Interim Condensed Consolidated Financial Statements of

ARTIS REAL ESTATE INVESTMENT TRUST

Three and nine months ended September 30, 2021 and 2020
(Unaudited)

(In Canadian dollars)

Interim Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands of Canadian dollars)

	Note	September 30, 2021	December 31, 2020
ASSETS			
Non-current assets:			
Investment properties	4	$ 3,763,847	$ 4,325,121
Investment properties under development	4	175,031	132,243
Equity accounted investments	5	178,938	200,306
Investments in equity securities		50,328	—
Property and equipment		6,754	7,481
Notes receivable		19,625	20,313
Deferred rents receivable	7	23	778
		4,194,546	4,686,242
Current assets:			
Investment properties held for sale	4	65,463	74,483
Inventory properties	6	1,371	15,060
Deposits on investment properties		—	1,203
Prepaid expenses and other assets		6,027	7,307
Notes receivable		825	1,371
Accounts receivable and other receivables	7	13,229	17,465
Cash held in trust		31,369	22,007
Cash		280,334	34,703
		398,618	173,599
Total assets		$ 4,593,164	$ 4,859,841
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities:			
Mortgages and loans payable	8	$ 926,737	$ 868,396
Senior unsecured debentures	9	249,252	248,999
Credit facilities	10	108,059	529,087
Other long-term liabilities		1,804	1,823
		1,285,852	1,648,305
Current liabilities:			
Mortgages and loans payable	8	196,281	405,126
Senior unsecured debentures	9	—	249,920
Security deposits and prepaid rent		30,210	30,089
Accounts payable and other liabilities		98,371	97,130
Credit facilities	10	499,690	95,374
		824,552	877,639
Total liabilities		2,110,404	2,525,944
Unitholders' equity		2,482,760	2,333,897
Contingencies and guarantees	20		
Subsequent events	24		
Total liabilities and unitholders' equity		$ 4,593,164	$ 4,859,841

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, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Revenue:					
Rental revenue from investment properties	13	$ 97,033	$ 113,328	$ 305,983	$ 345,907
Condominium sales	13	625	—	15,851	—
Total revenue		97,658	113,328	321,834	345,907
Expenses:					
Property operating		25,158	26,269	74,393	83,705
Realty taxes		15,970	19,042	50,507	57,894
Condominium cost of sales		441	—	14,576	—
Total operating expenses		41,569	45,311	139,476	141,599
Net operating income		56,089	68,017	182,358	204,308
Other income (expenses):					
Corporate expenses	18	(2,374)	(3,190)	(9,071)	(5,551)
Strategic initiative expenses		—	(2,104)	(18)	(3,219)
Interest expense	14	(16,838)	(20,235)	(53,188)	(65,859)
Interest income		549	1,302	1,258	4,169
Distribution income from equity securities		334	—	346	—
Net income from equity accounted investments	5	7,310	529	13,519	7,127
Fair value (loss) gain on investment properties	4	(3,957)	1,261	188,264	(131,891)
Foreign currency translation gain (loss)		2,054	(1,663)	(3,717)	(2,575)
Transaction costs	3	—	—	(11)	—
Fair value (loss) gain on financial instruments	15	(3,222)	1,979	9,922	(16,803)
Income (loss) before income taxes		39,945	45,896	329,662	(10,294)
Income tax expense	16	(90)	(197)	(891)	(587)
Net income (loss)		39,855	45,699	328,771	(10,881)
Other comprehensive income (loss) that may be reclassified to net income (loss) in subsequent periods:					
Unrealized foreign currency translation income (loss)		38,257	(27,239)	6,096	33,286
Unrealized foreign currency translation income (loss) on equity accounted investments		3,233	(3,210)	(100)	3,800
Other comprehensive income (loss)		41,490	(30,449)	5,996	37,086
Total comprehensive income		$ 81,345	$ 15,250	$ 334,767	$ 26,205
Basic income (loss) per unit attributable to common unitholders	11	$ 0.28	$ 0.30	$ 2.41	$ (0.18)
Diluted income (loss) per unit attributable to common unitholders	11	0.28	0.30	2.40	(0.20)
Weighted-average number of common units outstanding:					
Basic	11	127,995,494	135,701,170	131,209,998	136,477,583
Diluted	11	128,090,902	136,528,698	131,642,236	137,736,642

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, 2019	$ 1,798,747	$ 169,201	$ 175,048	$ 33,273	$ 2,176,269	$ 294,484	$ 2,470,753
Changes for the period:							
Issuance of common units, net of issue costs (note 11)	530	—	—	—	530	—	530
Units acquired and cancelled through normal course issuer bid (note 11)	(30,176)	—	—	12,058	(18,118)	(2,331)	(20,449)
Net loss	—	(10,881)	—	—	(10,881)	—	(10,881)
Other comprehensive income	—	—	37,086	—	37,086	—	37,086
Distributions	—	(70,595)	—	—	(70,595)	—	(70,595)
Unitholders' equity, September 30, 2020	1,769,101	87,725	212,134	45,331	2,114,291	292,153	2,406,444
Changes for the period:							
Issuance of common units, net of issue costs (note 11)	3,925	—	—	—	3,925	—	3,925
Units acquired and cancelled through normal course issuer bid (note 11)	(18,425)	—	—	3,919	(14,506)	(286)	(14,792)
Units acquired through normal course issuer bid, not cancelled at year end (note 11)	—	—	—	14	14	(65)	(51)
Net income	—	32,424	—	—	32,424	—	32,424
Other comprehensive loss	—	—	(64,903)	—	(64,903)	—	(64,903)
Distributions	—	(29,150)	—	—	(29,150)	—	(29,150)
Unitholders' equity, December 31, 2020	1,754,601	90,999	147,231	49,264	2,042,095	291,802	2,333,897
Changes for the period:							
Issuance of common units, net of issue costs (note 11)	311	—	—	—	311	—	311
Units acquired and cancelled through normal course issuer bid (note 11)	(127,910)	—	—	17,528	(110,382)	(2,535)	(112,917)
Units acquired through normal course issuer bid, not cancelled at period end (note 11)	(3,062)	—	—	378	(2,684)	(39)	(2,723)
Net income	—	328,771	—	—	328,771	—	328,771
Other comprehensive income	—	—	5,996	—	5,996	—	5,996
Distributions	—	(70,575)	—	—	(70,575)	—	(70,575)
Unitholders' equity, September 30, 2021	$ 1,623,940	$ 349,195	$ 153,227	$ 67,170	$ 2,193,532	$ 289,228	$ 2,482,760

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, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Cash provided by (used in):					
Operating activities:					
Net income (loss)		$ 39,855	$ 45,699	$ 328,771	$ (10,881)
Adjustments for:					
Distribution income from equity securities		(334)	—	(346)	—
Net income from equity accounted investments	5	(7,310)	(529)	(13,519)	(7,127)
Fair value loss (gain) on investment properties	4	3,957	(1,261)	(188,264)	131,891
Fair value loss (gain) on financial instruments	15	3,222	(1,979)	(9,922)	16,803
Unrealized foreign currency translation (gain) loss		(1,980)	1,377	3,780	3,061
Other items not affecting cash	17	6,525	7,395	19,828	16,982
Changes in non-cash operating items	17	17,361	10,495	31,055	4,139
		61,296	61,197	171,383	154,868
Investing activities:					
Acquisition of investment properties, net of related debt	3	(2,954)	—	(5,339)	—
Proceeds from dispositions of investment properties, net of costs and related debt	3	757,917	213	802,083	82,081
Proceeds from disposition of note receivable		—	—	—	8,372
Additions to investment properties		(8,367)	(6,697)	(17,363)	(20,332)
Additions to investment properties under development		(20,549)	(17,534)	(52,225)	(51,738)
Additions to tenant inducements and leasing commissions		(6,632)	(12,095)	(24,532)	(41,615)
Contributions to equity accounted investments	5	(580)	(299)	(11,429)	(587)
Distributions from equity accounted investments		1,565	20,969	39,679	23,756
Purchase of equity securities		(44,527)	—	(50,872)	—
Distributions from equity securities		182	—	182	—
Additions to property and equipment		—	—	—	(13)
Issuances of notes receivable		(37)	(9)	(112)	(30)
Notes receivable principal repayments		574	79,343	1,348	80,342
Change in deposits on investment properties		94	33	1,196	(1,271)
Change in cash held in trust		(13,901)	(82,146)	(9,400)	(85,306)
		662,785	(18,222)	673,216	(6,341)
Financing activities:					
Repayment of mortgages and loans payable		(67,833)	(9,398)	(271,323)	(48,552)
Advance of mortgages and loans payable, net of financing costs		(344)	(382)	130,370	48,755
Issuance of senior unsecured debentures, net of financing costs	12	—	248,869	—	248,869
Repayment of senior unsecured debentures	9	—	—	(250,000)	(200,000)
Advance of revolving credit facilities		17,500	12,500	414,880	91,500
Repayment of revolving credit facilities, including financing costs		(343,500)	(265,000)	(436,500)	(407,721)
Advance of non-revolving credit facilities, net of financing costs		—	—	—	199,644
Repayment of lease liabilities		(80)	(51)	(209)	(157)
Purchase of common units under normal course issuer bid	11	(57,380)	—	(113,160)	(18,868)
Purchase of preferred units under normal course issuer bid	11	(907)	—	(2,480)	(1,581)
Distributions paid on common units		(19,253)	(18,283)	(57,608)	(55,556)
Distributions paid on preferred units		(4,307)	(4,350)	(12,969)	(13,079)
		(476,104)	(36,095)	(598,999)	(156,746)
Foreign exchange gain (loss) on cash held in foreign currency		810	(439)	31	962
Increase (decrease) in cash		248,787	6,441	245,631	(7,257)
Cash, beginning of period		31,547	28,757	34,703	42,455
Cash, end of period		$ 280,334	$ 35,198	$ 280,334	$ 35,198

See accompanying notes to interim condensed consolidated financial statements.

(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 May 21, 2021 (the "Declaration of Trust"). The purpose of the REIT is to directly, or indirectly, own, manage, lease and (where appropriate) develop primarily industrial, office and retail 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 $0.60 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.

On March 10, 2021, the REIT announced a business transformation plan that will shift the REIT from a diversified real estate investment trust to an organization focused on growth in net asset value per unit and distributions through value investing in real estate (the "Business Transformation Plan").

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, 2020, except for those policies and standards adopted as described in note 2 (b), (c) and (e). The REIT has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. These interim condensed consolidated financial statements have been prepared on a going concern basis and have been presented in Canadian dollars rounded to the nearest thousand dollars 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, 2020.

(b) Investments in associates:

An associate is an entity over which the REIT has significant influence. Significant influence is the power to participate in an entity's financial and operating policy decisions but there is no joint control over the investment.

The REIT's interests in associates are accounted for using the equity method. The investment in associates is initially measured at cost at the date of acquisition and adjusted thereafter for the REIT's share of changes in its net assets, less distributions received and any identified impairment loss. The REIT's share of the profit or loss from its investments in associates is recognized in profit or loss for the period.

(c) Investments in equity securities:

Regular way purchases and sales of equity securities are recognized using the trade date, which is the date that the REIT commits itself to purchase or sell the equity securities. Investments in equity securities are measured at fair value at initial recognition. The REIT classifies and subsequently measures its investments in equity securities at fair value through profit and loss. Distributions from equity securities are recognized in the period the distributions are declared.

(d) 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, 2020. There have been no changes to the critical accounting estimates and judgments during the nine months ended September 30, 2021.

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

Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. For financial instruments at amortized cost, the amendments introduce a practical expedient such that if a change in the contractual cash flows is as a result of inter-bank offered rate ("IBOR") reform and occurs on an economically equivalent basis, the change will be accounted for by updating the effective interest rate with no immediate gain or loss recognized.

As at September 30, 2021, the REIT had variable rate debt and interest rate swaps linked to US dollar LIBOR ("USD LIBOR") as follows:

		September 30, 2021
Financial liabilities:		
Mortgages and loans payable (1)	$	633,438
Credit facilities (1)		108,298
Interest rate swaps (2)		6,612
	$	748,348

(1) Mortgages and loans payable and credit facilities are disclosed at the outstanding balances as at September 30, 2021.
(2) Interest rate swaps are disclosed at the fair values as at September 30, 2021.

The publication of the overnight and 1, 3, 6 and 12-month USD LIBOR is expected to cease after June 30, 2023. All of the REIT's LIBOR-linked financial instruments have not yet been transitioned to an alternative interest rate benchmark. Management has begun general communications with debt and swap counterparties and will continue to monitor market developments as the USD LIBOR transition date approaches.

Additional interest rate risk may arise from the transition if the REIT is not able to negotiate with counterparties to obtain the appropriate debt financing with variable rates and/or interest rate swaps to implement its interest rate risk management strategy.

The interest rate swaps are not designated in a hedging relationship. These amendments had no impact on the interim condensed consolidated financial statements. The REIT intends to use the practical expedient in future periods as it becomes applicable.

Note 3. Acquisitions and dispositions of investment properties

Acquisitions:

On January 26, 2021, the REIT acquired an additional 5% interest in Park 8Ninety IV, an industrial property located in the Greater Houston Area, Texas. 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 a step acquisition and remeasured its existing 95% interests to fair value at the acquisition date.

On May 7, 2021 and September 24, 2021, the REIT acquired two parcels of industrial development land in the Twin Cities Area, Minnesota.

The REIT did not acquire any properties during the nine months ended September 30, 2020.

The acquisition of the 5% interest in Park 8Ninety IV has 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 equity accounted investments and including the acquisitions of land, were as follows:

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Investment properties (note 4)	$ 2,954	$ —	$ 5,823	$ —
Long-term debt, including acquired above- and below-market mortgages, net of financing costs	—	—	(487)	—
Other net assets	—	—	3	—
	2,954	—	5,339	—
Consideration was comprised of the following:				
Cash consideration	2,954	—	5,339	—
Total consideration	$ 2,954	$ —	$ 5,339	$ —
Transaction costs expensed	$ —	$ —	$ 11	$ —

Dispositions:

The REIT disposed of the following properties during the nine months ended September 30, 2021:

Property	Property count	Location	Disposition date	Asset class
Signal Centre (1)	—	Fort McMurray, AB	April 12, 2021	Retail
Victoria Square Retail Portfolio	2	Regina, SK	April 15, 2021	Retail
Fleet Street Crossing	1	Regina, SK	April 28, 2021	Retail
Sierra Place	1	Calgary, AB	May 4, 2021	Office
GTA Industrial Portfolio	27	Greater Toronto Area, ON	July 15, 2021 and August 19, 2021	Industrial
King Edward Industrial Portfolio	2	Winnipeg, MB	July 21, 2021	Industrial
East Landing Retail Portfolio	2	Regina, SK	August 23, 2021	Retail
West Landing Mall	1	Regina, SK	September 1, 2021	Retail

(1) Signal Centre was comprised of two parcels of land with two buildings on each respective parcel. On April 12, 2021, the REIT sold one of these parcels.

The cash proceeds received from the sale of the above properties, net of costs and related debt, were $802,083. The assets and liabilities associated with the properties were derecognized.

The REIT disposed of the following properties during the nine months ended September 30, 2020:

Property	Property count	Location	Disposition date	Asset class
Centre 15 Building	1	Calgary, AB	January 21, 2020	Office
Calgary Office Portfolio (1)	2	Calgary, AB	January 30, 2020	Office
800 5th Avenue	1	Calgary, AB	January 31, 2020	Office
1165 Kenaston Street	1	Ottawa, ON	March 31, 2020	Office

(1) Disposition includes a parcel of development land.

On January 24, 2020, the REIT contributed a parcel of industrial development land located in the Greater Houston Area, Texas to the Park 8Ninety IV joint venture arrangement. The co-owner's share of the parcel of land was recorded as a disposition.

The cash proceeds received from the sale of the above properties, net of costs and related debt, were $82,081. In conjunction with the sale of 800 5th Avenue, the REIT also received a note receivable, in the amount of $10,000, secured by the property. The assets and liabilities associated with the properties were derecognized.

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

	Investment properties	Investment properties under development	Investment properties held for sale
			Nine months ended September 30, 2021
Balance, beginning of period	$ 4,325,121	$ 132,243	$ 74,483
Additions:			
Acquisitions (note 3)	875	4,948	—
Reclassification from equity accounted investments (1)	16,642	—	—
Capital expenditures	16,918	51,138	445
Capitalized interest (2)	—	1,087	—
Leasing commissions	4,947	96	54
Straight-line rent adjustments	3,133	—	(31)
Tenant inducement additions, net of amortization	(1,084)	1,659	33
Contribution to equity accounted investments (3)	—	(906)	—
Dispositions	—	—	(818,120)
Foreign currency translation gain (loss)	2,417	222	(243)
Fair value gain (loss)	213,100	(15,555)	(9,281)
Reclassification of investment properties under development	(99)	99	—
Reclassification of investment properties held for sale	(818,123)	—	818,123
Balance, end of period	$ 3,763,847	$ 175,031	$ 65,463

(1) On January 26, 2021, the REIT increased its ownership interest in Park 8Ninety IV to 100%. See note 3 for further information.
(2) During the nine months ended September 30, 2021, interest was capitalized to investment properties under development at a weighted-average effective rate of 1.98%.
(3) During the nine months ended September 30, 2021, the REIT contributed capitalized development expenditures to Park Lucero East, an equity accounted associate.

	Investment properties	Investment properties under development	Investment properties held for sale
			Year ended December 31, 2020
Balance, beginning of year	$ 4,618,719	$ 102,590	$ 221,915
Additions:			
Capital expenditures	28,388	69,082	543
Capitalized interest (1)	—	2,646	34
Leasing commissions	11,724	663	79
Straight-line rent adjustments	4,735	—	188
Tenant inducement additions, net of amortization	18,411	1,206	599
Contribution to equity accounted investments (2) (3)	—	(14,761)	—
Dispositions	(400)	(747)	(351,201)
Foreign currency translation (loss) gain	(39,462)	44	(2,272)
Fair value loss	(110,037)	(3,265)	(27,574)
Reclassification of investment properties under development	23,660	(23,660)	—
Reclassification of investment properties held for sale	(230,617)	(1,555)	232,172
Balance, end of year	$ 4,325,121	$ 132,243	$ 74,483

(1) During the year ended December 31, 2020, interest was capitalized to investment properties under development at a weighted-average effective rate of 2.59%.
(2) On January 24, 2020, the REIT contributed land under development to Park 8Ninety IV, a joint venture arrangement.
(3) On October 20, 2020, the REIT contributed land under development to Park 8Ninety V, a joint venture arrangement.

Marwest Construction Ltd. ("Marwest") is a significant vendor contracted for capital projects and tenant inducements. The REIT's former President and Chief Executive Officer (retired effective December 31, 2020) is the sole director (not a beneficial shareholder) of a company that has a non-controlling ownership interest in Marwest.

Costs paid and accrued to Marwest include the following:

		Nine months ended September 30, 2021		Year ended December 31, 2020
Capital expenditures	$	45,822	$	63,831
Tenant inducement additions		792		4,118
	$	46,614	$	67,949

For the nine months ended September 30, 2021, capital expenditures paid and accrued to Marwest included $44,139 (year ended December 31, 2020, $54,846) relating to the 300 Main and 330 Main commercial and residential/multi-family development projects located in Winnipeg, Manitoba. Included in the costs paid and accrued to Marwest were construction management fees of $1,549 and labour costs of $3,357 for the nine months ended September 30, 2021 (year ended December 31, 2020, $2,146 and $4,997, respectively).

At September 30, 2021, investment properties under development included the 300 Main development project with a carrying value of $162,433 (December 31, 2020, $130,291). Estimation of the fair value of investment properties under development is subject to uncertainty due to development risks including development costs exceeding original estimates, construction or other unforeseen timing delays and leasing on a timely basis or at anticipated rates upon completion.

The REIT had one industrial and five office properties classified as investment properties held for sale that were actively marketed for sale or under unconditional sale agreements at September 30, 2021 (December 31, 2020, two office and two retail properties). The properties held for sale had an aggregate mortgage payable balance of $28,227 at September 30, 2021 (December 31, 2020, $16,133). 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.

Investment properties include right-of-use assets held under a lease with an aggregate fair value of $12,135 at September 30, 2021 (December 31, 2020, $12,955). The lease payments required under this lease were fully paid at the time of acquisition of the property.

At September 30, 2021, investment properties with a fair value of $2,098,420 (December 31, 2020, $2,645,834) 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 nine months ended September 30, 2021, properties (including the REIT's ownership interest in properties held in equity accounted investments) with an appraised value of $692,939 (year ended December 31, 2020, $916,550), 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 determines the fair value of investment properties based upon either the discounted cash flow method or the overall capitalization method. Under the discounted cash flow method, expected future cash flows are discounted using an appropriate rate based on the risk of the property. Expected future cash flows for each investment property are based upon, but not limited to, rental income from current leases, budgeted and actual expenses, and assumptions about rental income from future leases. The REIT uses leasing history, market reports, tenant profiles and building assessments, among other things, in determining the most appropriate assumptions. Discount and capitalization rates are estimated using market surveys, available appraisals and market comparables. Under the overall capitalization method, year one net income is stabilized and capitalized at a rate appropriate for each investment property. The stabilized net income incorporates allowances for vacancy, management fees and structural repair reserves. The resulting capitalized value is further adjusted, where appropriate, for costs to stabilize the net income and non-recoverable capital expenditures. There were no changes to the REIT's internal valuation methodology during the nine months ended September 30, 2021 and year ended December 31, 2020.

A change in the discount or capitalization rates used could have a material impact on the fair value of the REIT's investment properties. When discount or capitalization rates compress, the estimated fair values of investment properties increase. When discount or capitalization rates expand, the estimated fair values of investment properties decrease.

A change in estimated future rental income and expenses could have a material impact on the fair value of the REIT's investment properties. Estimated rental income and expenses are affected by, but not limited to, changes in rent and expense growth and occupancy rates.

Emergency measures enacted by governments in response to the COVID-19 pandemic, including travel restrictions, physical distancing and the temporary closure of non-essential businesses, have created significant estimation uncertainty in the determination of the fair value of investment properties as at September 30, 2021. The REIT has made assumptions with respect to the duration and severity of these emergency measures as well as the duration of the subsequent economic recovery in estimating the amount and timing of future cash flows generated from investment properties and used in the determination of fair value. As a result of this significant estimation uncertainty there is a risk that the assumptions used to determine fair values as at September 30, 2021 may change as more information becomes available, resulting in a material adjustment to the fair value of investment properties in future reporting periods.

Under the fair value hierarchy, the fair value of the REIT's investment properties is considered a Level 3, as described in note 23.

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

	September 30, 2021			December 31, 2020		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Canada:						
Discount rate	9.50 %	4.75 %	7.20 %	9.75%	5.00%	7.16%
Terminal capitalization rate	9.00 %	3.50 %	6.19 %	9.00%	3.75%	6.19%
Capitalization rate	9.00 %	3.50 %	6.09 %	9.25%	3.75%	6.09%
Investment horizon (years)	12.0	10.0	10.5	12.0	10.0	10.5
U.S.:						
Discount rate	9.75 %	6.00 %	7.68 %	9.50%	6.25%	7.79%
Terminal capitalization rate	8.50 %	4.75 %	6.66 %	8.50%	5.25%	6.78%
Capitalization rate	8.00 %	4.50 %	6.53 %	8.00%	5.00%	6.63%
Investment horizon (years)	12.0	10.0	10.4	11.0	10.0	10.3
Total portfolio:						
Discount rate	9.75 %	4.75 %	7.42 %	9.75%	5.00%	7.42%
Terminal capitalization rate	9.00 %	3.50 %	6.41 %	9.00%	3.75%	6.43%
Capitalization rate	9.00 %	3.50 %	6.29 %	9.25%	3.75%	6.30%
Investment horizon (years)	12.0	10.0	10.4	12.0	10.0	10.4

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

Note 5. Equity accounted investments and joint operations

The REIT has interests in the following:

		Ownership interest	
Property	Principal purpose	September 30, 2021	December 31, 2020
Joint ventures:			
Park 8Ninety II	Investment property	95 %	95 %
Park 8Ninety IV (1)	Investment property	— %	95 %
Park 8Ninety V	Investment property	95 %	95 %
Corridor Park	Investment property	90 %	90 %
Tower Business Center	Investment property	— %	80 %
Graham Portfolio	Investment property	75 %	75 %
The Point at Inverness	Investment property	50 %	50 %
Associate:			
Park Lucero East	Investment property	10 %	— %
Joint operations:			
Cliveden Building	Investment property	50 %	50 %
Kincaid Building	Investment property	50 %	50 %

(1) During the nine months ended September 30, 2021, the REIT increased its ownership interest in this property to 100%. See note 3 for further information.

During the nine months ended September 30, 2021, the REIT entered into a new arrangement, Park Lucero East, an industrial development project in the Greater Phoenix Area, Arizona. The REIT has determined this to be an investment in associate as the REIT does not have joint control but has significant influence over the investment by virtue of having control over the general partner of the limited partnership. Park Lucero East acquired a parcel of industrial development land and the REIT's share of the purchase price was $1,229.

During the nine months ended September 30, 2021, the REIT contributed $11,429 to Park 8Ninety V, Park Lucero East, Park 8Ninety IV, Park 8Ninety II and Corridor Park equity accounted investments.

On February 9, 2021, the Tower Business Center joint venture disposed of its investment property and the REIT's share of the proceeds, net of costs and related debt, were $39,306.

The REIT is contingently liable for the obligations of certain joint ventures, associate and joint operations. As at September 30, 2021, the co-owners' share of mortgage liabilities was $28,309 (December 31, 2020, $34,299). Management believes that the assets available from its joint ventures, associate and joint operations are sufficient for the purpose of satisfying such obligations.

Summarized financial information of the REIT's share in its equity accounted investments is as follows:

	September 30, 2021			December 31, 2020		
	Joint ventures	Associate	Total	Joint ventures	Associate	Total
Non-current assets:						
Investment properties	$ 232,489	$ —	$ 232,489	$ 236,954	$ —	$ 236,954
Investment properties under development	40,164	3,196	43,360	14,466	—	14,466
Current assets:						
Investment property held for sale	—	—	—	60,819	—	60,819
Prepaid expenses and other assets	146	50	196	172	—	172
Accounts receivable and other receivables	233	7	240	819	—	819
Cash held in trust	1,172	—	1,172	—	—	—
Cash	5,975	6	5,981	14,241	—	14,241
Total assets	280,179	3,259	283,438	327,471	—	327,471
Non-current liabilities:						
Mortgages and loans payable	45,782	—	45,782	49,832	—	49,832
Current liabilities:						
Mortgages and loans payable	46,516	—	46,516	60,930	—	60,930
Security deposits and prepaid rent	2,720	—	2,720	2,861	—	2,861
Accounts payable and other liabilities	8,822	660	9,482	13,542	—	13,542
Total liabilities	103,840	660	104,500	127,165	—	127,165
Equity accounted investments	$ 176,339	$ 2,599	$ 178,938	$ 200,306	$ —	$ 200,306

	Three months ended September 30, 2021			Three months ended September 30, 2020		
	Joint ventures	Associate	Total	Joint ventures	Associate	Total
Revenue	$ 3,881	$ —	$ 3,881	$ 5,416	$ —	$ 5,416
Expenses:						
Property operating	896	—	896	1,035	—	1,035
Realty taxes	774	—	774	1,376	—	1,376
Total operating expenses	1,670	—	1,670	2,411	—	2,411
Net operating income	2,211	—	2,211	3,005	—	3,005
Other income (expenses):						
Interest expense	(592)	—	(592)	(1,076)	—	(1,076)
Interest income	—	—	—	1	—	1
Fair value gain (loss) on investment properties	5,691	—	5,691	(1,401)	—	(1,401)
Net income from equity accounted investments	$ 7,310	$ —	$ 7,310	$ 529	$ —	$ 529

	Nine months ended September 30, 2021			Nine months ended September 30, 2020		
	Joint ventures	Associate	Total	Joint ventures	Associate	Total
Revenue	$ 11,733	$ 2	$ 11,735	$ 16,295	$ —	$ 16,295
Expenses:						
Property operating	2,671	—	2,671	3,773	—	3,773
Realty taxes	2,419	—	2,419	3,730	—	3,730
Total operating expenses	5,090	—	5,090	7,503	—	7,503
Net operating income	6,643	2	6,645	8,792	—	8,792
Other income (expenses):						
Interest expense	(1,965)	—	(1,965)	(3,626)	—	(3,626)
Interest income	2	—	2	5	—	5
Fair value gain on investment properties	8,843	—	8,843	1,956	—	1,956
Income tax expense	(6)	—	(6)	—	—	—
Net income from equity accounted investments	$ 13,517	$ 2	$ 13,519	$ 7,127	$ —	$ 7,127

Note 6. Inventory properties

The changes to the REIT's inventory properties were as follows:

	September 30, 2021	December 31, 2020
Balance, beginning of period	$ 15,060	$ 14,632
Capital expenditures	9	285
Capitalized interest (1)	—	143
Sale of condominium units	(13,698)	—
Balance, end of period	$ 1,371	$ 15,060

(1) During the year ended December 31, 2020, interest was capitalized at a weighted-average effective interest rate of 2.62%.

Inventory properties include an industrial property that was converted into commercial condominium units. In January 2021, a condominium corporation was registered for this property. As at September 30, 2021, 19 units were sold for aggregate consideration of $15,851 and two units remained in inventory.

Note 7. Accounts receivable and other receivables

	September 30, 2021	December 31, 2020
Rents receivable	$ 4,911	$ 5,660
Deferred rents receivable	1,328	4,901
Allowance for doubtful accounts	(1,750)	(1,989)
Accrued recovery income	2,690	3,344
Other receivables	6,073	6,327
	13,252	18,243
Non-current portion of deferred rents receivable, net of related allowance for doubtful accounts of $12 (December 31, 2020, $152)	23	778
Current portion	$ 13,229	$ 17,465

Due to government-mandated capacity restrictions and temporary closures of certain non-essential businesses throughout the course of the COVID-19 pandemic, a number of tenants had to limit operations. Deferred rents receivable represent rents deferred for certain qualifying tenants with 98.7% of the repayment terms ending on or before December 31, 2022.

Refer to note 22 for further discussion on credit risk and allowance for doubtful accounts.

Note 8. Mortgages and loans payable

	September 30, 2021	December 31, 2020
Mortgages and loans payable	$ 1,125,638	$ 1,275,277
Net above- and below-market mortgage adjustments	1,831	2,423
Financing costs	(4,451)	(4,178)
	1,123,018	1,273,522
Current portion	196,281	405,126
Non-current portion	$ 926,737	$ 868,396

Certain of the REIT's investment properties have been pledged as security under mortgages and other security agreements. As at September 30, 2021, 35.4% of the REIT's mortgages and loans payable bear interest at fixed rates (December 31, 2020, 31.8%), and a further 39.0% of the REIT's mortgages and loans payable bear interest at variable rates with interest rate swaps in place (December 31, 2020, 37.1%). The weighted-average effective rate on all mortgages and loans payable was 3.28% and the weighted-average nominal rate was 3.05% at September 30, 2021 (December 31, 2020, 3.23% and 3.03%, respectively). Maturity dates range from December 31, 2021 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. Mortgages and loans payable with maturities within 12 months or are payable on demand as a result of a financial covenant breach are classified as current liabilities.

Note 9. Senior unsecured debentures

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

Senior unsecured debenture issue	Issue date	Maturity date	Applicable interest rate
Series D	September 18, 2020	September 18, 2023	3.824 %

	Face value	Unamortized financing costs	Carrying value	Current portion	Non-current portion
Series D	$ 250,000	$ (748)	$ 249,252	$ —	$ 249,252
September 30, 2021	$ 250,000	$ (748)	$ 249,252	$ —	$ 249,252
December 31, 2020	500,000	(1,081)	498,919	249,920	248,999

On February 22, 2021, upon maturity, the REIT repaid the outstanding face value of the Series C senior unsecured debentures in the amount of $250,000.

On September 18, 2020, the REIT issued 3.824% Series D senior unsecured debentures for gross proceeds of $250,000. Interest is payable semi-annually on September 18 and March 18 in each year. These debentures are redeemable, at the option of the REIT, at a price equal to the greater of (i) the Canada Yield Price (as defined in the supplemental indenture) and (ii) par. The debentures rank equally with all other indebtedness of the REIT.

On February 7, 2020, upon maturity, the REIT repaid the outstanding face value of the Series B senior unsecured debentures in the amount of $200,000.

During the three and nine months ended September 30, 2021, financing cost amortization of $91 and $333 (2020, $151 and $463) was recorded.

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.

In accordance with the Series D senior unsecured debenture supplemental indenture, the REIT must maintain various financial covenants. As at September 30, 2021, the REIT was in compliance with these requirements.

Note 10. 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.

In 2020, the REIT entered into a two-year unsecured non-revolving term credit facility agreement in the amount of $200,000. In 2017, the REIT entered into two five-year unsecured non-revolving term credit facility agreements in the aggregate amount of $300,000. All non-revolving credit facilities 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, 2021		December 31, 2020		
	Borrowing capacity	Amounts drawn	Available to be drawn (1)	Amounts drawn	Available to be drawn (1)	Applicable interest rates (2)
Revolving facilities maturing December 14, 2021	$ 400,000	$ —	$ 400,000	$ 95,617	$ 304,383	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	108,298	191,702	30,000	270,000	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 February 4, 2022	200,000	200,000	—	200,000	—	2.22%
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		(549)		(1,156)		
Total credit facilities	$1,200,000	$ 607,749	$ 591,702	$ 624,461	$ 574,383	
Current portion		499,690		95,374		
Non-current portion		$ 108,059		$ 529,087		

(1) Under the terms of the revolving credit facilities, the REIT must maintain a minimum unencumbered property assets to consolidated unsecured indebtedness ratio of 1.4. As at September 30, 2021, this covenant limits the total borrowing capacity of the revolving credit facilities to $638,190 (December 31, 2020, limited to $388,163).

(2) The REIT has entered into interest rate swaps on the non-revolving credit facilities.

For purposes of the credit facilities, the REIT must maintain various financial covenants. As at September 30, 2021, the REIT was in compliance with these requirements.

Note 11. 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, 2019	137,956,523	$ 1,798,747
Restricted units redeemed	229,675	2,454
Deferred units redeemed	184,693	2,001
Units acquired and cancelled through normal course issuer bid	(3,727,716)	(48,601)
Balance at December 31, 2020	134,643,175	1,754,601
Restricted units redeemed	15,639	176
Deferred units redeemed	12,953	135
Units acquired and cancelled through normal course issuer bid	(9,815,718)	(127,910)
Units acquired through normal course issuer bid, not cancelled at period end	(235,038)	(3,062)
Balance at September 30, 2021	124,621,011	$ 1,623,940

(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 E	Series I	Total
Number of units outstanding at December 31, 2019	3,387,300	3,833,900	5,000,000	12,221,200
Units acquired and cancelled through normal course issuer bid	(29,600)	(44,578)	(34,460)	(108,638)
Units acquired through normal course issuer bid, not cancelled at year end	(1,500)	(1,224)	—	(2,724)
Number of units outstanding at December 31, 2020	3,356,200	3,788,098	4,965,540	12,109,838
Units acquired and cancelled through normal course issuer bid	(46,500)	(59,192)	—	(105,692)
Units acquired through normal course issuer bid, not cancelled at period end	(200)	(1,400)	—	(1,600)
Number of units outstanding at September 30, 2021	3,309,500	3,727,506	4,965,540	12,002,546

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

	Series A	Series E	Series I	Total
Annual distribution rate	5.662%	5.472%	6.000%	
Distribution rate reset date	September 30, 2022	September 30, 2023	April 30, 2023	
Carrying value at December 31, 2019	$ 80,651	$ 92,529	$ 121,304	$ 294,484
Units acquired and cancelled through normal course issuer bid	(705)	(1,076)	(836)	(2,617)
Units acquired through normal course issuer bid, not cancelled at year end	(35)	(30)	—	(65)
Carrying value at December 31, 2020	79,911	91,423	120,468	291,802
Units acquired and cancelled through normal course issuer bid	(1,107)	(1,428)	—	(2,535)
Units acquired through normal course issuer bid, not cancelled at period end	(5)	(34)	—	(39)
Carrying value at September 30, 2021	$ 78,799	$ 89,961	$ 120,468	$ 289,228
Face value at September 30, 2021	$ 82,737	$ 93,188	$ 124,139	$ 300,064
Face value at December 31, 2020	83,905	94,702	124,139	302,746

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 15, 2020, 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 7, 2020 as follows:

	Public float	10% of public float
Common units	101,603,961	10,160,396
Preferred unit series:		
Series A	3,361,200	336,120
Series E	3,797,730	379,773
Series I	4,865,540	486,554

Purchases will be made at market prices through the facilities of the TSX and/or alternative Canadian trading systems 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, 2021, 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, 2021, the REIT acquired 10,050,756 common units at market prices aggregating $113,160, resulting in contributed surplus of $17,812, which was the excess of stated capital over redemption proceeds. During the nine months ended September 30, 2021, the REIT also acquired 46,700 and 60,592 Series A and E Units, respectively, at market prices aggregating $2,480, resulting in contributed surplus of $94, which was the excess of stated capital over redemption proceeds.

During the year ended December 31, 2020, the REIT acquired 3,727,716 common units at market prices aggregating $33,442, resulting in contributed surplus of $15,159, which was the excess of stated capital over redemption proceeds. During the year ended December 31, 2020, the REIT also acquired 31,100, 45,802 and 34,460 Series A, E and I Units, respectively, at market prices aggregating $1,850, resulting in contributed surplus of $832, which was the excess of stated capital over redemption proceeds.

(d) Weighted-average common units:

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Net income (loss)	$ 39,855	$ 45,699	$ 328,771	$ (10,881)
Adjustment for distributions to preferred unitholders (note 12)	(4,307)	(4,350)	(12,966)	(13,073)
Net income (loss) attributable to common unitholders	35,548	41,349	315,805	(23,954)
Adjustment for restricted units	—	(84)	373	(1,782)
Adjustment for deferred units	(146)	—	(464)	(1,927)
Diluted net income (loss) attributable to common unitholders	$ 35,402	$ 41,265	$ 315,714	$ (27,663)

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

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Basic common units	127,995,494	135,701,170	131,209,998	136,477,583
Effect of dilutive securities:				
Restricted units	—	827,528	353,199	751,032
Deferred units	95,408	—	79,039	508,027
Diluted common units	128,090,902	136,528,698	131,642,236	137,736,642
Net income (loss) per unit attributable to common unitholders:				
Basic	$ 0.28	$ 0.30	$ 2.41	$ (0.18)
Diluted	0.28	0.30	2.40	(0.20)

The computation of diluted net income (loss) per unit attributable to common unitholders includes restricted units and deferred units when these instruments are dilutive. For the three months ended September 30, 2021, restricted units were anti-dilutive for a total of 396,774 units. For the nine months ended September 30, 2021, there were no anti-dilutive units. For the three months ended September 30, 2020, deferred units were anti-dilutive for a total of 525,814 units. For the nine months ended September 30, 2020, there were no anti-dilutive units.

Note 12. Distributions to unitholders

Total distributions declared to unitholders were as follows:

	Three months ended September 30, 2021		Three months ended September 30, 2020	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	$ 18,967	$ 0.15	$ 18,320	$ 0.14
Preferred unitholders - Series A	1,170	0.35	1,189	0.35
Preferred unitholders - Series E	1,275	0.34	1,299	0.34
Preferred unitholders - Series I	1,862	0.38	1,862	0.38

	Nine months ended September 30, 2021		Nine months ended September 30, 2020	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	$ 57,609	$ 0.44	$ 55,254	$ 0.41
Preferred unitholders - Series A	3,532	1.06	3,574	1.06
Preferred unitholders - Series E	3,851	1.03	3,904	1.03
Preferred unitholders - Series I	5,583	1.13	5,595	1.13

Note 13. Revenue

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Base rent	$ 62,757	$ 73,024	$ 198,817	$ 223,574
Operating cost and realty tax recoveries	36,623	42,249	112,730	126,851
Parking and other revenue	2,685	2,962	9,390	9,926
Tenant inducements amortized to revenue	(6,084)	(6,390)	(18,827)	(18,430)
Straight-line rent adjustments	885	1,095	3,102	3,388
Lease termination income	167	388	771	598
Rental revenue from investment properties	97,033	113,328	305,983	345,907
Condominium sales	625	—	15,851	—
	$ 97,658	$ 113,328	$ 321,834	$ 345,907

Refer to note 19 for a disaggregation of revenue by reportable geographical region.

Note 14. Interest expense

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Interest on mortgages and loans payable	$ 8,791	$ 10,755	$ 28,125	$ 35,328
Interest on senior unsecured debentures	2,396	2,646	8,446	7,923
Interest on credit facilities	5,078	6,090	14,680	20,399
Amortization of above- and below-market mortgages, net	(217)	(187)	(583)	(569)
Amortization of financing costs	790	931	2,520	2,778
	$ 16,838	$ 20,235	$ 53,188	$ 65,859

Note 15. Fair value (loss) gain on financial instruments

The REIT recorded gains (losses) on the following:

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Interest rate swaps	$ 2,622	$ 404	$ 10,258	$ (20,951)
Foreign currency contracts	(5,222)	1,575	305	4,585
Other derivatives	(24)	—	(97)	(437)
Equity securities	(598)	—	(544)	—
	$ (3,222)	$ 1,979	$ 9,922	$ (16,803)

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. Supplemental cash flow information

(a) Other items not affecting cash:

	Three months ended September 30, 2021	2020	Nine months ended September 30, 2021	2020
Tenant inducements amortized to revenue	$ 6,084	$ 6,390	$ 18,827	$ 18,430
Straight-line rent adjustments	(885)	(1,095)	(3,102)	(3,388)
Depreciation of property and equipment	348	344	1,019	1,025
Unit-based compensation	405	1,012	1,147	(1,294)
Amortization of above- and below-market mortgages, net	(217)	(187)	(583)	(569)
Amortization of financing costs included in interest expense	790	931	2,520	2,778
	$ 6,525	$ 7,395	$ 19,828	$ 16,982

(b) Changes in non-cash operating items:

	Three months ended September 30, 2021	2020	Nine months ended September 30, 2021	2020
Inventory properties	$ 385	$ (125)	$ 13,687	$ (262)
Prepaid expenses and other assets	7,209	(1,028)	1,383	1,349
Accounts receivable and other receivables	(716)	1,678	5,160	2,755
Security deposits and prepaid rent	1,525	(1,204)	129	(12)
Accounts payable and other liabilities	8,958	11,174	10,696	309
	$ 17,361	$ 10,495	$ 31,055	$ 4,139

(c) Other supplemental cash flow information:

	Three months ended September 30, 2021	2020	Nine months ended September 30, 2021	2020
Interest paid	$ 18,599	$ 22,571	$ 58,414	$ 71,342
Interest received	549	1,303	1,258	4,176
Income taxes paid	765	380	1,099	916

Note 18. Related party transactions

Sandpiper Asset Management Inc. ("Sandpiper") is a related party by virtue of being a company under joint control of the President and Chief Executive Officer of the REIT.

Effective May 1, 2021, the REIT entered into a Space Sharing Licence Agreement with Sandpiper for use of certain office premises for an annual fee of $130 inclusive of taxes. The agreement has a two-year term, with an automatic one-year extension unless terminated by either party upon written notice no later than 120 days before the end of the term or extension term.

Effective May 17, 2021, the REIT entered into a Services Agreement with Sandpiper to provide certain services to support the REIT's strategy, under the Business Transformation Plan, to acquire ownership positions in publicly-listed real estate entities. The annual fee payable to Sandpiper is 0.50% for years one to three, 0.40% for year four, and 0.30% for year five and thereafter, based on the net value of the investments made by the REIT pursuant to this agreement. The agreement continues until termination by either party upon 60-day written notice, or upon other specific circumstances. Under the Services Agreement, the REIT entered into a co-investment agreement with Sandpiper and other Sandpiper related entities (together "Sandpiper Entities") to make certain investments in the identified publicly-traded securities of a real estate entity on the basis of 50% of the aggregate investments by each of the REIT and Sandpiper Entities. The Sandpiper Entities are all under joint control of the President and Chief Executive Officer of the REIT.

Fees paid and accrued to Sandpiper were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Space sharing licence fees	$ 31	$ —	$ 52	$ —
Service fees	34	—	35	—
	$ 65	$ —	$ 87	$ —

Amounts payable to Sandpiper were $34 as at September 30, 2021 (December 31, 2020, $nil).

Note 19. Segmented information

The REIT owns and operates properties located in Canada and the U.S. These properties are managed and reported internally by country. Segmented information includes the REIT's equity accounted investments as presented using the proportionate share method. REIT income (expenses), including interest relating to senior unsecured debentures and credit facilities and fair value gain (loss) on financial instruments, have not been allocated to the segments.

	Three months ended September 30, 2021				
	Canada	U.S.	REIT	Equity accounted investments adjustment	Total
Revenue:					
Rental revenue from investment properties	$ 48,410	$ 52,508	$ (4)	$ (3,881)	$ 97,033
Condominium sales	625	—	—	—	625
Total revenue	49,035	52,508	(4)	(3,881)	97,658
Expenses:					
Property operating	13,197	12,857	—	(896)	25,158
Realty taxes	7,225	9,519	—	(774)	15,970
Condominium cost of sales	441	—	—	—	441
Total operating expenses	20,863	22,376	—	(1,670)	41,569
Net operating income	28,172	30,132	(4)	(2,211)	56,089
Other income (expenses):					
Corporate expenses	—	—	(2,374)	—	(2,374)
Strategic initiative expenses	—	—	—	—	—
Interest expense	(4,181)	(5,409)	(7,840)	592	(16,838)
Interest income	9	138	402	—	549
Distribution income from equity securities	—	—	334	—	334
Net income from equity accounted investments	—	—	—	7,310	7,310
Fair value gain (loss) on investment properties	5,648	(3,914)	—	(5,691)	(3,957)
Foreign currency translation gain	—	—	2,054	—	2,054
Transaction costs	—	—	—	—	—
Fair value loss on financial instruments	—	—	(3,222)	—	(3,222)
Income (loss) before income taxes	29,648	20,947	(10,650)	—	39,945
Income tax expense	—	(90)	—	—	(90)
Net income (loss)	$ 29,648	$ 20,857	$ (10,650)	$ —	$ 39,855
Acquisition of investment properties	$ —	$ 2,954	$ —	$ —	$ 2,954
Additions to investment properties, investment properties under development and investment properties held for sale	19,920	15,589	—	(6,593)	28,916
Additions to tenant inducements	2,099	3,896	—	(632)	5,363
Additions to leasing commissions	211	1,116	—	(58)	1,269

	Three months ended September 30, 2020				
	Canada	U.S.	REIT	Equity accounted investments adjustment	Total
Revenue:					
Rental revenue from investment properties	$ 60,343	$ 58,232	$ 169	$ (5,416)	$ 113,328
Condominium sales	—	—	—	—	—
Total revenue	60,343	58,232	169	(5,416)	113,328
Expenses:					
Property operating	14,602	12,702	—	(1,035)	26,269
Realty taxes	9,993	10,425	—	(1,376)	19,042
Condominium cost of sales	—	—	—	—	—
Total operating expenses	24,595	23,127	—	(2,411)	45,311
Net operating income	35,748	35,105	169	(3,005)	68,017
Other income (expenses):					
Corporate expenses	—	—	(3,190)	—	(3,190)
Strategic initiative expenses	—	—	(2,104)	—	(2,104)
Interest expense	(4,547)	(7,544)	(9,220)	1,076	(20,235)
Interest income	2	160	1,141	(1)	1,302
Distribution income from equity securities	—	—	—	—	—
Net income from equity accounted investments	—	—	—	529	529
Fair value gain (loss) on investment properties	2,254	(2,394)	—	1,401	1,261
Foreign currency translation loss	—	—	(1,663)	—	(1,663)
Transaction costs	—	—	—	—	—
Fair value gain on financial instruments	—	—	1,979	—	1,979
Income (loss) before income taxes	33,457	25,327	(12,888)	—	45,896
Income tax expense	—	(197)	—	—	(197)
Net income (loss)	$ 33,457	$ 25,130	$ (12,888)	$ —	$ 45,699
Additions to investment properties, investment properties under development and investment properties held for sale	$ 20,500	$ 9,565	$ —	$ (6,451)	$ 23,614
Additions to tenant inducements	4,068	5,456	—	(595)	8,929
Additions to leasing commissions	475	3,094	—	(403)	3,166

	Nine months ended September 30, 2021				
	Canada	U.S.	REIT	Equity accounted investments adjustment	Total
Revenue:					
Rental revenue from investment properties	$ 158,300	$ 159,323	$ 95	$ (11,735)	$ 305,983
Condominium sales	15,851	—	—	—	15,851
Total revenue	174,151	159,323	95	(11,735)	321,834
Expenses:					
Property operating	39,707	37,357	—	(2,671)	74,393
Realty taxes	24,293	28,633	—	(2,419)	50,507
Condominium cost of sales	14,576	—	—	—	14,576
Total operating expenses	78,576	65,990	—	(5,090)	139,476
Net operating income	95,575	93,333	95	(6,645)	182,358
Other income (expenses):					
Corporate expenses	—	—	(9,071)	—	(9,071)
Strategic initiative expenses	—	—	(18)	—	(18)
Interest expense	(12,866)	(17,972)	(24,315)	1,965	(53,188)
Interest income	47	421	792	(2)	1,258
Distribution income from equity securities	—	—	346	—	346
Net income from equity accounted investments	—	—	—	13,519	13,519
Fair value gain on investment properties	184,428	12,679	—	(8,843)	188,264
Foreign currency translation loss	—	—	(3,717)	—	(3,717)
Transaction costs	—	(11)	—	—	(11)
Fair value gain on financial instruments	—	—	9,922	—	9,922
Income (loss) before income taxes	267,184	88,450	(25,966)	(6)	329,662
Income tax expense	—	(897)	—	6	(891)
Net income (loss)	$ 267,184	$ 87,553	$ (25,966)	$ —	$ 328,771
Acquisitions of investment properties	$ —	$ 5,823	$ —	$ —	$ 5,823
Additions to investment properties, investment properties under development and investment properties held for sale	51,266	44,508	—	(27,273)	68,501
Additions to tenant inducements	10,321	10,910	—	(1,796)	19,435
Additions to leasing commissions	2,219	3,382	—	(504)	5,097

	September 30, 2021				
	Canada	U.S.	REIT	Equity accounted investments adjustment	Total
Total assets	$ 2,039,259	$ 2,319,400	$ 339,005	$ (104,500)	$ 4,593,164
Total liabilities	519,767	803,553	891,584	(104,500)	2,110,404

	Nine months ended September 30, 2020				
	Canada	U.S.	REIT	Equity accounted investments adjustment	Total
Revenue:					
Rental revenue from investment properties	$ 183,367	$ 178,574	$ 261	$ (16,295)	$ 345,907
Condominium sales	—	—	—	—	—
Total revenue	183,367	178,574	261	(16,295)	345,907
Expenses:					
Property operating	47,734	39,744	—	(3,773)	83,705
Realty taxes	30,459	31,165	—	(3,730)	57,894
Condominium cost of sales	—	—	—	—	—
Total operating expenses	78,193	70,909	—	(7,503)	141,599
Net operating income	105,174	107,665	261	(8,792)	204,308
Other income (expenses):					
Corporate expenses	—	—	(5,551)	—	(5,551)
Strategic initiative expenses	—	—	(3,219)	—	(3,219)
Interest expense	(14,488)	(25,239)	(29,758)	3,626	(65,859)
Interest income	140	547	3,487	(5)	4,169
Distribution income from equity securities	—	—	—	—	—
Net income from equity accounted investments	—	—	—	7,127	7,127
Fair value loss on investment properties	(122,004)	(7,931)	—	(1,956)	(131,891)
Foreign currency translation loss	—	—	(2,575)	—	(2,575)
Transaction costs	—	—	—	—	—
Fair value loss on financial instruments	—	—	(16,803)	—	(16,803)
(Loss) income before income taxes	(31,178)	75,042	(54,158)	—	(10,294)
Income tax expense	—	(587)	—	—	(587)
Net (loss) income	$ (31,178)	$ 74,455	$ (54,158)	$ —	$ (10,881)
Additions to investment properties, investment properties under development and investment properties held for sale	$ 56,657	$ 31,735	$ —	$ (18,451)	$ 69,941
Additions to tenant inducements	13,512	24,878	—	(5,196)	33,194
Additions to leasing commissions	1,665	8,781	—	(2,025)	8,421

	December 31, 2020				
	Canada	U.S.	REIT	Equity accounted investments adjustment	Total
Total assets	$ 2,638,216	$ 2,317,975	$ 30,815	$ (127,165)	$ 4,859,841
Total liabilities	521,907	962,922	1,168,280	(127,165)	2,525,944

Note 20. Contingencies and guarantees

(a) Letters of credit:

As at September 30, 2021, the REIT had issued letters of credit in the amount of $75 (December 31, 2020, $3,574).

(b) Contingencies:

The REIT is contingently liable for bonds that have been provided to support industrial development projects in the amount of $5,871 (December 31, 2020 - $nil).

The REIT performs an assessment of legal and tax proceedings and claims which have occurred or could occur as a result of ongoing operations. In the opinion of management and based on the information available, any liability that may arise from such contingencies in excess of existing accruals would not have a material adverse effect on the interim condensed consolidated financial statements.

(c) Guarantees:

At September 30, 2021, the REIT has guaranteed certain debt assumed by purchasers in connection with the dispositions of two properties (December 31, 2020, 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, 2021 was $44,061 (December 31, 2020, $53,811), with an estimated weighted-average remaining term of 1.7 years (December 31, 2020, 2.1 years). No liabilities in excess of the fair values of the guarantees have been recognized in the interim condensed 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 21. 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, 2021, the ratio of such indebtedness to gross book value was 43.0% (December 31, 2020, 49.3%), 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, 2021	December 31, 2020
Mortgages and loans payable	8	$ 1,123,018	$ 1,273,522
Senior unsecured debentures	9	249,252	498,919
Credit facilities	10	607,749	624,461
Total debt		1,980,019	2,396,902
Unitholders' equity		2,482,760	2,333,897
		$ 4,462,779	$ 4,730,799

Note 22. Risk management

In the normal course of business, the REIT is exposed to a number of risks arising from its financial instruments. The most significant of these risks, and the actions taken to manage them, are as follows:

(a) Market risk:

(i) 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 is 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, 2021, the REIT had variable rate debt, including credit facilities and debentures, of $1,335,356 (December 31, 2020, $1,495,281). At September 30, 2021, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with $939,112 of variable rate debt, including swaps on credit facilities (December 31, 2020, $973,405).

(ii) Foreign currency risk:

The REIT owns properties located in the U.S., and therefore, the REIT is subject to foreign currency fluctuations that may impact its financial position and results. In order to mitigate this risk, the REIT's debt on U.S. properties and a portion of the amounts drawn on credit facilities are 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 1.2603 and 1.2485 for the three and nine months ended September 30, 2021, and the period end exchange rate of 1.2741 at September 30, 2021, would have increased net income by approximately $6,685 for the three months ended September 30, 2021 and $2,519 for the nine months ended September 30, 2021. A $0.10 weakening in the US dollar against the Canadian dollar would have decreased other comprehensive income by approximately $119,219 for the three months ended September 30, 2021 and $115,053 for the nine months ended September 30, 2021. Conversely, a $0.10 strengthening in the US dollar against the Canadian dollar would have had an equal but opposite effect. This analysis assumes that all variables, in particular interest rates, remain constant.

(b) Credit risk:

The REIT's maximum exposure to credit risk is equivalent to the carrying value of each class of financial asset as separately presented in cash, cash held in trust, accounts receivable and other receivables, deposits on investment properties and notes receivable.

The REIT is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. The REIT's properties are diversified across the industrial, office and retail asset classes, and geographically diversified with properties owned across five Canadian provinces and six U.S. states.

The REIT measures loss allowance for rents receivable at the lifetime expected credit losses. In determining the expected credit losses, the REIT takes into account the expectations of future defaults and rent abatements based on payment history, tenant communications and economic conditions, as well as the impact of COVID-19 on tenant's ability to pay. As part of this assessment, the REIT reviews individual tenant risk profiles given the impact on tenant operations of COVID-19 restrictions imposed by various levels of government. The government-imposed restrictions have the largest impact on the retail tenants. In an effort to support tenants adversely impacted by the pandemic, certain qualifying tenants were given the option to defer a portion of their rent, with an agreement to repay the deferred amount at a specified later date.

Included in property operating expenses are expected credit losses of $160 and $386 during the three and nine months ended September 30, 2021 (three and nine months ended September 30, 2020, credit (recovery) losses of $(721) and $2,231).

The REIT is also exposed to credit risk as a holder of notes receivable. Management mitigates this risk by carrying out credit checks and related due diligence on the borrowers and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. In addition, management monitors ongoing repayments and evaluates market conditions that may affect debtors' ability to repay.

(c) Liquidity risk:

Liquidity risk is the risk that the REIT will not be able to meet its financial obligations as they come due. The REIT manages liquidity risk by maintaining adequate cash and by having appropriate credit facilities available. In addition, the REIT continuously monitors and reviews both actual and forecasted cash flows.

The following are the estimated maturities of the REIT's financial liabilities at September 30, 2021 including accounts payable and other liabilities, lease liabilities, credit facilities, senior unsecured debentures and mortgages and loans payable. All debentures are disclosed at their face value.

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Accounts payable and other liabilities	$ 98,062	$ 98,062	$ —	$ —	$ —
Lease liabilities	1,503	309	476	283	435
Credit facilities	608,298	500,000	108,298	—	—
Senior unsecured debentures	250,000	—	250,000	—	—
Mortgages and loans payable	1,125,638	197,133	558,253	285,066	85,186
	$ 2,083,501	$ 795,504	$ 917,027	$ 285,349	$ 85,621

Note 23. 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, 2021 and the year ended December 31, 2020.

		September 30, 2021		December 31, 2020	
	Fair value hierarchy	Carrying value	Fair value	Carrying value	Fair value
Assets:					
Investment properties	Level 3	$ 3,763,847	$ 3,763,847	$ 4,325,121	$ 4,325,121
Investment properties under development	Level 3	175,031	175,031	132,243	132,243
Investments in equity securities	Level 1	50,328	50,328	—	—
Notes receivable	Level 2	20,450	20,814	21,684	22,269
Investment properties held for sale	Level 3	65,463	65,463	74,483	74,483
		4,075,119	4,075,483	4,553,531	4,554,116
Liabilities:					
Mortgages and loans payable	Level 2	1,123,018	1,128,783	1,273,522	1,278,649
Senior unsecured debentures	Level 2	249,252	256,919	498,919	507,251
Credit facilities	Level 2	607,749	608,298	624,461	625,617
Derivative instruments	Level 2	12,103	12,103	22,792	22,792
		1,992,122	2,006,103	2,419,694	2,434,309
		$ 2,082,997	$ 2,069,380	$ 2,133,837	$ 2,119,807

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 value of the investments in equity securities has been determined based on the quoted price on the principal securities exchange on which the majority of the trading occurs.

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 and the non-revolving credit facilities. The swaps are not designated in a hedge relationship.

Note 24. Subsequent events

The following events occurred subsequent to September 30, 2021:

- The REIT entered into unconditional sale agreements for two commercial condominium units for an aggregate sale price of $2,010 with expected closings in the fourth quarter of 2021.
- The REIT announced that a consortium led by Canderel Real Estate Property Inc., had, through a newly-formed entity, entered into an arrangement to acquire Cominar Real Estate Investment Trust ("Cominar") for consideration of $11.75 in cash per unit (the "Cominar Transaction"). The REIT has committed a total of up to $214,135 to the Cominar Transaction's capital structure, including $100,000 of junior preferred units and $114,135 in common equity units. The Cominar Transaction is expected to close in the first quarter of 2022, subject to the approval of Cominar unitholders, court and regulatory approvals and customary closing conditions.
- The REIT issued a new short form base shelf prospectus on October 18, 2021. 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.
- The REIT purchased through the NCIB 68,040 common units at a weighted-average price of $11.40, 4,700 Series A Units at a weighted-average price of $24.74 and 14,372 Series E Units at a weighted-average price of $23.80.
- The REIT purchased equity securities for an aggregate cost of $6,492.
- The REIT declared a monthly cash distribution of $0.05 per common unit for the month of October 2021.
- The REIT declared a quarterly cash distribution of $0.3750 per Series I Unit for the three months ended October 31, 2021.

Note 25. Approval of financial statements

These interim condensed consolidated financial statements were approved by the Board of Trustees and authorized for issue on November 3, 2021.