

Interim Condensed Consolidated Financial Statements of

**ARTIS REAL ESTATE
INVESTMENT TRUST**

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

(In Canadian dollars)

Interim Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands of Canadian dollars)

	Note	September 30, 2018	December 31, 2017
ASSETS			
Non-current assets:			
Investment properties	4	\$ 4,952,878	\$ 4,720,362
Investment properties under development	4	87,014	79,701
Investments in joint ventures	5	178,158	200,383
Property and equipment		6,625	7,005
Notes receivable		14,065	12,982
		5,238,740	5,020,433
Current assets:			
Investment properties held for sale	4	88,458	110,188
Inventory properties	6	10,731	—
Deposits on investment properties		5,230	5,081
Prepaid expenses and other assets		27,736	17,134
Notes receivable		3,838	2,322
Accounts receivable and other receivables		18,942	16,816
Cash held in trust		8,424	8,090
Cash		33,796	35,832
		197,155	195,463
		\$ 5,435,895	\$ 5,215,896
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities:			
Mortgages and loans payable	7	\$ 1,350,336	\$ 1,190,525
Senior unsecured debentures	8	199,469	199,854
Credit facilities	9	588,266	298,922
Other long-term liabilities		7,446	6,404
		2,145,517	1,695,705
Current liabilities:			
Mortgages and loans payable	7	248,110	370,508
Senior unsecured debentures	8	199,940	—
Security deposits and prepaid rent		35,882	30,521
Accounts payable and other liabilities		82,515	75,570
Credit facilities	9	—	438,383
		566,447	914,982
		2,711,964	2,610,687
Unitholders' equity		2,723,931	2,605,209
Commitments, contingencies and guarantees	19		
Subsequent events	23		
		\$ 5,435,895	\$ 5,215,896

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 September 30,		Nine months ended September 30,	
		2018	2017	2018	2017
Revenue	12	\$ 128,097	\$ 127,008	\$ 380,006	\$ 390,072
Expenses:					
Property operating		31,281	30,065	92,382	91,633
Realty taxes		20,605	19,639	60,560	62,157
		51,886	49,704	152,942	153,790
Net operating income		76,211	77,304	227,064	236,282
Other income (expenses):					
Corporate expenses	13	(2,585)	(3,334)	(12,250)	(10,446)
Interest expense	14	(25,032)	(23,882)	(74,311)	(73,034)
Interest income		371	300	1,285	841
Net income from investments in joint ventures	5	5,343	7,896	10,839	15,538
Fair value (loss) gain on investment properties	4	(32,096)	2,486	(13,523)	(212)
Foreign currency translation gain (loss)		6,692	(3,542)	4,006	2,877
Transaction costs	15	(227)	(567)	(5,930)	(567)
Fair value (loss) gain on derivative instruments and other transactions	16	(2,714)	8,231	14,699	8,841
Income before income taxes		25,963	64,892	151,879	180,120
Income tax (expense) recovery	17	(244)	(89)	(463)	252
Net income		25,719	64,803	151,416	180,372
Other comprehensive (loss) income that may be reclassified to net income in subsequent periods:					
Unrealized foreign currency translation (loss) gain		(21,608)	(33,545)	35,491	(68,892)
Unrealized foreign currency translation (loss) gain on investments in joint ventures		(2,094)	(11,210)	3,577	(16,025)
Other comprehensive loss that will not be reclassified to net income in subsequent periods:					
Unrealized loss from remeasurements of net pension obligation		—	(70)	—	(78)
		(23,702)	(44,825)	39,068	(84,995)
Total comprehensive income		\$ 2,017	\$ 19,978	\$ 190,484	\$ 95,377
Basic income per unit attributable to common unitholders	10 (d)	\$ 0.13	\$ 0.40	\$ 0.88	\$ 1.11
Diluted income per unit attributable to common unitholders	10 (d)	0.13	0.40	0.87	1.10
Weighted-average number of common units outstanding:					
Basic	10 (d)	153,819,835	150,593,190	153,046,020	150,573,197
Diluted	10 (d)	154,400,926	151,035,020	153,561,930	150,966,763

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 (note 10 (a)(ii))	Retained earnings	Accumulated other comprehensive income (loss)	Contributed surplus	Total common equity	Total preferred equity	Total
Unitholders' equity, December 31, 2016	\$ 1,958,344	\$ 123,785	\$ 203,458	\$ 16,156	\$ 2,301,743	\$ 325,623	\$ 2,627,366
Changes for the period:							
Issuance of units, net of issue costs	3,224	—	—	—	3,224	—	3,224
Net income	—	180,372	—	—	180,372	—	180,372
Other comprehensive loss	—	—	(84,995)	—	(84,995)	—	(84,995)
Distributions	—	(139,229)	—	—	(139,229)	—	(139,229)
Unitholders' equity, September 30, 2017	1,961,568	164,928	118,463	16,156	2,261,115	325,623	2,586,738
Changes for the period:							
Issuance of units, net of issue costs	91	—	—	—	91	—	91
Net income	—	54,063	—	—	54,063	—	54,063
Other comprehensive income	—	—	12,501	—	12,501	—	12,501
Distributions	—	(48,184)	—	—	(48,184)	—	(48,184)
Unitholders' equity, December 31, 2017	1,961,659	170,807	130,964	16,156	2,279,586	325,623	2,605,209
Changes for the period:							
Issuance of units, net of issue costs	44,136	—	—	—	44,136	121,304	165,440
Redemption of preferred units (note 10 (b))	—	—	—	(26,952)	(26,952)	(69,753)	(96,705)
Reclassification of contributed surplus	—	(10,796)	—	10,796	—	—	—
Net income	—	151,416	—	—	151,416	—	151,416
Other comprehensive income	—	—	39,068	—	39,068	—	39,068
Distributions	—	(140,497)	—	—	(140,497)	—	(140,497)
Unitholders' equity, September 30, 2018	\$ 2,005,795	\$ 170,930	\$ 170,032	\$ —	\$ 2,346,757	\$ 377,174	\$ 2,723,931

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 September 30,		Nine months ended September 30,	
		2018	2017	2018	2017
Cash provided by (used in):					
Operating activities:					
Net income		\$ 25,719	\$ 64,803	\$ 151,416	\$ 180,372
Distributions from joint ventures		816	782	3,180	2,388
Adjustments for non-cash items:					
Fair value loss (gain) on investment properties	4	32,096	(2,486)	13,523	212
Depreciation of property and equipment		264	211	800	676
Net income from investments in joint ventures	5	(5,343)	(7,896)	(10,839)	(15,538)
Tenant inducements amortized to revenue	12	4,871	4,292	14,609	12,611
Amortization of above- and below-market mortgages, net	14	(28)	(283)	(242)	(899)
Accretion on liability component of debentures	14	(54)	(52)	(160)	(279)
Straight-line rent adjustments	12	(1,338)	(1,555)	(4,401)	(4,654)
Unrealized foreign currency translation (gain) loss		(1,299)	3,579	(2,568)	(1,255)
Fair value loss (gain) on derivative instruments and other transactions	16	2,714	(8,231)	(14,699)	(8,841)
Unit-based compensation		(200)	536	462	1,343
Amortization of financing costs included in interest expense	14	933	831	2,625	2,539
Other long-term employee benefits		349	247	1,023	1,003
Additions to inventory properties	6	(115)	—	(115)	—
Changes in non-cash operating items		5,358	5,881	6,214	(8,456)
		64,743	60,659	160,828	161,222
Investing activities:					
Acquisitions of investment properties, net of related debt	3	(63,385)	(16,707)	(76,449)	(16,707)
Proceeds from dispositions of investment properties, net of costs and related debt	3	252	62,298	126,548	211,506
Additions to investment properties	4	(9,149)	(14,140)	(25,186)	(32,858)
Additions to investment properties under development	4	(13,086)	(10,557)	(28,326)	(29,060)
Additions to joint ventures	5	(3,039)	(3,018)	(7,207)	(8,031)
Additions to tenant inducements		(13,459)	(15,907)	(37,246)	(35,268)
Additions to leasing commissions	4	(3,156)	(2,630)	(8,359)	(9,855)
Additions to property and equipment		(24)	(2,025)	(415)	(2,892)
Notes receivable principal repayments (issuances)		25	1,065	(2,228)	2,066
Change in deposits on investment properties		(290)	(500)	10	(500)
Change in cash held in trust		761	(827)	(115)	(1,628)
		(104,550)	(2,948)	(58,973)	76,773
Financing activities:					
Issuance of common units, net of issue costs		—	—	—	2,972
Issuance of senior unsecured debentures, net of financing costs	8	—	—	199,217	—
Issuance of preferred units, net of issue costs	10 (b)	—	—	121,304	—
Redemption of preferred units	10 (b)	—	—	(96,705)	—
Redemption of convertible debentures		—	—	—	(116,549)
Advance of revolving credit facilities		115,184	166,000	245,508	453,000
Repayment of revolving credit facilities, including financing costs		(98,019)	(230,000)	(393,682)	(348,500)
Advance of non-revolving credit facilities, net of financing costs		—	298,825	—	298,825
Distributions paid on common units		(41,532)	(40,661)	(123,720)	(125,431)
Distributions paid on preferred units		(5,283)	(4,548)	(15,244)	(13,775)
Mortgages and loans principal repayments		(11,306)	(12,845)	(33,554)	(42,735)
Repayment of mortgages and loans payable		(47,274)	(269,417)	(78,153)	(391,811)
Advance of mortgages and loans payable, net of financing costs		461	39,807	69,367	45,098
		(87,769)	(52,839)	(105,662)	(238,906)
Foreign exchange (loss) gain on cash held in foreign currency		(3,463)	490	1,771	(1,339)
(Decrease) increase in cash		(131,039)	5,362	(2,036)	(2,250)
Cash, beginning of period		164,835	43,117	35,832	50,729
Cash, end of period		\$ 33,796	\$ 48,479	\$ 33,796	\$ 48,479
Supplemental cash flow information:					
Interest paid		\$ 27,462	\$ 27,858	\$ 77,851	\$ 82,433
Interest received		376	303	1,291	846

See accompanying notes to interim condensed consolidated financial statements.

Notes to Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2018 and 2017 (unaudited)

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

Note 1. Organization

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 July 20, 2016 (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 \$1.08 per common unit, \$1.4155 per Series A preferred unit, \$1.3680 per Series E preferred unit, \$1.25 per Series G preferred unit and \$1.50 per Series I preferred unit) is set by the Board of Trustees.

Note 2. Significant accounting policies

(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, 2017, except for those policy and standards adopted as described in note 2 (c). The 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, 2017.

(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, 2017. There have been no changes to the critical accounting estimates and judgments during the nine months ended September 30, 2018.

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

The IASB issued IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15") in May 2014. IFRS 15 provides a single, principles based five-step model to be applied to the recognition of revenue from contracts with customers. IFRS 15 replaces IAS 11 – *Construction Contracts*, IAS 18 – *Revenue*, IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate* and SIC 31 – *Revenue - Barter Transactions Involving Advertising Services*. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. IFRS 15 excludes contracts that are within the scope of IAS 17 - *Leases*, IFRS 4 - *Insurance Contracts* and IFRS 9 - *Financial Instruments*.

The REIT has completed its evaluation of the impact of IFRS 15 on its consolidated financial statements. The REIT's most material revenue category of base rental revenue is outside the scope of this standard. The only significant revenue category falling under IFRS 15 relates to property operating and realty tax cost recoveries. The REIT's practices of revenue recognition are unchanged upon adoption of this standard, therefore, the adoption of IFRS 15 did not result in a material impact to the consolidated financial statements. The REIT has elected to apply the standard on a modified retrospective basis. Under this approach, the 2017 comparative period was not restated. There was no cumulative transitional adjustment to the opening retained earnings balance required. The impact was limited to additional note disclosure on the disaggregation of its revenue categories, specifically as it relates to property operating and realty tax cost recoveries.

A revised version of IFRS 9 – *Financial Instruments* ("IFRS 9") was issued by the IASB in July 2014, replacing IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 establishes principles for the recognition, classification and measurement of financial assets and liabilities. IFRS 9 sets out a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. This approach is based on how an entity manages its financial instruments and the contractual cash flow characteristics of its financial assets. IFRS 9 retains most of the IAS 39 requirements for financial liabilities. The most significant change is when an entity elects to measure a financial liability at fair value, any gains or losses for the financial liability due to changes in an entity's credit risk must be recognized in other comprehensive income.

The following table summarizes the classification impacts of the adoption of IFRS 9. This adoption did not result in any changes to the measurement of the REIT's consolidated financial statements.

Financial instrument	Previous classification under IAS 39	New classification under IFRS 9
Financial assets:		
Notes receivable	Loans and receivables	Amortized cost
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Accounts receivable and other receivables	Loans and receivables	Amortized cost
Cash held in trust	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost
Financial liabilities:		
Mortgages and loans payable	Other liabilities	Amortized cost
Senior unsecured debentures	Other liabilities	Amortized cost
Credit facilities	Other liabilities	Amortized cost
Preferred shares/units liabilities	Other liabilities	Amortized cost
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Accounts payable and other liabilities	Other liabilities	Amortized cost

IFRS 9 uses an expected credit loss ("ECL") model on financial assets measured at amortized cost and financial liabilities that are financial guarantee contracts or commitments to provide a loan at a below-market interest rate. The measurement options for the ECL are lifetime expected credit losses and 12-month expected credit losses. The ECL model is based on an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. As the REIT will follow the simplified approach of always measuring the loss allowance for trade receivables, contract assets and lease receivables at the lifetime ECL, IFRS 9 did not have a material impact on the REIT's note receivables and accounts receivables and other receivables balances.

The REIT does not have any instruments that are designated in a hedge relationship; therefore, the new general hedge accounting model included in IFRS 9 has not impacted the consolidated financial statements.

The REIT adopted IFRS 9 on the required effective date of January 1, 2018 and applied the standard on a retrospective basis using the available transitional provisions. Under this approach, the 2017 comparative period was not restated. There was no cumulative transitional adjustment to the opening retained earnings balance required.

In June 2016, the IASB amended IFRS 2 – *Share-based Payment*. The amendment clarifies the classification and measurement of share-based payment transactions, and is effective for annual periods beginning on or after January 1, 2018. This amendment did not result in a material impact to the consolidated financial statements.

In December 2016, the IASB issued IFRIC 22 - *Foreign Currency Transactions and Advance Consideration* ("IFRIC 22"). IFRIC 22 clarifies the date of transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. This interpretation did not result in a material impact to the consolidated financial statements.

In December 2016, the IASB amended IAS 40 - *Investment Property*. The amendments clarify that an asset be transferred to, or from, investment property only when there is a change in use, and are effective for annual periods beginning on or after January 1, 2018. These amendments did not result in a material impact to the consolidated financial statements.

In December 2016, the IASB issued *Annual Improvements to IFRS Standards 2014-2016 Cycle* effective for annual periods beginning on or after January 1, 2018. These amendments did not result in a material impact to the consolidated financial statements.

(d) Future changes in accounting standards:

The IASB issued IFRS 16 – Leases ("IFRS 16") in January 2016 which replaces IAS 17 – Leases and IFRIC 4 – Determining whether an Arrangement contains a Lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The most significant change introduced by IFRS 16 is a single lessee accounting model, bringing leases on-balance sheet for lessees. The REIT is completing its assessment of existing lease arrangements that would be capitalized under the new standard and the initial quantification of the existing obligations is not significant to the REIT's financial position. As the changes in IFRS 16 do not materially impact the lessor accounting model, the REIT expects the adoption of this new standard will have no significant impact on its consolidated financial statements. The REIT expects to complete the assessment by December 31, 2018.

Note 3. Acquisitions and dispositions of investment properties

Acquisitions:

On March 7, 2018, the REIT acquired an additional 50% interest in each of 1700 Broadway and Hudson's Bay Centre, office properties located in the Greater Denver Area, Colorado. Prior to the acquisition date, the REIT owned 50% of these investment properties and the properties were classified as joint ventures and accounted for using the equity method. As a result of these acquisitions, the REIT now owns 100% of the properties and accounts for them on a consolidated basis. The REIT accounted for these acquisitions as step acquisitions and remeasured its existing 50% interests to fair value at the acquisition date. The REIT recorded a net fair value gain of \$1,697 on this remeasurement, which was included in net income from joint ventures.

The REIT acquired the remaining 50% interests for total consideration of \$50,148. This consideration primarily consisted of the issuance of common units at a price of \$14.85 per unit for gross consideration of \$47,300. The REIT recorded a bargain purchase gain related to the issuance of the units of \$3,504. As part of acquiring the previously unowned 50% of the net assets of these properties, the REIT also recorded additional bargain purchase gains of \$1,880 for a total gain of \$5,384.

In addition, the REIT acquired the following property during the nine months ended September 30, 2018:

Property	Property count	Location	Acquisition date	Asset class
Stapley Center	1	Greater Phoenix Area, AZ	August 13, 2018	Office

The REIT acquired the following parcels of development land during the nine months ended September 30, 2018:

Property	Location	Acquisition date	Asset class
Cedar Port	Houston (Bayport), TX	March 26, 2018	Industrial
Tower Business Center ⁽¹⁾	Greater Denver Area, CO	April 20, 2018	Industrial
1630 Aspen	Madison, WI	May 31, 2018	Office

(1) The REIT acquired an 80% interest in this joint venture arrangement.

On September 7, 2017, the REIT acquired an additional 10% interest in each of Park Lucero I, Park Lucero III and Park Lucero IV, industrial properties located in the Greater Phoenix Area, Arizona, for total consideration of \$2,857. Prior to the acquisition date, the REIT owned 90% of these investment properties and the properties were classified as joint ventures and accounted for using the equity method. As a result of these acquisitions, the REIT owns 100% of the properties and accounts for them on a consolidated basis. The REIT accounted for these acquisitions as step acquisitions and remeasured its existing 90% interests to fair value at the acquisition date.

On September 29, 2017, the REIT also acquired a parkade that is ancillary to an existing office property in Winnipeg, Manitoba.

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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Investment properties (note 4)	\$ 63,385	\$ 19,544	\$ 164,840	\$ 19,544
Long-term debt, including acquired above- and below-market mortgages, net of financing costs	—	(2,962)	(38,388)	(2,962)
Other net assets	—	125	—	125
	63,385	16,707	126,452	16,707
Consideration was comprised of the following:				
Common units (note 10 (a)(ii))	—	—	43,651	—
Cash consideration	63,385	16,707	76,449	16,707
Bargain purchase gains	—	—	5,384	—
Foreign currency translation gain	—	—	968	—
Total consideration	\$ 63,385	\$ 16,707	\$ 126,452	\$ 16,707
Transaction costs expensed (note 15)	\$ 227	\$ 567	\$ 905	\$ 567

Dispositions:

The REIT disposed of the following properties during the nine months ended September 30, 2018:

Property	Property count	Location	Disposition date	Asset class
Humana Building	1	Greater Phoenix Area, AZ	January 23, 2018	Office
1810 Dublin Avenue	1	Winnipeg, MB	March 22, 2018	Industrial
630 - 4th Avenue SW	1	Calgary, AB	June 1, 2018	Office
Production Court & Eau Claire Place II	2	Greater Vancouver Area, BC & Calgary, AB	June 27, 2018	Office
Park 8Ninety II Land ⁽¹⁾	—	Greater Houston Area, TX	September 11, 2018	Industrial

(1) On September 11, 2018, the REIT contributed land under development to a new joint arrangement, Park 8Ninety II. The co-owner's share of the land is recorded as a disposition.

The proceeds from the sale of the above properties, net of costs and related debt, were \$126,548. The assets and liabilities associated with the properties were derecognized.

The REIT disposed of the following properties during the nine months ended September 30, 2017:

Property	Property count	Location	Disposition date	Asset class
Airdrie Flex Industrial	1	Airdrie, AB	February 6, 2017	Industrial
Southview Centre	1	Medicine Hat, AB	March 10, 2017	Retail
Westbank Hub Shopping Centre and Westbank Hub Centre North ⁽¹⁾	2	Westbank, BC	March 15, 2017	Retail
Ford Tower and Alpine Building	2	Calgary, AB	March 30, 2017	Office
Edson Shoppers	1	Edson, AB	April 7, 2017	Retail
Horizon Heights	1	Calgary, AB	July 5, 2017	Retail
Sherwood Centre	1	Edmonton, AB	August 15, 2017	Industrial
6075 Kestrel Road	1	Greater Toronto Area, ON	September 1, 2017	Industrial
Quarry Park Portfolio	3	Calgary, AB	September 15, 2017	Office

(1) The REIT disposed of its 75% interest in these properties.

The proceeds from the sale of the above properties, net of costs and related debt, were \$211,506. The assets and liabilities associated with the properties were derecognized.

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

Nine months ended
September 30, 2018

	Investment properties	Investment properties under development	Investment properties held for sale
Balance, beginning of period	\$ 4,720,362	\$ 79,701	\$ 110,188
Additions:			
Acquisitions (note 3)	153,720	11,120	—
Reclassification from investments in joint ventures ⁽¹⁾	88,536	—	—
Capital expenditures	25,184	28,326	2
Capitalized interest	—	805	—
Leasing commissions	6,507	1,791	61
Dispositions	(121,243)	(521)	(31,467)
Contribution to investments in joint ventures ⁽²⁾	—	(10,421)	—
Reclassification of investment properties under development	33,542	(33,542)	—
Reclassification of investment properties held for sale	(8,958)	—	8,958
Transfer to inventory properties ⁽³⁾	(8,800)	(1,816)	—
Foreign currency translation gain	58,466	1,300	3,034
Straight-line rent adjustments	4,393	—	8
Tenant inducement additions, net of amortization	21,401	—	1,236
Fair value (loss) gain	(20,232)	10,271	(3,562)
Balance, end of period	\$ 4,952,878	\$ 87,014	\$ 88,458

(1) On March 7, 2018, the REIT increased its ownership interest in 1700 Broadway and Hudson's Bay Centre to 100%. See note 3 for further information.

(2) On September 11, 2018, the REIT contributed land under development to Park 8Ninety II, a joint venture arrangement. See Note 5 for further information.

(3) During the nine months ended September 30, 2018, an investment property and the related development expenditures were transferred to inventory properties. See Note 6 for further information.

Year ended
December 31, 2017

	Investment properties	Investment properties under development	Investment properties held for sale
Balance, beginning of year	\$ 4,991,825	\$ 65,199	\$ 119,178
Additions:			
Acquisitions	102,820	414	—
Reclassification from investments in joint ventures	47,441	3,800	—
Capital expenditures	42,019	36,972	562
Capitalized interest	—	283	—
Leasing commissions	12,623	44	245
Dispositions	(168,602)	—	(264,529)
Reclassification of investment properties under development	21,752	(21,752)	—
Reclassification of investment properties held for sale	(257,214)	—	257,214
Foreign currency translation loss	(119,309)	(3,658)	(1,672)
Straight-line rent adjustments	6,398	2	(17)
Tenant inducement additions, net of amortization	32,921	150	448
Fair value gain (loss)	7,688	(1,753)	(1,241)
Balance, end of year	\$ 4,720,362	\$ 79,701	\$ 110,188

During the nine months ended September 30, 2018, the REIT reclassified one office property from investment properties under development to investment properties.

The REIT had seven retail properties classified as investment properties held for sale that were listed with an external broker at September 30, 2018. These properties had an aggregate mortgage payable balance of \$51,482 at September 30, 2018. This balance is not accounted for as held for sale but is included in current liabilities as the REIT intends to repay the mortgages upon disposition of the related investment properties.

At September 30, 2018, investment properties with a fair value of \$3,424,218 (December 31, 2017, \$3,261,174) 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 nine months ended September 30, 2018, properties (including the REIT's ownership interest in properties held in joint venture arrangements) with an appraised value of \$361,163 and \$902,079, respectively, (2017, \$92,306 and \$658,786) 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 determined the fair value of investment properties based upon either the discounted cash flow method or the overall capitalization method. There were no changes to the REIT's internal valuation methodology during the nine months ended September 30, 2018 and the year ended December 31, 2017.

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:

	September 30, 2018			December 31, 2017		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Western Canada:						
Discount rate	9.50%	6.25%	7.63%	9.50%	6.25%	7.61%
Terminal capitalization rate	9.00%	4.00%	6.77%	9.00%	4.25%	6.72%
Capitalization rate	8.75%	4.00%	6.70%	8.50%	4.25%	6.54%
Investment horizon (years)	11.0	10.0	10.3	11.0	10.0	10.2
Central Canada:						
Discount rate	9.00%	6.25%	7.66%	9.00%	6.25%	7.66%
Terminal capitalization rate	8.50%	5.50%	6.43%	8.50%	5.50%	6.42%
Capitalization rate	8.25%	5.50%	6.33%	8.25%	5.50%	6.28%
Investment horizon (years)	12.0	10.0	10.4	12.0	10.0	10.4
Eastern Canada:						
Discount rate	7.75%	5.25%	6.82%	7.75%	6.25%	7.11%
Terminal capitalization rate	6.75%	4.25%	5.68%	6.75%	4.75%	6.01%
Capitalization rate	7.00%	4.25%	5.68%	7.00%	4.75%	6.03%
Investment horizon (years)	12.0	10.0	10.4	12.0	10.0	10.4
U.S.:						
Discount rate	9.00%	6.50%	7.98%	9.00%	6.75%	8.06%
Terminal capitalization rate	8.75%	5.50%	6.95%	8.75%	5.75%	7.00%
Capitalization rate	8.50%	5.25%	6.81%	8.50%	5.50%	6.81%
Investment horizon (years)	15.0	10.0	10.6	20.0	10.0	11.0
Total portfolio:						
Discount rate	9.50%	5.25%	7.64%	9.50%	6.25%	7.69%
Terminal capitalization rate	9.00%	4.00%	6.58%	9.00%	4.25%	6.63%
Capitalization rate	8.75%	4.00%	6.49%	8.50%	4.25%	6.48%
Investment horizon (years)	15.0	10.0	10.5	20.0	10.0	10.5

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 had interests in the following joint arrangements:

Property	Principal purpose	Type of arrangement	Ownership interest	
			September 30, 2018	December 31, 2017
Park 8Ninety I	Investment property	Joint venture	95%	95%
Park 8Ninety II	Investment property	Joint venture	95%	—%
Corridor Park	Investment property	Joint venture	90%	90%
Park Lucero II	Investment property	Joint venture	90%	90%
Millwright Building	Investment property	Joint venture	80%	80%
Tower Business Center	Investment property	Joint venture	80%	—%
Graham Portfolio	Investment property	Joint venture	75%	75%
Centrepont	Investment property	Joint venture	50%	50%
The Point at Inverness	Investment property	Joint venture	50%	50%
1700 Broadway ⁽¹⁾	Investment property	Joint venture	—%	50%
Hudson's Bay Centre ⁽¹⁾	Investment property	Joint venture	—%	50%
Centre 70 Building	Investment property	Joint operation	85%	85%
Cliveden Building	Investment property	Joint operation	50%	50%
Kincaid Building	Investment property	Joint operation	50%	50%

(1) On March 7, 2018, the REIT increased its ownership interest in these properties to 100%. See note 3 for further information.

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 nine months ended September 30, 2018, the REIT entered into two new joint venture arrangements. The REIT contributed \$6,160 to Tower Business Center, an industrial development project in the Greater Denver Area, Colorado, and \$10,901, including land under development, to Park 8Ninety II, an industrial development project in the Greater Houston Area, Texas.

The REIT also contributed \$567 during the nine months ended September 30, 2018 to the Park Lucero II and Hudson's Bay Centre joint venture arrangements.

The REIT is contingently liable for the obligations of certain joint arrangements. As at September 30, 2018, the co-owners' share of mortgage liabilities was \$56,321 (December 31, 2017, \$96,494). Management believes that the assets available from its joint arrangements are sufficient for the purpose of satisfying such obligations.

At September 30, 2018, one of the REIT's joint ventures had an office property classified as held for sale.

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

	September 30, 2018	December 31, 2017		
Non-current assets:				
Investment properties	\$ 261,713	\$ 332,359		
Investment properties under development	18,037	—		
Current assets:				
Investment property held for sale	26,106	26,187		
Prepaid expenses and other assets	250	282		
Accounts receivable and other receivables	1,043	655		
Cash	3,674	7,012		
	<u>310,823</u>	<u>366,495</u>		
Non-current liabilities:				
Mortgages and loans payable	27,477	112,148		
Current liabilities:				
Mortgages and loans payable	97,036	46,484		
Security deposits and prepaid rent	1,510	2,190		
Accounts payable and other liabilities	6,642	5,290		
	<u>132,665</u>	<u>166,112</u>		
Investments in joint ventures	<u>\$ 178,158</u>	<u>\$ 200,383</u>		
	Three months ended September 30, 2018	September 30, 2017	Nine months ended September 30, 2018	September 30, 2017
Revenue	\$ 5,496	\$ 7,083	\$ 16,763	\$ 19,774
Expenses:				
Property operating	1,283	2,061	4,539	5,883
Realty taxes	1,144	1,065	3,400	3,242
	<u>2,427</u>	<u>3,126</u>	<u>7,939</u>	<u>9,125</u>
Net operating income	3,069	3,957	8,824	10,649
Other income (expenses):				
Interest expense	(1,457)	(1,886)	(4,317)	(4,597)
Interest income	2	2	6	5
Fair value gain on investment properties	3,729	5,823	4,629	9,481
Fair value gain on business combinations ⁽¹⁾	—	—	1,697	—
Net income from investments in joint ventures	<u>\$ 5,343</u>	<u>\$ 7,896</u>	<u>\$ 10,839</u>	<u>\$ 15,538</u>

(1) This gain relates to the step acquisitions of 1700 Broadway and Hudson's Bay Centre. See note 3 for further information.

Note 6. Inventory properties

The changes to the REIT's inventory properties were as follows:

	Nine months ended September 30, 2018	Year ended December 31, 2017
Balance, beginning of period	\$ —	\$ —
Transfers from investment properties	8,800	—
Transfers from investment properties under development	1,816	—
Capital expenditures	115	—
Balance, end of period	\$ 10,731	\$ —

During the nine months ended September 30, 2018, the REIT transferred an industrial property being converted into commercial condominium units to inventory properties at the fair value on the transfer date. Inventory properties earned net operating income of \$58 and \$58 for the three and nine months ended September 30, 2018, respectively.

Note 7. Mortgages and loans payable

	September 30, 2018	December 31, 2017
Mortgages and loans payable	\$ 1,603,704	\$ 1,562,699
Net above- and below-market mortgage adjustments	1,140	4,991
Financing costs	(6,398)	(6,657)
	1,598,446	1,561,033
Current portion	248,110	370,508
Non-current portion	\$ 1,350,336	\$ 1,190,525

The majority of the REIT's investment properties have been pledged as security under mortgages and other security agreements. 43.4% of the REIT's mortgages and loans payable bear interest at fixed rates (December 31, 2017, 46.1%), and a further 28.6% of the REIT's mortgages and loans payable bear interest at variable rates with interest rate swaps in place (December 31, 2017, 29.2%). The weighted-average effective rate on all mortgages and loans payable was 4.15% and the weighted-average nominal rate was 3.97% at September 30, 2018 (December 31, 2017, 3.96% and 3.80%, respectively). Maturity dates range from November 30, 2018 to February 14, 2032.

The REIT's mortgage providers have various financial covenants. The REIT monitors these covenants, which are primarily debt service coverage ratios, and was in compliance with these requirements at September 30, 2018.

Note 8. Senior unsecured debentures

On February 7, 2018, under the August 8, 2016 short form base shelf prospectus, the REIT issued Series B floating rate senior unsecured debentures for gross proceeds of \$200,000. Interest is payable quarterly on February 7, May 7, August 7 and November 7 in each year. These debentures are not redeemable by the REIT prior to maturity and rank equally with all other indebtedness of the REIT.

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	Interest rate
Series A	March 27, 2014, September 10, 2014	March 27, 2019	3.753%
Series B	February 7, 2018	February 7, 2020	Three month CDOR ⁽¹⁾ plus 1.07%

(1) Canadian Dollar Offered Rate (CDOR)

	Face value	Unamortized accretion	Unamortized financing costs	Carrying value	Current portion	Non-current portion
Series A	\$ 200,000	\$ 107	\$ (167)	\$ 199,940	\$ 199,940	\$ —
Series B	200,000	—	(531)	199,469	—	199,469
September 30, 2018	\$ 400,000	\$ 107	\$ (698)	\$ 399,409	\$ 199,940	\$ 199,469
December 31, 2017	200,000	267	(413)	199,854	—	199,854

During the three and nine months ended September 30, 2018, accretion to the liability of \$54 and \$160 (2017, \$52 and \$155) and financing cost amortization of \$179 and \$498 (2017, \$80 and \$239) were recorded.

In accordance with the Series A and Series B senior unsecured debentures supplemental indentures, the REIT must maintain various financial covenants. As at September 30, 2018, the REIT was in compliance with these requirements.

Note 9. Credit facilities

The REIT has unsecured revolving term credit facilities in the aggregate amount of \$500,000, 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 June 14, 2018, the revolving term credit facilities agreement was amended to extend the related maturity dates. The first tranche of the facilities was extended from December 15, 2018 to December 14, 2021 and the second tranche was extended from April 29, 2021 to April 29, 2023.

In 2017, the REIT entered into two five-year unsecured non-revolving term credit facilities in the aggregate amount of \$300,000, which can be utilized for general corporate and working capital purposes, property acquisitions and development financing.

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

	September 30, 2018			December 31, 2017		
	Borrowing capacity	Amounts drawn	Available to be drawn	Amounts drawn	Available to be drawn	Applicable interest rates ⁽¹⁾
Revolving facilities maturing December 14, 2021	\$ 300,000	\$ 275,026	\$ 24,974	\$ 267,748	\$ 32,252	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	200,000	15,000	185,000	170,635	29,365	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 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		(1,760)		(1,078)		
Total credit facilities	\$ 800,000	\$ 588,266	\$ 209,974	\$ 737,305	\$ 61,617	
Current portion		—		438,383		
Non-current portion		\$ 588,266		\$ 298,922		

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

For purposes of the credit facilities, the REIT must maintain various financial covenants. As at September 30, 2018, the REIT was in compliance with these requirements.

Note 10. 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, 2016	150,333,077	\$ 1,958,344
Restricted units redeemed	22,959	307
Conversion of Series G convertible debentures	1,318	36
Distribution Reinvestment and Unit Purchase Plan	242,312	2,972
Balance at December 31, 2017	150,599,666	1,961,659
Restricted units redeemed	31,594	426
Deferred units redeemed	4,189	59
Private placement, net of issue costs of \$145 ⁽¹⁾	3,185,152	43,651
Balance at September 30, 2018	153,820,601	\$ 2,005,795

(1) The REIT issued units related to the step-acquisitions of 1700 Broadway and Hudson's Bay Centre. See note 3 for further information.

The REIT has a Distribution Reinvestment and Unit Purchase Plan ("DRIP") which allows unitholders the option to elect to receive all or a portion of their regular monthly distributions in additional REIT units. On January 13, 2017, the REIT announced the suspension of its DRIP until further notice.

(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:

Preferred unit series	Issue date	Number of units outstanding	Face value	Carrying value	Annual distribution rate	Distribution rate reset date
Series A	August 2 and 10, 2012	3,450,000	\$ 86,250	\$ 82,143	5.662%	September 30, 2022
Series E	March 21, 2013	4,000,000	100,000	96,537	5.472%	September 30, 2023
Series G	July 29, 2013	3,200,000	80,000	77,190	5.000%	July 31, 2019
Series I	January 31, 2018	5,000,000	125,000	121,304	6.000%	April 30, 2023
Total		15,650,000	\$ 391,250	\$ 377,174		

On January 31, 2018, under the August 8, 2016 short form base shelf prospectus, the REIT issued 5,000,000 Cumulative Minimum Rate Reset Preferred Trust Units, Series I (the "Series I Units") for aggregate gross proceeds of \$125,000. The Series I Units pay a cumulative distribution yield of 6.00% per annum, payable quarterly, as and when declared by the Board of Trustees of the REIT, for the initial five-year period ending April 30, 2023. The distribution rate will be reset on April 30, 2023 and every five years thereafter at a rate equal to the greater of (i) the sum of the then five-year Government of Canada bond yield and 3.93% and (ii) 6.00%.

The REIT may redeem the Series I Units on April 30, 2023 and on April 30 every five years thereafter. The holders of Series I Units have the right to reclassify their Series I Units to Preferred Units, Series J (the "Series J Units"), subject to certain conditions, on April 30, 2023 and on April 30 every five years thereafter. The Series J Units pay floating rate cumulative preferential distributions on a quarterly basis, at the discretion of the Board of Trustees. The holders of Series J Units have the right to reclassify their Series J Units to Series I Units on April 30, 2028 and on April 30 every five years thereafter.

On March 31, 2018, the REIT redeemed all 3,000,000 outstanding Series C Units with an aggregate face value of US\$75,000. The REIT recognized a foreign currency translation loss of \$26,952 on this redemption through contributed surplus.

On September 30, 2018, the annual distribution rate was reset for the Series E Units. The REIT did not exercise its right to redeem any of the Series E Units and none of these units were reclassified to Series F Units. Accordingly, all 4,000,000 Series E Units remain issued and outstanding for the subsequent five-year period commencing October 1, 2018. During this period, Series E unitholders will be entitled to receive a cumulative distribution yield of 5.472% per annum, payable quarterly, if, as and when declared by the Board of Trustees.

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

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

(c) Short form base shelf prospectuses:

On August 23, 2018, the REIT issued a new 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) trust units of the REIT; (ii) preferred trust 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 September 30, 2018, the REIT had not issued any securities under this short form base shelf prospectus.

Under the short form base shelf prospectus issued on August 8, 2016, the REIT had issued senior unsecured debentures under one offering in the amount of \$200,000 and preferred units under one offering in the amount of \$125,000. This short form base shelf prospectus expired on September 8, 2018.

(d) Weighted-average common units:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net income	\$ 25,719	\$ 64,803	\$ 151,416	\$ 180,372
Adjustment for distributions to preferred unitholders (note 11)	(5,283)	(4,548)	(16,487)	(13,775)
Net income attributable to common unitholders	20,436	60,255	134,929	166,597
Adjustment for restricted units	(249)	68	(392)	154
Adjustment for deferred units	(94)	8	(172)	27
Diluted net income attributable to common unitholders	\$ 20,093	\$ 60,331	\$ 134,365	\$ 166,778

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

Basic common units	153,819,835	150,593,190	153,046,020	150,573,197
Effect of dilutive securities:				
Restricted units	506,336	372,059	451,793	332,088
Deferred units	74,755	69,771	64,117	61,478
Diluted common units	154,400,926	151,035,020	153,561,930	150,966,763

Net income per unit attributable to common unitholders:

Basic	\$ 0.13	\$ 0.40	\$ 0.88	\$ 1.11
Diluted	0.13	0.40	0.87	1.10

The computation of diluted net income per unit attributable to common unitholders includes unit options, restricted units and deferred units when these instruments are dilutive. For the three and nine months ended September 30, 2018 and 2017, there were no anti-dilutive units.

Note 11. Distributions to unitholders

Total distributions declared to unitholders were as follows:

	Three months ended September 30, 2018		Three months ended September 30, 2017	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	\$ 41,532	\$ 0.27	\$ 40,660	\$ 0.27
Preferred unitholders - Series A	1,221	0.35	1,132	0.33
Preferred unitholders - Series C	—	—	1,228	0.41
Preferred unitholders - Series E	1,187	0.30	1,188	0.30
Preferred unitholders - Series G	1,000	0.31	1,000	0.31
Preferred unitholders - Series I	1,875	0.38	—	—

	Nine months ended September 30, 2018		Nine months ended September 30, 2017	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	\$ 124,010	\$ 0.81	\$ 121,974	\$ 0.81
Preferred unitholders - Series A	3,663	1.06	3,396	0.98
Preferred unitholders - Series C	1,269	0.42	3,816	1.27
Preferred unitholders - Series E	3,562	0.89	3,563	0.89
Preferred unitholders - Series G	3,000	0.94	3,000	0.94
Preferred unitholders - Series I	4,993	1.00	—	—

Note 12. Revenue

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Basic rent, parking and other revenue	\$ 90,083	\$ 87,070	\$ 264,162	\$ 267,894
Operating cost and realty tax recoveries	41,181	42,219	122,703	128,751
Tenant inducements amortized to revenue	(4,871)	(4,292)	(14,609)	(12,611)
Straight-line rent adjustments	1,338	1,555	4,401	4,654
Lease termination income	366	456	3,349	1,384
	\$ 128,097	\$ 127,008	\$ 380,006	\$ 390,072

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

Note 13. Corporate expenses

For the three and nine months ended September 30, 2018, corporate expenses included a non-recurring pension liability adjustment of \$nil and \$3,392 (2017, \$nil and \$nil) to reflect the amounts that will be due upon expiry of key management personnel contracts.

Note 14. Interest expense

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Interest on mortgages and loans payable	\$ 16,004	\$ 16,766	\$ 47,228	\$ 55,419
Interest on senior unsecured debentures	3,357	1,878	9,254	5,599
Interest on convertible debentures	—	—	—	1,075
Interest on credit facilities	4,820	4,742	15,606	9,580
Net amortization of above- and below-market mortgages fair value adjustments	(28)	(283)	(242)	(899)
Amortization of financing costs	933	831	2,625	2,539
Accretion on liability component of debentures	(54)	(52)	(160)	(279)
	\$ 25,032	\$ 23,882	\$ 74,311	\$ 73,034

Note 15. Transaction costs

The REIT incurred transaction costs in relation to the following:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Acquisitions of investment properties	\$ 227	\$ 567	\$ 905	\$ 567
Termination of property management agreements	—	—	5,025	—
	\$ 227	\$ 567	\$ 5,930	\$ 567

During the nine months ended September 30, 2018, the REIT internalized the property management of several of its investment properties and terminated the third party property management agreements.

Note 16. Fair value (loss) gain on derivative instruments and other transactions

The REIT recorded (losses) gains on the following:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Business combinations ⁽¹⁾	\$ —	\$ —	\$ 5,384	\$ —
Interest rate swaps	4,085	4,644	10,690	7,465
Foreign currency contracts	(6,784)	3,587	(1,637)	331
Convertible debentures	—	—	—	1,045
Other derivatives	(15)	—	262	—
	\$ (2,714)	\$ 8,231	\$ 14,699	\$ 8,841

(1) The REIT realized bargain purchase gains related to the step-acquisitions of 1700 Broadway and Hudson's Bay Centre. See note 3 for further information.

Note 17. 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 18. Segmented information

The REIT owns and operates various properties located in Canada and the U.S. These properties are managed by and reported internally on the basis of geographical regions. Western Canada includes British Columbia and Alberta; Central Canada includes Saskatchewan and Manitoba; and Eastern Canada includes Ontario. Segmented information includes the REIT's joint ventures as presented using the proportionate share method. REIT expenses, including interest relating to debentures and credit facilities, have not been allocated to the segments.

Three months ended September 30, 2018

	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	\$ 30,751	\$ 27,337	\$ 15,450	\$ 59,929	\$ 126	\$ (5,496)	\$ 128,097
Expenses:							
Property operating	7,173	7,150	3,956	14,285	—	(1,283)	31,281
Realty taxes	4,622	4,262	2,695	10,170	—	(1,144)	20,605
	11,795	11,412	6,651	24,455	—	(2,427)	51,886
Net operating income	18,956	15,925	8,799	35,474	126	(3,069)	76,211
Other income (expenses):							
Corporate expenses	—	—	—	—	(2,585)	—	(2,585)
Interest expense	(2,978)	(2,056)	(2,042)	(10,859)	(8,554)	1,457	(25,032)
Interest income	187	17	5	41	123	(2)	371
Net income from investments in joint ventures	—	—	—	—	—	5,343	5,343
Fair value (loss) gain on investment properties	(24,320)	(2,080)	12,718	(14,685)	—	(3,729)	(32,096)
Foreign currency translation gain	—	—	—	—	6,692	—	6,692
Transaction costs	—	—	—	(227)	—	—	(227)
Fair value loss on derivative instruments and other transactions	—	—	—	—	(2,714)	—	(2,714)
(Loss) income before income taxes	(8,155)	11,806	19,480	9,744	(6,912)	—	25,963
Income tax expense	—	—	—	(244)	—	—	(244)
Net (loss) income	\$ (8,155)	\$ 11,806	\$ 19,480	\$ 9,500	\$ (6,912)	\$ —	\$ 25,719
Acquisitions of investment properties	\$ —	\$ —	\$ —	\$ 63,385	\$ —	\$ —	\$ 63,385
Additions to investment properties and investment properties under development	1,321	9,659	476	15,693	—	(4,914)	22,235
Additions to tenant inducements	4,070	6,597	416	3,106	—	(730)	13,459
Additions to leasing commissions	807	569	230	2,115	—	(565)	3,156

Three months ended September 30, 2017

	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	\$ 37,495	\$ 27,300	\$ 15,731	\$ 53,378	\$ 187	\$ (7,083)	\$ 127,008
Expenses:							
Property operating	8,384	6,568	3,857	13,317	—	(2,061)	30,065
Realty taxes	5,413	4,219	2,591	8,481	—	(1,065)	19,639
	13,797	10,787	6,448	21,798	—	(3,126)	49,704
Net operating income	23,698	16,513	9,283	31,580	187	(3,957)	77,304
Other income (expenses):							
Corporate expenses	—	—	—	—	(3,334)	—	(3,334)
Interest expense	(4,504)	(2,920)	(2,228)	(9,232)	(6,884)	1,886	(23,882)
Interest income	220	18	7	22	35	(2)	300
Net income from investments in joint ventures	—	—	—	—	—	7,896	7,896
Fair value gain (loss) on investment properties	2,054	(3,215)	8,906	564	—	(5,823)	2,486
Foreign currency translation loss	—	—	—	—	(3,542)	—	(3,542)
Transaction costs	—	(404)	—	(163)	—	—	(567)
Fair value gain on derivative instruments and other transactions	—	—	—	—	8,231	—	8,231
Income (loss) before income taxes	21,468	9,992	15,968	22,771	(5,307)	—	64,892
Income tax expense	—	—	—	(89)	—	—	(89)
Net income (loss)	\$ 21,468	\$ 9,992	\$ 15,968	\$ 22,682	\$ (5,307)	\$ —	\$ 64,803
Acquisitions of investment properties	\$ —	\$ 13,850	\$ —	\$ 5,694	\$ —	\$ —	\$ 19,544
Additions to investment properties and investment properties under development	2,831	8,806	1,500	13,270	—	(1,710)	24,697
Additions to tenant inducements	5,604	2,676	902	6,958	—	(233)	15,907
Additions to leasing commissions	1,022	533	43	1,890	—	(858)	2,630

Nine months ended September 30, 2018

	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	\$ 97,660	\$ 80,945	\$ 46,564	\$ 171,349	\$ 251	\$ (16,763)	\$ 380,006
Expenses:							
Property operating	23,060	20,839	11,681	41,341	—	(4,539)	92,382
Realty taxes	14,272	13,500	7,888	28,300	—	(3,400)	60,560
	37,332	34,339	19,569	69,641	—	(7,939)	152,942
Net operating income	60,328	46,606	26,995	101,708	251	(8,824)	227,064
Other income (expenses):							
Corporate expenses	—	—	—	—	(12,250)	—	(12,250)
Interest expense	(9,860)	(6,557)	(6,179)	(30,184)	(25,848)	4,317	(74,311)
Interest income	592	63	101	136	399	(6)	1,285
Net income from investments in joint ventures	—	—	—	—	—	10,839	10,839
Fair value (loss) gain on investment properties	(46,758)	(12,293)	53,590	(3,580)	147	(4,629)	(13,523)
Foreign currency translation gain	—	—	—	—	4,006	—	4,006
Transaction costs	—	—	—	(905)	(5,025)	—	(5,930)
Fair value gain on derivative instruments and other transactions	—	—	—	3,578	12,818	(1,697)	14,699
Income (loss) before income taxes	4,302	27,819	74,507	70,753	(25,502)	—	151,879
Income tax expense	—	—	—	(463)	—	—	(463)
Net income (loss)	\$ 4,302	\$ 27,819	\$ 74,507	\$ 70,290	\$ (25,502)	\$ —	\$ 151,416
Acquisitions of investment properties	\$ —	\$ —	\$ —	\$ 168,564	\$ —	\$ (3,724)	\$ 164,840
Additions to investment properties and investment properties under development	4,132	22,689	2,315	31,254	—	(6,878)	53,512
Additions to tenant inducements	11,713	12,613	1,274	13,711	—	(2,065)	37,246
Additions to leasing commissions	1,913	1,187	977	5,794	—	(1,512)	8,359

September 30, 2018

	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Total assets	\$ 1,218,948	\$ 1,170,234	\$ 728,673	\$ 2,413,997	\$ 36,708	\$ (132,665)	\$ 5,435,895
Total liabilities	326,635	224,189	211,409	1,058,139	1,024,257	(132,665)	2,711,964

Nine months ended September 30, 2017

	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	\$ 120,910	\$ 80,559	\$ 46,134	\$ 161,925	\$ 318	\$ (19,774)	\$ 390,072
Expenses:							
Property operating	26,813	19,670	11,363	39,670	—	(5,883)	91,633
Realty taxes	18,812	12,192	7,763	26,632	—	(3,242)	62,157
	45,625	31,862	19,126	66,302	—	(9,125)	153,790
Net operating income	75,285	48,697	27,008	95,623	318	(10,649)	236,282
Other income (expenses):							
Corporate expenses	—	—	—	—	(10,446)	—	(10,446)
Interest expense	(16,967)	(9,782)	(7,201)	(26,855)	(16,826)	4,597	(73,034)
Interest income	664	47	18	29	88	(5)	841
Net income from investments in joint ventures	—	—	—	—	—	15,538	15,538
Fair value (loss) gain on investment properties	(1,802)	(14,229)	27,130	(1,830)	—	(9,481)	(212)
Foreign currency translation gain	—	—	—	—	2,877	—	2,877
Transaction costs	—	(404)	—	(163)	—	—	(567)
Fair value gain on derivative instruments and other transactions	—	—	—	—	8,841	—	8,841
Income (loss) before income taxes	57,180	24,329	46,955	66,804	(15,148)	—	180,120
Income tax recovery	—	—	—	252	—	—	252
Net income (loss)	\$ 57,180	\$ 24,329	\$ 46,955	\$ 67,056	\$ (15,148)	\$ —	\$ 180,372
Acquisitions of investment properties	\$ —	\$ 13,850	\$ —	\$ 5,694	\$ —	\$ —	\$ 19,544
Additions to investment properties and investment properties under development	6,185	22,951	4,421	60,588	—	(32,227)	61,918
Additions to tenant inducements	13,721	6,729	3,095	18,954	—	(7,231)	35,268
Additions to leasing commissions	4,112	1,136	864	5,571	—	(1,828)	9,855

December 31, 2017

	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Total assets	\$ 1,383,098	\$ 1,152,199	\$ 672,959	\$ 2,143,984	\$ 29,768	\$ (166,112)	\$ 5,215,896
Total liabilities	415,255	227,382	217,011	940,840	976,311	(166,112)	2,610,687

Note 19. Commitments, contingencies and guarantees

(a) Unconditional purchase and sale agreements:

As of September 30, 2018, the REIT has an unconditional purchase agreement for an office development project located in the Twin Cities Area, Minnesota. The REIT will acquire each phase upon completion, for a total anticipated purchase price of US \$98,512. The first phase is expected to close in the last quarter of 2018.

(b) Letters of credit:

As of September 30, 2018, the REIT had issued letters of credit in the amount of \$4,583 (December 31, 2017, \$4,904).

(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 September 30, 2018, AX L.P. has guaranteed certain debt assumed by purchasers in connection with the dispositions of three properties (December 31, 2017, four 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 September 30, 2018 was \$58,683 (December 31, 2017, \$61,927), with an estimated weighted-average remaining term of 4.4 years (December 31, 2017, 5.0 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 September 30, 2018, the ratio of such indebtedness to gross book value was 47.5% (December 31, 2017, 47.9%), 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	September 30, 2018	December 31, 2017
Mortgages and loans payable	7	\$ 1,598,446	\$ 1,561,033
Senior unsecured debentures	8	399,409	199,854
Credit facilities	9	588,266	737,305
Total debt		2,586,121	2,498,192
Unitholders' equity		2,723,931	2,605,209
		\$ 5,310,052	\$ 5,103,401

Note 21. Risk management

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) 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 REIT has the majority of its mortgages payable and debentures in fixed rate terms. In addition, management considers the weighted-average term to maturity of long-term debt relative to the remaining average lease terms. At September 30, 2018, the REIT was a party to \$1,497,795 of variable rate debt, including credit facilities (December 31, 2017, \$1,580,397). At September 30, 2018, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$757,962 of variable rate debt, including swaps on credit facilities (December 31, 2017, \$756,956).

(b) 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 \$1.3061 and \$1.2912 for the three and nine months ended September 30, 2018, respectively, and the period end exchange rate of 1.2945 at September 30, 2018, would have increased net income by approximately \$2,738 for the three months ended September 30, 2018 and would have decreased net income by approximately \$327 for the nine months ended September 30, 2018. A \$0.10 weakening in the US dollar against the Canadian dollar would have decreased other comprehensive income by approximately \$108,573 and \$105,507 for the three and nine months ended September 30, 2018, respectively. 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.

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 nine months ended September 30, 2018.

		September 30, 2018		December 31, 2017	
	Fair value hierarchy	Carrying value	Fair value	Carrying value	Fair value
Assets:					
Investment properties	Level 3	\$ 4,952,878	\$ 4,952,878	\$ 4,720,362	\$ 4,720,362
Investment properties under development	Level 3	87,014	87,014	79,701	79,701
Notes receivable	Level 2	17,903	18,332	15,304	16,152
Investment properties held for sale	Level 3	88,458	88,458	110,188	110,188
Derivative instruments	Level 2	18,013	18,013	8,425	8,425
		5,164,266	5,164,695	4,933,980	4,934,828
Liabilities:					
Mortgages and loans payable	Level 2	1,598,446	1,597,033	1,561,033	1,574,614
Senior unsecured debentures	Level 2	399,409	400,418	199,854	201,438
Credit facilities	Level 2	588,266	590,026	737,305	738,383
Derivative instruments	Level 2	6,492	6,492	6,185	6,185
		2,592,613	2,593,969	2,504,377	2,520,620
		\$ 2,571,653	\$ 2,570,726	\$ 2,429,603	\$ 2,414,208

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 its non-revolving credit facilities. The swaps are not designated in a hedge relationship.

Note 23. Subsequent events

The following events occurred subsequent to September 30, 2018:

- On October 5, 2018, the REIT acquired an additional 10% interest in Park Lucero II, an industrial property located in the Greater Phoenix Area, Arizona for total consideration of US\$1,582. Prior to the acquisition date, the REIT owned 90% of this investment property and the property was classified as a joint venture.
- On October 19, 2018, the REIT acquired a surface parking lot ancillary to an existing office property in Winnipeg, Manitoba for \$10,500.
- On October 31, 2018, the REIT disposed of Centrepoint, an office property located in Winnipeg, Manitoba, held in one of its joint venture arrangements. The sale price of this property at the REIT's interest was \$27,250 and a portion of the proceeds were used to repay the outstanding mortgage financing of \$18,961.
- The REIT drew aggregate amounts of \$30,000 and US\$20,300 on its revolving term credit facilities.
- The REIT declared a monthly cash distribution of \$0.09 per unit for the month of October 2018.
- The REIT declared a quarterly cash distribution of \$0.3125 per Series G Unit for the quarter ending October 31, 2018.
- The REIT declared a quarterly cash distribution of \$0.3750 per Series I Unit for the quarter ending October 31, 2018.
- Commencing November 1, 2018, the REIT revised the common unit distribution to \$0.045 per unit per month.

Note 24. Approval of financial statements

These interim condensed consolidated financial statements were approved by the Board of Trustees and authorized for issue on November 1, 2018.

Note 25. Comparative figures

Certain comparative figures in the Interim Condensed Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2017 have been reclassified to conform with the financial statement presentation adopted in 2018. The change in credit facilities previously disclosed as an aggregate of \$104,500 for the nine months ended September 30, 2017, has been disaggregated into advance of revolving credit facilities and repayment of revolving credit facilities. This reclassification is intended to provide additional details on the nature of the REIT's cash flows and had no impact on the previously reported cash flows from financing activities.