

Interim Condensed Consolidated Financial Statements of

**ARTIS REAL ESTATE
INVESTMENT TRUST**

Three and six months ended June 30, 2019 and 2018
(Unaudited)

(In Canadian dollars)

Interim Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands of Canadian dollars)

	Note	June 30, 2019	December 31, 2018
ASSETS			
Non-current assets:			
Investment properties	4	\$ 4,741,997	\$ 4,941,825
Investment properties under development	4	70,882	119,604
Investments in joint ventures	5	151,346	176,501
Property and equipment		7,625	6,533
Notes receivable		20,411	16,216
		4,992,261	5,260,679
Current assets:			
Investment properties held for sale	4	398,002	320,465
Inventory properties		12,834	11,227
Deposits on investment properties		2,115	2,237
Prepaid expenses and other assets		8,115	20,582
Notes receivable		3,674	4,543
Accounts receivable and other receivables		21,141	21,101
Cash held in trust		7,634	10,200
Cash		94,597	66,143
		548,112	456,498
		\$ 5,540,373	\$ 5,717,177
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities:			
Mortgages and loans payable	6	\$ 1,102,951	\$ 1,272,452
Senior unsecured debentures	7	249,114	199,565
Credit facilities	8	824,538	772,538
Other long-term liabilities		788	8,319
		2,177,391	2,252,874
Current liabilities:			
Mortgages and loans payable	6	463,926	412,558
Senior unsecured debentures	7	199,761	199,971
Security deposits and prepaid rent		37,023	35,842
Accounts payable and other liabilities		91,022	77,887
		791,732	726,258
		2,969,123	2,979,132
Unitholders' equity		2,571,250	2,738,045
Commitments, contingencies and guarantees	17		
Subsequent events	21		
		\$ 5,540,373	\$ 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 June 30,		Six months ended June 30,	
		2019	2018	2019	2018
Revenue	11	\$ 133,928	\$ 126,140	\$ 267,475	\$ 251,909
Expenses:					
Property operating		31,655	30,301	66,135	61,101
Realty taxes		21,740	19,951	42,329	39,955
		53,395	50,252	108,464	101,056
Net operating income		80,533	75,888	159,011	150,853
Other income (expenses):					
Corporate expenses		(4,113)	(3,364)	(8,230)	(9,665)
Interest expense	12	(27,916)	(25,665)	(55,168)	(49,279)
Interest income		510	329	951	914
Net (loss) income from investments in joint ventures	5	(691)	475	1,966	5,496
Fair value (loss) gain on investment properties	4	(24,508)	24,505	(43,035)	18,573
Foreign currency translation gain (loss)		3,435	(519)	10,148	(2,686)
Transaction costs	13	(137)	(27)	(137)	(5,703)
Fair value (loss) gain on derivative instruments and other transactions	14	(7,195)	3,459	(19,540)	17,413
Income before income taxes		19,918	75,081	45,966	125,916
Income tax expense	15	(46)	(106)	(738)	(219)
Net income		19,872	74,975	45,228	125,697
Other comprehensive (loss) income that may be reclassified to net income in subsequent periods:					
Unrealized foreign currency translation (loss) gain		(28,648)	25,871	(56,436)	57,099
Unrealized foreign currency translation (loss) gain on investments in joint ventures		(2,251)	2,389	(4,729)	5,671
Other comprehensive gain that will not be reclassified to net income in subsequent periods:					
Unrealized gain from remeasurements of net pension obligation		269	—	671	—
		(30,630)	28,260	(60,494)	62,770
Total comprehensive (loss) income		\$ (10,758)	\$ 103,235	\$ (15,266)	\$ 188,467
Basic income per unit attributable to common unitholders	9 (e)	\$ 0.10	\$ 0.45	\$ 0.24	\$ 0.75
Diluted income per unit attributable to common unitholders	9 (e)	0.10	0.45	0.24	0.75
Weighted-average number of common units outstanding:					
Basic	9 (e)	142,980,563	153,798,234	145,756,644	152,652,700
Diluted	9 (e)	142,980,563	154,346,002	145,756,644	153,178,593

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)	44,082	—	—	—	44,082	—	44,082
Issuance of preferred units, net of issue costs (note 9)	—	—	—	—	—	121,304	121,304
Redemption of preferred units (note 9)	—	—	—	(26,952)	(26,952)	(69,753)	(96,705)
Reclassification of contributed surplus	—	(10,796)	—	10,796	—	—	—
Net income	—	125,697	—	—	125,697	—	125,697
Other comprehensive income	—	—	62,770	—	62,770	—	62,770
Distributions	—	(93,682)	—	—	(93,682)	—	(93,682)
Unitholders' equity, June 30, 2018	2,005,741	192,026	193,734	—	2,391,501	377,174	2,768,675
Changes for the period:							
Issuance of common units, net of issue costs (note 9)	92	—	—	—	92	—	92
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	—	32,939	—	—	32,939	—	32,939
Other comprehensive income	—	—	52,982	—	52,982	—	52,982
Distributions	—	(81,796)	—	—	(81,796)	—	(81,796)
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)	782	—	—	—	782	—	782
Units acquired and cancelled through normal course issuer bid (note 9)	(122,096)	—	—	21,936	(100,160)	(4,022)	(104,182)
Units acquired through normal course issuer bid, not cancelled at period end (note 9)	—	—	—	33	33	(235)	(202)
Net income	—	45,228	—	—	45,228	—	45,228
Other comprehensive loss	—	—	(60,494)	—	(60,494)	—	(60,494)
Distributions	—	(47,927)	—	—	(47,927)	—	(47,927)
Unitholders' equity, June 30, 2019	\$ 1,838,333	\$ 140,470	\$ 186,222	\$ 33,601	\$ 2,198,626	\$ 372,624	\$ 2,571,250

See accompanying notes to interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands of Canadian dollars)

	Note	Three months ended June 30,		Six months ended June 30,	
		2019	2018	2019	2018
Cash provided by (used in):					
Operating activities:					
Net income		\$ 19,872	\$ 74,975	\$ 45,228	\$ 125,697
Distributions from joint ventures		615	1,579	1,694	2,364
Adjustments for non-cash items:					
Tenant inducements amortized to revenue	11	5,831	4,940	11,296	9,738
Straight-line rent adjustments	11	(1,411)	(1,486)	(2,924)	(3,063)
Depreciation of property and equipment		288	273	558	536
Unit-based compensation		641	258	1,707	662
Other long-term employee benefits		573	(2,958)	872	674
Amortization of above- and below-market mortgages, net	12	(35)	(34)	(64)	(214)
Amortization of financing costs included in interest expense	12	987	850	1,941	1,692
Accretion on liability component of debentures	12	—	(53)	(51)	(106)
Net loss (income) from investments in joint ventures	5	691	(475)	(1,966)	(5,496)
Fair value loss (gain) on investment properties	4	24,508	(24,505)	43,035	(18,573)
Fair value loss (gain) on derivative instruments and other transactions	14	7,195	(3,459)	19,540	(17,413)
Unrealized foreign currency translation gain		(3,941)	(2,947)	(10,190)	(1,269)
Additions to inventory properties		(866)	—	(1,607)	—
Changes in non-cash operating items		(9,280)	(3,347)	(1,963)	856
		45,668	43,611	107,106	96,085
Investing activities:					
Acquisitions of investment properties, net of related debt	3	(5,140)	(1,799)	(5,140)	(13,064)
Proceeds from dispositions of investment properties, net of costs and related debt	3	127,488	112,216	127,488	126,296
Additions to investment properties		(14,528)	(9,061)	(18,975)	(16,037)
Additions to investment properties under development		(22,079)	(9,722)	(51,211)	(15,240)
Additions to tenant inducements		(14,445)	(11,895)	(24,000)	(23,787)
Additions to leasing commissions		(4,748)	(3,029)	(7,669)	(5,203)
Additions to joint ventures	5	(4,924)	(3,840)	(13,267)	(4,168)
Additions to property and equipment		(807)	(155)	(1,478)	(391)
Issuances of notes receivable		(5,485)	(1,088)	(7,588)	(3,890)
Notes receivable principal repayments		2,859	941	3,971	1,637
Change in deposits on investment properties		—	275	32	300
Change in cash held in trust		419	1,605	2,432	(876)
		58,610	74,448	4,595	45,577
Financing activities:					
Mortgages and loans principal repayments		(11,779)	(11,344)	(23,368)	(22,248)
Repayment of mortgages and loans payable		—	(9,337)	(14,974)	(30,879)
Advance of mortgages and loans payable, net of financing costs		(5)	46,795	74	68,906
Issuance of senior unsecured debentures, net of financing costs	7	42	26	248,946	199,217
Redemption of senior unsecured debentures	7	—	—	(200,000)	—
Advance of revolving credit facilities		77,750	51,000	345,807	130,324
Repayment of revolving credit facilities, including financing costs		(57,409)	(27,778)	(284,604)	(295,663)
Repayment of lease liabilities		(19)	—	(33)	—
Issuance of preferred units, net of issue costs	9	—	(47)	—	121,304
Purchase of common units under normal course issuer bid	9	(41,385)	—	(100,656)	—
Purchase of preferred units under normal course issuer bid	9	(1,724)	—	(3,728)	—
Redemption of preferred units	9	—	—	—	(96,705)
Distributions paid on common units		(19,308)	(41,525)	(37,512)	(82,188)
Distributions paid on preferred units		(5,407)	(5,283)	(10,834)	(9,961)
		(59,244)	2,507	(80,882)	(17,893)
Foreign exchange (loss) gain on cash held in foreign currency		(1,605)	3,124	(2,365)	5,234
Increase in cash		43,429	123,690	28,454	129,003
Cash, beginning of period		51,168	41,145	66,143	35,832
Cash, end of period		\$ 94,597	\$ 164,835	\$ 94,597	\$ 164,835
Supplemental cash flow information:					
Interest paid		\$ 27,773	\$ 24,441	\$ 57,512	\$ 50,389
Interest received		512	328	955	915

See accompanying notes to interim condensed consolidated financial statements.

Notes to Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2019 and 2018 (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 \$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

(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 six months ended June 30, 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* ("IFRIC 4"). 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.

In December 2017, the IASB amended IFRS 3 – *Business Combinations* ("IFRS 3"). The amendments clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. The amendments apply to business combinations for which the acquisition date is on or after January 1, 2019. The REIT applies the amendments to acquisitions completed on or after January 1, 2019.

Note 3. Acquisitions and dispositions of investment properties

Acquisitions:

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

On May 16, 2019, the REIT acquired an additional 5% interest in Park 8Ninety 1, an industrial property located in the Greater Houston Area, Texas for total consideration of \$6,261. Prior to the acquisition date, the REIT owned 95% of this investment property and the property was classified as joint venture and accounted for using the equity method. As a result of this acquisition, the REIT owns 100% of the property and accounts for it on a consolidated basis. The REIT accounted for this acquisition as step acquisition and remeasured its existing 95% interests to fair value at the acquisition date.

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.

The REIT acquired the following parcels of development land during the six months ended June 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.

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Investment properties (note 4)	\$ 7,643	\$ 1,799	\$ 7,643	\$ 101,455
Long-term debt, including acquired above- and below-market mortgages, net of financing costs	(1,326)	—	(1,326)	(38,388)
Other net liabilities	(71)	—	(71)	—
	6,246	1,799	6,246	63,067
Consideration was comprised of the following:				
Common units (note 9(a)(ii))	—	—	—	43,651
Cash consideration	5,140	1,799	5,140	13,064
Bargain purchase gains	1,106	—	1,106	5,384
Foreign currency translation gain	—	—	—	968
Total consideration	\$ 6,246	\$ 1,799	\$ 6,246	\$ 63,067
Transaction costs expensed (note 13)	\$ 137	\$ 27	\$ 137	\$ 678

Dispositions:

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

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

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

The REIT disposed of the following properties during the six months ended June 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

The proceeds from the sale of the above properties, net of costs and related debt, were \$126,296. The assets and liabilities associated with the properties were derecognized.

Note 4. Investment properties, investment properties under development and investment properties held for saleSix months ended
June 30, 2019

	Investment properties	Investment properties under development	Investment properties held for sale
Balance, beginning of period	\$ 4,941,825	\$ 119,604	\$ 320,465
Additions:			
Acquisitions (note 3)	7,643	—	—
Reclassification from investments in joint ventures ⁽¹⁾	66,765	—	—
Capital expenditures	16,928	49,018	2,047
Capitalized interest	—	2,289	—
Leasing commissions	6,838	375	456
Straight-line rent adjustments	2,684	—	240
Tenant inducement additions, net of amortization	8,412	2,743	1,549
Dispositions	(20,093)	—	(180,347)
Foreign currency translation loss	(90,149)	(1,847)	(3,529)
Fair value gain (loss)	19,340	2,325	(64,700)
Reclassification of investment properties under development	93,413	(93,413)	—
Reclassification of investment properties held for sale	(311,609)	(10,212)	321,821
Balance, end of period	\$ 4,741,997	\$ 70,882	\$ 398,002

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

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	241,560	11,120	—
Reclassification from investments in joint ventures ⁽¹⁾⁽³⁾	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 ⁽²⁾	—	(10,421)	—
Dispositions	(121,205)	(521)	(31,468)
Transfer to inventory properties ⁽⁴⁾	(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
Balance, end of year	\$ 4,941,825	\$ 119,604	\$ 320,465

(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.

During the six months ended June 30, 2019, the REIT reclassified three industrial properties and one office densification project from investment properties under development to investment properties.

The REIT had 10 retail properties, six office properties and two parcels of development land classified as investment properties held for sale that were listed with external brokers at June 30, 2019. The properties held for sale had an aggregate mortgage payable balance of \$157,143 at June 30, 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 June 30, 2019, investment properties with a fair value of \$3,394,121 (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 and six months ended June 30, 2019, properties (including the REIT's ownership interest in properties held in joint venture arrangements) with an appraised value of \$160,490 and \$322,487 (2018, \$161,391 and \$540,916) 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 six months ended June 30, 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:

	June 30, 2019			December 31, 2018		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Western Canada:						
Discount rate	9.50%	5.75%	7.69%	9.50%	5.75%	7.61%
Terminal capitalization rate	9.00%	3.75%	6.84%	9.00%	3.75%	6.75%
Capitalization rate	8.75%	3.75%	6.68%	8.75%	3.75%	6.68%
Investment horizon (years)	11.0	10.0	10.2	11.0	10.0	10.3
Central Canada:						
Discount rate	9.75%	6.25%	7.70%	9.25%	6.25%	7.66%
Terminal capitalization rate	9.50%	5.50%	6.47%	8.50%	5.50%	6.42%
Capitalization rate	9.25%	5.50%	6.38%	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%	6.61%	7.50%	5.25%	6.79%
Terminal capitalization rate	7.00%	4.25%	5.69%	6.75%	4.25%	5.67%
Capitalization rate	7.25%	3.75%	5.42%	7.00%	4.25%	5.69%
Investment horizon (years)	11.0	10.0	10.3	12.0	10.0	10.3
U.S.:						
Discount rate	9.50%	6.25%	7.88%	9.00%	6.50%	7.94%
Terminal capitalization rate	9.00%	5.25%	6.89%	8.75%	5.50%	6.92%
Capitalization rate	8.75%	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	9.75%	5.25%	7.58%	9.50%	5.25%	7.62%
Terminal capitalization rate	9.50%	3.75%	6.58%	9.00%	3.75%	6.57%
Capitalization rate	9.25%	3.75%	6.44%	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	
			June 30, 2019	December 31, 2018
Park 8Ninety I ⁽¹⁾	Investment property	Joint venture	—%	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 ⁽¹⁾	Investment property	Joint operation	—%	85%
Cliveden Building	Investment property	Joint operation	50%	50%
Kincaid Building	Investment property	Joint operation	50%	50%

(1) During the six months ended June 30, 2019, 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 six months ended June 30, 2019, the REIT contributed \$13,267 to Tower Business Center, Park 8Ninety I, Park 8Ninety II, Corridor Park and the Millwright Building joint venture arrangements.

The REIT is contingently liable for the obligations of certain joint arrangements. As at June 30, 2019, the co-owners' share of mortgage liabilities was \$38,843 (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:

	June 30, 2019	December 31, 2018
Non-current assets:		
Investment properties	\$ 188,121	\$ 255,661
Investment properties under development	74,854	40,635
Current assets:		
Prepaid expenses and other assets	133	244
Accounts receivable and other receivables	457	822
Cash	9,761	3,808
	273,326	301,170
Non-current liabilities:		
Mortgages and loans payable	75,997	44,017
Current liabilities:		
Mortgages and loans payable	27,121	59,068
Security deposits and prepaid rent	1,619	3,264
Accounts payable and other liabilities	17,243	18,320
	121,980	124,669
Investments in joint ventures	\$ 151,346	\$ 176,501

Notes to interim condensed consolidated financial statements continued

	Three months ended		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Revenue	\$ 4,315	\$ 4,791	\$ 9,357	\$ 11,267
Expenses:				
Property operating	1,192	1,308	2,503	3,256
Realty taxes	961	1,065	2,038	2,256
	2,153	2,373	4,541	5,512
Net operating income	2,162	2,418	4,816	5,755
Other income (expenses):				
Interest expense	(977)	(1,320)	(2,170)	(2,860)
Interest income	1	2	3	4
Fair value (loss) gain on investment properties	(1,877)	(625)	(683)	900
Fair value gain on business combinations ⁽¹⁾	—	—	—	1,697
Net (loss) income from investments in joint ventures	\$ (691)	\$ 475	\$ 1,966	\$ 5,496

(1) The 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

	June 30, 2019	December 31, 2018
Mortgages and loans payable	\$ 1,569,000	\$ 1,690,671
Net above- and below-market mortgage adjustments	3,561	1,175
Financing costs	(5,684)	(6,836)
	1,566,877	1,685,010
Current portion	463,926	412,558
Non-current portion	\$ 1,102,951	\$ 1,272,452

The majority of the REIT's investment properties have been pledged as security under mortgages and other security agreements. 37.3% of the REIT's mortgages and loans payable bear interest at fixed rates (December 31, 2018, 40.0%), and a further 32.6% 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 4.22% and the weighted-average nominal rate was 4.05% at June 30, 2019 (December 31, 2018, 4.27% and 4.07%, respectively). Maturity dates range from July 5, 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 June 30, 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 ⁽¹⁾
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	\$ —	\$ (239)	\$ 199,761	\$ 199,761	\$ —
Series C	250,000	—	(886)	249,114	—	249,114
June 30, 2019	\$ 450,000	\$ —	\$ (1,125)	\$ 448,875	\$ 199,761	\$ 249,114
December 31, 2018	400,000	51	(515)	399,536	199,971	199,565

During the three and six months ended June 30, 2019, accretion to the liability of \$nil and \$51 (2018, \$53 and \$106) and financing cost amortization of \$211 and \$445 (2018, \$180 and \$319) 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 June 30, 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:

	June 30, 2019			December 31, 2018		
	Borrowing capacity	Amounts drawn	Available to be drawn	Amounts drawn	Available to be drawn	Applicable interest rates ⁽¹⁾
Revolving facilities maturing December 14, 2021	\$ 400,000	\$ 315,805	\$ 84,195	\$ 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	210,630	89,370	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		(1,897)		(2,169)		
Total credit facilities	\$1,000,000	\$ 824,538	\$ 173,565	\$ 772,538	\$ 225,293	

(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 June 30, 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 ⁽¹⁾	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	26,918	312
Deferred units redeemed	39,546	470
Units acquired and cancelled through normal course issuer bid	(9,359,293)	(122,096)
Balance at June 30, 2019	140,990,000	\$ 1,838,333

(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	(51,500)	—	(60,100)	(55,900)	—	(167,500)
Units acquired through normal course issuer bid, not cancelled at period end	(3,200)	—	(4,800)	(1,800)	—	(9,800)
Number of units outstanding at June 30, 2019	3,390,700	—	3,931,300	3,138,500	5,000,000	15,460,500

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	(1,226)	—	(1,451)	(1,345)	—	(4,022)
Units acquired through normal course issuer bid, not cancelled at period end	(76)	—	(116)	(43)	—	(235)
Carrying value at June 30, 2019	\$ 80,732	\$ —	\$ 94,878	\$ 75,710	\$ 121,304	\$ 372,624
Face value at June 30, 2019	\$ 84,768	\$ —	\$ 98,283	\$ 78,463	\$ 125,000	\$ 386,514
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.

On June 27, 2019, the REIT delivered its notice of redemption on all outstanding Series G Units, effective July 31, 2019.

(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 six months ended June 30, 2019, the REIT acquired 9,359,293 common units at market prices aggregating \$100,656, resulting in contributed surplus of \$21,440, which was the excess of stated capital over redemption proceeds. During the six months ended June 30, 2019, the REIT also acquired 54,700, 64,900 and 57,700 Series A, E and G Units, respectively, at market prices aggregating \$3,728, resulting in contributed surplus of \$529, 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 June 30, 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		Six months ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Net income	\$ 19,872	\$ 74,975	\$ 45,228	\$ 125,697
Adjustment for distributions to preferred unitholders (note 10)	(5,405)	(5,283)	(10,839)	(11,204)
Net income attributable to common unitholders	14,467	69,692	34,389	114,493
Adjustment for restricted units	—	(88)	—	(144)
Adjustment for deferred units	—	(47)	—	(78)
Diluted net income attributable to common unitholders	\$ 14,467	\$ 69,557	\$ 34,389	\$ 114,271

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

Basic common units	142,980,563	153,798,234	145,756,644	152,652,700
Effect of dilutive securities:				
Restricted units	—	449,266	—	432,127
Deferred units	—	98,502	—	93,766
Diluted common units	142,980,563	154,346,002	145,756,644	153,178,593
Net income per unit attributable to common unitholders:				
Basic	\$ 0.10	\$ 0.45	\$ 0.24	\$ 0.75
Diluted	0.10	0.45	0.24	0.75

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 and six months ended June 30, 2019, restricted units and deferred units were anti-dilutive, for an aggregate total of 612,140 units and 589,853 units, respectively. For the three and six months ended June 30, 2018, there were no anti-dilutive units.

Note 10. Distributions to unitholders

Total distributions declared to unitholders were as follows:

	Three months ended June 30, 2019		Three months ended June 30, 2018	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	\$ 19,135	\$ 0.14	\$ 41,527	\$ 0.27
Preferred unitholders - Series A	1,200	0.35	1,221	0.35
Preferred unitholders - Series C	—	—	—	—
Preferred unitholders - Series E	1,345	0.34	1,187	0.30
Preferred unitholders - Series G	985	0.31	1,000	0.31
Preferred unitholders - Series I	1,875	0.38	1,875	0.38

	Six months ended June 30, 2019		Six months ended June 30, 2018	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	\$ 38,953	\$ 0.27	\$ 82,478	\$ 0.54
Preferred unitholders - Series A	2,409	0.71	2,442	0.71
Preferred unitholders - Series C	—	—	1,269	0.42
Preferred unitholders - Series E	2,702	0.68	2,375	0.59
Preferred unitholders - Series G	1,978	0.63	2,000	0.63
Preferred unitholders - Series I	3,750	0.75	3,118	0.62

Note 11. Revenue

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Basic rent	\$ 83,741	\$ 78,415	\$ 165,733	\$ 154,504
Operating cost and realty tax recoveries	48,167	45,086	98,147	91,154
Parking and other revenue	5,605	5,233	11,084	9,943
Tenant inducements amortized to revenue	(5,831)	(4,940)	(11,296)	(9,738)
Straight-line rent adjustments	1,411	1,486	2,924	3,063
Lease termination income	835	860	883	2,983
	\$ 133,928	\$ 126,140	\$ 267,475	\$ 251,909

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

Note 12. Interest expense

	Three months ended		Six months ended	
	2019	June 30, 2018	2019	June 30, 2018
Interest on mortgages and loans payable	\$ 16,636	\$ 16,137	\$ 33,092	\$ 31,224
Interest on senior unsecured debentures	3,948	3,216	8,367	5,897
Interest on credit facilities	6,380	5,549	11,883	10,786
Net amortization of above- and below-market mortgages fair value adjustments	(35)	(34)	(64)	(214)
Amortization of financing costs	987	850	1,941	1,692
Accretion on liability component of debentures	—	(53)	(51)	(106)
	\$ 27,916	\$ 25,665	\$ 55,168	\$ 49,279

Note 13. Transaction costs

The REIT incurred transaction costs in relation to the following:

	Three months ended		Six months ended	
	2019	June 30, 2018	2019	June 30, 2018
Acquisitions of investment properties	\$ 137	\$ 27	\$ 137	\$ 678
Termination of property management agreements	—	—	—	5,025
	\$ 137	\$ 27	\$ 137	\$ 5,703

During the six months ended June 30, 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		Six months ended	
	2019	June 30, 2018	2019	June 30, 2018
Interest rate swaps	\$ (6,754)	\$ 2,128	\$ (15,239)	\$ 6,605
Foreign currency contracts	(1,547)	1,334	(5,792)	5,147
Other derivatives	—	(3)	385	277
Bargain purchase gains ⁽¹⁾	1,106	—	1,106	5,384
	\$ (7,195)	\$ 3,459	\$ (19,540)	\$ 17,413

(1) The REIT realized bargain purchase gains related to the step acquisition of the Centre 70 Building during the six months ended June 30, 2019 and the step acquisitions of 1700 Broadway and Hudson's Bay Centre during the six months ended June 30, 2018. 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 June 30, 2019

	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	\$ 29,869	\$ 27,110	\$ 15,954	\$ 65,277	\$ 33	\$ (4,315)	\$ 133,928
Expenses:							
Property operating	7,453	6,431	3,860	15,103	—	(1,192)	31,655
Realty taxes	4,412	4,758	2,681	10,850	—	(961)	21,740
	11,865	11,189	6,541	25,953	—	(2,153)	53,395
Net operating income	18,004	15,921	9,413	39,324	33	(2,162)	80,533
Other income (expenses):							
Corporate expenses	—	—	—	—	(4,113)	—	(4,113)
Interest expense	(2,778)	(1,893)	(1,678)	(11,738)	(10,806)	977	(27,916)
Interest income	166	21	4	97	223	(1)	510
Net loss from investments in joint ventures	—	—	—	—	—	(691)	(691)
Fair value (loss) gain on investment properties	(20,353)	(11,560)	32,971	(27,443)	—	1,877	(24,508)
Foreign currency translation gain	—	—	—	—	3,435	—	3,435
Transaction costs	(50)	17	—	(104)	—	—	(137)
Fair value gain (loss) on derivative instruments and other transactions	1,106	—	—	—	(8,301)	—	(7,195)
(Loss) income before income taxes	(3,905)	2,506	40,710	136	(19,529)	—	19,918
Income tax expense	—	—	—	(46)	—	—	(46)
Net (loss) income	\$ (3,905)	\$ 2,506	\$ 40,710	\$ 90	\$ (19,529)	\$ —	\$ 19,872
Acquisitions of investment properties	\$ 4,129	\$ —	\$ —	\$ 3,514	\$ —	\$ —	\$ 7,643
Additions to investment properties, investment properties under development and investment properties held for sale	1,459	18,083	1,019	32,684	—	(17,614)	35,631
Additions to tenant inducements	3,076	(274)	1,085	12,228	—	(1,670)	14,445
Additions to leasing commissions	454	441	480	3,495	—	(122)	4,748

Three months ended June 30, 2018

	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	\$ 32,453	\$ 26,449	\$ 15,141	\$ 56,822	\$ 66	\$ (4,791)	\$ 126,140
Expenses:							
Property operating	7,623	6,823	3,720	13,443	—	(1,308)	30,301
Realty taxes	4,693	4,517	2,562	9,244	—	(1,065)	19,951
	12,316	11,340	6,282	22,687	—	(2,373)	50,252
Net operating income	20,137	15,109	8,859	34,135	66	(2,418)	75,888
Other income (expenses):							
Corporate expenses	—	—	—	—	(3,364)	—	(3,364)
Interest expense	(3,400)	(2,243)	(2,060)	(10,180)	(9,102)	1,320	(25,665)
Interest income	195	19	12	51	54	(2)	329
Net income from investments in joint ventures	—	—	—	—	—	475	475
Fair value gain (loss) on investment properties	10,394	(4,072)	19,657	(2,109)	10	625	24,505
Foreign currency translation loss	—	—	—	—	(519)	—	(519)
Transaction costs	—	—	—	(27)	—	—	(27)
Fair value gain on derivative instruments and other transactions	—	—	—	—	3,459	—	3,459
Income (loss) before income taxes	27,326	8,813	26,468	21,870	(9,396)	—	75,081
Income tax expense	—	—	—	(106)	—	—	(106)
Net income (loss)	\$ 27,326	\$ 8,813	\$ 26,468	\$ 21,764	\$ (9,396)	\$ —	\$ 74,975
Acquisitions of investment properties	\$ —	\$ —	\$ —	\$ 5,523	\$ —	\$ (3,724)	\$ 1,799
Additions to investment properties and investment properties under development	1,274	8,795	640	9,601	—	(1,527)	18,783
Additions to tenant inducements	4,233	2,774	156	5,521	—	(789)	11,895
Additions to leasing commissions	573	312	209	2,417	—	(482)	3,029

Six months ended June 30, 2019

	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	\$ 60,953	\$ 54,915	\$ 31,939	\$ 128,953	\$ 72	\$ (9,357)	\$ 267,475
Expenses:							
Property operating	15,706	13,939	7,797	31,196	—	(2,503)	66,135
Realty taxes	8,901	9,240	5,325	20,901	—	(2,038)	42,329
	24,607	23,179	13,122	52,097	—	(4,541)	108,464
Net operating income	36,346	31,736	18,817	76,856	72	(4,816)	159,011
Other income (expenses):							
Corporate expenses	—	—	—	—	(8,230)	—	(8,230)
Interest expense	(5,545)	(3,794)	(3,414)	(23,415)	(21,170)	2,170	(55,168)
Interest income	333	37	11	154	419	(3)	951
Net income from investments in joint ventures	—	—	—	—	—	1,966	1,966
Fair value (loss) gain on investment properties	(26,766)	(14,494)	38,691	(41,149)	—	683	(43,035)
Foreign currency translation gain	—	—	—	—	10,148	—	10,148
Transaction costs	(50)	17	—	(104)	—	—	(137)
Fair value gain (loss) on derivative instruments and other transactions	1,106	—	—	—	(20,646)	—	(19,540)
Income (loss) before income taxes	5,424	13,502	54,105	12,342	(39,407)	—	45,966
Income tax expense	—	—	—	(738)	—	—	(738)
Net income (loss)	\$ 5,424	\$ 13,502	\$ 54,105	\$ 11,604	\$ (39,407)	\$ —	\$ 45,228
Acquisitions of investment properties	\$ 4,129	\$ —	\$ —	\$ 3,514	\$ —	\$ —	\$ 7,643
Additions to investment properties, investment properties under development and investment properties held for sale	\$ 3,096	\$ 31,546	\$ 1,132	\$ 71,529	—	\$ (39,310)	\$ 67,993
Additions to tenant inducements	4,414	2,769	2,350	15,920	—	(1,453)	24,000
Additions to leasing commissions	929	813	1,269	4,896	—	(238)	7,669

June 30, 2019

	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Total assets	\$ 1,164,934	\$ 1,167,502	\$ 786,141	\$ 2,469,079	\$ 74,697	\$ (121,980)	\$ 5,540,373
Total liabilities	338,065	203,917	164,158	1,072,881	1,312,082	(121,980)	2,969,123

Six months ended June 30, 2018

	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	\$ 66,909	\$ 53,608	\$ 31,114	\$ 111,420	\$ 125	\$ (11,267)	\$ 251,909
Expenses:							
Property operating	15,887	13,689	7,725	27,056	—	(3,256)	61,101
Realty taxes	9,650	9,238	5,193	18,130	—	(2,256)	39,955
	25,537	22,927	12,918	45,186	—	(5,512)	101,056
Net operating income	41,372	30,681	18,196	66,234	125	(5,755)	150,853
Other income (expenses):							
Corporate expenses	—	—	—	—	(9,665)	—	(9,665)
Interest expense	(6,882)	(4,501)	(4,137)	(19,325)	(17,294)	2,860	(49,279)
Interest income	405	46	96	95	276	(4)	914
Net income from investments in joint ventures	—	—	—	—	—	5,496	5,496
Fair value (loss) gain on investment properties	(22,438)	(10,213)	40,872	11,105	147	(900)	18,573
Foreign currency translation loss	—	—	—	—	(2,686)	—	(2,686)
Transaction costs	—	—	—	(678)	(5,025)	—	(5,703)
Fair value gain on derivative instruments and other transactions	—	—	—	3,578	15,532	(1,697)	17,413
Income (loss) before income taxes	12,457	16,013	55,027	61,009	(18,590)	—	125,916
Income tax expense	—	—	—	(219)	—	—	(219)
Net income (loss)	\$ 12,457	\$ 16,013	\$ 55,027	\$ 60,790	\$ (18,590)	\$ —	\$ 125,697
Acquisitions of investment properties	\$ —	\$ —	\$ —	\$ 105,179	\$ —	\$ (3,724)	\$ 101,455
Additions to investment properties and investment properties under development	2,811	13,030	1,839	15,561	—	(1,964)	31,277
Additions to tenant inducements	7,643	6,016	858	10,605	—	(1,335)	23,787
Additions to leasing commissions	1,106	618	747	3,679	—	(947)	5,203

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 agreement:

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.

(b) Letters of credit:

As at June 30, 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 June 30, 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 June 30, 2019 was \$57,103 (December 31, 2018, \$58,161), with an estimated weighted-average remaining term of 3.6 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 June 30, 2019, the ratio of such indebtedness to gross book value was 51.2% (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	June 30, 2019	December 31, 2018
Mortgages and loans payable	6	\$ 1,566,877	\$ 1,685,010
Senior unsecured debentures	7	448,875	399,536
Credit facilities	8	824,538	772,538
Total debt		2,840,290	2,857,084
Unitholders' equity		2,571,250	2,738,045
		\$ 5,411,540	\$ 5,595,129

Note 19. 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 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 June 30, 2019, the REIT was a party to \$2,010,613 of variable rate debt, including credit facilities and debentures (December 31, 2018, \$1,989,356). At June 30, 2019, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$1,011,810 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 1.3351 and 1.3333 for the three and six months ended June 30, 2019, and the period end exchange rate of 1.3087 at June 30, 2019, would have increased net income by approximately \$8,760 for the three months ended June 30, 2019 and would have increased net income by approximately \$8,552 for the six months ended June 30, 2019. A \$0.10 weakening in the US dollar against the Canadian dollar would have decreased other comprehensive income by approximately \$113,802 and \$113,594 for the three and six months ended June 30, 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

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

There were no transfers of assets or liabilities between hierarchy levels during the six months ended June 30, 2019.

		June 30, 2019		December 31, 2018	
	Fair value hierarchy	Carrying value	Fair value	Carrying value	Fair value
Assets:					
Investment properties	Level 3	\$ 4,741,997	\$ 4,741,997	\$ 4,941,825	\$ 4,941,825
Investment properties under development	Level 3	70,882	70,882	119,604	119,604
Notes receivable	Level 2	24,085	25,157	20,759	21,317
Investment properties held for sale	Level 3	398,002	398,002	320,465	320,465
Derivative instruments	Level 2	1,329	1,329	12,322	12,322
		5,236,295	5,237,367	5,414,975	5,415,533
Liabilities:					
Mortgages and loans payable	Level 2	1,566,877	1,583,620	1,685,010	1,693,090
Senior unsecured debentures	Level 2	448,875	455,511	399,536	400,741
Credit facilities	Level 2	824,538	826,435	772,538	774,707
Derivative instruments	Level 2	11,420	11,420	4,006	4,006
		2,851,710	2,876,986	2,861,090	2,872,544
		\$ 2,384,585	\$ 2,360,381	\$ 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 June 30, 2019:

- On July 31, 2019, the REIT redeemed all 3,138,500 outstanding Series G Units with an aggregate face value of \$78,463. The REIT declared a quarterly cash distribution of \$0.3125 per Series G Unit for the three months ended July 31, 2019.
- The REIT disposed of an office property located in the Greater Phoenix Area, Arizona for a sale price of US\$92,250. A portion of the proceeds was used to repay the outstanding mortgage financing in the amount of US\$50,542 and the related prepayment premium of US\$7,185.
- The REIT entered into an unconditional agreement to purchase a surface parking lot ancillary to an existing office property located in Winnipeg, Manitoba for \$3,800. The acquisition is anticipated to close in August 2019.
- The REIT purchased through the NCIB 38,400 Series E Units at a weighted-average price of \$21.48.
- The REIT drew \$88,000 and repaid US\$48,000 on its revolving term credit facilities.
- The REIT declared a monthly cash distribution of \$0.045 per common unit for the month of July 2019.
- The REIT declared a quarterly cash distribution of \$0.3750 per Series I Unit for the three months ended July 31, 2019.

Note 22. Approval of financial statements

These interim condensed consolidated financial statements were approved by the Board of Trustees and authorized for issue on August 1, 2019.