Interim Condensed Consolidated Financial Statements of

# ARTIS REAL ESTATE INVESTMENT TRUST

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

(In Canadian dollars)

# Interim Condensed Consolidated Balance Sheets
(Unaudited)

(In thousands of Canadian dollars)

| | Note | September 30, 2016 | December 31, 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets: | | | |
| Investment properties | 4 | $ 5,078,687 | $ 5,078,021 |
| Investment properties under development | 4 | 53,246 | 26,892 |
| Investments in joint ventures | 12 | 191,945 | 173,066 |
| Property and equipment | | 3,299 | 3,586 |
| Notes receivable | | 13,491 | 15,776 |
| | | 5,340,668 | 5,297,341 |
| Current assets: | | | |
| Investment properties held for sale | 4 | 302,652 | 115,504 |
| Deposits on investment properties | | 361 | 50 |
| Prepaid expenses and other assets | | 12,246 | 7,872 |
| Notes receivable | | 3,496 | 2,744 |
| Accounts receivable and other receivables | | 13,042 | 11,757 |
| Cash held in trust | | 4,368 | 8,605 |
| Cash and cash equivalents | | 52,907 | 66,449 |
| | | 389,072 | 212,981 |
| | | $ 5,729,740 | $ 5,510,322 |
| **LIABILITIES AND UNITHOLDERS' EQUITY** | | | |
| Non-current liabilities: | | | |
| Mortgages and loans payable | 5 | $ 1,449,122 | $ 1,703,553 |
| Senior unsecured debentures | 6 | 199,712 | 199,631 |
| Convertible debentures | 7 | 116,788 | 209,140 |
| Other long-term liabilities | | 4,275 | 2,910 |
| | | 1,769,897 | 2,115,234 |
| Current liabilities: | | | |
| Mortgages and loans payable | 5 | 791,630 | 494,766 |
| Security deposits and prepaid rent | | 41,906 | 32,049 |
| Accounts payable and other liabilities | | 84,730 | 75,512 |
| Bank indebtedness | 8 | 370,586 | 225,000 |
| | | 1,288,852 | 827,327 |
| | | 3,058,749 | 2,942,561 |
| Unitholders' equity | | 2,670,991 | 2,567,761 |
| Commitments, contingencies and guarantees | 14 | | |
| Subsequent events | 17 | | |
| | | $ 5,729,740 | $ 5,510,322 |

See accompanying notes to interim condensed consolidated financial statements.

# Interim Condensed Consolidated Statements of Operations

(Unaudited)

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

| | Note | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 [(1)] | Nine months ended September 30, 2015 |
|---|---|---|---|---|---|
| Revenue | | $ 143,094 | $ 135,150 | $ 408,488 | $ 398,745 |
| Expenses: | | | | | |
| Property operating | | 32,534 | 30,719 | 89,764 | 86,732 |
| Realty taxes | | 21,887 | 21,137 | 65,688 | 61,810 |
| | | 54,421 | 51,856 | 155,452 | 148,542 |
| Net operating income | | 88,673 | 83,294 | 253,036 | 250,203 |
| Other income (expenses): | | | | | |
| Corporate expenses | | (2,929) | (2,728) | (10,088) | (8,421) |
| Interest expense | | (27,329) | (27,517) | (81,798) | (82,891) |
| Interest income | | 296 | 335 | 924 | 1,033 |
| Net income from investments in joint ventures | 12 | 3,763 | 3,550 | 7,286 | 5,284 |
| Fair value gain (loss) on investment properties | 4 | 18,430 | (65,608) | (17,466) | (120,604) |
| Foreign currency translation gain (loss) | | 206 | (9,913) | 2,350 | (16,823) |
| Transaction costs | | (195) | (1,248) | (1,096) | (1,615) |
| Loss on financial instruments | | (4,039) | (3,612) | (6,921) | (5,970) |
| Net income (loss) | | 76,876 | (23,447) | 146,227 | 20,196 |
| Other comprehensive income (loss) that may be reclassified to net income (loss) in subsequent periods: | | | | | |
| Unrealized foreign currency translation gain (loss) | | 10,016 | 56,466 | (40,035) | 101,891 |
| Unrealized foreign currency translation (loss) gain on investments in joint ventures | | (139) | 8,573 | (6,546) | 18,414 |
| Other comprehensive (loss) income that will not be reclassified to net income (loss) in subsequent periods: | | | | | |
| Unrealized (loss) gain from remeasurements of net pension obligation | | (4) | — | (30) | 1 |
| | | 9,873 | 65,039 | (46,611) | 120,306 |
| Total comprehensive income | | $ 86,749 | $ 41,592 | $ 99,616 | $ 140,502 |
| Basic income (loss) per unit attributable to common unitholders | 9 (d) | $ 0.48 | $ (0.20) | $ 0.92 | $ 0.05 |
| Diluted income (loss) per unit attributable to common unitholders | 9 (d) | $ 0.48 | $ (0.20) | $ 0.92 | $ 0.04 |
| Weighted-average number of common units outstanding: | | | | | |
| Basic | 9 (d) | 149,226,734 | 137,918,624 | 143,232,709 | 137,275,288 |
| Diluted | 9 (d) | 154,326,161 | 137,918,624 | 143,639,927 | 137,585,471 |

(1) Certain balances for the three months ended June 30, 2016, which are reflected in the amounts presented for the nine months ended September 30, 2016, have been restated. Refer to note 2 (c).

See accompanying notes to interim condensed consolidated financial statements.

# Interim Condensed Consolidated Statements of Changes in Unitholders' Equity

(Unaudited)

(In thousands of Canadian dollars)

| | Common units capital contributions (note 9 (a)(ii)) | Equity component of convertible debentures | Retained earnings | Accumulated other comprehensive income | Contributed surplus | Total common equity | Total preferred equity | Total |
|---|---|---|---|---|---|---|---|---|
| Unitholders' equity, December 31, 2014 (1) | $ 1,780,674 | $ 11,023 | $ 530,052 | $ 76,408 | $ 5,225 | $2,403,382 | $ 325,623 | $ 2,729,005 |
| Changes for the period: | | | | | | | | |
| Issuance of units, net of issue costs | 26,929 | — | — | — | (460) | 26,469 | — | 26,469 |
| Unit-based compensation expense | — | — | — | — | 206 | 206 | — | 206 |
| Net income | — | — | 20,196 | — | — | 20,196 | — | 20,196 |
| Other comprehensive income | — | — | — | 120,306 | — | 120,306 | — | 120,306 |
| Distributions | — | — | (125,333) | — | — | (125,333) | — | (125,333) |
| Unitholders' equity, September 30, 2015 | 1,807,603 | 11,023 | 424,915 | 196,714 | 4,971 | 2,445,226 | 325,623 | 2,770,849 |
| Changes for the period: | | | | | | | | |
| Issuance of units, net of issue costs | 7,468 | — | — | — | (15) | 7,453 | — | 7,453 |
| Unit-based compensation expense | — | — | — | — | 50 | 50 | — | 50 |
| Net loss | — | — | (195,895) | — | — | (195,895) | — | (195,895) |
| Other comprehensive income | — | — | — | 27,423 | — | 27,423 | — | 27,423 |
| Distributions | — | — | (42,119) | — | — | (42,119) | — | (42,119) |
| Unitholders' equity, December 31, 2015 | 1,815,071 | 11,023 | 186,901 | 224,137 | 5,006 | 2,242,138 | 325,623 | 2,567,761 |
| Changes for the period: | | | | | | | | |
| Issuance of units, net of issue costs | 134,287 | (1) | — | — | — | 134,286 | — | 134,286 |
| Redemption of convertible debentures | — | (11,022) | — | — | 11,022 | — | — | — |
| Unit-based compensation expense | — | — | — | — | 128 | 128 | — | 128 |
| Net income | — | — | 146,227 | — | — | 146,227 | — | 146,227 |
| Other comprehensive loss | — | — | — | (46,611) | — | (46,611) | — | (46,611) |
| Distributions | — | — | (130,800) | — | — | (130,800) | — | (130,800) |
| Unitholders' equity, September 30, 2016 | $ 1,949,358 | $ — | $ 202,328 | $ 177,526 | $ 16,156 | $2,345,368 | $ 325,623 | $ 2,670,991 |

(1) Retained earnings and accumulated other comprehensive income balances at December 31, 2014 have been restated. Refer to note 2 (c).

See accompanying notes to interim condensed consolidated financial statements.

# Interim Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands of Canadian dollars)

| | Note | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 (1) | Nine months ended September 30, 2015 |
|---|---|---|---|---|---|
| Cash provided by (used in): | | | | | |
| Operating activities: | | | | | |
| Net income (loss) | | $ 76,876 | $ (23,447) | $ 146,227 | $ 20,196 |
| Distributions from joint ventures | | 815 | 1,051 | 3,564 | 1,176 |
| Adjustments for non-cash items: | | | | | |
| Fair value (gain) loss on investment properties | 4 | (18,430) | 65,608 | 17,466 | 120,604 |
| Depreciation of property and equipment | | 212 | 183 | 644 | 559 |
| Net income from investments in joint ventures | 12 | (3,763) | (3,550) | (7,286) | (5,284) |
| Tenant inducements amortized to revenue | | 4,102 | 3,558 | 12,053 | 9,923 |
| Amortization of above- and below-market mortgages, net | | (515) | (316) | (1,610) | (1,129) |
| Accretion on liability component of debentures | | (224) | (185) | (610) | (529) |
| Straight-line rent adjustment | 4 | (1,780) | (1,025) | (3,832) | (1,959) |
| Unrealized foreign currency translation loss | | 2,295 | 6,841 | 439 | 14,483 |
| Loss on financial instruments | | 4,039 | 3,612 | 6,921 | 5,970 |
| Unit-based compensation expense | | 319 | 302 | 1,750 | 1,142 |
| Amortization of financing costs included in interest expense | | 906 | 770 | 2,495 | 2,315 |
| Other long-term employee benefits | | 457 | 407 | 1,354 | 1,204 |
| Changes in non-cash operating items | | (675) | 8,688 | 2,887 | 4,374 |
| | | 64,634 | 62,497 | 182,462 | 173,045 |
| Investing activities: | | | | | |
| Acquisitions of investment properties, net of related debt | 3 | (34,425) | (10,149) | (149,546) | (10,149) |
| Proceeds from dispositions of investment properties, net of costs and related debt | 3 | 29,013 | — | 84,138 | 33,024 |
| Additions to investment properties | 4 | (16,773) | (9,094) | (44,872) | (19,844) |
| Additions to investment properties under development | 4 | (6,583) | (7,456) | (13,541) | (23,706) |
| Additions to joint ventures | 12 | (14,232) | (37,485) | (21,965) | (51,429) |
| Additions to tenant inducements | | (14,956) | (12,030) | (33,080) | (20,210) |
| Additions to leasing commissions | 4 | (3,987) | (4,857) | (11,216) | (11,082) |
| Notes receivable principal repayments | | 482 | 1,016 | 1,453 | 1,919 |
| Additions to property and equipment | | (73) | (169) | (309) | (562) |
| Change in deposits on investment properties | | 4,800 | 1,600 | (225) | (2,500) |
| Change in cash held in trust | | 116 | (259) | 3,076 | 315 |
| | | (56,618) | (78,883) | (186,087) | (104,224) |
| Financing activities: | | | | | |
| Issuance of common units, net of issue costs | | 8,697 | 8,523 | 134,276 | 26,469 |
| Repayment of convertible debentures | | (86,160) | — | (86,160) | — |
| Change in bank indebtedness | | 72,500 | 53,000 | 147,500 | 170,700 |
| Distributions paid on common units | | (39,772) | (37,134) | (116,046) | (111,402) |
| Distributions paid on preferred units | | (5,875) | (4,638) | (13,791) | (13,753) |
| Mortgages and loans principal repayments | | (15,243) | (14,849) | (44,187) | (44,728) |
| Repayment of mortgages and loans payable | | (60,095) | — | (96,169) | (108,348) |
| Advance of mortgages and loans payable, net of financing costs | | 18,821 | 12,407 | 69,252 | 20,721 |
| | | (107,127) | 17,309 | (5,325) | (60,341) |
| Foreign exchange gain (loss) on cash held in foreign currency | | 1,526 | 11,678 | (4,592) | 12,284 |
| (Decrease) increase in cash and cash equivalents | | (97,585) | 12,601 | (13,542) | 20,764 |
| Cash and cash equivalents at beginning of period | | 150,492 | 57,970 | 66,449 | 49,807 |
| Cash and cash equivalents at end of period | | $ 52,907 | $ 70,571 | $ 52,907 | $ 70,571 |
| Supplemental cash flow information: | | | | | |
| Interest paid | | $ 28,408 | $ 27,135 | $ 85,164 | $ 83,742 |
| Interest received | | 298 | 335 | 928 | 1,033 |

(1) Certain balances for the three months ended June 30, 2016, which are reflected in the amounts presented for the nine months ended September 30, 2016, have been restated. Refer to note 2 (c).

See accompanying notes to interim condensed consolidated financial statements.

# Notes to Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2016 and 2015 (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 office, retail and industrial properties in Canada and the United States (the "U.S."). The registered office of the REIT is 360 Main Street, Suite 300, Winnipeg, Manitoba, R3C 3Z3.

The Declaration of Trust provides that the REIT may make cash distributions to unitholders of the REIT. The amount distributed annually (currently $1.08 per common unit, $1.3125 per Series A preferred unit, US$1.3125 per Series C preferred unit, $1.1875 per Series E preferred unit and $1.25 per Series G preferred unit) is set by the Board of Trustees.

## Note 2. Significant accounting policies

(a) Basis of presentation and measurement:

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

The 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, 2015 except for those standards adopted as described in note 2 (d). The consolidated financial statements are 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, 2015.

(b) Use of estimates and judgments:

The preparation of the 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, 2015. There have been no changes to the critical accounting estimates and judgments during the nine months ended September 30, 2016.

(c) Correction of immaterial error:

Certain balances in the interim condensed consolidated statements of operations for the three months ended June 30, 2016, which are reflected in the amounts presented for the nine months ended September 30, 2016, have been reclassified due to the correction of an error identified by the REIT that is not material to the users of the consolidated financial statements, relating to foreign currency translations gains and losses. The foreign currency translation loss included in net income was overstated by $21,960, and has been changed from a loss of $25,970 to a loss of $4,010. This resulted in a change in net income from $8,617 to $30,577. The foreign currency translation gain in other comprehensive income was overstated by the same amount, and changed from a gain of $25,519 to a gain of $3,559. Basic and diluted income per unit attributable to common unitholders for the three months ended June 30, 2016, changed from $0.03 to $0.18. Basic and diluted income per unit attributable to common unitholders for the six months ended June 30, 2016, changed from $0.27 to $0.43. There was no impact on net cash flow or on cash flow from operations.

The REIT has also corrected a related error in retained earnings and accumulated other comprehensive income as at December 31, 2014, in the amount of $15,753. Retained earnings changed from $514,299 to $530,052 and accumulated other comprehensive income changed from $92,161 to $76,408.

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

In May 2014, the IASB amended IFRS 11 – *Joint Arrangements.* The amendment clarifies the accounting for acquisitions of interests in joint operations, and is effective for annual periods beginning on or after January 1, 2016. This amendment did not result in a material impact to the consolidated financial statements.

In May 2014, the IASB amended IAS 16 – *Property, Plant and Equipment*. The amendment clarifies acceptable methods of depreciation and amortization, and is effective for annual periods beginning on or after January 1, 2016. This amendment did not result in a material impact to the consolidated financial statements.

In December 2014, the IASB amended IAS 1 – *Presentation of Financial Statements*. The amendments were done under the IASB's Disclosure Initiative to improve presentation and disclosure requirements, and are effective for annual periods beginning on or after January 1, 2016. This amendment did not result in a material impact to the consolidated financial statements.

(e) Future changes in accounting standards:

The IASB issued IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15") in May 2014. IFRS 15 provides a single, principles based five-step model to be applied to the recognition of revenue from contracts with customers. IFRS 15 replaces IAS 11 – *Construction Contracts*, IAS 18 – *Revenue*, IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate* and SIC 31 – *Revenue - Barter Transactions Involving Advertising Services*. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The REIT is currently evaluating the impact of this new standard.

A revised version of IFRS 9 – *Financial Instruments* ("IFRS 9") was issued by the IASB in July 2014 and will replace IAS 39 – *Financial Instruments: Recognition and Measurement ("IAS 39")*. IFRS 9 establishes principles for the recognition, classification and measurement of financial assets and liabilities. IFRS 9 sets out a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. This approach is based on how an entity manages its financial instruments and the contractual cash flow characteristics of its financial assets. IFRS 9 retains most of the IAS 39 requirements for financial liabilities. The most significant change is when an entity elects to measure a financial liability at fair value, gains or losses due to changes in the credit risk of the instrument must be recognized in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The REIT is currently evaluating the impact of this new standard.

The IASB issued IFRS 16 – *Leases* ("IFRS 16") in January 2016 which replaces IAS 17 - *Leases* and IFRIC 4 - *Determining whether an Arrangement contains a Lease*. The most significant change introduced by IFRS 16 is a single lessee accounting model, bringing leases on-balance sheet for lessees. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The REIT is currently evaluating the impact of this new standard.

In June 2016, the IASB amended IFRS 2 – *Share-based Payment*. The amendment clarifies the classification and measurement of share-based payment transactions, and is effective for annual periods beginning on or after January 1, 2018. The REIT is currently evaluating the impact of this amendment.

## Note 3. Acquisitions and dispositions of investment properties

Acquisitions:

The REIT acquired the following properties during the nine months ended September 30, 2016:

| Property | Property count | Location | Acquisition date | Asset class |
|---|---|---|---|---|
| Madison Lifestyle Office Portfolio | 16 | Madison, WI | June 13, 2016, August 1, 2016 | Office |

The REIT acquired the following development project during the nine months ended September 30, 2016:

| Property | Location | Acquisition date | Asset class |
|---|---|---|---|
| Millwright Building (1) | Twin Cities Area, MN | August 11, 2016 | Office |

(1) The REIT acquired an 80% interest in this joint venture (see note 12).

The REIT acquired the following properties during the nine months ended September 30, 2015:

| Property | Property count | Location | Acquisition date | Asset class |
|---|---|---|---|---|
| The Point at Inverness (1) | 1 | Greater Denver Area, CO | March 26, 2015 | Office |
| Graham Portfolio (2) | 8 | Various cities in BC, AB & SK | July 23, 2015 | Industrial |

(1) The REIT acquired a 50% interest in this joint venture.

(2) The REIT acquired a 75% interest in this joint venture.

The REIT acquired the following parcel of development land during the nine months ended September 30, 2015:

| Property | Location | Acquisition date | Asset class |
|---|---|---|---|
| 169 Inverness Drive West | Greater Denver Area, CO | August 12, 2015 | Office |

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 acquisition of joint ventures, were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Investment properties (note 4) | 86,572 | 10,149 | 338,947 | 10,149 |
| Long-term debt, including acquired above- and below-market mortgages, net of financing costs | (52,147) | — | (189,401) | — |
| Cash consideration | 34,425 | 10,149 | 149,546 | 10,149 |
| Transaction costs expensed | 181 | 20 | 1,082 | 38 |

Dispositions:

The REIT disposed of the following properties during the nine months ended September 30, 2016:

| Property | Property count | Location | Disposition date | Asset class |
|---|---|---|---|---|
| Tamarack Centre | 1 | Cranbrook, BC | April 28, 2016 | Retail |
| Whistler Hilton Retail Plaza (1) | 1 | Whistler, BC | May 2, 2016 | Retail |
| Crosstown North | 1 | Twin Cities Area, MN | May 19, 2016 | Industrial |
| Lunar Pointe | 1 | Twin Cities Area, MN | August 5, 2016 | Industrial |
| Uplands Common | 1 | Lethbridge, AB | August 16, 2016 | Retail |
| Clareview Town Centre | 1 | Edmonton, AB | August 17, 2016 | Retail |

(1) The REIT disposed of its 85% interest in this property.

The proceeds from the sale of the above properties, net of costs and related debt, were $84,138. The assets and liabilities associated with the properties were derecognized.

The REIT disposed of the following properties during the nine months ended September 30, 2015:

| Property | Property count | Location | Disposition date | Asset class |
|---|---|---|---|---|
| Moose Jaw Sobeys | 1 | Moose Jaw, SK | June 18, 2015 | Retail |
| 1045 Howe Street | 1 | Greater Vancouver Regional District, BC | June 24, 2015 | Office |

The proceeds from the sale of the above properties, net of costs and related debt, were $33,024. The assets and liabilities associated with the properties were derecognized.

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

Nine months ended September 30, 2016

| | Investment properties | Investment properties under development | Investment properties held for sale |
|---|---|---|---|
| Balance, beginning of period | $ 5,078,021 | $ 26,892 | $ 115,504 |
| Additions: | | | |
| Acquisitions (note 3) | 338,947 | — | — |
| Capital expenditures | 44,832 | 13,541 | 40 |
| Leasing commissions | 11,175 | 2 | 39 |
| Dispositions | (11,572) | — | (111,085) |
| Reclassification of investment properties under development | (18,689) | 18,689 | — |
| Reclassification of investment properties held for sale | (304,564) | — | 304,564 |
| Foreign currency translation (loss) gain | (77,887) | (1,285) | 28 |
| Straight-line rent adjustments | 3,692 | 2 | 138 |
| Tenant inducement additions, net of amortization | 21,356 | 26 | (355) |
| Fair value loss | (6,624) | (4,621) | (6,221) |
| Balance, end of period | $ 5,078,687 | $ 53,246 | $ 302,652 |

Year ended December 31, 2015

| | Investment properties | Investment properties under development | Investment properties held for sale |
|---|---|---|---|
| Balance, beginning of year | $ 5,201,489 | $ 81,682 | $ — |
| Additions: | | | |
| Acquisitions | 105,022 | — | — |
| Capital expenditures | 24,711 | 33,297 | 54 |
| Leasing commissions | 12,651 | 334 | 973 |
| Dispositions | (52,977) | — | (86,310) |
| Reclassification of investment properties under development | 90,496 | (90,496) | — |
| Reclassification of investment properties held for sale | (193,327) | — | 193,327 |
| Foreign currency translation gain | 236,214 | 3,356 | 4,987 |
| Straight-line rent adjustments | 2,830 | 30 | 110 |
| Tenant inducement additions, net of amortization | 12,575 | (99) | 5,114 |
| Fair value loss | (361,663) | (1,212) | (2,751) |
| Balance, end of year | $ 5,078,021 | $ 26,892 | $ 115,504 |

The REIT reclassified nine industrial properties and five retail properties to investment properties held for sale that were listed with an external broker or under unconditional sale agreements at September 30, 2016. These properties had an aggregate mortgage payable balance of $59,187 at September 30, 2016, which is included in current liabilities and is not accounted for as held for sale.

At September 30, 2016, investment properties with a fair value of $4,365,107 (December 31, 2015, $4,203,603) were pledged as security under mortgage agreements.

The REIT obtains external valuations for a selection of properties representing various geographical regions and asset classes across its portfolio. For the three and nine months ended September 30, 2016, properties with an appraised value of $100,250 and $332,660, respectively, 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.

The REIT determined the fair value of investment properties based upon either the discounted cash flow method or the overall capitalization method, which are generally accepted appraisal methodologies. There were no changes to the REIT's internal valuation methodology during the nine months ended September 30, 2016 and the year ended December 31, 2015.

Under the fair value hierarchy, the fair value of the REIT's investment properties is considered a Level 3, as described in note 16 (b).

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

| | September 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Maximum | Minimum | Weighted-average | Maximum | Minimum | Weighted-average |
| Western Canada: | | | | | | |
| Discount rate | 9.50% | 6.25% | 7.61% | 9.50% | 6.25% | 7.66% |
| Terminal capitalization rate | 9.00% | 4.50% | 6.83% | 9.00% | 4.50% | 6.94% |
| Capitalization rate | 8.50% | 4.50% | 6.63% | 8.75% | 4.50% | 6.76% |
| Investment horizon (years) | 12.0 | 9.0 | 10.4 | 12.0 | 9.0 | 10.2 |
| Central Canada: | | | | | | |
| Discount rate | 9.00% | 6.25% | 7.70% | 9.00% | 6.25% | 7.71% |
| Terminal capitalization rate | 8.50% | 5.75% | 6.47% | 8.50% | 5.75% | 6.59% |
| Capitalization rate | 8.25% | 5.50% | 6.28% | 8.25% | 5.75% | 6.38% |
| Investment horizon (years) | 12.0 | 9.0 | 10.2 | 12.0 | 10.0 | 10.2 |
| Eastern Canada: | | | | | | |
| Discount rate | 7.75% | 6.50% | 7.20% | 7.75% | 6.50% | 7.21% |
| Terminal capitalization rate | 7.00% | 5.50% | 6.39% | 7.00% | 5.50% | 6.43% |
| Capitalization rate | 7.00% | 5.25% | 6.29% | 6.75% | 5.50% | 6.28% |
| Investment horizon (years) | 12.0 | 10.0 | 10.2 | 12.0 | 10.0 | 10.4 |
| U.S.: | | | | | | |
| Discount rate | 9.00% | 7.00% | 8.13% | 9.50% | 7.00% | 7.95% |
| Terminal capitalization rate | 8.75% | 5.75% | 7.16% | 9.00% | 5.75% | 6.98% |
| Capitalization rate | 8.50% | 5.50% | 6.88% | 8.75% | 5.75% | 6.71% |
| Investment horizon (years) | 20.0 | 10.0 | 11.2 | 20.0 | 10.0 | 11.3 |
| Overall: | | | | | | |
| Discount rate | 9.50% | 6.25% | 7.72% | 9.50% | 6.25% | 7.68% |
| Terminal capitalization rate | 9.00% | 4.50% | 6.79% | 9.00% | 4.50% | 6.81% |
| Capitalization rate | 8.50% | 4.50% | 6.58% | 8.75% | 4.50% | 6.60% |
| Investment horizon (years) | 20.0 | 9.0 | 10.6 | 20.0 | 9.0 | 10.5 |

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

**Note 5. Mortgages and loans payable**

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Mortgages and loans payable | $ 2,243,055 | $ 2,196,837 |
| Net above- and below-market mortgage adjustments | 6,974 | 8,977 |
| Financing costs | (9,277) | (7,495) |
| | 2,240,752 | 2,198,319 |
| Current portion | 791,630 | 494,766 |
| Non-current portion | $ 1,449,122 | $ 1,703,553 |

The majority of the REIT's assets have been pledged as security under mortgages and other security agreements. 59.1% of the REIT's mortgages and loans payable bear interest at fixed rates, and a further 18.0% of the REIT's mortgages and loans payable bear interest at variable rates with interest rate swaps in place. The weighted-average effective rate on all mortgages and loans payable was 3.76% and the weighted-average nominal rate was 3.70% at September 30, 2016 (December 31, 2015, 3.96% and 3.89%, respectively). Maturity dates range from October 1, 2016 to February 14, 2032.

The REIT's mortgage providers have various financial covenants. The REIT monitors these covenants, which are primarily debt service coverage ratios, and was in compliance with these requirements at September 30, 2016.

**Note 6. Senior unsecured debentures**

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

| Senior unsecured debenture issue | Issue date | Maturity date | Interest rate |
|---|---|---|---|
| Series A | March 27, 2014, September 10, 2014 | March 27, 2019 | 3.753% |

| | Face value | Unamortized accretion | Unamortized financing costs | Carrying value | Current portion | Non-current portion |
|---|---|---|---|---|---|---|
| September 30, 2016 | $ 200,000 | $ 528 | $ (816) | $ 199,712 | $ — | $ 199,712 |
| December 31, 2015 | 200,000 | 678 | (1,047) | 199,631 | — | 199,631 |

During the three and nine months ended September 30, 2016, accretion to the liability of $51 and $150 (2015, $49 and $144) and financing cost amortization of $78 and $231 (2015, $75 and $221) were recorded.

In accordance with the Series A senior unsecured debenture supplemental indenture, the REIT must maintain various financial covenants. As at September 30, 2016, the REIT was in compliance with these requirements.

**Note 7. Convertible debentures**

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

| Convertible redeemable debenture issue | Issue date | Maturity date | Interest rate |
|---|---|---|---|
| Series G | April 21, 2011 | June 30, 2018 | 5.75% |

| Convertible redeemable debenture issue | Face value | Equity portion | Liability portion | Accretion | Carrying value | Current portion | Non-current portion |
|---|---|---|---|---|---|---|---|
| September 30, 2016 | $ 115,430 | $ — | $ 119,585 | $ (2,797) | $ 116,788 | $ — | $ 116,788 |
| December 31, 2015 | 207,962 | 11,023 | 211,017 | (1,877) | 209,140 | — | 209,140 |

During the three and nine months ended September 30, 2016, accretion of $173 and $460 reduced the carrying value of the liability component (2015, $136 and $385).

On July 25, 2016, the REIT exercised its early redemption option and repaid the outstanding face value of the Series F convertible debentures in the amount of $86,160.

## Note 8. Bank indebtedness

The REIT has unsecured revolving term credit facilities in the aggregate amount of $500,000, which can be utilized for general corporate and working capital purposes, short-term financing of investment property acquisitions and the issuance of letters of credit. The REIT can draw on the facilities in Canadian or US dollars. The first tranche of the credit facilities in the amount of $300,000 matures on December 15, 2018. The second tranche of the credit facilities matures on April 29, 2021. Amounts drawn on the facilities bear interest at prime plus 0.70% or at the bankers' acceptance rate plus 1.70%. At September 30, 2016, the REIT had $370,586 drawn on the facilities (December 31, 2015, $225,000).

In accordance with the credit agreement, the REIT must maintain various financial covenants. As at September 30, 2016, 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, 2014 | 136,284,463 | $ | 1,780,674 |
| Options exercised and restricted units redeemed | 181,703 | | 2,845 |
| Distribution Reinvestment and Unit Purchase Plan | 2,398,320 | | 31,552 |
| Balance at December 31, 2015 | 138,864,486 | | 1,815,071 |
| Public offering, net of issue costs of $5,106 | 8,712,400 | | 109,898 |
| Restricted units redeemed | 4,388 | | 59 |
| Conversion of Series F convertible debentures | 645 | | 11 |
| Distribution Reinvestment and Unit Purchase Plan | 1,979,726 | | 24,319 |
| Balance at September 30, 2016 | 149,561,645 | $ | 1,949,358 |

On June 17, 2016, the REIT issued 8,712,400 trust units at a price of $13.20 per unit for gross proceeds of $115,004. This included 1,136,400 units issued pursuant to the exercise of the underwriters' over-allotment option.

The REIT has a Distribution Reinvestment and Unit Purchase Plan which allows unitholders the option to elect to receive all or a portion of their regular monthly distributions in additional REIT 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:

| Preferred unit series | Issue date | Number of units outstanding | | Gross proceeds | Annual distribution rate | Distribution rate reset date |
|---|---|---|---|---|---|---|
| Series A | August 2, 2012 | 3,450,000 | $ | 86,250 | 5.25% | September 30, 2017 |
| Series C (1) | September 18, 2012 | 3,000,000 | | US 75,000 | 5.25% | March 31, 2018 |
| Series E | March 21, 2013 | 4,000,000 | | 100,000 | 4.75% | September 30, 2018 |
| Series G | July 29, 2013 | 3,200,000 | | 80,000 | 5.00% | July 31, 2019 |

(1) The Series C preferred units are denominated in US dollars.

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

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

(c) Short form base shelf prospectus:

On July 17, 2014, 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 $2,000,000 of initial offering price: (i) trust units of the REIT; (ii) preferred trust units, which may be issuable in series; (iii) debt securities, which may consist of debentures, notes or other types of debt and may be issuable in series; (iv) unit purchase warrants; and (v) subscription receipts to purchase trust securities. At the date of expiry, the REIT had issued senior unsecured debentures under one offering in the amount of $75,000 and common units under one offering in the amount of $115,004 under this short form base shelf prospectus.

On August 8, 2016, the REIT issued a new short form base shelf prospectus. The REIT may from time to time during the 25-month period that this short form base shelf prospectus is valid, offer and issue the following securities up to a maximum of $2,000,000 of initial offering price: (i) trust units of the REIT; (ii) preferred trust units, which may be issuable in series; (iii) debt securities, which may consist of debentures, notes or other types of debt and may be issuable in series; (iv) unit purchase warrants; and (v) subscription receipts to purchase trust securities. As at September 30, 2016, the REIT had not issued any securities under this short form base shelf prospectus.

(d) Weighted-average common units:

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 (1) | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Net income (loss) | $ 76,876 | $ (23,447) | $ 146,227 | $ 20,196 |
| Adjustment for distributions to preferred unitholders (note 10) | (4,611) | (4,638) | (13,791) | (13,753) |
| Net income (loss) attributable to common unitholders | 72,265 | (28,085) | 132,436 | 6,443 |
| Adjustment for convertible debentures | 1,472 | — | — | — |
| Adjustment for restricted units | (254) | — | (82) | (277) |
| Adjustment for deferred units | (50) | — | (20) | (7) |
| Diluted net income (loss) attributable to common unitholders | $ 73,433 | $ (28,085) | $ 132,334 | $ 6,159 |
| The weighted-average number of common units outstanding was as follows: | | | | |
| Basic common units | 149,226,734 | 137,918,624 | 143,232,709 | 137,275,288 |
| Effect of dilutive securities: | | | | |
| Unit options | — | — | — | 9,918 |
| Convertible debentures | 4,640,922 | — | — | — |
| Restricted units | 423,315 | — | 379,337 | 295,056 |
| Deferred units | 35,190 | — | 27,881 | 5,209 |
| Diluted common units | 154,326,161 | 137,918,624 | 143,639,927 | 137,585,471 |
| Net income (loss) per unit attributable to common unitholders: | | | | |
| Basic | $ 0.48 | $ (0.20) | $ 0.92 | $ 0.05 |
| Diluted | $ 0.48 | $ (0.20) | $ 0.92 | $ 0.04 |

(1) Certain balances for the three months ended June 30, 2016, which are reflected in the amounts presented for the nine months ended September 30, 2016, have been restated. Refer to note 2 (c).

The computation of diluted net income (loss) per unit attributable to common unitholders includes unit options, convertible debentures, restricted units and deferred units when these instruments are dilutive. For the three months ended September 30, 2016, out-of-the-money options were anti-dilutive. For the nine months ended September 30, 2016, convertible debentures and out-of-the-money options were anti-dilutive. For the three months ended September 30, 2015, all instruments were anti-dilutive. For the nine months ended September 30, 2015, convertible debentures and out-of-the-money options were anti-dilutive.

## Note 10. Distributions to unitholders

Total distributions declared to unitholders were as follows:

| | Three months ended September 30, 2016 | | Three months ended September 30, 2015 | |
|---|---|---|---|---|
| | Total distributions | Distributions per unit | Total distributions | Distributions per unit |
| Common unitholders | $ 40,320 | $ 0.27 | $ 37,266 | $ 0.27 |
| Preferred unitholders - Series A | 1,132 | 0.33 | 1,132 | 0.33 |
| Preferred unitholders - Series C | 1,291 | 0.43 | 1,319 | 0.44 |
| Preferred unitholders - Series E | 1,188 | 0.30 | 1,187 | 0.30 |
| Preferred unitholders - Series G | 1,000 | 0.31 | 1,000 | 0.31 |

| | Nine months ended September 30, 2016 | | Nine months ended September 30, 2015 | |
|---|---|---|---|---|
| | Total distributions | Distributions per unit | Total distributions | Distributions per unit |
| Common unitholders | $ 116,503 | $ 0.81 | $ 111,272 | $ 0.81 |
| Preferred unitholders - Series A | 3,396 | 0.98 | 3,396 | 0.98 |
| Preferred unitholders - Series C | 3,832 | 1.28 | 3,795 | 1.27 |
| Preferred unitholders - Series E | 3,563 | 0.89 | 3,562 | 0.89 |
| Preferred unitholders - Series G | 3,000 | 0.94 | 3,000 | 0.94 |

## Note 11. Related party transactions

The REIT may issue unit-based awards to trustees, officers, employees and consultants.

Other related party transactions are outlined as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Property management fees | $ 109 | $ 82 | $ 245 | $ 246 |
| Capitalized leasing commissions | — | 8 | 11 | 88 |
| Capitalized project management fees | 21 | — | 79 | — |
| Capitalized building improvements | 7,324 | 1,122 | 22,613 | 6,151 |
| Capitalized development projects | 1,372 | 4,064 | 2,587 | 8,886 |
| Capitalized tenant inducements | 1,011 | 669 | 1,533 | 764 |
| Capitalized office furniture and fixtures | 2 | 134 | 150 | 340 |
| Realty tax assessment consulting fees | 35 | 900 | 574 | 1,276 |
| Rental revenues | (121) | (71) | (265) | (155) |

The REIT incurred property management fees, leasing commissions and project management fees under property management agreements with Marwest Management Canada Ltd. (''Marwest Management''), a company related to certain trustees and officers of the REIT, for three properties owned by the REIT. The amount payable at September 30, 2016, was $28 (December 31, 2015, $44).

The REIT incurred costs for building improvements, development projects and tenant inducements paid to Marwest Construction Ltd. (''Marwest Construction'') and Marwest Development Corporation, companies related to certain trustees and officers of the REIT. The amount payable at September 30, 2016, was $3,782 (December 31, 2015, $1,724).

The REIT incurred costs for office furniture and fixtures paid to Marwest Construction. The amount payable at September 30, 2016, was $nil (December 31, 2015, $nil).

The REIT incurred costs for realty tax assessment consulting paid to Fairtax Realty Advocates, a company under control of close family members of key management personnel. The amount payable at September 30, 2016, was $nil (December 31, 2015, $194).

The REIT collected office rents and other related service fees from Marwest Management and Fairtax Realty Advocates.

These transactions were in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by the related parties.

New subsidiaries and joint arrangements of the REIT, excluding bare trustees, during the nine months ended September 30, 2016 are as follows:

| | | Ownership interest | |
|---|---|---|---|
| Name of entity | Country | September 30, 2016 | December 31, 2015 |
| Park Lucero III L.P. | U.S. | 90% | - |
| Artis/Ryan Millwright L.P. | U.S. | 80% | - |

## Note 12. Joint arrangements

The REIT had interests in the following joint arrangements:

| | | | Ownership interest | |
|---|---|---|---|---|
| Property | Principal purpose | Type of arrangement | September 30, 2016 | December 31, 2015 |
| Park 8Ninety I | Investment property | Joint venture | 95% | 95% |
| Corridor Park | Investment property | Joint venture | 90% | 90% |
| Park Lucero I | Investment property | Joint venture | 90% | 90% |
| Park Lucero II | Investment property | Joint venture | 90% | 90% |
| Park Lucero III | Investment property | Joint venture | 90% | - |
| Millwright Building | Investment property | Joint venture | 80% | - |
| Graham Portfolio | Investment property | Joint venture | 75% | 75% |
| 1700 Broadway | Investment property | Joint venture | 50% | 50% |
| Centrepoint | Investment property | Joint venture | 50% | 50% |
| Hudson's Bay Centre | Investment property | Joint venture | 50% | 50% |
| The Point at Inverness | Investment property | Joint venture | 50% | 50% |
| Centre 70 Building | Investment property | Joint operation | 85% | 85% |
| Whistler Hilton Retail Plaza | Investment property | Joint operation | - | 85% |
| Westbank Hub Centre North | Investment property | Joint operation | 75% | 75% |
| Westbank Hub Shopping Centre | Investment property | Joint operation | 75% | 75% |
| Cliveden Building | Investment property | Joint operation | 50% | 50% |
| Kincaid Building | Investment property | Joint operation | 50% | 50% |

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

During the nine months ended September 30, 2016, the REIT entered into a joint venture arrangement for the Millwright Building, an office development project located in the Twin Cities Area, Minnesota. The REIT contributed $10,775 to this joint venture arrangement.

The REIT contributed $11,190 during the nine months ended September 30, 2016 to the Park Lucero I, Park Lucero II, Park Lucero III, Corridor Park, Hudson's Bay Centre and Park 8Ninety I joint venture arrangements.

The REIT is contingently liable for the obligations of certain joint arrangements. As at September 30, 2016, the co-owners' share of mortgage liabilities was $111,164 (December 31, 2015, $118,080). 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:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Non-current assets: | | |
| Investment properties | $ 278,115 | $ 246,144 |
| Investment properties under development | 63,580 | 61,465 |
| Current assets: | | |
| Prepaid expenses and other assets | 517 | 351 |
| Accounts receivable and other receivables | 459 | 1,069 |
| Cash and cash equivalents | 5,477 | 4,995 |
| | 348,148 | 314,024 |
| Non-current liabilities: | | |
| Mortgages and loans payable | 104,464 | 112,535 |
| Current liabilities: | | |
| Mortgages and loans payable | 33,902 | 19,663 |
| Security deposits and prepaid rent | 1,939 | 1,424 |
| Accounts payable and other liabilities | 15,898 | 7,336 |
| | 156,203 | 140,958 |
| Investments in joint ventures | $ 191,945 | $ 173,066 |

| | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Nine months ended September 30, 2016 | Nine months ended September 30, 2015 |
|---|---|---|---|---|
| Revenue | $ 5,831 | $ 5,104 | $ 17,649 | $ 10,884 |
| Expenses: | | | | |
| Property operating | 1,764 | 1,441 | 5,069 | 3,214 |
| Realty taxes | 885 | 530 | 2,848 | 1,254 |
| | 2,649 | 1,971 | 7,917 | 4,468 |
| Net operating income | 3,182 | 3,133 | 9,732 | 6,416 |
| Other income (expenses): | | | | |
| Interest expense | (1,192) | (848) | (3,356) | (1,889) |
| Interest income | 2 | — | 4 | — |
| Fair value gain on investment properties | 1,771 | 1,265 | 906 | 757 |
| Net income from investments in joint ventures | $ 3,763 | $ 3,550 | $ 7,286 | $ 5,284 |

## Note 13. 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, have not been allocated to the segments.

| | Three months ended September 30, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Western Canada | Central Canada | Eastern Canada | U.S. | REIT | Joint venture adjustment | Total |
| Revenue | $ 54,148 | $ 26,504 | $ 15,431 | $ 52,792 | $ 50 | $ (5,831) | $ 143,094 |
| Expenses: | | | | | | | |
| Property operating | 10,492 | 6,572 | 3,607 | 13,627 | — | (1,764) | 32,534 |
| Realty taxes | 7,672 | 3,656 | 2,628 | 8,816 | — | (885) | 21,887 |
| | 18,164 | 10,228 | 6,235 | 22,443 | — | (2,649) | 54,421 |
| Net operating income | 35,984 | 16,276 | 9,196 | 30,349 | 50 | (3,182) | 88,673 |
| Other income (expenses): | | | | | | | |
| Corporate expenses | — | — | — | — | (2,929) | — | (2,929) |
| Interest expense | (7,875) | (4,055) | (2,541) | (7,721) | (6,329) | 1,192 | (27,329) |
| Interest income | 242 | 7 | 4 | 3 | 42 | (2) | 296 |
| Net income from investments in joint ventures | — | — | — | — | — | 3,763 | 3,763 |
| Fair value gain (loss) on investment properties | 4,670 | 4,897 | (5,794) | 16,428 | — | (1,771) | 18,430 |
| Foreign currency translation gain | — | — | — | — | 206 | — | 206 |
| Transaction costs | (13) | — | — | (182) | — | — | (195) |
| Loss on financial instruments | — | — | — | — | (4,039) | — | (4,039) |
| Net income (loss) | $ 33,008 | $ 17,125 | $ 865 | $ 38,877 | $ (12,999) | $ — | $ 76,876 |
| Acquisition of investment properties | $ — | $ — | $ — | $ 97,173 | $ — | $ (10,601) | $ 86,572 |
| Additions to investment properties and investment properties under development | 2,651 | 9,420 | 6,441 | 16,153 | — | (11,309) | 23,356 |
| Additions to tenant inducements | 3,293 | 1,630 | 7,771 | 3,342 | — | (1,080) | 14,956 |
| Additions to leasing commissions | 718 | 229 | 1,920 | 1,599 | — | (479) | 3,987 |

| | Three months ended September 30, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Western Canada | Central Canada | Eastern Canada | U.S. | REIT | Joint venture adjustment | Total |
| Revenue | $ 59,018 | $ 25,562 | $ 15,684 | $ 39,944 | $ 46 | $ (5,104) | $ 135,150 |
| Expenses: | | | | | | | |
| Property operating | 12,537 | 6,715 | 4,129 | 8,779 | — | (1,441) | 30,719 |
| Realty taxes | 8,200 | 3,773 | 2,706 | 6,988 | — | (530) | 21,137 |
| | 20,737 | 10,488 | 6,835 | 15,767 | — | (1,971) | 51,856 |
| Net operating income | 38,281 | 15,074 | 8,849 | 24,177 | 46 | (3,133) | 83,294 |
| Other income (expenses): | | | | | | | |
| Corporate expenses | — | — | — | — | (2,728) | — | (2,728) |
| Interest expense | (9,070) | (4,119) | (2,794) | (6,376) | (6,006) | 848 | (27,517) |
| Interest income | 268 | 7 | 17 | 15 | 28 | — | 335 |
| Net income from investments in joint ventures | — | — | — | — | — | 3,550 | 3,550 |
| Fair value (loss) gain on investment properties | (70,555) | 4,125 | (1,293) | 3,380 | — | (1,265) | (65,608) |
| Foreign currency translation loss | — | — | — | — | (9,913) | — | (9,913) |
| Transaction costs | (1,080) | (142) | — | (26) | — | — | (1,248) |
| Loss on financial instruments | — | — | — | — | (3,612) | — | (3,612) |
| Net (loss) income | $ (42,156) | $ 14,945 | $ 4,779 | $ 21,170 | $ (22,185) | $ — | $ (23,447) |
| Acquisitions of investment properties | $ 54,772 | $ 19,262 | $ — | $ 10,149 | $ — | $ (74,034) | $ 10,149 |
| Additions to investment properties and investment properties under development | 2,755 | 6,159 | 2,111 | 8,090 | — | (2,565) | 16,550 |
| Additions to tenant inducements | 5,441 | 1,635 | 1,092 | 2,965 | — | 897 | 12,030 |
| Additions to leasing commissions | 1,572 | 868 | 365 | 2,225 | — | (173) | 4,857 |

| | Nine months ended September 30, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Western Canada | Central Canada | Eastern Canada | U.S. | REIT | Joint venture adjustment | Total |
| Revenue | $ 159,899 | $ 80,431 | $ 46,381 | $ 139,239 | $ 187 | $ (17,649) | $ 408,488 |
| Expenses: | | | | | | | |
| Property operating | 31,926 | 19,289 | 11,109 | 32,509 | — | (5,069) | 89,764 |
| Realty taxes | 23,409 | 12,363 | 7,927 | 24,837 | — | (2,848) | 65,688 |
| | 55,335 | 31,652 | 19,036 | 57,346 | — | (7,917) | 155,452 |
| Net operating income | 104,564 | 48,779 | 27,345 | 81,893 | 187 | (9,732) | 253,036 |
| Other income (expenses): | | | | | | | |
| Corporate expenses | — | — | — | — | (10,088) | — | (10,088) |
| Interest expense | (25,474) | (11,996) | (7,691) | (21,180) | (18,813) | 3,356 | (81,798) |
| Interest income | 753 | 22 | 14 | 10 | 129 | (4) | 924 |
| Net income from investments in joint ventures | — | — | — | — | — | 7,286 | 7,286 |
| Fair value (loss) gain on investment properties | (16,161) | (3,128) | (11,961) | 14,690 | — | (906) | (17,466) |
| Foreign currency translation gain | — | — | — | — | 2,350 | — | 2,350 |
| Transaction costs | (18) | — | — | (1,078) | — | — | (1,096) |
| Loss on financial instruments | — | — | — | — | (6,921) | — | (6,921) |
| Net income (loss) | $ 63,664 | $ 33,677 | $ 7,707 | $ 74,335 | $ (33,156) | $ — | $ 146,227 |
| Acquisition of investment properties | $ — | $ — | $ — | $ 349,548 | $ — | $ (10,601) | $ 338,947 |
| Additions to investment properties and investment properties under development | 8,561 | 25,143 | 8,404 | 45,335 | — | (29,030) | 58,413 |
| Additions to tenant inducements | 12,347 | 6,705 | 10,185 | 7,476 | — | (3,633) | 33,080 |
| Additions to leasing commissions | 2,827 | 1,184 | 2,171 | 5,838 | — | (804) | 11,216 |

| | September 30, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Western Canada | Central Canada | Eastern Canada | U.S. | REIT | Joint venture adjustment | Total |
| Total assets | $ 2,022,248 | $ 1,102,611 | $ 617,501 | $ 2,119,664 | $ 23,919 | $ (156,203) | $ 5,729,740 |
| Total liabilities | 804,309 | 410,941 | 264,762 | 1,004,843 | 730,097 | (156,203) | 3,058,749 |

| | Nine months ended September 30, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Western Canada | Central Canada | Eastern Canada | U.S. | REIT | Joint venture adjustment | Total |
| Revenue | $ 171,330 | $ 78,159 | $ 45,462 | $ 114,545 | $ 133 | $ (10,884) | $ 398,745 |
| Expenses: | | | | | | | |
| Property operating | 34,772 | 19,372 | 11,350 | 24,452 | — | (3,214) | 86,732 |
| Realty taxes | 23,246 | 11,012 | 7,978 | 20,828 | — | (1,254) | 61,810 |
| | 58,018 | 30,384 | 19,328 | 45,280 | — | (4,468) | 148,542 |
| Net operating income | 113,312 | 47,775 | 26,134 | 69,265 | 133 | (6,416) | 250,203 |
| Other income (expenses): | | | | | | | |
| Corporate expenses | — | — | — | — | (8,421) | — | (8,421) |
| Interest expense | (28,951) | (12,476) | (8,482) | (18,273) | (16,598) | 1,889 | (82,891) |
| Interest income | 834 | 29 | 33 | 42 | 95 | — | 1,033 |
| Net income from investments in joint ventures | — | — | — | — | — | 5,284 | 5,284 |
| Fair value (loss) gain on investment properties | (148,088) | 7,332 | (1,923) | 22,832 | — | (757) | (120,604) |
| Foreign currency translation loss | — | — | — | — | (16,823) | — | (16,823) |
| Transaction costs | (1,113) | (142) | — | (360) | — | — | (1,615) |
| Loss on financial instruments | — | — | — | — | (5,970) | — | (5,970) |
| Net (loss) income | $ (64,006) | $ 42,518 | $ 15,762 | $ 73,506 | $ (47,584) | $ — | $ 20,196 |
| Acquisitions of investment properties | $ 54,772 | $ 19,262 | $ — | $ 34,881 | $ — | $ (98,766) | $ 10,149 |
| Additions to investment properties and investment properties under development | 10,923 | 18,219 | 7,838 | 20,472 | — | (13,902) | 43,550 |
| Additions to tenant inducements | 8,322 | 3,296 | 2,196 | 7,602 | — | (1,206) | 20,210 |
| Additions to leasing commissions | 3,646 | 2,176 | 858 | 4,930 | — | (528) | 11,082 |

| | December 31, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Western Canada | Central Canada | Eastern Canada | U.S. | REIT | Joint venture adjustment | Total |
| Total assets | $ 2,124,465 | $ 1,075,915 | $ 607,600 | $ 1,802,299 | $ 41,001 | $ (140,958) | $ 5,510,322 |
| Total liabilities | 913,406 | 393,655 | 256,991 | 852,604 | 666,863 | (140,958) | 2,942,561 |

## Note 14. Commitments, contingencies and guarantees

(a) Letters of credit:

As of September 30, 2016, the REIT had issued letters of credit in the amount of $852 (December 31, 2015, $844).

(b) 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.

(c) Guarantees:

AX L.P. has guaranteed certain debt assumed by a purchaser in connection with the disposition of one property at September 30, 2016 (December 31, 2015, two properties). These guarantees will remain until the debt is modified, refinanced or extinguished. Credit risk arises in the event that the purchasers default on repayment of their debt since it is guaranteed by the REIT. This credit risk is mitigated as the REIT has recourse under these guarantees in the event of default by the purchasers, in which case the REIT would have a claim against the underlying properties. The estimated amount of debt subject to the guarantees at September 30, 2016 was $4,949 (December 31, 2015, $9,337), with an estimated weighted-average remaining term of 1.2 years (December 31, 2015, 1.3 years). No liabilities in excess of the fair value of the guarantees has been recognized in these interim condensed consolidated financial statements as the estimated fair value of the borrowers' interests in the underlying properties is greater than the mortgages payable for which the REIT provided the guarantees.

## Note 15. 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, convertible debentures, bank indebtedness and unitholders' equity.

The REIT's Declaration of Trust permits the REIT to incur indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of such indebtedness of the REIT is not more than 70% of the gross book value of the REIT's total assets. Gross book value as defined in the Declaration of Trust includes the consolidated book value of the assets of the REIT, plus the amount of accumulated depreciation and amortization recorded in the books and records of the REIT, plus the amount of any deferred tax liability arising out of any indirect acquisitions, calculated in accordance with generally accepted accounting principles. As at September 30, 2016, the ratio of such indebtedness to gross book value was 49.0% (December 31, 2015, 47.6%), which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

The total managed capital for the REIT is summarized below:

| | Note | September 30, 2016 | December 31, 2015 |
|---|---|---|---|
| Mortgages and loans payable | 5 | $ 2,240,752 | $ 2,198,319 |
| Senior unsecured debentures | 6 | 199,712 | 199,631 |
| Convertible debentures | 7 | 116,788 | 209,140 |
| Bank indebtedness | 8 | 370,586 | 225,000 |
| Total debt | | 2,927,838 | 2,832,090 |
| Unitholders' equity | | 2,670,991 | 2,567,761 |
| | | $ 5,598,829 | $ 5,399,851 |

## Note 16. Risk management and fair values

(a) 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:

(i) Interest rate risk:

The REIT is exposed to interest rate risk on its borrowings. It minimizes the risk by restricting debt to 70% of the gross book value of the REIT's total assets and by monitoring the amount of variable rate debt. The REIT has the majority of its mortgages payable and debentures in fixed rate terms. In addition, management considers the weighted-average term to maturity of long-term debt relative to the remaining average lease terms. At September 30, 2016, the REIT was a party to $1,288,478 of variable rate debt, including bank indebtedness (December 31, 2015, $905,819). At September 30, 2016, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with $404,797 of variable rate debt (December 31, 2015, $367,889).

(ii) Foreign currency risk:

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

A $0.10 weakening in the US dollar against the average Canadian dollar exchange rate of 1.3075 and 1.3169 for the three and nine months ended September 30, 2016, respectively, and the period end exchange rate of 1.3117 at September 30, 2016, would have increased net income by approximately $6,911 and $5,844 for the three and nine months ended September 30, 2016, respectively. A $0.10 weakening in the US dollar against the Canadian dollar would have decreased other comprehensive income by approximately $82,362 and $81,295 for the three and nine months ended September 30, 2016, respectively. Conversely, a $0.10 strengthening in the US dollar against the Canadian dollar would have had an equal but opposite effect. This analysis assumes that all variables, in particular interest rates, remain constant.

(b) Fair values:

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

There were no transfers of assets or liabilities between hierarchy levels during the nine months ended September 30, 2016.

| | | September 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|---|
| | Fair value hierarchy | Carrying value | Fair value | Carrying value | Fair value |
| Assets: | | | | | |
| Investment properties | Level 3 | $ 5,078,687 | $ 5,078,687 | $ 5,078,021 | $ 5,078,021 |
| Investment properties under development | Level 3 | 53,246 | 53,246 | 26,892 | 26,892 |
| Notes receivable | Level 2 | 16,987 | 18,574 | 18,520 | 20,236 |
| Investment properties held for sale | Level 3 | 302,652 | 302,652 | 115,504 | 115,504 |
| | | 5,451,572 | 5,453,159 | 5,238,937 | 5,240,653 |
| Liabilities: | | | | | |
| Mortgages and loans payable | Level 2 | 2,240,752 | 2,286,028 | 2,198,319 | 2,255,055 |
| Senior unsecured debentures | Level 2 | 199,712 | 205,064 | 199,631 | 206,783 |
| Convertible debentures | Level 1 | 116,788 | 116,584 | 209,140 | 208,817 |
| Derivative instruments | Level 2 | 16,758 | 16,758 | 10,811 | 10,811 |
| | | 2,574,010 | 2,624,434 | 2,617,901 | 2,681,466 |
| | | $ 2,877,562 | $ 2,828,725 | $ 2,621,036 | $ 2,559,187 |

The fair value of the REIT's accounts receivable and other receivables, cash held in trust, cash and cash equivalents, accounts payable and other liabilities and bank indebtedness 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 and senior unsecured debentures 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.

The fair value of the convertible debentures is based on the market price of the debentures.

The REIT entered into interest rate swaps on a number of mortgages. The swaps are not designated in a hedge relationship. An unrealized gain of $699 and a loss of $4,228 were recorded for the three and nine months ended September 30, 2016 (2015, loss of $3,612 and loss of $5,970), respectively, in relation to the fair value of these interest rate swaps.

The REIT recorded an unrealized loss of $3,997 and a loss of $1,952 for the three and nine months ended September 30, 2016, respectively, on the fair value of outstanding foreign currency contracts.

## Note 17. Subsequent events

The following events occurred subsequent to September 30, 2016:

- The REIT disposed of a portfolio of eight industrial properties located in Calgary and Edmonton, Alberta. The portfolio was sold for $171,082 and the related outstanding mortgage payable balances in the aggregate amount of $21,577 were either repaid or assumed by the purchaser.
- The REIT disposed of Southwood Corner, a retail property located in Calgary, Alberta. The property was sold for $40,200.
- The REIT disposed of Mayfield Industrial Plaza, an industrial property located in Edmonton, Alberta. The property was sold for $3,200 and the REIT used a portion of the proceeds to repay the outstanding mortgage balance of $1,030.
- The REIT repaid a net balance of $165,000 on its revolving term credit facilities.
- The REIT repaid a maturing mortgage on a retail property in the amount of $2,602.
- The REIT declared a monthly cash distribution of $0.09 per unit for the month of October 2016.
- The REIT declared a quarterly cash distribution of $0.3125 per Series G preferred unit for the quarter ending October 31, 2016.

## Note 18. Approval of financial statements

The interim condensed consolidated financial statements were approved by the Board of Trustees and authorized for issue on November 3, 2016.