	\$ (6,356)	\$ (3,570)

(c) Other supplemental cash flow information:

	Three months ended		Six months ended	
	2020	June 30, 2019	2020	June 30, 2019
Interest paid	\$ 19,427	\$ 27,773	\$ 48,771	\$ 57,512
Interest received	1,736	512	2,873	955
Income taxes paid	538	746	536	741

**Note 18. Segmented information**

The REIT owns and operates various properties located in Canada and the U.S. These properties are managed and reported internally by country. Segmented information includes the REIT's joint ventures as presented using the proportionate share method. REIT income (expenses), including interest relating to debentures and credit facilities and fair value gain (loss) on derivative instruments, have not been allocated to the segments.

Three months ended June 30, 2020

	Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	\$ 58,743	\$ 60,823	\$ 65	\$ (5,593)	\$ 114,038
Expenses:					
Property operating	15,965	13,269	—	(1,357)	27,877
Realty taxes	9,557	10,655	—	(1,190)	19,022
	25,522	23,924	—	(2,547)	46,899
Net operating income	33,221	36,899	65	(3,046)	67,139
Other income (expenses):					
Corporate expenses	—	—	(2,663)	—	(2,663)
Interest expense	(4,660)	(8,363)	(9,244)	1,202	(21,065)
Interest income	45	169	1,158	(1)	1,371
Net income from investments in joint ventures	—	—	—	5,615	5,615
Fair value (loss) gain on investment properties	(1,289)	13,342	—	(3,770)	8,283
Foreign currency translation gain	—	—	190	—	190
Fair value loss on derivative instruments and other transactions	—	—	(3,961)	—	(3,961)
Income (loss) before income taxes	27,317	42,047	(14,455)	—	54,909
Income tax expense	—	(159)	—	—	(159)
Net income (loss)	\$ 27,317	\$ 41,888	\$ (14,455)	\$ —	\$ 54,750
Additions to investment properties, investment properties under development and investment properties held for sale	\$ 16,133	\$ 12,484	\$ —	\$ (5,875)	\$ 22,742
Additions to tenant inducements	4,962	7,980	—	(2,820)	10,122
Additions to leasing commissions	(165)	2,623	—	(976)	1,482

Three months ended June 30, 2019

	Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	\$ 72,933	\$ 65,277	\$ 33	\$ (4,315)	\$ 133,928
Expenses:					
Property operating	17,744	15,103	—	(1,192)	31,655
Realty taxes	11,851	10,850	—	(961)	21,740
	29,595	25,953	—	(2,153)	53,395
Net operating income	43,338	39,324	33	(2,162)	80,533
Other income (expenses):					
Corporate expenses	—	—	(4,113)	—	(4,113)
Interest expense	(6,349)	(11,738)	(10,806)	977	(27,916)
Interest income	191	97	223	(1)	510
Net loss from investments in joint ventures	—	—	—	(691)	(691)
Fair value gain (loss) on investment properties	1,058	(27,443)	—	1,877	(24,508)
Foreign currency translation gain	—	—	3,435	—	3,435
Transaction costs	(33)	(104)	—	—	(137)
Fair value gain (loss) on derivative instruments and other transactions	1,106	—	(8,301)	—	(7,195)
Income (loss) before income taxes	39,311	136	(19,529)	—	19,918
Income tax expense	—	(46)	—	—	(46)
Net income (loss)	\$ 39,311	\$ 90	\$ (19,529)	\$ —	\$ 19,872
Acquisitions of investment properties	\$ 4,129	\$ 3,514	\$ —	\$ —	\$ 7,643
Additions to investment properties, investment properties under development and investment properties held for sale	20,561	32,684	—	(17,614)	35,631
Additions to tenant inducements	3,887	12,228	—	(1,670)	14,445
Additions to leasing commissions	1,375	3,495	—	(122)	4,748

Six months ended June 30, 2020

	Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	\$ 123,024	\$ 120,342	\$ 92	\$ (10,879)	\$ 232,579
Expenses:					
Property operating	33,132	27,042	—	(2,738)	57,436
Realty taxes	20,466	20,740	—	(2,354)	38,852
	53,598	47,782	—	(5,092)	96,288
Net operating income	69,426	72,560	92	(5,787)	136,291
Other income (expenses):					
Corporate expenses	—	—	(3,476)	—	(3,476)
Interest expense	(9,941)	(17,695)	(20,538)	2,550	(45,624)
Interest income	138	387	2,346	(4)	2,867
Net income from investments in joint ventures	—	—	—	6,598	6,598
Fair value loss on investment properties	(124,258)	(5,537)	—	(3,357)	(133,152)
Foreign currency translation loss	—	—	(912)	—	(912)
Fair value loss on derivative instruments and other transactions	—	—	(18,782)	—	(18,782)
(Loss) income before income taxes	(64,635)	49,715	(41,270)	—	(56,190)
Income tax expense	—	(390)	—	—	(390)
Net (loss) income	\$ (64,635)	\$ 49,325	\$ (41,270)	\$ —	\$ (56,580)
Additions to investment properties, investment properties under development and investment properties held for sale	\$ 36,157	\$ 22,170	\$ —	\$ (12,000)	\$ 46,327
Additions to tenant inducements	9,444	19,422	—	(4,601)	24,265
Additions to leasing commissions	1,190	5,687	—	(1,622)	5,255

June 30, 2020

	Canada	U.S.	REIT	Joint ventures adjustment	Total
Total assets	\$ 2,768,094	\$ 2,518,213	\$ 104,161	\$ (153,903)	\$ 5,236,565
Total liabilities	583,814	1,068,031	1,324,769	(153,903)	2,822,711



Six months ended June 30, 2019

	Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	\$ 147,807	\$ 128,953	\$ 72	\$ (9,357)	\$ 267,475
Expenses:					
Property operating	37,442	31,196	—	(2,503)	66,135
Realty taxes	23,466	20,901	—	(2,038)	42,329
	60,908	52,097	—	(4,541)	108,464
Net operating income	86,899	76,856	72	(4,816)	159,011
Other income (expenses):					
Corporate expenses	—	—	(8,230)	—	(8,230)
Interest expense	(12,753)	(23,415)	(21,170)	2,170	(55,168)
Interest income	381	154	419	(3)	951
Net income from investments in joint ventures	—	—	—	1,966	1,966
Fair value loss on investment properties	(2,569)	(41,149)	—	683	(43,035)
Foreign currency translation gain	—	—	10,148	—	10,148
Transaction costs	(33)	(104)	—	—	(137)
Fair value gain (loss) on derivative instruments and other transactions	1,106	—	(20,646)	—	(19,540)
Income (loss) before income taxes	73,031	12,342	(39,407)	—	45,966
Income tax expense	—	(738)	—	—	(738)
Net income (loss)	\$ 73,031	\$ 11,604	\$ (39,407)	\$ —	\$ 45,228
Acquisitions of investment properties	\$ 4,129	\$ 3,514	\$ —	\$ —	\$ 7,643
Additions to investment properties, investment properties under development and investment properties held for sale	\$ 35,774	\$ 71,529	\$ —	\$ (39,310)	\$ 67,993
Additions to tenant inducements	9,533	15,920	—	(1,453)	24,000
Additions to leasing commissions	3,011	4,896	—	(238)	7,669

December 31, 2019

	Canada	U.S.	REIT	Joint ventures adjustment	Total
Total assets	\$ 2,987,331	\$ 2,360,066	\$ 112,637	\$ (130,015)	\$ 5,330,019
Total liabilities	640,100	979,670	1,369,511	(130,015)	2,859,266

**Note 19. Commitments, contingencies and guarantees**

(a) Unconditional purchase agreement:

The REIT has an unconditional purchase agreement for a parcel of development land adjacent to existing industrial properties located in the Greater Phoenix Area, Arizona for a purchase price of US\$9,700 with expected closing in January 2021.

(b) Letters of credit:

As at June 30, 2020, the REIT had issued letters of credit in the amount of \$3,574 (December 31, 2019, \$3,574).

(c) Contingencies:

The REIT performs an assessment of legal and tax proceedings and claims which have occurred or could occur as a result of ongoing operations of the trust. Based on the information available, the outcomes of these contingent liabilities are uncertain and do not satisfy the requirements to be recognized in the consolidated financial statements as liabilities.

(d) Guarantees:

At June 30, 2020, the REIT has guaranteed certain debt assumed by purchasers in connection with the dispositions of three properties (December 31, 2019, three properties). These guarantees will remain until the debt is modified, refinanced or extinguished. Credit risk arises in the event that the purchasers default on repayment of their debt since it is guaranteed by the REIT. This credit risk is mitigated as the REIT has recourse under these guarantees in the event of default by the purchasers, in which case the REIT would have a claim against the underlying properties. The estimated amount of debt subject to the guarantees at June 30, 2020 was \$54,928 (December 31, 2019, \$56,025), with an estimated weighted-average remaining term of 2.6 years (December 31, 2019, 3.1 years). No liabilities in excess of the fair values of the guarantees have been recognized in the consolidated financial statements as the estimated fair values of the borrowers' interests in the underlying properties are greater than the mortgages payable for which the REIT provided the guarantees.

**Note 20. Capital management**

The REIT's objectives when managing capital are to safeguard the ability to continue as a going concern and to generate sufficient returns to provide unitholders with stable cash distributions. The REIT defines capital as mortgages and loans payable, senior unsecured debentures, credit facilities and unitholders' equity.

The REIT's Declaration of Trust permits the REIT to incur indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of such indebtedness of the REIT is not more than 70% of the gross book value of the REIT's total assets. Gross book value as defined in the Declaration of Trust includes the consolidated book value of the assets of the REIT, plus the amount of accumulated depreciation and amortization recorded in the books and records of the REIT, plus the amount of any deferred tax liability arising out of any indirect acquisitions, calculated in accordance with generally accepted accounting principles. As at June 30, 2020, the ratio of such indebtedness to gross book value was 51.3% (December 31, 2019, 51.3%), which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

The total managed capital for the REIT is summarized below:

	Note	June 30, 2020	December 31, 2019
Mortgages and loans payable	8	\$ 1,414,016	\$ 1,401,348
Senior unsecured debentures	9	249,643	449,331
Credit facilities	10	1,026,473	886,522
Total debt		2,690,132	2,737,201
Unitholders' equity		2,413,854	2,470,753
		\$ 5,103,986	\$ 5,207,954

## Note 21. Risk management

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In March 2020, the outbreak of COVID-19 was recognized as a pandemic by the World Health Organization. The COVID-19 pandemic has resulted in governments enacting emergency measures, including travel restrictions, physical distancing and the temporary closure of non-essential businesses. These changes have caused a disruption to businesses where the REIT operates in both Canada and the U.S.

As the situation is continually evolving, the duration and impact of the COVID-19 pandemic is unknown. Any estimate of the length and potential severity of the risks associated with the COVID-19 pandemic is subject to significant uncertainty. Equity and capital markets have also experienced significant volatility and weakness. The extent to which the COVID-19 pandemic may adversely affect the REIT's operations, financial results and capital resources and the impact on the assessment of the following risks is also subject to significant uncertainty.

In the normal course of business, the REIT is exposed to a number of risks that can affect its operating performance. The most significant of these risks, and the actions taken to manage them, are as follows:

(a) Market risk:

(i) Interest rate risk:

The REIT is exposed to interest rate risk on its borrowings. The Declaration of Trust restricts the REIT's indebtedness to 70% of the gross book value of the REIT's total assets. The REIT also monitors the amount of variable rate debt. The majority of REIT's debt financing is in fixed rate terms or variables rates with interest rate swaps in place. In addition, management considers the weighted-average term to maturity of long-term debt relative to the remaining average lease terms. At June 30, 2020, the REIT was a party to \$1,986,446 of variable rate debt, including credit facilities and debentures (December 31, 2019, \$2,041,647). At June 30, 2020, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$984,654 of variable rate debt, including swaps on credit facilities and debentures (December 31, 2019, \$880,729).

(ii) Foreign currency risk:

The REIT owns properties located in the U.S., and therefore, the REIT is subject to foreign currency fluctuations that may impact its financial position and results. In order to mitigate this risk, the REIT's debt on U.S. properties is held in US dollars to act as a natural hedge.

A \$0.10 weakening in the US dollar against the calculated average Canadian dollar exchange rate of 1.3774 and 1.3672 for the three and six months ended June 30, 2020, and the period end exchange rate of 1.3628 at June 30, 2020, would have increased net income by approximately \$10,109 for the three months ended June 30, 2020 and decreased net loss by approximately \$11,720 for the six months ended June 30, 2020. A \$0.10 weakening in the US dollar against the Canadian dollar would have increased other comprehensive loss by approximately \$103,510 for the three months ended June 30, 2020 and decreased other comprehensive income by \$105,121 for the six months ended June 30, 2020. Conversely, a \$0.10 strengthening in the US dollar against the Canadian dollar would have had an equal but opposite effect. This analysis assumes that all variables, in particular interest rates, remain constant.

(b) Credit risk:

The REIT's maximum exposure to credit risk is equivalent to the carrying value of each class of financial asset as separately presented in cash, cash held in trust, accounts receivable and other receivables, deposits on investment properties and notes receivable.

The REIT is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. The REIT's properties are diversified across the office, retail and industrial asset classes, and geographically diversified with properties owned across five Canadian provinces and six U.S. states. The COVID-19 pandemic has the largest impact on the retail tenants. In an effort to support tenants adversely impacted by the pandemic, rents were deferred for certain qualifying tenants with 87% of the repayment terms ending on or before December 31, 2021. Included in property operating expenses are expected credit losses of \$2,806 and \$2,952 during the three and six months ended June 30, 2020 (three and six months ended June 30, 2019, \$190 and \$348). In determining the expected credit losses, the REIT takes into account the expectations of future defaults based on payment history, tenant communications and economic conditions.

The REIT is also exposed to credit risk as a holder of notes receivable. Management mitigates this risk by carrying out credit checks and related due diligence on the borrowers, and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

## (c) Liquidity risk:

Liquidity risk is the risk that the REIT will not be able to meet its financial obligations as they come due. The REIT manages liquidity risk by maintaining adequate cash and by having appropriate credit facilities available. In addition, the REIT continuously monitors and reviews both actual and forecasted cash flows.

The following are the estimated maturities of the REIT's financial liabilities at June 30, 2020 including accounts payable and other liabilities, credit facilities, senior unsecured debentures and mortgages and loans payable. All debentures are disclosed at their face value.

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Accounts payable and other liabilities	\$ 95,897	\$ 95,897	\$ —	\$ —	\$ —
Credit facilities	1,028,032	—	1,028,032	—	—
Senior unsecured debentures	250,000	250,000	—	—	—
Mortgages and loans payable	1,416,229	530,997	345,652	490,842	48,738
	\$ 2,790,158	\$ 876,894	\$ 1,373,684	\$ 490,842	\$ 48,738

**Note 22. Fair value measurements**

The REIT uses a three-level hierarchy that reflects the significance of the inputs used in making fair value measurements of its financial instruments and its investment properties. Level 1 of the fair value hierarchy uses quoted market prices in active markets for identical assets or liabilities to determine the fair value of assets and liabilities. Level 2 includes valuations using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 valuations are based on inputs for the asset or liability that are not based on observable market data.

There were no transfers of assets or liabilities between hierarchy levels during the six months ended June 30, 2020.

		June 30, 2020		December 31, 2019	
	Fair value hierarchy	Carrying value	Fair value	Carrying value	Fair value
<b>Assets:</b>					
Investment properties	Level 3	\$ 4,646,665	\$ 4,646,665	\$ 4,618,719	\$ 4,618,719
Investment properties under development	Level 3	120,493	120,493	102,590	102,590
Notes receivable	Level 2	98,880	100,246	97,828	98,485
Investment properties held for sale	Level 3	80,551	80,551	221,915	221,915
Derivative instruments	Level 2	370	370	1,303	1,303
		4,946,959	4,948,325	5,042,355	5,043,012
<b>Liabilities:</b>					
Mortgages and loans payable	Level 2	1,414,016	1,410,983	1,401,348	1,412,899
Senior unsecured debentures	Level 2	249,643	250,365	449,331	453,086
Credit facilities	Level 2	1,026,473	1,028,032	886,522	888,111
Derivative instruments	Level 2	26,289	26,289	8,187	8,187
		2,716,421	2,715,669	2,745,388	2,762,283
		\$ 2,230,538	\$ 2,232,656	\$ 2,296,967	\$ 2,280,729

The fair value of the REIT's accounts receivable and other receivables, cash held in trust, cash and accounts payable and other liabilities approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments.

The fair values of notes receivable, derivative instruments, mortgages and loans payable, senior unsecured debentures and credit facilities have been determined by discounting the cash flows of these financial instruments using period end market rates for instruments of similar terms and credit risks.

Derivative instruments primarily consist of interest rate and foreign currency swaps. The REIT entered into interest rate swaps on a number of mortgages and the non-revolving credit facilities. The swaps are not designated in a hedge relationship.

**Note 23. Subsequent events**

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The following events occurred subsequent to June 30, 2020:

- The REIT renewed three maturing mortgages in the aggregate amount of US\$58,480 for a weighted-average term of 2.8 years at a weighted-average variable rate of 2.05%.
- The REIT drew \$12,500 and repaid US\$300 on its revolving term credit facilities.
- The REIT declared a monthly cash distribution of \$0.045 per common unit for the month of July 2020.
- The REIT declared a quarterly cash distribution of \$0.3750 per Series I Unit for the three months ended July 31, 2020.

**Note 24. Approval of financial statements**

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These interim condensed consolidated financial statements were approved by the Board of Trustees and authorized for issue on August 6, 2020.