Interim Condensed Consolidated Financial Statements of

ARTIS REAL ESTATE INVESTMENT TRUST

Three and nine months ended September 30, 2019 and 2018
(Unaudited)

(In Canadian dollars)

Interim Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands of Canadian dollars)

	Note	September 30, 2019	December 31, 2018
ASSETS			
Non-current assets:			
Investment properties	4	$ 4,617,436	$ 4,941,825
Investment properties under development	4	87,728	119,604
Investments in joint ventures	5	176,333	176,501
Property and equipment		8,021	6,533
Notes receivable	6	94,836	16,216
		4,984,354	5,260,679
Current assets:			
Investment properties held for sale	4	326,932	320,465
Inventory properties		13,743	11,227
Deposits on investment properties		3,232	2,237
Prepaid expenses and other assets		10,361	20,582
Notes receivable	6	3,871	4,543
Accounts receivable and other receivables		17,638	21,101
Cash held in trust		11,764	10,200
Cash		59,531	66,143
		447,072	456,498
		$ 5,431,426	$ 5,717,177
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities:			
Mortgages and loans payable	7	$ 975,555	$ 1,272,452
Senior unsecured debentures	8	249,237	199,565
Credit facilities	9	901,635	772,538
Other long-term liabilities		1,049	8,319
		2,127,476	2,252,874
Current liabilities:			
Mortgages and loans payable	7	487,327	412,558
Senior unsecured debentures	8	199,860	199,971
Security deposits and prepaid rent		35,621	35,842
Accounts payable and other liabilities		89,144	77,887
		811,952	726,258
		2,939,428	2,979,132
Unitholders' equity		2,491,998	2,738,045
Commitments, contingencies and guarantees	19		
Subsequent events	23		
		$ 5,431,426	$ 5,717,177

See accompanying notes to interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Operations

(Unaudited)

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

	Note	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Revenue	12	$ 127,005	$ 128,097	$ 394,480	$ 380,006
Expenses:					
Property operating		31,054	31,281	97,189	92,382
Realty taxes		20,227	20,605	62,556	60,560
		51,281	51,886	159,745	152,942
Net operating income		75,724	76,211	234,735	227,064
Other income (expenses):					
Corporate expenses		(4,181)	(2,585)	(12,411)	(12,250)
Interest expense	13	(27,342)	(25,032)	(82,510)	(74,311)
Interest income		516	371	1,467	1,285
Net income from investments in joint ventures	5	21,525	5,343	23,491	10,839
Fair value loss on investment properties	4	(19,829)	(32,096)	(62,864)	(13,523)
Foreign currency translation (loss) gain		(4,284)	6,692	5,864	4,006
Transaction costs	14	(80)	(227)	(217)	(5,930)
Fair value gain (loss) on derivative instruments and other transactions	15	3,056	(2,714)	(16,484)	14,699
Income before income taxes		45,105	25,963	91,071	151,879
Income tax expense	16	(473)	(244)	(1,211)	(463)
Net income		44,632	25,719	89,860	151,416
Other comprehensive income (loss) that may be reclassified to net income in subsequent periods:					
Unrealized foreign currency translation gain (loss)		16,306	(21,608)	(40,130)	35,491
Unrealized foreign currency translation gain (loss) on investments in joint ventures		1,300	(2,094)	(3,429)	3,577
Other comprehensive gain that will not be reclassified to net income in subsequent periods:					
Unrealized gain from remeasurements of net pension obligation		—	—	671	—
		17,606	(23,702)	(42,888)	39,068
Total comprehensive income		$ 62,238	$ 2,017	$ 46,972	$ 190,484
Basic income per unit attributable to common unitholders	10 (e)	$ 0.28	$ 0.13	$ 0.52	$ 0.88
Diluted income per unit attributable to common unitholders	10 (e)	0.28	0.13	0.52	0.87
Weighted-average number of common units outstanding:					
Basic	10 (e)	140,395,912	153,819,835	143,950,097	153,046,020
Diluted	10 (e)	140,395,912	154,400,926	143,950,097	153,561,930

See accompanying notes to interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Changes in Unitholders' Equity

(Unaudited)

(In thousands of Canadian dollars)

	Common units capital contributions	Retained earnings	Accumulated other comprehensive income (loss)	Contributed surplus	Total common equity	Total preferred equity	Total
Unitholders' equity, December 31, 2017	$ 1,961,659	$ 170,807	$ 130,964	$ 16,156	$ 2,279,586	$ 325,623	$ 2,605,209
Changes for the period:							
Issuance of common units, net of issue costs	44,136	—	—	—	44,136	—	44,136
Issuance of preferred units, net of issue costs	—	—	—	—	—	121,304	121,304
Redemption of preferred units	—	—	—	(26,952)	(26,952)	(69,753)	(96,705)
Reclassification of contributed surplus	—	(10,796)	—	10,796	—	—	—
Net income	—	151,416	—	—	151,416	—	151,416
Other comprehensive income	—	—	39,068	—	39,068	—	39,068
Distributions	—	(140,497)	—	—	(140,497)	—	(140,497)
Unitholders' equity, September 30, 2018	2,005,795	170,930	170,032	—	2,346,757	377,174	2,723,931
Changes for the period:							
Issuance of common units, net of issue costs	38	—	—	—	38	—	38
Units acquired and cancelled through normal course issuer bid	(43,998)	—	—	10,975	(33,023)	(267)	(33,290)
Units acquired through normal course issuer bid, not cancelled at year end	(2,188)	—	—	657	(1,531)	(26)	(1,557)
Net income	—	7,220	—	—	7,220	—	7,220
Other comprehensive income	—	—	76,684	—	76,684	—	76,684
Distributions	—	(34,981)	—	—	(34,981)	—	(34,981)
Unitholders' equity, December 31, 2018	1,959,647	143,169	246,716	11,632	2,361,164	376,881	2,738,045
Changes for the period:							
Issuance of common units, net of issue costs (note 10)	812	—	—	—	812	—	812
Redemption of preferred units (note 10)	—	—	—	(2,753)	(2,753)	(75,710)	(78,463)
Units acquired and cancelled through normal course issuer bid (note 10)	(161,976)	—	—	24,341	(137,635)	(6,206)	(143,841)
Units acquired through normal course issuer bid, not cancelled at period end (note 10)		—	—	9	9	(77)	(68)
Net income	—	89,860	—	—	89,860	—	89,860
Other comprehensive loss	—	—	(42,888)	—	(42,888)	—	(42,888)
Distributions	—	(71,459)	—	—	(71,459)	—	(71,459)
Unitholders' equity, September 30, 2019	$ 1,798,483	$ 161,570	$ 203,828	$ 33,229	$ 2,197,110	$ 294,888	$ 2,491,998

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, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Cash provided by (used in):					
Operating activities:					
Net income		$ 44,632	$ 25,719	$ 89,860	$ 151,416
Distributions from joint ventures		623	816	2,317	3,180
Adjustments for non-cash items:					
Tenant inducements amortized to revenue	12	5,835	4,871	17,131	14,609
Straight-line rent adjustments	12	(1,574)	(1,338)	(4,498)	(4,401)
Depreciation of property and equipment		271	264	829	800
Unit-based compensation		1,428	(200)	3,135	462
Other long-term employee benefits		16	349	888	1,023
Amortization of above- and below-market mortgages, net	13	(185)	(28)	(249)	(242)
Amortization of financing costs included in interest expense	13	956	933	2,897	2,625
Accretion on liability component of debentures	13	—	(54)	(51)	(160)
Net income from investments in joint ventures	5	(21,525)	(5,343)	(23,491)	(10,839)
Fair value loss on investment properties	4	19,829	32,096	62,864	13,523
Fair value (gain) loss on derivative instruments and other transactions	15	(3,056)	2,714	16,484	(14,699)
Unrealized foreign currency translation loss (gain)		4,128	(1,299)	(6,062)	(2,568)
Additions to inventory properties		(909)	(115)	(2,516)	(115)
Changes in non-cash operating items		(196)	5,358	(2,159)	6,214
		50,273	64,743	157,379	160,828
Investing activities:					
Acquisitions of investment properties, net of related debt	3	(3,800)	(63,385)	(8,940)	(76,449)
Proceeds from dispositions of investment properties, net of costs and related debt	3	57,666	252	185,154	126,548
Additions to investment properties		(11,251)	(9,149)	(30,226)	(25,186)
Additions to investment properties under development		(19,814)	(13,086)	(71,025)	(28,326)
Additions to tenant inducements		(9,740)	(13,459)	(33,740)	(37,246)
Additions to leasing commissions		(4,492)	(3,156)	(12,161)	(8,359)
Additions to joint ventures	5	(2,785)	(3,039)	(16,052)	(7,207)
Additions to property and equipment		(238)	(24)	(1,716)	(415)
Issuances of notes receivable		(361)	(904)	(7,949)	(4,794)
Notes receivable principal repayments		4,835	929	8,806	2,566
Change in deposits on investment properties		(1,089)	(290)	(1,057)	10
Change in cash held in trust		(4,098)	761	(1,666)	(115)
		4,833	(104,550)	9,428	(58,973)
Financing activities:					
Mortgages and loans principal repayments		(10,917)	(11,306)	(34,285)	(33,554)
Repayment of mortgages and loans payable		(10,949)	(47,274)	(25,923)	(78,153)
Advance of mortgages and loans payable, net of financing costs		(32)	461	42	69,367
Issuance of senior unsecured debentures, net of financing costs	8	—	—	248,946	199,217
Redemption of senior unsecured debentures	8	—	—	(200,000)	—
Advance of revolving credit facilities		146,302	115,184	492,109	245,508
Repayment of revolving credit facilities, including financing costs		(73,029)	(98,019)	(357,633)	(393,682)
Repayment of lease liabilities		(24)	—	(57)	—
Issuance of preferred units, net of issue costs	10	—	—	—	121,304
Purchase of common units under normal course issuer bid	10	(37,747)	—	(138,403)	—
Purchase of preferred units under normal course issuer bid	10	(1,778)	—	(5,506)	—
Redemption of preferred units	10	(78,463)	—	(78,463)	(96,705)
Distributions paid on common units		(18,959)	(41,532)	(56,471)	(123,720)
Distributions paid on preferred units		(5,371)	(5,283)	(16,205)	(15,244)
		(90,967)	(87,769)	(171,849)	(105,662)
Foreign exchange gain (loss) on cash held in foreign currency		795	(3,463)	(1,570)	1,771
Decrease in cash		(35,066)	(131,039)	(6,612)	(2,036)
Cash, beginning of period		94,597	164,835	66,143	35,832
Cash, end of period		$ 59,531	$ 33,796	$ 59,531	$ 33,796
Supplemental cash flow information:					
Interest paid		$ 30,820	$ 27,462	$ 88,332	$ 77,851
Interest received		518	376	1,473	1,291

See accompanying notes to interim condensed consolidated financial statements.

Notes to Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2019 and 2018 (unaudited)

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

Note 1. Organization

Artis Real Estate Investment Trust (the "REIT") is an unincorporated closed-end real estate investment trust created under, and governed by, the laws of the Province of Manitoba. The REIT was created pursuant to the Declaration of Trust dated November 8, 2004, as most recently amended and restated on July 20, 2016 (the "Declaration of Trust"). The purpose of the REIT is to directly, or indirectly, own, manage, lease and (where appropriate) develop primarily office, retail and industrial properties in Canada and the United States (the "U.S."). The registered office of the REIT is 600 - 220 Portage Avenue, Winnipeg, Manitoba, R3C 0A5.

The Declaration of Trust provides that the REIT may make cash distributions to unitholders of the REIT. The amount distributed annually (currently $0.54 per common unit, $1.4155 per Series A Unit, $1.3680 per Series E Unit and $1.50 per Series I Unit) is set by the Board of Trustees.

Note 2. Significant accounting policies

(a) Basis of presentation and measurement:

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

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2018, except for those policies and standards adopted as described in note 2 (c). The consolidated financial statements have been prepared on a going concern basis and have been presented in Canadian dollars rounded to the nearest thousand unless otherwise indicated.

These interim condensed consolidated financial statements should be read in conjunction with the REIT's consolidated financial statements for the year ended December 31, 2018.

(b) Use of estimates and judgments:

The preparation of the interim condensed consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. The critical accounting estimates and judgments have been set out in note 2 to the REIT's consolidated financial statements for the year ended December 31, 2018. There have been no changes to the critical accounting estimates and judgments during the nine months ended September 30, 2019.

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

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

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

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

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

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

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

Note 3. Acquisitions and dispositions of investment properties

Acquisitions:

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

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

On August 8, 2019, the REIT acquired a surface parking lot that is ancillary to an existing office property in Winnipeg, Manitoba.

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

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

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

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

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

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

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

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

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Investment properties (note 4)	$ 3,800	$ 63,385	$ 11,443	$ 164,840
Long-term debt, including acquired above- and below-market mortgages, net of financing costs	—	—	(1,326)	(38,388)
Other net liabilities	—	—	(71)	—
	3,800	63,385	10,046	126,452
Consideration was comprised of the following:				
Common units (note 10(a)(ii))	—	—	—	43,651
Cash consideration	3,800	63,385	8,940	76,449
Bargain purchase gains	—	—	1,106	5,384
Foreign currency translation gain	—	—	—	968
Total consideration	$ 3,800	$ 63,385	$ 10,046	$ 126,452
Transaction costs expensed (note 14)	$ 80	$ 227	$ 217	$ 905

Dispositions:

The REIT disposed of the following properties during the nine months ended September 30, 2019:

Property	Property count	Location	Disposition date	Asset class
169 Inverness Drive West I & II	1	Greater Denver Area, CO	April 9, 2019	Office
Reenders Square	1	Winnipeg, MB	May 21, 2019	Retail
Britannia Building	1	Calgary, AB	May 22, 2019	Office
Nanaimo Portfolio	4	Nanaimo, BC	June 17, 2019	Office & Retail
1700 Broadway	1	Greater Denver Area, CO	June 27, 2019	Office
GSA Professional Office Building	1	Greater Phoenix Area, AZ	July 26, 2019	Office
415 Yonge Street	1	Greater Toronto Area, ON	September 27, 2019	Office

The cash proceeds from the sale of the above properties, net of costs and related debt, were $185,154. The REIT also received a note receivable, secured by the disposed property, in the amount of $79,000 in conjunction with the sale of 415 Yonge Street (note 6). The assets and liabilities associated with the properties were derecognized.

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

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

On September 11, 2018, the REIT contributed industrial development land located in the Greater Houston Area, Texas, to a new joint venture arrangement, Park 8Ninety II.

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

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

	Nine months ended September 30, 2019		
	Investment properties	Investment properties under development	Investment properties held for sale
Balance, beginning of period	$ 4,941,825	$ 119,604	$ 320,465
Additions:			
Acquisitions (note 3)	11,443	—	—
Reclassification from investments in joint ventures [(1)]	66,765	—	—
Capital expenditures	27,502	68,140	2,724
Capitalized interest	—	2,981	—
Leasing commissions	11,009	641	511
Straight-line rent adjustments	4,088	—	410
Tenant inducement additions, net of amortization	12,507	2,762	1,340
Dispositions	(139,824)	—	(290,696)
Foreign currency translation loss	(65,936)	(1,676)	(1,625)
Fair value gain (loss)	25,099	2,318	(90,281)
Reclassification of investment properties under development	96,539	(96,539)	—
Reclassification of investment properties held for sale	(373,581)	(10,503)	384,084
Balance, end of period	$ 4,617,436	$ 87,728	$ 326,932

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

	Year ended December 31, 2018		
	Investment properties	Investment properties under development	Investment properties held for sale
Balance, beginning of year	$ 4,720,362	$ 79,701	$ 110,188
Additions:			
Acquisitions	241,560	11,120	—
Reclassification from investments in joint ventures [(1) (3)]	108,390	—	—
Capital expenditures	35,659	56,544	2
Capitalized interest	—	1,304	—
Leasing commissions	10,511	2,283	246
Straight-line rent adjustments	5,485	—	6
Tenant inducement additions, net of amortization	25,655	—	1,129
Contribution to investments in joint ventures [(2)]	—	(10,421)	—
Dispositions	(121,205)	(521)	(31,468)
Transfer to inventory properties [(4)]	(8,800)	(1,816)	—
Foreign currency translation gain	169,867	5,417	7,795
Fair value (loss) gain	(43,384)	10,104	(3,819)
Reclassification of investment properties under development	34,111	(34,111)	—
Reclassification of investment properties held for sale	(236,386)	—	236,386
Balance, end of year	$ 4,941,825	$ 119,604	$ 320,465

(1) On March 7, 2018, the REIT increased its ownership interest in 1700 Broadway and Hudson's Bay Centre to 100%. See note 3 for further information.
(2) On September 11, 2018, the REIT contributed land under development to Park 8Ninety II, a joint venture arrangement. See note 3 for further information.
(3) On October 5, 2018, the REIT increased its ownership interest in Park Lucero II to 100%.
(4) During the year ended December 31, 2018, an investment property and the related development expenditures were transferred to inventory properties.

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

The REIT had nine retail properties, eight office properties and two parcels of development land classified as investment properties held for sale that were listed with external brokers or under unconditional sale agreements at September 30, 2019 (December 31, 2018, 10 retail properties and six office properties). The properties held for sale had an aggregate mortgage payable balance of $121,937 at September 30, 2019. This balance is not accounted for as held for sale but is included in current liabilities as the REIT intends to repay or have the purchaser assume the mortgages upon disposition of the related investment properties.

At September 30, 2019, investment properties with a fair value of $3,168,500 (December 31, 2018, $3,587,739) were pledged as security under mortgage agreements.

The REIT obtains external valuations for a selection of properties representing various geographical regions and asset classes across its portfolio. For the three and nine months ended September 30, 2019, properties (including the REIT's ownership interest in properties held in joint venture arrangements) with an appraised value of $151,154 and $473,641, respectively (2018, $361,163 and $902,079), were appraised by qualified external valuation professionals. The REIT uses similar assumptions and valuation techniques in its internal valuations as used by the external valuation professionals. Internal valuations are performed by the REIT's valuations team who report directly to the Chief Financial Officer. The valuations processes and results are reviewed by management on a quarterly basis.

The REIT determined the fair value of investment properties based upon either the discounted cash flow method or the overall capitalization method. There were no changes to the REIT's internal valuation methodology during the nine months ended September 30, 2019 and the year ended December 31, 2018.

Under the fair value hierarchy, the fair value of the REIT's investment properties is considered a Level 3, as described in note 22.

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

	September 30, 2019			December 31, 2018		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Western Canada:						
Discount rate	9.50 %	5.75 %	7.71 %	9.50%	5.75%	7.61%
Terminal capitalization rate	9.00 %	3.75 %	6.84 %	9.00%	3.75%	6.75%
Capitalization rate	8.75 %	3.75 %	6.69 %	8.75%	3.75%	6.68%
Investment horizon (years)	11.0	10.0	10.2	11.0	10.0	10.3
Central Canada:						
Discount rate	9.75 %	6.25 %	7.70 %	9.25%	6.25%	7.66%
Terminal capitalization rate	9.50 %	5.00 %	6.46 %	8.50%	5.50%	6.42%
Capitalization rate	9.25 %	5.00 %	6.39 %	8.25%	5.50%	6.33%
Investment horizon (years)	11.0	10.0	10.3	11.0	10.0	10.3
Eastern Canada:						
Discount rate	7.50 %	5.25 %	6.59 %	7.50%	5.25%	6.79%
Terminal capitalization rate	7.00 %	4.25 %	5.75 %	6.75%	4.25%	5.67%
Capitalization rate	7.25 %	3.75 %	5.55 %	7.00%	4.25%	5.69%
Investment horizon (years)	11.0	10.0	10.3	12.0	10.0	10.3
U.S.:						
Discount rate	10.00 %	6.25 %	7.93 %	9.00%	6.50%	7.94%
Terminal capitalization rate	9.00 %	5.25 %	6.93 %	8.75%	5.50%	6.92%
Capitalization rate	10.00 %	5.00 %	6.84 %	8.50%	5.25%	6.77%
Investment horizon (years)	12.0	10.0	10.4	15.0	10.0	10.6
Total portfolio:						
Discount rate	10.00 %	5.25 %	7.62 %	9.50%	5.25%	7.62%
Terminal capitalization rate	9.50 %	3.75 %	6.61 %	9.00%	3.75%	6.57%
Capitalization rate	10.00 %	3.75 %	6.50 %	8.75%	3.75%	6.47%
Investment horizon (years)	12.0	10.0	10.3	15.0	10.0	10.4

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

Note 5. Joint arrangements

The REIT had interests in the following joint arrangements:

			Ownership interest	
Property	Principal purpose	Type of arrangement	September 30, 2019	December 31, 2018
Park 8Ninety I (1)	Investment property	Joint venture	— %	95 %
Park 8Ninety II	Investment property	Joint venture	95 %	95 %
Corridor Park	Investment property	Joint venture	90 %	90 %
Millwright Building	Investment property	Joint venture	80 %	80 %
Tower Business Center	Investment property	Joint venture	80 %	80 %
Graham Portfolio	Investment property	Joint venture	75 %	75 %
The Point at Inverness	Investment property	Joint venture	50 %	50 %
Centre 70 Building (1)	Investment property	Joint operation	— %	85 %
Cliveden Building	Investment property	Joint operation	50 %	50 %
Kincaid Building	Investment property	Joint operation	50 %	50 %

(1) During the nine months ended September 30, 2019, the REIT increased its ownership interest in these properties to 100%. See note 3 for further information.

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

During the nine months ended September 30, 2019, the REIT contributed $16,052 to Tower Business Center, Park 8Ninety I, Park 8Ninety II, the Millwright Building and Corridor Park joint venture arrangements.

The REIT is contingently liable for the obligations of certain joint arrangements. As at September 30, 2019, the co-owners' share of mortgage liabilities was $39,757 (December 31, 2018, $37,642). Management believes that the assets available from its joint arrangements are sufficient for the purpose of satisfying such obligations.

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

	September 30, 2019	December 31, 2018
Non-current assets:		
Investment properties	$ 250,242	$ 255,661
Investment properties under development	42,906	40,635
Current assets:		
Prepaid expenses and other assets	113	244
Accounts receivable and other receivables	3,285	822
Cash	10,684	3,808
	307,230	301,170
Non-current liabilities:		
Mortgages and loans payable	85,412	44,017
Current liabilities:		
Mortgages and loans payable	27,375	59,068
Security deposits and prepaid rent	2,817	3,264
Accounts payable and other liabilities	15,293	18,320
	130,897	124,669
Investments in joint ventures	$ 176,333	$ 176,501

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Revenue	$ 3,803	$ 5,496	$ 13,160	$ 16,763
Expenses:				
Property operating	1,058	1,283	3,561	4,539
Realty taxes	762	1,144	2,800	3,400
	1,820	2,427	6,361	7,939
Net operating income	1,983	3,069	6,799	8,824
Other income (expenses):				
Interest expense	(1,096)	(1,457)	(3,266)	(4,317)
Interest income	2	2	5	6
Fair value gain on investment properties	20,636	3,729	19,953	4,629
Fair value gain on business combinations (1)	—	—	—	1,697
Net income from investments in joint ventures	$ 21,525	$ 5,343	$ 23,491	$ 10,839

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

Note 6. Notes receivable

		September 30, 2019		December 31, 2018
Note receivable, maturing in July 2022, bearing interest at 5.05% per annum, interest-only monthly payment until maturity, secured by an office property.	$	79,000	$	—
Note receivable from tenant maturing in May 2023, bearing interest at 5.89% per annum, repayable in varying blended monthly installments. A default under the terms of the note constitutes a default of the lease of the tenant.		9,131		10,814
Note receivable from tenant, repayable in 144 blended monthly installments beginning 6 months after development completion and lease commencement, bearing interest at 4.00% per annum, increasing to 8.50% per annum upon lease commencement.		5,870		3,710
Note receivable from tenant maturing in September 2021, bearing interest at 1.00% per annum, repayable in blended monthly installments of $61.		1,514		2,075
Other notes receivable		3,192		4,160
		98,707		20,759
Current portion		3,871		4,543
Non-current portion	$	94,836	$	16,216

Note 7. Mortgages and loans payable

		September 30, 2019		December 31, 2018
Mortgages and loans payable	$	1,463,754	$	1,690,671
Net above- and below-market mortgage adjustments		3,418		1,175
Financing costs		(4,290)		(6,836)
		1,462,882		1,685,010
Current portion		487,327		412,558
Non-current portion	$	975,555	$	1,272,452

The majority of the REIT's investment properties have been pledged as security under mortgages and other security agreements. 33.3% of the REIT's mortgages and loans payable bear interest at fixed rates (December 31, 2018, 40.0%), and a further 35.1% of the REIT's mortgages and loans payable bear interest at variable rates with interest rate swaps in place (December 31, 2018, 31.6%). The weighted-average effective rate on all mortgages and loans payable was 4.07% and the weighted-average nominal rate was 3.89% at September 30, 2019 (December 31, 2018, 4.27% and 4.07%, respectively). Maturity dates range from October 3, 2019 to June 1, 2031.

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, 2019.

Note 8. Senior unsecured debentures

On February 22, 2019, under the August 23, 2018 short form base shelf prospectus, the REIT issued 3.674% Series C senior unsecured debentures for gross proceeds of $250,000. Interest is payable semi-annually on February 22 and August 22 in each year. These debentures are not redeemable by the REIT prior to maturity and rank equally with all other indebtedness of the REIT.

On March 27, 2019, upon maturity, the REIT repaid the outstanding face value of the 3.753% Series A senior unsecured debentures in the amount of $200,000.

Interest expense on the senior unsecured debentures is determined by applying the effective interest rate to the outstanding liability balance. The difference between actual cash interest payments and interest expense is an accretion to the liability.

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

Senior unsecured debenture issue	Issue date	Maturity date	Applicable interest rates (1)
Series B	February 7, 2018	February 7, 2020	3.354 %
Series C	February 22, 2019	February 22, 2021	3.674 %

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

	Face value	Unamortized accretion	Unamortized financing costs	Carrying value	Current portion	Non-current portion
Series B	$ 200,000	$ —	$ (140)	$ 199,860	$ 199,860	$ —
Series C	250,000	—	(763)	249,237	—	249,237
September 30, 2019	$ 450,000	$ —	$ (903)	$ 449,097	$ 199,860	$ 249,237
December 31, 2018	400,000	51	(515)	399,536	199,971	199,565

During the three and nine months ended September 30, 2019, accretion to the liability of $nil and $51 (2018, $54 and $160) and financing cost amortization of $222 and $667 (2018, $179 and $498) were recorded.

In accordance with the Series B and Series C senior unsecured debentures supplemental indentures, the REIT must maintain various financial covenants. As at September 30, 2019, the REIT was in compliance with these requirements.

Note 9. Credit facilities

The REIT has unsecured revolving term credit facilities in the aggregate amount of $700,000, which can be utilized for general corporate and working capital purposes, short-term financing of investment property acquisitions and the issuance of letters of credit. The REIT can draw on the facilities in Canadian or US dollars.

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

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

	September 30, 2019			December 31, 2018		
	Borrowing capacity	Amounts drawn	Available to be drawn	Amounts drawn	Available to be drawn	Applicable interest rates [1]
Revolving facilities maturing December 14, 2021	$ 400,000	$ 357,378	$ 42,622	$ 283,907	$ 116,093	BA rate plus 1.70% or prime plus 0.70% or LIBOR plus 1.70% or U.S. base rate plus 0.70%
Revolving facility maturing April 29, 2023	300,000	246,000	54,000	190,800	109,200	BA rate plus 1.70% or prime plus 0.70% or LIBOR plus 1.70% or U.S. base rate plus 0.70%
Non-revolving facility maturing July 6, 2022	150,000	150,000	—	150,000	—	3.57 %
Non-revolving facility maturing July 18, 2022	150,000	150,000	—	150,000	—	3.50 %
Financing costs		(1,743)		(2,169)		
Total credit facilities	$1,000,000	$ 901,635	$ 96,622	$ 772,538	$ 225,293	

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

For purposes of the credit facilities, the REIT must maintain various financial covenants. As at September 30, 2019, 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, 2017	150,599,666	$ 1,961,659
Restricted units redeemed	35,749	464
Deferred units redeemed	4,189	59
Private placement, net of issue costs of $145 [1]	3,185,152	43,651
Units acquired and cancelled through normal course issuer bid	(3,374,071)	(43,998)
Units acquired through normal course issuer bid, not cancelled at year end	(167,856)	(2,188)
Balance at December 31, 2018	150,282,829	1,959,647
Restricted units redeemed	29,388	342
Deferred units redeemed	39,546	470
Units acquired and cancelled through normal course issuer bid	(12,417,833)	(161,976)
Balance at September 30, 2019	137,933,930	$ 1,798,483

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

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

(b) Preferred units:

In accordance with the Declaration of Trust, the REIT may issue an unlimited number of preferred units. Particulars of the REIT's outstanding preferred units are as follows:

	Series A	Series C	Series E	Series G	Series I	Total
Number of units outstanding at December 31, 2017	3,450,000	3,000,000	4,000,000	3,200,000	—	13,650,000
Preferred units redeemed	—	(3,000,000)	—	—	—	(3,000,000)
Preferred units issued	—	—	—	—	5,000,000	5,000,000
Units acquired and cancelled through normal course issuer bid	(4,000)	—	(3,800)	(3,300)	—	(11,100)
Units acquired through normal course issuer bid, not cancelled at year end	(600)	—	—	(500)	—	(1,100)
Number of units outstanding at December 31, 2018	3,445,400	—	3,996,200	3,196,200	5,000,000	15,637,800
Units acquired and cancelled through normal course issuer bid	(58,100)	—	(142,300)	(57,700)	—	(258,100)
Units acquired through normal course issuer bid, not cancelled at period end	—	—	(3,200)	—	—	(3,200)
Preferred units redeemed	—	—	—	(3,138,500)	—	(3,138,500)
Number of units outstanding at September 30, 2019	3,387,300	—	3,850,700	—	5,000,000	12,238,000

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

	Series A	Series C	Series E	Series G	Series I	Total
Annual distribution rate	5.662 %	5.250 %	5.472 %	5.000 %	6.000 %	
Distribution rate reset date	September 30, 2022	—	September 30, 2023	—	April 30, 2023	
Carrying value at December 31, 2017	$ 82,143	$ 69,753	$ 96,537	$ 77,190	$ —	$ 325,623
Preferred units redeemed	—	(69,753)	—	—	—	(69,753)
Preferred units issued	—	—	—	—	121,304	121,304
Units acquired and cancelled through normal course issuer bid	(95)	—	(92)	(80)	—	(267)
Units acquired through normal course issuer bid, not cancelled at year end	(14)	—	—	(12)	—	(26)
Carrying value at December 31, 2018	82,034	—	96,445	77,098	121,304	376,881
Units acquired and cancelled through normal course issuer bid	(1,383)	—	(3,435)	(1,388)	—	(6,206)
Units acquired through normal course issuer bid, not cancelled at period end	—	—	(77)	—	—	(77)
Preferred units redeemed	—	—	—	(75,710)	—	(75,710)
Carrying value at September 30, 2019	$ 80,651	$ —	$ 92,933	$ —	$ 121,304	$ 294,888
Face value at September 30, 2019	$ 84,683	$ —	$ 96,268	$ —	$ 125,000	$ 305,951
Face value at December 31, 2018	86,135	—	99,905	79,905	125,000	390,945

On July 31, 2019, the REIT redeemed all 3,138,500 outstanding Series G Units with an aggregate face value of $78,463.

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

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

(c) Normal course issuer bid:

On December 13, 2018, the REIT announced that the Toronto Stock Exchange ("TSX") approved the renewal of its normal course issuer bid ("NCIB"). Under the renewed bid, the REIT has the ability to purchase for cancellation up to a maximum of 10% of the REIT's public float of common units and preferred units as at December 5, 2018 as follows:

	Public float	10% of public float
Common units	132,404,572	13,240,457
Preferred unit series:		
Series A	3,450,000	345,000
Series E	4,000,000	400,000
Series G (1)	3,200,000	320,000
Series I	4,900,000	490,000

(1) On July 31, 2019, the REIT redeemed all 3,138,500 outstanding Series G Units.

Purchases will be made at market prices through the facilities of the TSX and all common units and preferred units acquired by the REIT under this bid will be cancelled. This bid will remain in effect until the earlier of December 16, 2019, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the nine months ended September 30, 2019, the REIT acquired 12,417,833 common units at market prices aggregating $138,403, resulting in contributed surplus of $23,573, which was the excess of stated capital over redemption proceeds. As at September 30, 2019, the REIT has acquired the maximum number of common units permitted under the bid. During the nine months ended September 30, 2019, the REIT also acquired 58,100, 145,500 and 57,700 Series A, E and G Units, respectively, at market prices aggregating $5,506, resulting in contributed surplus of $777, which was the excess of stated capital over redemption proceeds.

During the year ended December 31, 2018, the REIT acquired 3,541,927 common units at market prices aggregating $34,605, resulting in contributed surplus of $11,581, which was the excess of stated capital over redemption proceeds. During the year ended December 31, 2018, the REIT also acquired 4,600, 3,800 and 3,800 Series A, E and G Units, respectively, at market prices aggregating $242, resulting in contributed surplus of $51, which was the excess of stated capital over redemption proceeds.

(d) Short form base shelf prospectus:

On August 23, 2018, the REIT issued a short form base shelf prospectus. The REIT may from time to time during the 25-month period that this short form base shelf prospectus is valid, offer and issue the following securities up to a maximum of $1,000,000 (i) common units of the REIT; (ii) preferred units, which may be issuable in series; (iii) debt securities, which may consist of debentures, notes or other types of debt and may be issuable in series; (iv) unit purchase warrants; and (v) subscription receipts to purchase trust securities. As at September 30, 2019, the REIT had issued senior unsecured debentures under one offering in the amount of $250,000 under this short form base shelf prospectus.

(e) Weighted-average common units:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Net income	$ 44,632	$ 25,719	$ 89,860	$ 151,416
Adjustment for distributions to preferred unitholders (note 11)	(4,713)	(5,283)	(15,552)	(16,487)
Net income attributable to common unitholders	39,919	20,436	74,308	134,929
Adjustment for restricted units	—	(249)	—	(392)
Adjustment for deferred units	—	(94)	—	(172)
Diluted net income attributable to common unitholders	$ 39,919	$ 20,093	$ 74,308	$ 134,365
The weighted-average number of common units outstanding was as follows:				
Basic common units	140,395,912	153,819,835	143,950,097	153,046,020
Effect of dilutive securities:				
Restricted units	—	506,336	—	451,793
Deferred units	—	74,755	—	64,117
Diluted common units	140,395,912	154,400,926	143,950,097	153,561,930
Net income per unit attributable to common unitholders:				
Basic	$ 0.28	$ 0.13	$ 0.52	$ 0.88
Diluted	0.28	0.13	0.52	0.87

The computation of diluted net income per unit attributable to common unitholders includes restricted units and deferred units when these instruments are dilutive. For the three and nine months ended September 30, 2019, restricted and deferred units were anti-dilutive, for an aggregate total of 1,134,020 and 766,505 units, respectively. For the three and nine months ended September 30, 2018, there were no anti-dilutive units.

Note 11. Distributions to unitholders

Total distributions declared to unitholders were as follows:

	Three months ended September 30, 2019		Three months ended September 30, 2018	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	$ 18,821	$ 0.14	$ 41,532	$ 0.27
Preferred unitholders - Series A	1,198	0.35	1,221	0.35
Preferred unitholders - Series C	—	—	—	—
Preferred unitholders - Series E	1,317	0.34	1,187	0.30
Preferred unitholders - Series G	323	0.10	1,000	0.31
Preferred unitholders - Series I	1,875	0.38	1,875	0.38

	Nine months ended September 30, 2019		Nine months ended September 30, 2018	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	$ 57,774	$ 0.41	$ 124,010	$ 0.81
Preferred unitholders - Series A	3,607	1.06	3,663	1.06
Preferred unitholders - Series C	—	—	1,269	0.42
Preferred unitholders - Series E	4,019	1.03	3,562	0.89
Preferred unitholders - Series G	2,301	0.73	3,000	0.94
Preferred unitholders - Series I	5,625	1.13	4,993	1.00

Note 12. Revenue

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Basic rent	$ 80,193	$ 79,072	$ 245,926	$ 233,576
Operating cost and realty tax recoveries	46,591	47,123	144,738	138,277
Parking and other revenue	4,422	5,069	15,506	15,012
Tenant inducements amortized to revenue	(5,835)	(4,871)	(17,131)	(14,609)
Straight-line rent adjustments	1,574	1,338	4,498	4,401
Lease termination income	60	366	943	3,349
	$ 127,005	$ 128,097	$ 394,480	$ 380,006

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

Note 13. Interest expense

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Interest on mortgages and loans payable	$ 15,270	$ 16,004	$ 48,362	$ 47,228
Interest on senior unsecured debentures	4,009	3,357	12,376	9,254
Interest on credit facilities	7,292	4,820	19,175	15,606
Net amortization of above- and below-market mortgages fair value adjustments	(185)	(28)	(249)	(242)
Amortization of financing costs	956	933	2,897	2,625
Accretion on liability component of debentures	—	(54)	(51)	(160)
	$ 27,342	$ 25,032	$ 82,510	$ 74,311

Note 14. Transaction costs

The REIT incurred transaction costs in relation to the following:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Acquisitions of investment properties	$ 80	$ 227	$ 217	$ 905
Termination of property management agreements	—	—	—	5,025
	$ 80	$ 227	$ 217	$ 5,930

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

Note 15. Fair value gain (loss) on derivative instruments and other transactions

The REIT recorded gains (losses) on the following:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Interest rate swaps	$ (190)	$ 4,085	$ (15,429)	$ 10,690
Foreign currency contracts	3,246	(6,784)	(2,546)	(1,637)
Other derivatives	—	(15)	385	262
Bargain purchase gains (1)	—	—	1,106	5,384
	$ 3,056	$ (2,714)	$ (16,484)	$ 14,699

(1) The REIT realized bargain purchase gains related to the step acquisition of the Centre 70 Building during the nine months ended September 30, 2019 and the step acquisitions of 1700 Broadway and Hudson's Bay Centre during the nine months ended September 30, 2018. See note 3 for further information.

Note 16. Income taxes

(a) Canadian taxes:

The REIT currently qualifies as a mutual fund trust and a real estate investment trust ("REIT") for Canadian income tax purposes. Under current tax legislation, income distributed annually by the REIT to unitholders is a deduction in the calculation of its taxable income. As the REIT intends to distribute all of its taxable income to its unitholders, the REIT does not record a provision for current Canadian income taxes.

(b) U.S. taxes:

The REIT's U.S. properties are owned by subsidiaries that are REITs for U.S. income tax purposes. These subsidiaries intend to distribute all of their U.S. taxable income to Canada and are entitled to deduct such distributions for U.S. income tax purposes. As a result, the REIT does not record a provision for current federal U.S. income taxes on the taxable income earned by these subsidiaries. These U.S. subsidiaries are subject to certain state taxes and a 30% to 35% withholding tax on distributions to Canada. Any withholding taxes paid are recorded with the related distributions.

The REIT is subject to federal and state taxation in the U.S. on the taxable income earned by its U.S. management subsidiary.

Note 17. Post-employment benefits and other long-term benefits

During the three months ended September 30, 2019, the REIT settled the defined benefit plans and the obligation for future retirement payments to certain key management personnel.

Note 18. Segmented information

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

	Three months ended September 30, 2019						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	$ 27,858	$ 26,445	$ 16,377	$ 59,980	$ 148	$ (3,803)	$ 127,005
Expenses:							
Property operating	6,660	6,516	4,110	14,826	—	(1,058)	31,054
Realty taxes	3,745	4,406	2,742	10,096	—	(762)	20,227
	10,405	10,922	6,852	24,922	—	(1,820)	51,281
Net operating income	17,453	15,523	9,525	35,058	148	(1,983)	75,724
Other income (expenses):							
Corporate expenses	—	—	—	—	(4,181)	—	(4,181)
Interest expense	(2,914)	(1,867)	(1,499)	(10,373)	(11,785)	1,096	(27,342)
Interest income	166	19	3	160	170	(2)	516
Net income from investments in joint ventures	—	—	—	—	—	21,525	21,525
Fair value (loss) gain on investment properties	(8,121)	(6,976)	29,381	(13,477)	—	(20,636)	(19,829)
Foreign currency translation loss	—	—	—	—	(4,284)	—	(4,284)
Transaction costs	13	(100)	—	7	—	—	(80)
Fair value gain on derivative instruments and other transactions	—	—	—	—	3,056	—	3,056
Income (loss) before income taxes	6,597	6,599	37,410	11,375	(16,876)	—	45,105
Income tax expense	—	—	—	(473)	—	—	(473)
Net income (loss)	$ 6,597	$ 6,599	$ 37,410	$ 10,902	$ (16,876)	$ —	$ 44,632
Acquisition of investment properties	$ —	$ 3,800	$ —	$ —	$ —	$ —	$ 3,800
Additions to investment properties, investment properties under development and investment properties held for sale	2,260	19,859	244	11,986	—	(3,976)	30,373
Additions to tenant inducements	2,193	2,607	877	5,747	—	(1,684)	9,740
Additions to leasing commissions	472	325	455	4,292	—	(1,052)	4,492

	Three months ended September 30, 2018						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	$ 30,751	$ 27,337	$ 15,450	$ 59,929	$ 126	$ (5,496)	$ 128,097
Expenses:							
Property operating	7,173	7,150	3,956	14,285	—	(1,283)	31,281
Realty taxes	4,622	4,262	2,695	10,170	—	(1,144)	20,605
	11,795	11,412	6,651	24,455	—	(2,427)	51,886
Net operating income	18,956	15,925	8,799	35,474	126	(3,069)	76,211
Other income (expenses):							
Corporate expenses	—	—	—	—	(2,585)	—	(2,585)
Interest expense	(2,978)	(2,056)	(2,042)	(10,859)	(8,554)	1,457	(25,032)
Interest income	187	17	5	41	123	(2)	371
Net income from investments in joint ventures	—	—	—	—	—	5,343	5,343
Fair value (loss) gain on investment properties	(24,320)	(2,080)	12,718	(14,685)	—	(3,729)	(32,096)
Foreign currency translation gain	—	—	—	—	6,692	—	6,692
Transaction costs	—	—	—	(227)	—	—	(227)
Fair value loss on derivative instruments and other transactions	—	—	—	—	(2,714)	—	(2,714)
(Loss) income before income taxes	(8,155)	11,806	19,480	9,744	(6,912)	—	25,963
Income tax expense	—	—	—	(244)	—	—	(244)
Net (loss) income	$ (8,155)	$ 11,806	$ 19,480	$ 9,500	$ (6,912)	$ —	$ 25,719
Acquisitions of investment properties	$ —	$ —	$ —	$ 63,385	$ —	$ —	$ 63,385
Additions to investment properties, investment properties under development and investment properties held for sale	1,321	9,659	476	15,693	—	(4,914)	22,235
Additions to tenant inducements	4,070	6,597	416	3,106	—	(730)	13,459
Additions to leasing commissions	807	569	230	2,115	—	(565)	3,156

	Nine months ended September 30, 2019						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	$ 88,811	$ 81,360	$ 48,316	$ 188,933	$ 220	$ (13,160)	$ 394,480
Expenses:							
Property operating	22,366	20,455	11,907	46,022	—	(3,561)	97,189
Realty taxes	12,646	13,646	8,067	30,997	—	(2,800)	62,556
	35,012	34,101	19,974	77,019	—	(6,361)	159,745
Net operating income	53,799	47,259	28,342	111,914	220	(6,799)	234,735
Other income (expenses):							
Corporate expenses	—	—	—	—	(12,411)	—	(12,411)
Interest expense	(8,459)	(5,661)	(4,913)	(33,788)	(32,955)	3,266	(82,510)
Interest income	499	56	14	314	589	(5)	1,467
Net income from investments in joint ventures	—	—	—	—	—	23,491	23,491
Fair value (loss) gain on investment properties	(34,887)	(21,470)	68,072	(54,626)	—	(19,953)	(62,864)
Foreign currency translation gain	—	—	—	—	5,864	—	5,864
Transaction costs	(37)	(83)	—	(97)	—	—	(217)
Fair value gain (loss) on derivative instruments and other transactions	1,106	—	—	—	(17,590)	—	(16,484)
Income (loss) before income taxes	12,021	20,101	91,515	23,717	(56,283)	—	91,071
Income tax expense	—	—	—	(1,211)	—	—	(1,211)
Net income (loss)	$ 12,021	$ 20,101	$ 91,515	$ 22,506	$ (56,283)	$ —	$ 89,860
Acquisitions of investment properties	$ 4,129	$ 3,800	$ —	$ 3,514	$ —	$ —	$ 11,443
Additions to investment properties, investment properties under development and investment properties held for sale	5,356	51,405	1,376	83,515	—	(43,286)	98,366
Additions to tenant inducements	6,607	5,376	3,227	21,667	—	(3,137)	33,740
Additions to leasing commissions	1,401	1,138	1,724	9,188	—	(1,290)	12,161

	September 30, 2019						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Total assets	$ 1,158,990	$ 1,182,388	$ 697,443	$ 2,393,422	$ 130,080	$ (130,897)	$ 5,431,426
Total liabilities	334,728	202,566	135,156	1,015,724	1,382,151	(130,897)	2,939,428

	Nine months ended September 30, 2018						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	$ 97,660	$ 80,945	$ 46,564	$ 171,349	$ 251	$ (16,763)	$ 380,006
Expenses:							
Property operating	23,060	20,839	11,681	41,341	—	(4,539)	92,382
Realty taxes	14,272	13,500	7,888	28,300	—	(3,400)	60,560
	37,332	34,339	19,569	69,641	—	(7,939)	152,942
Net operating income	60,328	46,606	26,995	101,708	251	(8,824)	227,064
Other income (expenses):							
Corporate expenses	—	—	—	—	(12,250)	—	(12,250)
Interest expense	(9,860)	(6,557)	(6,179)	(30,184)	(25,848)	4,317	(74,311)
Interest income	592	63	101	136	399	(6)	1,285
Net income from investments in joint ventures	—	—	—	—	—	10,839	10,839
Fair value (loss) gain on investment properties	(46,758)	(12,293)	53,590	(3,580)	147	(4,629)	(13,523)
Foreign currency translation gain	—	—	—	—	4,006	—	4,006
Transaction costs	—	—	—	(905)	(5,025)	—	(5,930)
Fair value gain on derivative instruments and other transactions	—	—	—	3,578	12,818	(1,697)	14,699
Income (loss) before income taxes	4,302	27,819	74,507	70,753	(25,502)	—	151,879
Income tax expense	—	—	—	(463)	—	—	(463)
Net income (loss)	$ 4,302	$ 27,819	$ 74,507	$ 70,290	$ (25,502)	$ —	$ 151,416
Acquisitions of investment properties	$ —	$ —	$ —	$ 168,564	$ —	$ (3,724)	$ 164,840
Additions to investment properties, investment properties under development and investment properties held for sale	4,132	22,689	2,315	31,254	—	(6,878)	53,512
Additions to tenant inducements	11,713	12,613	1,274	13,711	—	(2,065)	37,246
Additions to leasing commissions	1,913	1,187	977	5,794	—	(1,512)	8,359

	December 31, 2018						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Total assets	$ 1,229,254	$ 1,165,685	$ 743,133	$ 2,644,707	$ 59,067	$ (124,669)	$ 5,717,177
Total liabilities	324,382	201,800	200,760	1,174,199	1,202,660	(124,669)	2,979,132

Note 19. Commitments, contingencies and guarantees

(a) Unconditional sale agreements:

The REIT has an unconditional sale agreement for an office property located in Ottawa, Ontario for a sale price of $39,000 with expected closing in the last quarter of 2019.

(b) Letters of credit:

As at September 30, 2019, the REIT had issued letters of credit in the amount of $3,574 (December 31, 2018, $4,574).

(c) Contingencies:

The REIT performs an assessment of legal and tax proceedings and claims which have occurred or could occur as a result of ongoing operations of the trust. Based on the information available, the outcomes of these contingent liabilities are uncertain and do not satisfy the requirements to be recognized in the consolidated financial statements as liabilities.

(d) Guarantees:

At September 30, 2019, the REIT has guaranteed certain debt assumed by purchasers in connection with the dispositions of three properties (December 31, 2018, three properties). These guarantees will remain until the debt is modified, refinanced or extinguished. Credit risk arises in the event that the purchasers default on repayment of their debt since it is guaranteed by the REIT. This credit risk is mitigated as the REIT has recourse under these guarantees in the event of default by the purchasers, in which case the REIT would have a claim against the underlying properties. The estimated amount of debt subject to the guarantees at September 30, 2019 was $56,566 (December 31, 2018, $58,161), with an estimated weighted-average remaining term of 3.4 years (December 31, 2018, 4.1 years). No liabilities in excess of the fair values of the guarantees have been recognized in the consolidated financial statements as the estimated fair values of the borrowers' interests in the underlying properties are greater than the mortgages payable for which the REIT provided the guarantees.

Note 20. Capital management

The REIT's objectives when managing capital are to safeguard the ability to continue as a going concern and to generate sufficient returns to provide unitholders with stable cash distributions. The REIT defines capital as mortgages and loans payable, senior unsecured debentures, credit facilities and unitholders' equity.

The REIT's Declaration of Trust permits the REIT to incur indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of such indebtedness of the REIT is not more than 70% of the gross book value of the REIT's total assets. Gross book value as defined in the Declaration of Trust includes the consolidated book value of the assets of the REIT, plus the amount of accumulated depreciation and amortization recorded in the books and records of the REIT, plus the amount of any deferred tax liability arising out of any indirect acquisitions, calculated in accordance with generally accepted accounting principles. As at September 30, 2019, the ratio of such indebtedness to gross book value was 51.7% (December 31, 2018, 49.9%), which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

The total managed capital for the REIT is summarized below:

	Note	September 30, 2019	December 31, 2018
Mortgages and loans payable	7	$ 1,462,882	$ 1,685,010
Senior unsecured debentures	8	449,097	399,536
Credit facilities	9	901,635	772,538
Total debt		2,813,614	2,857,084
Unitholders' equity		2,491,998	2,738,045
		$ 5,305,612	$ 5,595,129

Note 21. Risk management

In the normal course of business, the REIT is exposed to a number of risks that can affect its operating performance. The most significant of these risks, and the actions taken to manage them, are as follows:

(a) Interest rate risk:

The REIT is exposed to interest rate risk on its borrowings. The Declaration of Trust restricts the REIT's indebtedness to 70% of the gross book value of the REIT's total assets. The REIT also monitors the amount of variable rate debt. The majority of REIT's debt financing are in fixed rate terms or variables rates with interest rate swaps in place. In addition, management considers the weighted-average term to maturity of long-term debt relative to the remaining average lease terms. At September 30, 2019, the REIT was a party to $2,080,176 of variable rate debt, including credit facilities and debentures (December 31, 2018, $1,989,356). At September 30, 2019, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with $1,013,099 of variable rate debt, including swaps on credit facilities and debentures (December 31, 2018, $834,241).

(b) Foreign currency risk:

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

A $0.10 weakening in the US dollar against the calculated average Canadian dollar exchange rate of 1.3214 and 1.3293 for the three and nine months ended September 30, 2019, respectively, and the period end exchange rate of 1.3243 at September 30, 2019, would have increased net income by approximately $6,926 for the three months ended September 30, 2019 and would have increased net income by approximately $7,860 for the nine months ended September 30, 2019. A $0.10 weakening in the US dollar against the Canadian dollar would have decreased other comprehensive income by approximately $112,910 and $113,845 for the three and nine months ended September 30, 2019, respectively. Conversely, a $0.10 strengthening in the US dollar against the Canadian dollar would have had an equal but opposite effect. This analysis assumes that all variables, in particular interest rates, remain constant.

Note 22. Fair value measurements

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

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

		September 30, 2019		December 31, 2018	
	Fair value hierarchy	Carrying value	Fair value	Carrying value	Fair value
Assets:					
Investment properties	Level 3	$ 4,617,436	$ 4,617,436	$ 4,941,825	$ 4,941,825
Investment properties under development	Level 3	87,728	87,728	119,604	119,604
Notes receivable	Level 2	98,707	99,990	20,759	21,317
Investment properties held for sale	Level 3	326,932	326,932	320,465	320,465
Derivative instruments	Level 2	1,667	1,667	12,322	12,322
		5,132,470	5,133,753	5,414,975	5,415,533
Liabilities:					
Mortgages and loans payable	Level 2	1,462,882	1,476,333	1,685,010	1,693,090
Senior unsecured debentures	Level 2	449,097	453,749	399,536	400,741
Credit facilities	Level 2	901,635	903,378	772,538	774,707
Derivative instruments	Level 2	8,779	8,779	4,006	4,006
		2,822,393	2,842,239	2,861,090	2,872,544
		$ 2,310,077	$ 2,291,514	$ 2,553,885	$ 2,542,989

The fair value of the REIT's accounts receivable and other receivables, cash held in trust, cash and accounts payable and other liabilities approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments.

The fair values of notes receivable, derivative instruments, mortgages and loans payable, senior unsecured debentures and credit facilities have been determined by discounting the cash flows of these financial instruments using period end market rates for instruments of similar terms and credit risks.

Derivative instruments primarily consist of interest rate and foreign currency swaps. The REIT entered into interest rate swaps on a number of mortgages, the non-revolving credit facilities and the Series B senior unsecured debentures. The swaps are not designated in a hedge relationship.

Note 23. Subsequent events

The following events occurred subsequent to September 30, 2019:

- The REIT received upwards financing upon renewal of a variable rate mortgage in the amount of US$8,552.
- The REIT repaid three maturing mortgages in the aggregate amounts of $8,609 and US$19,891.
- The REIT acquired the second phase of an office development project located in the Twin Cities Area, Minnesota for a purchase price of US$41,961, which was partially satisfied with new mortgage financing in the amount of US$25,175.
- The REIT disposed of a portfolio of two retail properties located in Estevan, Saskatchewan. The properties were sold for $13,000 and the purchaser assumed the outstanding mortgage financing in the amount of $3,298.
- The REIT acquired a parcel of industrial development land adjacent to an existing industrial property in the Greater Houston Area, Texas for a purchase price of US$3,614.
- The REIT entered into an unconditional agreement to sell an office property located in Calgary, Alberta for $14,000 with expected closing in January 2020.
- The REIT entered into an unconditional agreement to sell a portfolio of six retail properties and a parcel of development land located in the Twin Cities Area, Minnesota for US$35,100 with expected closing in December 2019.
- The REIT drew a net balance of $5,000 and US$14,600 on its revolving term credit facilities.
- The REIT purchased through the NCIB 9,500 Series E Units at a weighted-average price of $21.33.
- The REIT declared a monthly cash distribution of $0.045 per common unit for the month of October 2019.
- The REIT declared a quarterly cash distribution of $0.3750 per Series I preferred unit for the three months ended October 31, 2019.

Note 24. Approval of financial statements

These interim condensed consolidated financial statements were approved by the Board of Trustees and authorized for issue on November 4, 2019.