

Interim Condensed Consolidated Financial Statements of

**ARTIS REAL ESTATE  
INVESTMENT TRUST**

Three months ended March 31, 2019 and 2018  
(Unaudited)

(In Canadian dollars)

# Interim Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands of Canadian dollars)

	Note	March 31, 2019	December 31, 2018
<b>ASSETS</b>			
Non-current assets:			
Investment properties	4	\$ 4,697,639	\$ 4,941,825
Investment properties under development	4	140,957	119,604
Investments in joint ventures	5	183,730	176,501
Property and equipment		7,096	6,533
Notes receivable		17,234	16,216
		5,046,656	5,260,679
Current assets:			
Investment properties held for sale	4	518,405	320,465
Inventory properties		11,968	11,227
Deposits on investment properties		2,159	2,237
Prepaid expenses and other assets		11,797	20,582
Notes receivable		4,396	4,543
Accounts receivable and other receivables		21,647	21,101
Cash held in trust		8,112	10,200
Cash		51,168	66,143
		629,652	456,498
		\$ 5,676,308	\$ 5,717,177
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
Non-current liabilities:			
Mortgages and loans payable	6	\$ 1,188,107	\$ 1,272,452
Senior unsecured debentures	7	248,960	199,565
Credit facilities	8	807,143	772,538
Other long-term liabilities		789	8,319
		2,244,999	2,252,874
Current liabilities:			
Mortgages and loans payable	6	449,818	412,558
Senior unsecured debentures	7	199,662	199,971
Security deposits and prepaid rent		36,163	35,842
Accounts payable and other liabilities		96,757	77,887
		782,400	726,258
		3,027,399	2,979,132
Unitholders' equity		2,648,909	2,738,045
Commitments, contingencies and guarantees	17		
Subsequent events	21		
		\$ 5,676,308	\$ 5,717,177

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 March 31,	
		2019	2018
Revenue	11	\$ 133,547	\$ 125,769
Expenses:			
Property operating		34,480	30,800
Realty taxes		20,589	20,004
		55,069	50,804
Net operating income		78,478	74,965
Other income (expenses):			
Corporate expenses		(4,117)	(6,301)
Interest expense	12	(27,252)	(23,614)
Interest income		441	585
Net income from investments in joint ventures	5	2,657	5,021
Fair value loss on investment properties	4	(18,527)	(5,932)
Foreign currency translation gain (loss)		6,713	(2,167)
Transaction costs	13	—	(5,676)
Fair value (loss) gain on derivative instruments and other transactions	14	(12,345)	13,954
Income before income taxes		26,048	50,835
Income tax expense	15	(692)	(113)
Net income		25,356	50,722
Other comprehensive (loss) income that may be reclassified to net income in subsequent periods:			
Unrealized foreign currency translation (loss) gain		(27,788)	31,228
Unrealized foreign currency translation (loss) gain on investments in joint ventures		(2,478)	3,282
Other comprehensive gain that will not be reclassified to net income in subsequent periods:			
Unrealized gain from remeasurements of net pension obligation		402	—
		(29,864)	34,510
Total comprehensive (loss) income		\$ (4,508)	\$ 85,232
Basic income per unit attributable to common unitholders	9 (e)	\$ 0.13	\$ 0.30
Diluted income per unit attributable to common unitholders	9 (e)	0.13	0.29
Weighted-average number of common units outstanding:			
Basic	9 (e)	148,563,570	151,494,437
Diluted	9 (e)	148,563,570	152,040,768

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, 2017	\$ 1,961,659	\$ 170,807	\$ 130,964	\$ 16,156	\$ 2,279,586	\$ 325,623	\$ 2,605,209
Changes for the period:							
Issuance of common units, net of issue costs (note 9)	43,806	—	—	—	43,806	—	43,806
Issuance of preferred units, net of issue costs (note 9)	—	—	—	—	—	121,351	121,351
Redemption of preferred units (note 9)	—	—	—	(26,952)	(26,952)	(69,753)	(96,705)
Reclassification of contributed surplus	—	(10,796)	—	10,796	—	—	—
Net income	—	50,722	—	—	50,722	—	50,722
Other comprehensive income	—	—	34,510	—	34,510	—	34,510
Distributions	—	(46,872)	—	—	(46,872)	—	(46,872)
Unitholders' equity, March 31, 2018	2,005,465	163,861	165,474	—	2,334,800	377,221	2,712,021
Changes for the period:							
Issuance of common units, net of issue costs (note 9)	368	—	—	—	368	—	368
Preferred units issue costs (note 9)	—	—	—	—	—	(47)	(47)
Units acquired and cancelled through normal course issuer bid (note 9)	(43,998)	—	—	10,975	(33,023)	(267)	(33,290)
Units acquired through normal course issuer bid, not cancelled at year end (note 9)	(2,188)	—	—	657	(1,531)	(26)	(1,557)
Net income	—	107,914	—	—	107,914	—	107,914
Other comprehensive income	—	—	81,242	—	81,242	—	81,242
Distributions	—	(128,606)	—	—	(128,606)	—	(128,606)
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 9)	33	—	—	—	33	—	33
Units acquired and cancelled through normal course issuer bid (note 9)	(70,965)	—	—	13,820	(57,145)	(2,040)	(59,185)
Units acquired through normal course issuer bid, not cancelled at period end (note 9)	(2,191)	—	—	365	(1,826)	(264)	(2,090)
Net income	—	25,356	—	—	25,356	—	25,356
Other comprehensive loss	—	—	(29,864)	—	(29,864)	—	(29,864)
Distributions	—	(23,386)	—	—	(23,386)	—	(23,386)
Unitholders' equity, March 31, 2019	\$ 1,886,524	\$ 145,139	\$ 216,852	\$ 25,817	\$ 2,274,332	\$ 374,577	\$ 2,648,909

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 March 31,	
		2019	2018
Cash provided by (used in):			
Operating activities:			
Net income		\$ 25,356	\$ 50,722
Distributions from joint ventures		1,079	785
Adjustments for non-cash items:			
Tenant inducements amortized to revenue	11	5,465	4,798
Straight-line rent adjustments	11	(1,513)	(1,577)
Depreciation of property and equipment		270	263
Unit-based compensation		1,066	404
Other long-term employee benefits		299	3,632
Amortization of above- and below-market mortgages, net	12	(29)	(180)
Amortization of financing costs included in interest expense	12	954	842
Accretion on liability component of debentures	12	(51)	(53)
Net income from investments in joint ventures	5	(2,657)	(5,021)
Fair value loss on investment properties	4	18,527	5,932
Fair value loss (gain) on derivative instruments and other transactions	14	12,345	(13,954)
Unrealized foreign currency translation (gain) loss		(6,249)	1,678
Additions to inventory properties		(741)	—
Changes in non-cash operating items		7,317	4,203
		<u>61,438</u>	<u>52,474</u>
Investing activities:			
Acquisitions of investment properties, net of related debt	3	—	(11,265)
Proceeds from dispositions of investment properties, net of costs and related debt	3	—	14,080
Additions to investment properties		(4,447)	(6,976)
Additions to investment properties under development		(29,132)	(5,518)
Additions to tenant inducements		(9,555)	(11,892)
Additions to leasing commissions		(2,921)	(2,174)
Additions to joint ventures	5	(8,343)	(328)
Additions to property and equipment		(671)	(236)
Issuances of notes receivable		(2,103)	(2,802)
Notes receivable principal repayments		1,112	696
Change in deposits on investment properties		32	25
Change in cash held in trust		2,013	(2,481)
		<u>(54,015)</u>	<u>(28,871)</u>
Financing activities:			
Mortgages and loans principal repayments		(11,589)	(10,904)
Repayment of mortgages and loans payable		(14,974)	(21,542)
Advance of mortgages and loans payable, net of financing costs		79	22,111
Issuance of senior unsecured debentures, net of financing costs	7	248,904	199,191
Redemption of senior unsecured debentures	7	(200,000)	—
Advance of revolving credit facilities		268,057	79,324
Repayment of revolving credit facilities, including financing costs		(227,195)	(267,885)
Repayment of lease liabilities		(14)	—
Issuance of preferred units, net of issue costs	9	—	121,351
Purchase of common units under normal course issuer bid	9	(59,271)	—
Purchase of preferred units under normal course issuer bid	9	(2,004)	—
Redemption of preferred units	9	—	(96,705)
Distributions paid on common units		(18,204)	(40,663)
Distributions paid on preferred units		(5,427)	(4,678)
		<u>(21,638)</u>	<u>(20,400)</u>
Foreign exchange (loss) gain on cash held in foreign currency		(760)	2,110
(Decrease) increase in cash		(14,975)	5,313
Cash, beginning of period		66,143	35,832
Cash, end of period		<u>\$ 51,168</u>	<u>\$ 41,145</u>
Supplemental cash flow information:			
Interest paid		\$ 29,739	\$ 25,948
Interest received		443	587

See accompanying notes to interim condensed consolidated financial statements.

# Notes to Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2019 and 2018 (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 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 \$0.54 per common unit, \$1.4155 per Series A Unit, \$1.3680 per Series E Unit, \$1.25 per Series G 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, 2018, 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, 2018.

(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, 2018. There have been no changes to the critical accounting estimates and judgments during the three months ended March 31, 2019.

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

The REIT adopted IFRS 16 – *Leases* ("IFRS 16") on its effective date of January 1, 2019. IFRS 16 replaces IAS 17 – *Leases* ("IAS 17") and IFRIC 4 – *Determining whether an Arrangement Contains a Lease*. The most significant change introduced by IFRS 16 is a single lessee accounting model, bringing leases on-balance sheet for lessees. The REIT has completed its evaluation of the impact of IFRS 16 on its consolidated financial statements. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17 and the REIT will continue to classify leases with its tenants as operating leases. For leases in which the REIT is a lessee, at the commencement date of the lease, the REIT recognizes right-of-use assets and lease liabilities measured at the present value of lease payments to be made over the lease term. After the commencement date, the lease liabilities are increased to reflect the accretion of interest and reduced for the lease payments made. The recognized right-of-use assets are depreciated on a straight-line basis over the lease term. The REIT applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less and leases of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The REIT adopted IFRS 16 using the modified retrospective method. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The REIT elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The REIT also elected to use the recognition exemptions for lease contracts for which the lease term ends within 12 months as of the date of initial application and leases for which the underlying asset is of low value. The REIT has reviewed all lease contracts in which it is a lessee. The REIT has one land lease and the fair value has been included in investment properties prior to initial application. No adjustment is required on initial application for the land lease. The REIT also has lease contracts for vehicles and office equipment. The REIT recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets, resulting in an increase of property and equipment of \$133 and increase in other long-term liabilities of \$133 as at January 1, 2019.

In June 2017, the IASB issued IFRIC 23 – *Uncertainty over Income Tax Treatments* ("IFRIC 23"). IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. This interpretation did not result in a material impact to the consolidated financial statements.

In October 2017, the IASB amended IFRS 9 – *Financial Instruments* ("IFRS 9"). The amendments clarify that for the purpose of assessing whether a prepayment feature meets the condition to be classified as measured at amortized cost, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. The amendment is effective for annual periods beginning on or after January 1, 2019. This amendment did not result in a material impact to the consolidated financial statements.

In October 2017, the IASB amended IAS 28 – *Long-term Interests in Associates and Joint Ventures* ("IAS 28"). The amendments clarify that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28. The amendments apply retrospectively to annual periods beginning on or after January 1, 2019. This amendment did not result in a material impact to the consolidated financial statements.

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

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Acquisitions:

The REIT did not acquire any properties during the three months ended March 31, 2019.

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 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 investments in 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.

On March 26, 2018, the REIT also acquired industrial development lands in Houston (Bayport), Texas for \$11,120.

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:

	2019	Three months ended March 31, 2018
Investment properties (note 4)	\$ —	\$ 99,656
Long-term debt, including acquired above- and below-market mortgages, net of financing costs	—	(38,388)
	—	61,268
Consideration was comprised of the following:		
Common units (note 9(a)(ii))	—	43,651
Cash consideration	—	11,265
Bargain purchase gains	—	5,384
Foreign currency translation gain	—	968
<b>Total consideration</b>	<b>\$ —</b>	<b>\$ 61,268</b>
<b>Transaction costs expensed (note 13)</b>	<b>\$ —</b>	<b>\$ 651</b>

## Dispositions:

The REIT did not dispose of any properties during the three months ended March 31, 2019.

The REIT disposed of the following properties during the three months ended March 31, 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

The proceeds from the sale of the above properties, net of costs and related debt, were \$14,080. The assets and liabilities associated with the properties were derecognized.

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

	Three months ended March 31, 2019		
	Investment properties	Investment properties under development	Investment properties held for sale
Balance, beginning of period	\$ 4,941,825	\$ 119,604	\$ 320,465
Additions:			
Capital expenditures	3,666	27,915	781
Capitalized interest	—	1,289	—
Leasing commissions	2,313	248	360
Straight-line rent adjustments	1,439	—	74
Tenant inducement additions, net of amortization	3,956	17	117
Foreign currency translation loss	(45,079)	(1,561)	(1,901)
Fair value (loss) gain	(17,018)	3,734	(5,243)
Reclassification of investment properties under development	187	(187)	—
Reclassification of investment properties held for sale	(193,650)	(10,102)	203,752
<b>Balance, end of period</b>	<b>\$ 4,697,639</b>	<b>\$ 140,957</b>	<b>\$ 518,405</b>



Year ended  
December 31, 2018

	Investment properties	Investment properties under development	Investment properties held for sale
Balance, beginning of year	\$ 4,720,362	\$ 79,701	\$ 110,188
Additions:			
Acquisitions (note 3)	241,560	11,120	—
Reclassification from investments in joint ventures <sup>(1) (3)</sup>	108,390	—	—
Capital expenditures	35,659	56,544	2
Capitalized interest	—	1,304	—
Leasing commissions	10,511	2,283	246
Straight-line rent adjustments	5,485	—	6
Tenant inducement additions, net of amortization	25,655	—	1,129
Contribution to investments in joint ventures <sup>(2)</sup>	—	(10,421)	—
Dispositions	(121,205)	(521)	(31,468)
Transfer to inventory properties <sup>(4)</sup>	(8,800)	(1,816)	—
Foreign currency translation gain	169,867	5,417	7,795
Fair value (loss) gain	(43,384)	10,104	(3,819)
Reclassification of investment properties under development	34,111	(34,111)	—
Reclassification of investment properties held for sale	(236,386)	—	236,386
<b>Balance, end of year</b>	<b>\$ 4,941,825</b>	<b>\$ 119,604</b>	<b>\$ 320,465</b>

(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.

(3) On October 5, 2018, the REIT increased its ownership interest in Park Lucero II to 100%.

(4) During the year ended December 31, 2018, an investment property and the related development expenditures were transferred to inventory properties.

The REIT had 13 retail properties and nine office properties classified as investment properties held for sale that were listed with external brokers or under unconditional sale agreements at March 31, 2019. The properties held for sale had an aggregate mortgage payable balance of \$186,063 at March 31, 2019. 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 March 31, 2019, investment properties with a fair value of \$3,501,692 (December 31, 2018, \$3,587,739) 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 months ended March 31, 2019, properties (including the REIT's ownership interest in properties held in joint venture arrangements) with an appraised value of \$161,997 (three months ended March 31, 2018, \$379,525) 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 three months ended March 31, 2019 and the year ended December 31, 2018.

Under the fair value hierarchy, the fair value of the REIT's investment properties is considered a Level 3, as described in note 20.

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

	March 31, 2019			December 31, 2018		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Western Canada:						
Discount rate	9.50%	5.75%	7.60%	9.50%	5.75%	7.61%
Terminal capitalization rate	9.00%	3.75%	6.77%	9.00%	3.75%	6.75%
Capitalization rate	8.75%	3.75%	6.67%	8.75%	3.75%	6.68%
Investment horizon (years)	11.0	10.0	10.3	11.0	10.0	10.3
Central Canada:						
Discount rate	9.25%	6.25%	7.65%	9.25%	6.25%	7.66%
Terminal capitalization rate	8.50%	5.50%	6.42%	8.50%	5.50%	6.42%
Capitalization rate	8.25%	5.50%	6.31%	8.25%	5.50%	6.33%
Investment horizon (years)	11.0	10.0	10.3	11.0	10.0	10.3
Eastern Canada:						
Discount rate	7.50%	5.25%	6.71%	7.50%	5.25%	6.79%
Terminal capitalization rate	6.75%	4.25%	5.65%	6.75%	4.25%	5.67%
Capitalization rate	7.00%	4.25%	5.64%	7.00%	4.25%	5.69%
Investment horizon (years)	12.0	10.0	10.3	12.0	10.0	10.3
U.S.:						
Discount rate	9.00%	6.50%	7.92%	9.00%	6.50%	7.94%
Terminal capitalization rate	8.75%	5.25%	6.92%	8.75%	5.50%	6.92%
Capitalization rate	8.50%	5.00%	6.77%	8.50%	5.25%	6.77%
Investment horizon (years)	15.0	10.0	10.6	15.0	10.0	10.6
Total portfolio:						
Discount rate	9.50%	5.25%	7.59%	9.50%	5.25%	7.62%
Terminal capitalization rate	9.00%	3.75%	6.57%	9.00%	3.75%	6.57%
Capitalization rate	8.75%	3.75%	6.46%	8.75%	3.75%	6.47%
Investment horizon (years)	15.0	10.0	10.4	15.0	10.0	10.4

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	
			March 31, 2019	December 31, 2018
Park 8Ninety I	Investment property	Joint venture	95%	95%
Park 8Ninety II	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%
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%

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.

The REIT contributed \$8,343 during the three months ended March 31, 2019 to TowerBusiness Center, Park 8Ninety II and Corridor Park joint venture arrangements.

The REIT is contingently liable for the obligations of certain joint arrangements. As at March 31, 2019, the co-owners' share of mortgage liabilities was \$39,327 (December 31, 2018, \$37,642). 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:

	March 31, 2019	December 31, 2018
Non-current assets:		
Investment properties	\$ 253,674	\$ 255,661
Investment properties under development	61,569	40,635
Current assets:		
Prepaid expenses and other assets	200	244
Accounts receivable and other receivables	917	822
Cash	9,503	3,808
	<u>325,863</u>	<u>301,170</u>
Non-current liabilities:		
Mortgages and loans payable	60,334	44,017
Current liabilities:		
Mortgages and loans payable	59,134	59,068
Security deposits and prepaid rent	2,551	3,264
Accounts payable and other liabilities	20,114	18,320
	<u>142,133</u>	<u>124,669</u>
Investments in joint ventures	<u>\$ 183,730</u>	<u>\$ 176,501</u>
	2019	Three months ended March 31, 2018
Revenue	\$ 5,042	\$ 6,476
Expenses:		
Property operating	1,311	1,948
Realty taxes	1,077	1,191
	<u>2,388</u>	<u>3,139</u>
Net operating income	2,654	3,337
Other income (expenses):		
Interest expense	(1,193)	(1,540)
Interest income	2	2
Fair value gain on investment properties	1,194	1,525
Fair value gain on business combinations <sup>(1)</sup>	—	1,697
Net income from investments in joint ventures	<u>\$ 2,657</u>	<u>\$ 5,021</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. Mortgages and loans payable**

	March 31, 2019	December 31, 2018
Mortgages and loans payable	\$ 1,642,947	\$ 1,690,671
Net above- and below-market mortgage adjustments	1,121	1,175
Financing costs	(6,143)	(6,836)
	1,637,925	1,685,010
Current portion	449,818	412,558
Non-current portion	\$ 1,188,107	\$ 1,272,452

The majority of the REIT's investment properties have been pledged as security under mortgages and other security agreements. 39.6% of the REIT's mortgages and loans payable bear interest at fixed rates (December 31, 2018, 40.0%), and a further 31.8% of the REIT's mortgages and loans payable bear interest at variable rates with interest rate swaps in place (December 31, 2018, 31.6%). The weighted-average effective rate on all mortgages and loans payable was 4.25% and the weighted-average nominal rate was 4.06% at March 31, 2019 (December 31, 2018, 4.27% and 4.07%, respectively). Maturity dates range from May 31, 2019 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 March 31, 2019.

**Note 7. 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.

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 rates <sup>(1)</sup>
Series B	February 7, 2018	February 7, 2020	3.354%
Series C	February 22, 2019	February 22, 2021	3.674%

(1) The REIT has entered into an interest swap agreement on the Series B senior unsecured debentures.

	Face value	Unamortized accretion	Unamortized financing costs	Carrying value	Current portion	Non-current portion
Series B	\$ 200,000	\$ —	\$ (338)	\$ 199,662	\$ 199,662	\$ —
Series C	250,000	—	(1,040)	248,960	—	248,960
March 31, 2019	\$ 450,000	\$ —	\$ (1,378)	\$ 448,622	\$ 199,662	\$ 248,960
December 31, 2018	400,000	51	(515)	399,536	199,971	199,565

During the three months ended March 31, 2019, accretion to the liability of \$51 and financing cost amortization of \$234 (2018, \$53 and \$139, respectively) were recorded.

In accordance with the Series B and Series C senior unsecured debentures supplemental indentures, the REIT must maintain various financial covenants. As at March 31, 2019, the REIT was in compliance with these requirements.

### Note 8. 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.

The REIT also has 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 credit facilities are summarized as follows:

	March 31, 2019			December 31, 2018		
	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	\$ 311,803	\$ 88,197	\$ 283,907	\$ 116,093	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	197,372	102,628	190,800	109,200	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		(2,032)		(2,169)		
<b>Total credit facilities</b>	<b>\$1,000,000</b>	<b>\$ 807,143</b>	<b>\$ 190,825</b>	<b>\$ 772,538</b>	<b>\$ 225,293</b>	

(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 March 31, 2019, the REIT was in compliance with these requirements.

### Note 9. 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, 2017	150,599,666	\$ 1,961,659
Restricted units redeemed	35,749	464
Deferred units redeemed	4,189	59
Private placement, net of issue costs of \$145 <sup>(1)</sup>	3,185,152	43,651
Units acquired and cancelled through normal course issuer bid	(3,374,071)	(43,998)
Units acquired through normal course issuer bid, not cancelled at year end	(167,856)	(2,188)
Balance at December 31, 2018	150,282,829	1,959,647
Restricted units redeemed	3,433	33
Units acquired and cancelled through normal course issuer bid	(5,437,956)	(70,965)
Units acquired through normal course issuer bid, not cancelled at period end	(167,856)	(2,191)
Balance at March 31, 2019	144,680,450	\$ 1,886,524

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

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

(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 C	Series E	Series G	Series I	Total
Number of units outstanding at December 31, 2017	3,450,000	3,000,000	4,000,000	3,200,000	—	13,650,000
Preferred units redeemed	—	(3,000,000)	—	—	—	(3,000,000)
Preferred units issued	—	—	—	—	5,000,000	5,000,000
Units acquired and cancelled through normal course issuer bid	(4,000)	—	(3,800)	(3,300)	—	(11,100)
Units acquired through normal course issuer bid, not cancelled at year end	(600)	—	—	(500)	—	(1,100)
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	(27,700)	—	(30,000)	(27,200)	—	(84,900)
Units acquired through normal course issuer bid, not cancelled at period end	(4,500)	—	(4,500)	(2,000)	—	(11,000)
Number of units outstanding at March 31, 2019	3,413,200	—	3,961,700	3,167,000	5,000,000	15,541,900

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

	Series A	Series C	Series E	Series G	Series I	Total
Annual distribution rate	5.662%	5.250%	5.472%	5.000%	6.000%	
Distribution rate reset date	September 30, 2022	—	September 30, 2023	July 31, 2019	April 30, 2023	
Carrying value at December 31, 2017	\$ 82,143	\$ 69,753	\$ 96,537	\$ 77,190	\$ —	\$ 325,623
Preferred units redeemed	—	(69,753)	—	—	—	(69,753)
Preferred units issued	—	—	—	—	121,304	121,304
Units acquired and cancelled through normal course issuer bid	(95)	—	(92)	(80)	—	(267)
Units acquired through normal course issuer bid, not cancelled at year end	(14)	—	—	(12)	—	(26)
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	(660)	—	(724)	(656)	—	(2,040)
Units acquired through normal course issuer bid, not cancelled at period end	(107)	—	(108)	(49)	—	(264)
Carrying value at March 31, 2019	\$ 81,267	\$ —	\$ 95,613	\$ 76,393	\$ 121,304	\$ 374,577
Face value at March 31, 2019	\$ 85,330	\$ —	\$ 99,043	\$ 79,175	\$ 125,000	\$ 388,548
Face value at December 31, 2018	86,135	—	99,905	79,905	125,000	390,945

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) Normal course issuer bid:

On December 13, 2018, 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, 2018 as follows:

	Public float	10% of public float
Common units	132,404,572	13,240,457
Preferred unit series:		
Series A	3,450,000	345,000
Series E	4,000,000	400,000
Series G	3,200,000	320,000
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, 2019, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the three months ended March 31, 2019, the REIT acquired 5,605,812 common units at market prices aggregating \$59,271, resulting in contributed surplus of \$13,885, which was the excess of stated capital over redemption proceeds. During the three months ended March 31, 2019, the REIT also acquired 32,200, 34,500 and 29,200 Series A, E and G Units, respectively, at market prices aggregating \$2,004, resulting in contributed surplus of \$300, which was the excess of stated capital over redemption proceeds.

During the year ended December 31, 2018, the REIT acquired 3,541,927 common units at market prices aggregating \$34,605, resulting in contributed surplus of \$11,581, which was the excess of stated capital over redemption proceeds. During the year ended December 31, 2018, the REIT also acquired 4,600, 3,800 and 3,800 Series A, E and G Units, respectively, at market prices aggregating \$242, resulting in contributed surplus of \$51, 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 March 31, 2019, 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	
	2019	March 31, 2018
Net income	\$ 25,356	\$ 50,722
Adjustment for distributions to preferred unitholders (note 10)	(5,434)	(5,921)
Net income attributable to common unitholders	19,922	44,801
Adjustment for restricted units	—	(56)
Adjustment for deferred units	—	(31)
Diluted net income attributable to common unitholders	\$ 19,922	\$ 44,714

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

Basic common units	148,563,570	151,494,437
Effect of dilutive securities:		
Restricted units	—	459,106
Deferred units	—	87,225
Diluted common units	148,563,570	152,040,768
Net income per unit attributable to common unitholders:		
Basic	\$ 0.13	\$ 0.30
Diluted	0.13	0.29

The computation of diluted net income per unit attributable to common unitholders includes restricted units and deferred units when these instruments are dilutive. For the three months ended March 31, 2019, restricted units and deferred units were anti-dilutive, for an aggregate total of 653,403 units. For the three months ended March 31, 2018, there were no anti-dilutive units.



**Note 10. Distributions to unitholders**

Total distributions declared to unitholders were as follows:

	Three months ended March 31, 2019		Three months ended March 31, 2018	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	\$ 19,818	\$ 0.14	\$ 40,951	\$ 0.27
Preferred unitholders - Series A	1,209	0.35	1,221	0.35
Preferred unitholders - Series C	—	—	1,269	0.42
Preferred unitholders - Series E	1,357	0.34	1,188	0.30
Preferred unitholders - Series G	993	0.31	1,000	0.31
Preferred unitholders - Series I	1,875	0.38	1,243	0.25

**Note 11. Revenue**

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

	Three months ended March 31,	
	2019	2018
Basic rent	\$ 81,992	\$ 76,089
Operating cost and realty tax recoveries	49,980	46,068
Parking and other revenue	5,479	4,710
Tenant inducements amortized to revenue	(5,465)	(4,798)
Straight-line rent adjustments	1,513	1,577
Lease termination income	48	2,123
	\$ 133,547	\$ 125,769

Refer to note 16 for a disaggregation of revenue by reportable geographical region.

**Note 12. Interest expense**

	Three months ended March 31,	
	2019	2018
Interest on mortgages and loans payable	\$ 16,456	\$ 15,087
Interest on senior unsecured debentures	4,419	2,681
Interest on credit facilities	5,503	5,237
Net amortization of above- and below-market mortgages fair value adjustments	(29)	(180)
Amortization of financing costs	954	842
Accretion on liability component of debentures	(51)	(53)
	\$ 27,252	\$ 23,614

**Note 13. Transaction costs**

The REIT incurred transaction costs in relation to the following:

		Three months ended March 31,	
		2019	2018
Acquisitions of investment properties	\$	—	\$ 651
Termination of property management agreements		—	5,025
	\$	—	\$ 5,676

During the three months ended March 31, 2018, the REIT internalized the property management of several of its investment properties and terminated the third party property management agreements.

**Note 14. Fair value (loss) gain on derivative instruments and other transactions**

The REIT recorded (losses) gains on the following:

		Three months ended March 31,	
		2019	2018
Interest rate swaps	\$	(8,485)	\$ 4,477
Foreign currency contracts		(4,245)	3,813
Other derivatives		385	280
Bargain purchase gains <sup>(1)</sup>		—	5,384
	\$	(12,345)	\$ 13,954

(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 15. 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 16. 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 March 31, 2019							
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	\$ 31,084	\$ 27,805	\$ 15,985	\$ 63,676	\$ 39	\$ (5,042)	\$ 133,547
Expenses:							
Property operating	8,253	7,508	3,937	16,093	—	(1,311)	34,480
Realty taxes	4,489	4,482	2,644	10,051	—	(1,077)	20,589
	12,742	11,990	6,581	26,144	—	(2,388)	55,069
Net operating income	18,342	15,815	9,404	37,532	39	(2,654)	78,478
Other income (expenses):							
Corporate expenses	—	—	—	—	(4,117)	—	(4,117)
Interest expense	(2,767)	(1,901)	(1,736)	(11,677)	(10,364)	1,193	(27,252)
Interest income	167	16	7	57	196	(2)	441
Net income from investments in joint ventures	—	—	—	—	—	2,657	2,657
Fair value (loss) gain on investment properties	(6,413)	(2,934)	5,720	(13,706)	—	(1,194)	(18,527)
Foreign currency translation gain	—	—	—	—	6,713	—	6,713
Fair value loss on derivative instruments and other transactions	—	—	—	—	(12,345)	—	(12,345)
Income (loss) before income taxes	9,329	10,996	13,395	12,206	(19,878)	—	26,048
Income tax expense	—	—	—	(692)	—	—	(692)
Net income (loss)	\$ 9,329	\$ 10,996	\$ 13,395	\$ 11,514	\$ (19,878)	\$ —	\$ 25,356
Additions to investment properties, investment properties under development and investment properties held for sale	\$ 1,637	\$ 13,463	\$ 113	\$ 38,845	—	\$ (21,696)	\$ 32,362
Additions to tenant inducements	1,338	3,043	1,265	3,692	—	217	9,555
Additions to leasing commissions	475	372	789	1,401	—	(116)	2,921
March 31, 2019							
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Total assets	\$ 1,224,647	\$ 1,178,691	\$ 750,981	\$ 2,629,269	\$ 34,853	\$ (142,133)	\$ 5,676,308
Total liabilities	321,218	204,864	185,100	1,167,929	1,290,421	(142,133)	3,027,399

Three months ended March 31, 2018

	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	\$ 34,456	\$ 27,159	\$ 15,973	\$ 54,598	\$ 59	\$ (6,476)	\$ 125,769
Expenses:							
Property operating	8,264	6,866	4,005	13,613	—	(1,948)	30,800
Realty taxes	4,957	4,721	2,631	8,886	—	(1,191)	20,004
	13,221	11,587	6,636	22,499	—	(3,139)	50,804
Net operating income	21,235	15,572	9,337	32,099	59	(3,337)	74,965
Other income (expenses):							
Corporate expenses	—	—	—	—	(6,301)	—	(6,301)
Interest expense	(3,482)	(2,258)	(2,077)	(9,145)	(8,192)	1,540	(23,614)
Interest income	210	27	84	44	222	(2)	585
Net income from investments in joint ventures	—	—	—	—	—	5,021	5,021
Fair value (loss) gain on investment properties	(32,832)	(6,141)	21,215	13,214	137	(1,525)	(5,932)
Foreign currency translation loss	—	—	—	—	(2,167)	—	(2,167)
Transaction costs	—	—	—	(651)	(5,025)	—	(5,676)
Fair value gain on derivative instruments and other transactions	—	—	—	3,578	12,073	(1,697)	13,954
(Loss) income before income taxes	(14,869)	7,200	28,559	39,139	(9,194)	—	50,835
Income tax expense	—	—	—	(113)	—	—	(113)
Net (loss) income	\$ (14,869)	\$ 7,200	\$ 28,559	\$ 39,026	\$ (9,194)	\$ —	\$ 50,722
Acquisitions of investment properties	\$ —	\$ —	\$ —	\$ 99,656	\$ —	\$ —	\$ 99,656
Additions to investment properties and investment properties under development	1,537	4,235	1,199	5,960	—	(437)	12,494
Additions to tenant inducements	3,410	3,242	702	5,084	—	(546)	11,892
Additions to leasing commissions	533	306	538	1,262	—	(465)	2,174

December 31, 2018

	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Total assets	\$ 1,229,254	\$ 1,165,685	\$ 743,133	\$ 2,644,707	\$ 59,067	\$ (124,669)	\$ 5,717,177
Total liabilities	324,382	201,800	200,760	1,174,199	1,202,660	(124,669)	2,979,132

**Note 17. Commitments, contingencies and guarantees**

## (a) Unconditional purchase and sale agreements:

The REIT has an unconditional purchase agreement for an office development project located in the Twin Cities Area, Minnesota for a purchase price of US\$41,961 with expected closing in the last quarter of 2019.

The REIT has an unconditional sale agreement for an office property located in Calgary, Alberta for a sale price of \$10,650 with expected closing in May 2019. The REIT also has an unconditional sale agreement for an office property located in Greater Denver Area, Colorado for a sale price of US\$78,000 with expected closing in October 2019.

## (b) Letters of credit:

As at March 31, 2019, the REIT had issued letters of credit in the amount of \$4,574 (December 31, 2018, \$4,574).

## (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 March 31, 2019, the REIT has guaranteed certain debt assumed by purchasers in connection with the dispositions of three properties (December 31, 2018, 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 March 31, 2019 was \$57,634 (December 31, 2018, \$58,161), with an estimated weighted-average remaining term of 3.9 years (December 31, 2018, 4.1 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 18. 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 March 31, 2019, the ratio of such indebtedness to gross book value was 50.9% (December 31, 2018, 49.9%), 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	March 31, 2019	December 31, 2018
Mortgages and loans payable	6	\$ 1,637,925	\$ 1,685,010
Senior unsecured debentures	7	448,622	399,536
Credit facilities	8	807,143	772,538
Total debt		2,893,690	2,857,084
Unitholders' equity		2,648,909	2,738,045
		\$ 5,542,599	\$ 5,595,129

## Note 19. Risk management

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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 majority of REIT's mortgages payable and debentures are in fixed rate terms or variable 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 March 31, 2019, the REIT was a party to \$2,001,625 of variable rate debt, including credit facilities and debentures (December 31, 2018, \$1,989,356). At March 31, 2019, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$1,022,946 of variable rate debt, including swaps on credit facilities and debentures (December 31, 2018, \$834,241).

(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 1.3257 for the three months ended March 31, 2019, and the period end exchange rate of 1.3363 at March 31, 2019, would have increased net income by approximately \$6,633 for the three months ended March 31, 2019. A \$0.10 weakening in the US dollar against the Canadian dollar would have decreased other comprehensive income by approximately \$111,575 for the three months ended March 31, 2019. 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 20. Fair value measurements

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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 three months ended March 31, 2019.

		March 31, 2019		December 31, 2018	
	Fair value hierarchy	Carrying value	Fair value	Carrying value	Fair value
<b>Assets:</b>					
Investment properties	Level 3	\$ 4,697,639	\$ 4,697,639	\$ 4,941,825	\$ 4,941,825
Investment properties under development	Level 3	140,957	140,957	119,604	119,604
Notes receivable	Level 2	21,630	22,595	20,759	21,317
Investment properties held for sale	Level 3	518,405	518,405	320,465	320,465
Derivative instruments	Level 2	3,717	3,717	12,322	12,322
		5,382,348	5,383,313	5,414,975	5,415,533
<b>Liabilities:</b>					
Mortgages and loans payable	Level 2	1,637,925	1,649,849	1,685,010	1,693,090
Senior unsecured debentures	Level 2	448,622	453,814	399,536	400,741
Credit facilities	Level 2	807,143	809,175	772,538	774,707
Derivative instruments	Level 2	7,843	7,843	4,006	4,006
		2,901,533	2,920,681	2,861,090	2,872,544
		\$ 2,480,815	\$ 2,462,632	\$ 2,553,885	\$ 2,542,989

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, the non-revolving credit facilities and Series B senior unsecured debentures. The swaps are not designated in a hedge relationship.

## Note 21. Subsequent events

The following events occurred subsequent to March 31, 2019:

- The REIT disposed of an office property and excess development land located in the Greater Denver Area, Colorado, for a sale price of US\$27,000. A portion of the proceeds was used to repay the outstanding mortgage financing in the amount of US\$14,072.
- The REIT classified an additional eight investment properties and one parcel of development land with an aggregate fair value of \$345,162 as held for sale. Included in these investment properties is a retail property located in Winnipeg, Manitoba, which the REIT entered into an unconditional sale agreement for a sale price of \$20,550 expected to close in May 2019. Additionally, the REIT entered into conditional sale agreements for three of these investment properties and the parcel of development land.
- The REIT purchased through the NCIB 2,499,128 common units at a weighted-average price of \$10.72, 9,900 Series A Units at a weighted-average price of \$21.63, 12,100 Series E Units at a weighted-average price of \$20.31 and 11,700 Series G Units at a weighted-average price of \$21.71.
- The REIT drew \$35,000 and repaid US\$2,100 on its revolving term credit facilities.
- The REIT declared a monthly cash distribution of \$0.045 per common unit for the month of April 2019.
- The REIT declared a quarterly cash distribution of \$0.3125 per Series G Unit for the three months ended April 30, 2019.
- The REIT declared a quarterly cash distribution of \$0.3750 per Series I Unit for the three months ended April 30, 2019.

**Note 22. 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 May 9, 2019.