Interim Condensed Consolidated Financial Statements of

ARTIS REAL ESTATE INVESTMENT TRUST

Three and six months ended June 30, 2017 and 2016
(Unaudited)

(In Canadian dollars)

Interim Condensed Consolidated Balance Sheets
(Unaudited)

(In thousands of Canadian dollars)

	Note	June 30, 2017	December 31, 2016
ASSETS			
Non-current assets:			
Investment properties	4	$ 4,808,105	$ 4,991,825
Investment properties under development	4	66,229	65,199
Investments in joint ventures	5	218,623	213,565
Property and equipment		3,746	3,351
Notes receivable		11,897	12,972
		5,108,600	5,286,912
Current assets:			
Investment properties held for sale	4	139,248	119,178
Deposits on investment properties		357	369
Prepaid expenses and other assets		9,550	11,728
Notes receivable		2,865	2,815
Accounts receivable and other receivables		15,224	13,173
Cash held in trust		8,511	7,851
Cash		43,117	50,729
		218,872	205,843
		$ 5,327,472	$ 5,492,755
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities:			
Mortgages and loans payable	6	$ 1,338,094	$ 1,520,124
Senior unsecured debentures	7	199,796	199,740
Convertible debentures	8	—	119,358
Other long-term liabilities		5,784	4,997
		1,543,674	1,844,219
Current liabilities:			
Mortgages and loans payable	6	628,506	627,838
Security deposits and prepaid rent		35,749	35,213
Accounts payable and other liabilities		72,603	88,439
Credit facilities	9	434,978	269,680
		1,171,836	1,021,170
		2,715,510	2,865,389
Unitholders' equity		2,611,962	2,627,366
Commitments, contingencies and guarantees	16		
Subsequent events	20		
		$ 5,327,472	$ 5,492,755

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, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Revenue		$ 129,507	$ 132,400	$ 263,064	$ 265,394
Expenses:					
Property operating		29,737	28,466	61,568	57,230
Realty taxes		21,070	21,557	42,518	43,801
		50,807	50,023	104,086	101,031
Net operating income		78,700	82,377	158,978	164,363
Other income (expenses):					
Corporate expenses		(3,330)	(3,521)	(7,112)	(7,159)
Interest expense	12	(24,070)	(27,193)	(49,152)	(54,469)
Interest income		262	330	541	628
Net income from investments in joint ventures	5	1,528	3,280	7,642	3,523
Fair value loss on investment properties	4	(16,169)	(22,745)	(2,698)	(35,896)
Foreign currency translation gain (loss)		1,552	(4,010)	6,419	2,144
Transaction costs	3	—	(862)	—	(901)
Gain (loss) on financial instruments		131	2,921	610	(2,882)
Income before income taxes		38,604	30,577	115,228	69,351
Income tax (expense) recovery		(51)	—	341	—
Net income		38,553	30,577	115,569	69,351
Other comprehensive (loss) income that may be reclassified to net income in subsequent periods:					
Unrealized foreign currency translation (loss) gain		(26,329)	3,559	(35,347)	(50,051)
Unrealized foreign currency translation (loss) gain on investments in joint ventures		(3,743)	507	(4,815)	(6,407)
Other comprehensive income (loss) that will not be reclassified to net income in subsequent periods:					
Unrealized gain (loss) from remeasurements of net pension obligation		38	(35)	(8)	(26)
		(30,034)	4,031	(40,170)	(56,484)
Total comprehensive income		$ 8,519	$ 34,608	$ 75,399	$ 12,867
Basic income per unit attributable to common unitholders	10 (d)	$ 0.23	$ 0.18	$ 0.71	$ 0.43
Diluted income per unit attributable to common unitholders	10 (d)	0.22	0.18	0.71	0.43
Weighted-average number of common units outstanding:					
Basic	10 (d)	150,580,758	141,190,835	150,563,034	140,202,763
Diluted	10 (d)	150,965,414	141,190,835	150,939,640	140,560,700

See accompanying notes to interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Changes in Unitholders' Equity

(Unaudited)

(In thousands of Canadian dollars)

	Common units capital contributions (note 10 (a) (ii))	Equity component of convertible debentures	Retained earnings	Accumulated other comprehensive income (loss)	Contributed surplus	Total common equity	Total preferred equity	Total
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	125,579	—	—	—	—	125,579	—	125,579
Unit-based compensation expense	—	—	—	—	128	128	—	128
Net income	—	—	69,351	—	—	69,351	—	69,351
Other comprehensive loss	—	—	—	(56,484)	—	(56,484)	—	(56,484)
Distributions	—	—	(86,355)	—	—	(86,355)	—	(86,355)
Unitholders' equity, June 30, 2016	1,940,650	11,023	169,897	167,653	5,134	2,294,357	325,623	2,619,980
Changes for the period:								
Issuance of units, net of issue costs	17,694	(1)	—	—	—	17,693	—	17,693
Redemption of convertible debentures	—	(11,022)	—	—	11,022	—	—	—
Net income	—	—	46,584	—	—	46,584	—	46,584
Other comprehensive income	—	—	—	35,805	—	35,805	—	35,805
Distributions	—	—	(92,696)	—	—	(92,696)	—	(92,696)
Unitholders' equity, December 31, 2016	1,958,344	—	123,785	203,458	16,156	2,301,743	325,623	2,627,366
Changes for the period:								
Issuance of units, net of issue costs	3,218	—	—	—	—	3,218	—	3,218
Net income	—	—	115,569	—	—	115,569	—	115,569
Other comprehensive loss	—	—	—	(40,170)	—	(40,170)	—	(40,170)
Distributions	—	—	(94,021)	—	—	(94,021)	—	(94,021)
Unitholders' equity, June 30, 2017	$ 1,961,562	$ —	$ 145,333	$ 163,288	$ 16,156	$ 2,286,339	$ 325,623	$ 2,611,962

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, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Cash provided by (used in):					
Operating activities:					
Net income		$ 38,553	$ 30,577	$ 115,569	$ 69,351
Distributions from joint ventures		640	1,445	1,606	2,749
Adjustments for non-cash items:					
Fair value loss on investment properties	4	16,169	22,745	2,698	35,896
Depreciation of property and equipment		224	219	465	432
Net income from investments in joint ventures	5	(1,528)	(3,280)	(7,642)	(3,523)
Amortization of tenant inducements		4,107	4,076	8,319	7,951
Amortization of above- and below-market mortgages, net		(293)	(545)	(616)	(1,095)
Accretion on liability component of debentures		(52)	(187)	(227)	(386)
Straight-line rent adjustments	4	(1,632)	(1,072)	(3,099)	(2,052)
Unrealized foreign currency translation (gain) loss		(1,795)	4,344	(4,834)	(1,856)
(Gain) loss on financial instruments		(131)	(2,921)	(610)	2,882
Unit-based compensation		301	777	807	1,431
Amortization of financing costs included in interest expense		857	819	1,708	1,589
Other long-term employee benefits		345	421	756	897
Changes in non-cash operating items		(553)	4,184	(14,337)	3,562
		55,212	61,602	100,563	117,828
Investing activities:					
Acquisitions of investment properties, net of related debt	3	—	(115,121)	—	(115,121)
Proceeds from dispositions of investment properties, net of costs and related debt	3	6,581	55,125	149,208	55,125
Additions to investment properties	4	(11,370)	(21,475)	(18,718)	(28,099)
Additions to investment properties under development	4	(8,123)	(2,588)	(18,503)	(6,958)
Additions to joint ventures	5	(2,797)	(1,227)	(5,013)	(7,733)
Additions to tenant inducements		(9,933)	(10,384)	(19,361)	(18,124)
Additions to leasing commissions	4	(3,757)	(2,632)	(7,225)	(7,229)
Notes receivable principal repayments		505	496	1,001	971
Additions to property and equipment		(88)	(91)	(867)	(236)
Change in deposits on investment properties		—	(2,450)	—	(5,025)
Change in cash held in trust		9	2,455	(801)	2,960
		(28,973)	(97,892)	79,721	(129,469)
Financing activities:					
Issuance of common units, net of issue costs		—	117,919	2,972	125,579
Repayment of convertible debentures		—	—	(116,549)	—
Change in credit facilities		78,500	61,000	168,500	75,000
Distributions paid on common units		(40,656)	(37,728)	(84,770)	(76,274)
Distributions paid on preferred units		(4,597)	(3,320)	(9,227)	(7,916)
Mortgages and loans principal repayments		(14,704)	(14,136)	(29,890)	(28,944)
Repayment of mortgages and loans payable		(84,485)	(36,074)	(122,394)	(36,074)
Advance of mortgages and loans payable, net of financing costs		5,480	13,081	5,291	50,431
		(60,462)	100,742	(186,067)	101,802
Foreign exchange loss on cash held in foreign currency		(147)	(2,562)	(1,829)	(6,118)
(Decrease) increase in cash		(34,370)	61,890	(7,612)	84,043
Cash, beginning of period		77,487	88,602	50,729	66,449
Cash, end of period		$ 43,117	$ 150,492	$ 43,117	$ 150,492
Supplemental cash flow information:					
Interest paid		$ 23,352	$ 29,571	$ 54,575	$ 56,756
Interest received		263	332	543	630

See accompanying notes to interim condensed consolidated financial statements.

Notes to Interim Condensed Consolidated Financial Statements

Three and six months ended June 30, 2017 and 2016 (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 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 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, 2016. 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, 2016.

(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, 2016. There have been no changes to the critical accounting estimates and judgments during the six months ended June 30, 2017.

(c) 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 does not expect a material impact to its consolidated financial statements from the adoption 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, the 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 does not expect a material impact to its consolidated financial statements from the adoption 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. The changes do not materially impact the lessor accounting model. 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 did not acquire any properties during the six months ended June 30, 2017.

The REIT acquired the following properties during the six months ended June 30, 2016:

Property	Property count	Location	Acquisition date	Asset class
Madison Lifestyle Office Portfolio (1)	14	Madison, WI	June 13, 2016	Office

(1) The REIT acquired the first tranche of this portfolio on June 13, 2016. The second tranche closed on August 1, 2016.

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, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Investment properties (note 4)	$ —	$ 252,375	$ —	$ 252,375
Long-term debt, including acquired above- and below-market mortgages, net of financing costs	—	(137,254)	—	(137,254)
Cash consideration	$ —	$ 115,121	$ —	$ 115,121
Transaction costs expensed	$ —	$ 862	$ —	$ 901

Dispositions:

The REIT disposed of the following properties during the six months ended June 30, 2017:

Property	Property count	Location	Disposition date	Asset class
Airdrie Flex Industrial	1	Airdrie, AB	February 6, 2017	Industrial
Southview Centre	1	Medicine Hat, AB	March 10, 2017	Retail
Westbank Hub Shopping Centre and Westbank Hub Centre North (1)	2	Westbank, BC	March 15, 2017	Retail
Ford Tower and Alpine Building	2	Calgary, AB	March 30, 2017	Office
Edson Shoppers	1	Edson, AB	April 7, 2017	Retail

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

The proceeds from the sale of the above properties, net of costs and related debt, were $149,208. The assets and liabilities associated with the properties were derecognized.

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

(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 $55,125. The assets and liabilities associated with the properties were derecognized.

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

Six months ended June 30, 2017

	Investment properties	Investment properties under development	Investment properties held for sale
Balance, beginning of period	$ 4,991,825	$ 65,199	$ 119,178
Additions:			
Capital expenditures	18,718	18,503	—
Leasing commissions	7,217	8	—
Dispositions	(36,720)	—	(118,084)
Reclassification of investment properties under development	14,142	(14,142)	—
Reclassification of investment properties held for sale	(139,248)	—	139,248
Foreign currency translation loss	(61,909)	(1,796)	—
Straight-line rent adjustments	3,115	2	(18)
Tenant inducement additions, net of amortization	10,910	150	(18)
Fair value gain (loss)	55	(1,695)	(1,058)
Balance, end of period	$ 4,808,105	$ 66,229	$ 139,248

Year ended December 31, 2016

	Investment properties	Investment properties under development	Investment properties held for sale
Balance, beginning of year	$ 5,078,021	$ 26,892	$ 115,504
Additions:			
Acquisitions	340,115	—	—
Capital expenditures	57,373	23,864	40
Leasing commissions	16,139	141	53
Dispositions	(35,134)	—	(326,196)
Reclassification of investment properties under development	(18,631)	18,631	—
Reclassification of investment properties held for sale	(337,836)	—	337,836
Foreign currency translation (loss) gain	(35,484)	(338)	28
Straight-line rent adjustments	5,472	4	(30)
Tenant inducement additions, net of amortization	24,548	341	(394)
Fair value loss	(102,758)	(4,336)	(7,663)
Balance, end of year	$ 4,991,825	$ 65,199	$ 119,178

During the six months ended June 30, 2017, the REIT reclassified one industrial property from investment properties under development to investment properties.

The REIT reclassified one retail property and nine industrial properties to investment properties held for sale that were listed with an external broker or under unconditional sale agreements at June 30, 2017. These properties had an aggregate mortgage payable balance of $71,547 at June 30, 2017, which is not accounted for as held for sale and is included in current liabilities.

At June 30, 2017, investment properties with a fair value of $3,952,567 (December 31, 2016, $4,218,827) 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, 2017, properties with an appraised value of $316,000 and $566,480, respectively, (2016, $173,610 and $232,410) 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 six months ended June 30, 2017 and the year ended December 31, 2016.

Under the fair value hierarchy, the fair value of the REIT's investment properties is considered a Level 3, as described in note 19.

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

	June 30, 2017			December 31, 2016		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Western Canada:						
Discount rate	9.50%	6.25%	7.64%	9.50%	6.25%	7.60%
Terminal capitalization rate	9.00%	4.50%	6.83%	9.00%	4.50%	6.81%
Capitalization rate	8.75%	4.50%	6.81%	8.75%	4.50%	6.75%
Investment horizon (years)	12.0	10.0	10.2	12.0	9.0	10.2
Central Canada:						
Discount rate	9.00%	6.25%	7.70%	9.00%	6.25%	7.70%
Terminal capitalization rate	8.50%	5.75%	6.47%	8.50%	5.75%	6.46%
Capitalization rate	8.25%	5.50%	6.27%	8.25%	5.50%	6.27%
Investment horizon (years)	12.0	10.0	10.4	12.0	9.0	10.3
Eastern Canada:						
Discount rate	7.75%	6.50%	7.16%	7.75%	6.50%	7.17%
Terminal capitalization rate	6.75%	4.75%	6.10%	7.00%	5.25%	6.35%
Capitalization rate	7.00%	4.75%	6.14%	7.00%	5.00%	6.25%
Investment horizon (years)	12.0	10.0	10.3	12.0	10.0	10.1
U.S.:						
Discount rate	9.00%	7.00%	8.10%	9.00%	7.00%	8.10%
Terminal capitalization rate	8.75%	5.75%	7.11%	8.75%	5.75%	7.16%
Capitalization rate	8.50%	5.50%	6.89%	8.50%	5.50%	6.89%
Investment horizon (years)	20.0	10.0	11.1	20.0	10.0	11.1
Overall:						
Discount rate	9.50%	6.25%	7.73%	9.50%	6.25%	7.71%
Terminal capitalization rate	9.00%	4.50%	6.73%	9.00%	4.50%	6.77%
Capitalization rate	8.75%	4.50%	6.61%	8.75%	4.50%	6.62%
Investment horizon (years)	20.0	10.0	10.6	20.0	9.0	10.5

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

Note 5. Joint arrangements

The REIT had interests in the following joint arrangements:

Property	Principal purpose	Type of arrangement	Ownership interest June 30, 2017	Ownership interest December 31, 2016
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%	90%
Park Lucero IV	Investment property	Joint venture	90%	90%
Millwright Building	Investment property	Joint venture	80%	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%
Westbank Hub Centre North	Investment property	Joint operation	-	75%
Westbank Hub Shopping Centre	Investment property	Joint operation	-	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.

The REIT contributed $5,013 during the six months ended June 30, 2017 to the Park Lucero, 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 June 30, 2017, the co-owners' share of mortgage liabilities was $101,783 (December 31, 2016, $114,575). 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, 2017	December 31, 2016
Non-current assets:		
Investment properties	$ 403,248	$ 284,249
Investment properties under development	3,917	92,305
Current assets:		
Prepaid expenses and other assets	232	292
Accounts receivable and other receivables	927	559
Cash	7,701	8,312
	416,025	385,717
Non-current liabilities:		
Mortgages and loans payable	146,675	117,804
Current liabilities:		
Mortgages and loans payable	36,508	34,709
Security deposits and prepaid rent	3,113	2,094
Accounts payable and other liabilities	11,106	17,545
	197,402	172,152
Investments in joint ventures	$ 218,623	$ 213,565

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Revenue	$ 6,710	$ 5,759	$ 12,691	$ 11,818
Expenses:				
Property operating	2,009	1,632	3,822	3,305
Realty taxes	1,133	887	2,177	1,963
	3,142	2,519	5,999	5,268
Net operating income	3,568	3,240	6,692	6,550
Other income (expenses):				
Interest expense	(1,410)	(1,067)	(2,711)	(2,164)
Interest income	2	2	3	2
Fair value (loss) gain on investment properties	(632)	1,105	3,658	(865)
Net income from investments in joint ventures	$ 1,528	$ 3,280	$ 7,642	$ 3,523

Note 6. Mortgages and loans payable

		June 30, 2017		December 31, 2016
Mortgages and loans payable	$	1,969,075	$	2,150,621
Net above- and below-market mortgage adjustments		5,693		6,540
Financing costs		(8,168)		(9,199)
		1,966,600		2,147,962
Current portion		628,506		627,838
Non-current portion	$	1,338,094	$	1,520,124

The majority of the REIT's investment properties have been pledged as security under mortgages and other security agreements. 53.3% of the REIT's mortgages and loans payable bear interest at fixed rates (December 31, 2016, 54.4%), and a further 26.1% of the REIT's mortgages and loans payable bear interest at variable rates with interest rate swaps in place (December 31, 2016, 22.8%). The weighted-average effective rate on all mortgages and loans payable was 3.90% and the weighted-average nominal rate was 3.76% at June 30, 2017 (December 31, 2016, 3.75% and 3.71%, respectively). Maturity dates range from July 1, 2017 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, 2017.

Note 7. 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
June 30, 2017	$	200,000	$	373	$	(577)	$	199,796	$	—	$	199,796
December 31, 2016		200,000		476		(736)		199,740		—		199,740

During the three and six months ended June 30, 2017, accretion to the liability of $52 and $103 (2016, $50 and $99) and financing cost amortization of $80 and $159 (2016, $77 and $153) were recorded.

In accordance with the Series A senior unsecured debenture supplemental indenture, the REIT must maintain various financial covenants. At June 30, 2017, the REIT was in compliance with these requirements.

Note 8. Convertible debentures

During the six months ended June 30, 2017, Series G convertible debentures with a face value of US$25 were converted and the REIT issued 1,318 units at the conversion price of US$18.96 per unit. On February 28, 2017, the REIT exercised its early redemption option and repaid the outstanding face value of the Series G convertible debentures in the amount of US$87,975.

	Face value	Equity portion	Liability portion	Accretion	Carrying value	Current portion	Non-current portion
June 30, 2017	$ —	$ —	$ —	$ —	$ —	$ —	$ —
December 31, 2016	118,158	—	122,411	(3,053)	119,358	—	119,358

During the three and six months ended June 30, 2017, accretion of $nil and $124, respectively, reduced the carrying value of the liability component (2016, $137 and $287).

Note 9. Credit facilities

The REIT has unsecured revolving term credit facilities in the aggregate amount of $500,000, which can be utilized for general corporate and working capital purposes, short-term financing of investment property acquisitions and the issuance of letters of credit. The REIT can draw on the facilities in Canadian or US dollars.

On June 30, 2017, the REIT entered into a new unsecured non-revolving term credit facility in the amount of $150,000 which can be utilized for general corporate and working capital purposes, property acquisitions and development financing. The REIT has the option to place an interest rate swap on top of the facility at any point during its term. The financial covenants under this facility are consistent with the financial covenants under the REIT's unsecured revolving term credit facilities, as disclosed in its consolidated financial statements for the year ended December 31, 2016.

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

	June 30, 2017			December 31, 2016		
	Borrowing capacity	Amounts drawn	Available to be drawn	Amounts drawn	Available to be drawn	Interest rates
Revolving facilities maturing December 15, 2018	$ 300,000	$ 260,978	$ 39,022	$ 189,680	$ 110,320	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, 2021	200,000	174,000	26,000	80,000	120,000	BA rate plus 1.70% or prime plus 0.70% or LIBOR plus 1.70% or U.S. base rate plus 0.70%
	500,000	434,978	65,022	269,680	230,320	
Non-revolving facility maturing July 6, 2022	150,000	—	150,000	—	—	BA rate plus 1.60% or prime plus 0.60%
Total credit facilities	$ 650,000	$ 434,978	$ 215,022	$ 269,680	$ 230,320	

For purposes of the credit facilities, the REIT must maintain various financial covenants. As at June 30, 2017, the REIT was in compliance with these requirements.

Note 10. Unitholders' equity

(a) Common units:

(i) Authorized:

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

(ii) Issued and outstanding:

	Number of units	Amount
Balance at December 31, 2015	138,864,486	$ 1,815,071
Public offerings, net of issue costs of $5,106	8,712,400	109,898
Restricted units redeemed	62,338	774
Conversion of Series F convertible debentures	645	11
Distribution Reinvestment and Unit Purchase Plan	2,693,208	32,590
Balance at December 31, 2016	150,333,077	1,958,344
Restricted units redeemed	16,034	210
Conversion of Series G convertible debentures	1,318	36
Distribution Reinvestment and Unit Purchase Plan	242,312	2,972
Balance at June 30, 2017	150,592,741	$ 1,961,562

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

(b) Preferred units:

In accordance with the Declaration of Trust, the REIT may issue an unlimited number of preferred units.

Particulars of the REIT's outstanding preferred units are as follows:

Preferred unit series	Issue date	Number of units outstanding	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 August 8, 2016, 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. As at June 30, 2017, the REIT had not issued any securities under this short form base shelf prospectus.

(d) Weighted-average common units:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Net income	$ 38,553	$ 30,577	$ 115,569	$ 69,351
Adjustment for distributions to preferred unitholders (note 11)	(4,597)	(4,584)	(9,227)	(9,180)
Net income attributable to common unitholders	33,956	25,993	106,342	60,171
Adjustment for restricted units	(5)	—	86	142
Adjustment for deferred units	(8)	—	19	—
Diluted net income attributable to common unitholders	$ 33,943	$ 25,993	$ 106,447	$ 60,313
The weighted-average number of common units outstanding was as follows:				
Basic common units	150,580,758	141,190,835	150,563,034	140,202,763
Effect of dilutive securities:				
Restricted units	324,834	—	320,513	357,937
Deferred units	59,822	—	56,093	—
Diluted common units	150,965,414	141,190,835	150,939,640	140,560,700
Net income per unit attributable to common unitholders:				
Basic	$ 0.23	$ 0.18	$ 0.71	$ 0.43
Diluted	0.22	0.18	0.71	0.43

The computation of diluted net income per unit attributable to common unitholders includes unit options, convertible debentures, restricted units and deferred units when these instruments are dilutive. For the three and six months ended June 30, 2017, there were no anti-dilutive instruments. For the three months ended June 30, 2016, unit options, the convertible debentures, restricted units and deferred units were anti-dilutive, with an aggregate total of 12,065,778 units. For the six months ended June 30, 2016, unit options, the convertible debentures and deferred units were anti-dilutive, with an aggregate total of 11,700,974 units.

Note 11. Distributions to unitholders

Total distributions declared to unitholders were as follows:

		Three months ended June 30, 2017		Three months ended June 30, 2016
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	$ 40,658	$ 0.27	$ 38,569	$ 0.27
Preferred unitholders - Series A	1,132	0.33	1,132	0.33
Preferred unitholders - Series C	1,278	0.43	1,265	0.42
Preferred unitholders - Series E	1,187	0.30	1,187	0.30
Preferred unitholders - Series G	1,000	0.31	1,000	0.31

		Six months ended June 30, 2017		Six months ended June 30, 2016
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	$ 81,314	$ 0.54	$ 76,183	$ 0.54
Preferred unitholders - Series A	2,264	0.66	2,264	0.66
Preferred unitholders - Series C	2,588	0.86	2,541	0.85
Preferred unitholders - Series E	2,375	0.59	2,375	0.59
Preferred unitholders - Series G	2,000	0.63	2,000	0.63

Note 12. Interest expense

		Three months ended June 30,		Six months ended June 30,
	2017	2016	2017	2016
Interest on mortgages and loans	$ 19,087	$ 20,870	$ 38,653	$ 41,951
Interest on senior unsecured debentures	1,856	1,857	3,721	3,732
Interest on convertible debentures	—	2,922	1,075	5,954
Interest on credit facilities	2,615	1,457	4,838	2,724
Net amortization of above- and below-market mortgages fair value adjustments	(293)	(545)	(616)	(1,095)
Amortization of financing costs	857	819	1,708	1,589
Accretion on liability component of debentures	(52)	(187)	(227)	(386)
	$ 24,070	$ 27,193	$ 49,152	$ 54,469

In the REIT's investments in joint ventures, interest of $222 and $323 was capitalized related to projects under development during the three and six months ended June 30, 2017, respectively (2016, $159 and $159).

Note 13. Income 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.

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 14. 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 June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Property management fees	$ 84	$ 54	$ 166	$ 136
Capitalized leasing commissions	20	2	27	11
Capitalized project management fees	16	21	40	58
Capitalized building improvements	5,006	11,613	9,324	15,289
Capitalized development projects	1,089	744	3,595	1,215
Capitalized tenant inducements	2,880	204	4,647	522
Capitalized office furniture and fixtures	—	69	—	148
Realty tax assessment consulting fees	427	49	458	539
Rental revenues	(88)	(72)	(177)	(144)

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 June 30, 2017, was $29 (December 31, 2016, $28).

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 June 30, 2017, was $4,242 (December 31, 2016, $8,680).

The REIT incurred costs for office furniture and fixtures paid to Marwest Construction. The amount payable at June 30, 2017, was $nil (December 31, 2016, $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 June 30, 2017, was $nil (December 31, 2016, $68).

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.

Note 15. 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, 2017						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint venture adjustment	Total
Revenue	$ 39,717	$ 26,413	$ 15,199	$ 54,830	$ 58	$ (6,710)	$ 129,507
Expenses:							
Property operating	8,857	6,252	3,683	12,954	—	(2,009)	29,737
Realty taxes	6,659	3,930	2,532	9,082	—	(1,133)	21,070
	15,516	10,182	6,215	22,036	—	(3,142)	50,807
Net operating income	24,201	16,231	8,984	32,794	58	(3,568)	78,700
Other income (expenses):							
Corporate expenses	—	—	—	—	(3,330)	—	(3,330)
Interest expense	(5,839)	(3,394)	(2,477)	(9,049)	(4,721)	1,410	(24,070)
Interest income	218	14	6	4	22	(2)	262
Net income from investments in joint ventures	—	—	—	—	—	1,528	1,528
Fair value (loss) gain on investment properties	(2,142)	(12,115)	9,333	(11,877)	—	632	(16,169)
Foreign currency translation gain	—	—	—	—	1,552	—	1,552
Gain on financial instruments	—	—	—	—	131	—	131
Income (loss) before income taxes	16,438	736	15,846	11,872	(6,288)	—	38,604
Income tax expense	—	—	—	(51)	—	—	(51)
Net income (loss)	$ 16,438	$ 736	$ 15,846	$ 11,821	$ (6,288)	$ —	$ 38,553
Acquisition of investment properties	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Additions to investment properties and investment properties under development	1,644	7,210	1,747	20,322	—	(11,430)	19,493
Additions to tenant inducements	3,675	2,275	1,549	7,591	—	(5,157)	9,933
Additions to leasing commissions	1,281	345	416	2,245	—	(530)	3,757

	Three months ended June 30, 2016						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint venture adjustment	Total
Revenue	$ 53,099	$ 26,730	$ 15,590	$ 42,655	$ 85	$ (5,759)	$ 132,400
Expenses:							
Property operating	10,700	6,258	3,817	9,323	—	(1,632)	28,466
Realty taxes	7,692	4,309	2,655	7,788	—	(887)	21,557
	18,392	10,567	6,472	17,111	—	(2,519)	50,023
Net operating income	34,707	16,163	9,118	25,544	85	(3,240)	82,377
Other income (expenses):							
Corporate expenses	—	—	—	—	(3,521)	—	(3,521)
Interest expense	(8,765)	(4,079)	(2,552)	(6,549)	(6,315)	1,067	(27,193)
Interest income	257	8	4	4	59	(2)	330
Net income from investments in joint ventures	—	—	—	—	—	3,280	3,280
Fair value (loss) gain on investment properties	(13,994)	(6,033)	(6,488)	4,875	—	(1,105)	(22,745)
Foreign currency translation loss	—	—	—	—	(4,010)	—	(4,010)
Transaction costs	(5)	—	—	(857)	—	—	(862)
Gain on financial instruments	—	—	—	—	2,921	—	2,921
Income (loss) before income taxes	12,200	6,059	82	23,017	(10,781)	—	30,577
Income tax expense	—	—	—	—	—	—	—
Net income (loss)	$ 12,200	$ 6,059	$ 82	$ 23,017	$ (10,781)	$ —	$ 30,577
Acquisitions of investment properties	$ —	$ —	$ —	$ 252,375	$ —	$ —	$ 252,375
Additions to investment properties and investment properties under development	1,848	13,221	1,348	13,297	—	(5,651)	24,063
Additions to tenant inducements	5,391	2,429	1,870	2,390	—	(1,696)	10,384
Additions to leasing commissions	915	241	30	1,676	—	(230)	2,632

	Six months ended June 30, 2017						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	$ 83,415	$ 53,259	$ 30,403	$ 108,547	$ 131	$ (12,691)	$ 263,064
Expenses:							
Property operating	18,429	13,102	7,506	26,353	—	(3,822)	61,568
Realty taxes	13,399	7,973	5,172	18,151	—	(2,177)	42,518
	31,828	21,075	12,678	44,504	—	(5,999)	104,086
Net operating income	51,587	32,184	17,725	64,043	131	(6,692)	158,978
Other income (expenses):							
Corporate expenses	—	—	—	—	(7,112)	—	(7,112)
Interest expense	(12,463)	(6,862)	(4,973)	(17,623)	(9,942)	2,711	(49,152)
Interest income	444	29	11	7	53	(3)	541
Net income from investments in joint ventures	—	—	—	—	—	7,642	7,642
Fair value (loss) gain on investment properties	(3,856)	(11,014)	18,224	(2,394)	—	(3,658)	(2,698)
Foreign currency translation gain	—	—	—	—	6,419	—	6,419
Gain on financial instruments	—	—	—	—	610	—	610
Income (loss) before income taxes	35,712	14,337	30,987	44,033	(9,841)	—	115,228
Income tax recovery	—	—	—	341	—	—	341
Net income (loss)	$ 35,712	$ 14,337	$ 30,987	$ 44,374	$ (9,841)	$ —	$ 115,569
Acquisition of investment properties	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Additions to investment properties and investment properties under development	3,353	14,145	2,921	47,319	—	(30,517)	37,221
Additions to tenant inducements	8,117	4,053	2,193	11,996	—	(6,998)	19,361
Additions to leasing commissions	3,090	603	821	3,681	—	(970)	7,225

	June 30, 2017						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Total assets	$ 1,550,921	$ 1,124,303	$ 652,042	$ 2,185,754	$ 11,854	$ (197,402)	$ 5,327,472
Total liabilities	646,119	310,286	263,675	1,022,508	670,324	(197,402)	2,715,510

	Six months ended June 30, 2016						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	$ 105,751	$ 53,927	$ 30,950	$ 86,447	$ 137	$ (11,818)	$ 265,394
Expenses:							
Property operating	21,434	12,717	7,502	18,882	—	(3,305)	57,230
Realty taxes	15,737	8,707	5,299	16,021	—	(1,963)	43,801
	37,171	21,424	12,801	34,903	—	(5,268)	101,031
Net operating income	68,580	32,503	18,149	51,544	137	(6,550)	164,363
Other income (expenses):							
Corporate expenses	—	—	—	—	(7,159)	—	(7,159)
Interest expense	(17,599)	(7,941)	(5,150)	(13,459)	(12,484)	2,164	(54,469)
Interest income	511	15	10	7	87	(2)	628
Net income from investments in joint ventures	—	—	—	—	—	3,523	3,523
Fair value loss on investment properties	(20,831)	(8,025)	(6,167)	(1,738)	—	865	(35,896)
Foreign currency translation gain	—	—	—	—	2,144	—	2,144
Transaction costs	(5)	—	—	(896)	—	—	(901)
Loss on financial instruments	—	—	—	—	(2,882)	—	(2,882)
Income (loss) before income taxes	30,656	16,552	6,842	35,458	(20,157)	—	69,351
Income tax expense	—	—	—	—	—	—	—
Net income (loss)	$ 30,656	$ 16,552	$ 6,842	$ 35,458	$ (20,157)	$ —	$ 69,351
Acquisitions of investment properties	$ —	$ —	$ —	$ 252,375	$ —	$ —	$ 252,375
Additions to investment properties and investment properties under development	5,910	15,723	1,963	29,182	—	(17,721)	35,057
Additions to tenant inducements	9,054	5,075	2,414	4,134	—	(2,553)	18,124
Additions to leasing commissions	2,109	955	251	4,239	—	(325)	7,229

	December 31, 2016						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Total assets	$ 1,697,992	$ 1,115,532	$ 626,732	$ 2,194,824	$ 29,827	$ (172,152)	$ 5,492,755
Total liabilities	763,599	343,232	269,031	1,035,065	626,614	(172,152)	2,865,389

Note 16. Commitments, contingencies and guarantees

(a) Letters of credit:

As of June 30, 2017, the REIT had issued letters of credit in the amount of $3,841 (December 31, 2016, $3,841).

(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 purchasers in connection with the dispositions of two properties at June 30, 2017 (December 31, 2016, 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 June 30, 2017 was $14,529 (December 31, 2016, $14,810), with an estimated weighted-average remaining term of 2.9 years (December 31, 2016, 3.4 years). No liabilities in excess of the fair values of the guarantees has been recognized in these 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 17. 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, 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, 2017, the ratio of such indebtedness to gross book value was 48.8% (December 31, 2016, 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	June 30, 2017	December 31, 2016
Mortgages and loans payable	6	$ 1,966,600	$ 2,147,962
Senior unsecured debentures	7	199,796	199,740
Convertible debentures	8	—	119,358
Credit facilities	9	434,978	269,680
Total debt		2,601,374	2,736,740
Unitholders' equity		2,611,962	2,627,366
		$ 5,213,336	$ 5,364,106

Note 18. 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 being taken to manage them, are as follows:

(a) Interest rate risk:

The REIT is exposed to interest rate risk on its borrowings. The Declaration of Trust restricts the REIT's indebtedness to 70% of the gross book value of the REIT's total assets. The REIT also monitors the amount of variable rate debt. The REIT has the majority of its mortgages payable and debentures in fixed rate terms. In addition, management considers the weighted-average term to maturity of long-term debt relative to the remaining average lease terms. At June 30, 2017, the REIT was a party to $1,354,846 of variable rate debt, including credit facilities (December 31, 2016, $1,250,599). At June 30, 2017, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with $514,161 of variable rate debt (December 31, 2016, $489,310).

(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. 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 1.3422 and 1.3346 for the three and six months ended June 30, 2017, respectively, and the period end exchange rate of 1.2977 at June 30, 2017, would have increased net income by approximately $195 and would have decreased net income by $1,101 for the three and six months ended June 30, 2017, respectively. A $0.10 weakening in the US dollar against the Canadian dollar would have increased the other comprehensive loss by approximately $89,881 and $88,586 for the three and six months ended June 30, 2017. 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 19. 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, 2017.

		June 30, 2017		December 31, 2016	
	Fair value hierarchy	Carrying value	Fair value	Carrying value	Fair value
Assets:					
Investment properties	Level 3	$ 4,808,105	$ 4,808,105	$ 4,991,825	$ 4,991,825
Investment properties under development	Level 3	66,229	66,229	65,199	65,199
Notes receivable	Level 2	14,762	15,733	15,787	16,973
Investment properties held for sale	Level 3	139,248	139,248	119,178	119,178
Derivative instruments	Level 2	2,761	2,761	3,567	3,567
		5,031,105	5,032,076	5,195,556	5,196,742
Liabilities:					
Mortgages and loans payable	Level 2	1,966,600	1,986,294	2,147,962	2,178,696
Senior unsecured debentures	Level 2	199,796	202,273	199,740	202,795
Convertible debentures	Level 1	—	—	119,358	118,158
Derivative instruments	Level 2	7,542	7,542	7,957	7,957
		2,173,938	2,196,109	2,475,017	2,507,606
		$ 2,857,167	$ 2,835,967	$ 2,720,539	$ 2,689,136

The fair value of the REIT's accounts receivable and other receivables, cash held in trust, cash, accounts payable and other liabilities and credit facilities 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 REIT entered into interest rate swaps on a number of mortgages. The swaps are not designated in a hedge relationship. An unrealized gain of $1,741 and gain of $2,821 was recorded for the three and six months ended June 30, 2017 (2016, loss of $1,084 and loss of $4,927), respectively, in relation to the fair value of these interest rate swaps.

The REIT recorded an unrealized loss of $1,610 and loss of $3,256 for the three and six months ended June 30, 2017, respectively, on the fair value of outstanding foreign currency swap contracts (2016, gain of $4,005 and gain of $2,045).

Note 20. Subsequent events

The following events occurred subsequent to June 30, 2017:

- The REIT drew $150,000 on its unsecured non-revolving term credit facility and entered into an interest rate swap to effectively lock the interest rate on this facility at 3.57%.
- The REIT closed a second unsecured non-revolving term credit facility in the amount of $150,000 and drew the full balance. This new facility matures on July 18, 2022. Amounts drawn on the facility bear interest at the BA rate plus 1.60% or prime plus 0.60%. The REIT has the option to place an interest rate swap on top of the facility at any point during the term of this facility.
- The REIT disposed of Horizon Heights, a retail property located in Calgary, Alberta. The property was sold for $34,000 and the REIT repaid the outstanding mortgage payable balance in the amount of $11,843.
- The REIT repaid three maturing mortgages in the aggregate amount of $148,868.
- The REIT repaid a net balance on its revolving term credit facilities in the amount of $151,000.
- The REIT declared a monthly cash distribution of $0.09 per unit for the month of July 2017.
- The REIT declared a quarterly cash distribution of $0.3125 per Series G preferred unit for the quarter ending July 31, 2017.

Note 21. Approval of financial statements

These interim condensed consolidated financial statements were approved by the Board of Trustees and authorized for issue on August 3, 2017.