SMARTCENTRES REIT
SMART TODAY SMART TOMORROW

2ND QUARTER

Management's Discussion and Analysis and Unaudited Interim Condensed Consolidated Financial Statements

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018

SMARTCENTRES®

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MESSAGE FROM THE EXECUTIVE CHAIRMAN AND THE PRESIDENT & CEO

DEAR FELLOW UNITHOLDERS

Mitchell Goldhar
Executive Chairman

Peter Forde
President & Chief Executive Officer

Our strong retail portfolio continues to provide stable operating results and a solid foundation for the medium and longer term additions of our exciting development and intensification initiatives.

Our retail portfolio remains 98.2% leased. 74% of the 1.7 million square feet of 2018 lease expiries have been extended, and, at rents 3.5% in excess of current rents. Walmart represents 25.8% of our revenues, a very reliable income and a very solid base from which to build. Walmart stores continue to generate more customer traffic each quarter, with no remaining large competitors in the discount general merchandise marketplace and with an increasing market share in the food business. Other value-oriented retailers such as Dollarama, TJX banners (Winners, Marshalls and HomeSense) and all of the Canadian Tire banners continue to expand in our centres. These retailers are satisfying the ever-increasing demand for value from middle class Canadians.

Also in the retail side of our business, the Toronto and Montreal Premium Outlets continue to exceed our expectations. The 145,000 square feet Toronto expansion will open in November, virtually fully leased, including some very exciting brand names that we will be announcing soon. Progress continues on two other outlet centre sites in Canada, and we expect to be able to announce at least one in the near future.

Our leadership is particularly focused on the many new development and business opportunities in our existing shopping centre and land portfolio. We continue to persevere in our quest to carefully select partners in these new businesses – partners with whom we expect to have a long and fruitful business relationship as has been the case with all of our existing partner relationships to date. In addition, we continue to supplement, upgrade and promote from within our existing hands-on development teams.

We are unique among our peers in that we are initiating developments on our existing sites in a very diverse set of businesses. We continue to conduct a thorough analysis of every one of our centres and expect to identify a growing number of opportunities in residential – rentals, condos and townhomes, seniors' residences, self storage, hotel, medical and office.

With our partners, Revera, in the seniors' residence business, and SmartStop, in the self storage business, we continue to make good progress towards our stated objective of three to five new projects per year in each line of business. We expect to commence construction of the apartments with our partner, Jadco, in Laval, Quebec in September, and sales of townhomes by our partner Fieldgate in Vaughan North West (Ontario) late this year.

Residential intensification is in various stages of planning for many of our centres – Pointe-Claire and Laval Centre in Quebec, Chilliwack in BC, Oakville, Westside Mall and 401 & Weston Road in Toronto, just to name a few. We intend to rezone most of our properties to add residential uses, where such doesn't already exist.

Our SmartCentres Place project at Vaughan Metropolitan Centre, with the operating subway extension connected directly to downtown Toronto as a catalyst, remains a major focus of our development team leaders. The KPMG Tower office space is now virtually fully leased with the very recent execution of a 13,000 square feet tenant for the 8th floor. The mixed-use PwC/YMCA Tower opens in fall 2019. The three sold-out 55-storey Transit City Condo towers are under construction, on schedule and on budget. Application for three additional residential towers – two condo towers and one rental tower will be submitted in September with marketing and sales of the condo towers expected in early 2019. Also, we intend to directly join the excitement of this new downtown as we will be moving our home office to an existing two-storey building we own only 20 steps away from the subway station. This move so close to the subway will be a huge benefit to our existing associates and to our future recruiting needs. The move, this fall, will be an interim step towards us residing in a new office tower on site in a later phase.

For the fifth year in a row, we are pleased that we have been able to announce a further increase in our annual distributions, from $1.75 per Unit to $1.80 per Unit, a $0.05 increase which will be effective for the November distribution payment. This increase reflects our and the Board's continued confidence in our future growth and cash generation ability.

This is our first joint message to you as Executive Chairman and President & CEO. We have worked together over the past 20 years in delivering more than 200 retail and mixed-use development projects totalling in excess of 55 million square feet, many of which are owned by SmartCentres REIT today. We look forward to leading the REIT with the same entrepreneurial style and culture, but within the governance parameters and discipline required in a public entity. We are grateful for our team of associates as well as our valued business partners, all of which allow us to deliver. Thank you for investing in SmartCentres REIT.

Sincerely,

Mitchell Goldhar
Executive Chairman
SmartCentres

Peter Forde
President & Chief Executive Officer
SmartCentres

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018

About this Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") sets out SmartCentres Real Estate Investment Trust's ("SmartCentres" or the "Trust"), strategies and provides an analysis of the financial performance and financial condition for the three and six months ended June 30, 2018, the risks facing the business and management's outlook.

This MD&A should be read in conjunction with the Trust's audited consolidated financial statements for the years ended December 31, 2017 and 2016, and the unaudited interim condensed consolidated financial statements for the period ended June 30, 2018, and the notes contained therein. Such consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of condensed consolidated financial statements, and International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). The Canadian dollar is the functional and reporting currency for purposes of preparing the unaudited interim condensed consolidated financial statements.

This MD&A is dated August 9, 2018, which is the date of the press release announcing the Trust's results for the three and six months ended June 30, 2018. Disclosure contained in this MD&A is current to that date, unless otherwise noted.

Certain definitions of terms and ratios capitalized throughout this MD&A can be found in the "Glossary" section.

Presentation of Non-GAAP Measures

Readers are cautioned that certain terms used in this MD&A such as Funds From Operations ("FFO"), "FFO per Unit growth", Transactional FFO, Net Asset Value ("NAV"), Adjusted Cashflow From Operations ("ACFO"), Net Operating Income ("NOI"), "Annual Run-Rate NOI", "Same Property NOI", "Interest Coverage", "Aggregate Assets", "Gross Book Value", "Debt to Service", Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"), "Secured Indebtedness", "Payout Ratio", and any related per Variable Voting Unit of the Trust (a "Trust Unit") and per unit of the Trust's subsidiary limited partnerships (an "LP Unit") (where management discloses the combination of Trust Units and LP Units, combined units are referred to as "a Unit" or "Units") are amounts used by management to measure, compare and explain the operating results and financial performance of the Trust do not have any standardized meaning prescribed under IFRS and, therefore, should not be construed as alternatives to net income or cash flow from operating activities calculated in accordance with IFRS. These terms are defined in this MD&A and reconciled to the closest IFRS measure in the unaudited interim condensed consolidated financial statements of the Trust for the period ended June 30, 2018. Such terms do not have a standardized meaning prescribed by IFRS and may not be comparable to similarly titled measures presented by other publicly traded entities. See "Other Measures of Performance", "Net Operating Income", "Debt" and "Financial Covenants".

Funds From Operations (FFO)

FFO is a non-GAAP financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALpac, which published a White Paper describing the intended use of FFO, last revised in February 2018. It is the Trust's view that IFRS net income does not necessarily provide a complete measure of the Trust's recurring operating performance. This is primarily because IFRS net income includes items such as fair value changes of investment property that are subject to market conditions and capitalization rate fluctuations and gains and losses on the disposal of investment properties, including associated transaction costs and taxes, which Management believes are not representative of a company's economic earnings. For these reasons, the Trust has adopted REALpac's definition of FFO, which was created by the real estate industry as a supplemental measure of operating performance. FFO is computed as IFRS consolidated net income and comprehensive income attributable to Unitholders adjusted for items such as, but not limited to, unrealized changes in the fair value of investment properties and transaction gains and losses on the acquisition or disposal of investment properties calculated on a basis consistent with IFRS.

Adjusted Funds From Operations (AFFO)
AFFO is a non-GAAP financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALpac. In February 2017, REALpac issued a White Paper introducing a new non-GAAP financial measure called Adjusted Cashflow from Operations, which is intended to measure sustainable economic cash flows (see below for more on ACFO). This White Paper also re-defined AFFO as a measure of recurring economic earnings. Upon further consideration of the White Paper discussed above, management has concluded to adopt ACFO as a measure of sustainable cash flows and has no longer reported the previously reported AFFO, effective January 1, 2018.

For Unitholders that continue to use AFFO to evaluate the performance of the Trust, management continues to disclose relevant information, including leasing and building improvement costs incurred during the period, to enable Unitholders to make their own estimates of AFFO. Management believes that the disclosures included in the "Other Measures of Performance" and "Results of Operations" provide sufficient information for readers to determine their own estimates of AFFO.

Adjusted Cashflow From Operations (ACFO)
ACFO is not a term defined under IFRS and may not be comparable to similar measures used by other real estate entities. The Trust calculates its ACFO in accordance with REALpac's "White Paper on Adjusted Cashflow from Operations (ACFO)" for IFRS issued in February 2017, and subsequently amended in February 2018. The purpose of the White Paper is to provide reporting issuers and stakeholders with greater guidance on the definitions of ACFO and to help promote more consistent disclosure from reporting issuers. ACFO is intended to be used as a sustainable, economic cash flow metric. The Trust considers ACFO an input to determine the appropriate level of distributions to Unitholders as it adjusts cash flows from operations to better measure sustainable, economic cash flows. Prior to the initial issuance of the February 2017 White Paper for ACFO, there was no industry standard to calculate a sustainable, economic cash flow metric.

Forward-Looking Statements

Certain statements in this MD&A are "forward-looking statements" that reflect management's expectations regarding the Trust's future growth, results of operations, performance and business prospects and opportunities, including those statements outlined under the headings "Business Overview and Strategic Direction", "Outlook" and "Annual Run-Rate NOI". More specifically, certain statements contained in this MD&A, including statements related to the Trust's maintenance of productive capacity, estimated future development plans and joint venture projects, including the described type, scope, costs and other financial metrics related thereto; the Trust's expectation that Walmart will continue to be the dominant anchor tenant in the Trust's property portfolio and that its presence will continue to attract other retailers and consumers; the Trust's expectations regarding future potential mixed-use development opportunities; ability to pay future distributions to Unitholders, view of term mortgage renewals including rates and upfinancing amounts, timing of future payments of obligations, intentions to obtain additional secured and unsecured financing and potential financing sources; the Trust's potential future pipeline and uncommitted pipeline forecasted annualized NOI and run-rate NOI; and vacancy and leasing assumptions, and statements that contain words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may" and similar expressions and statements relating to matters that are not historical facts, constitute "forward-looking statements". These forward-looking statements are presented for the purpose of assisting Unitholders and financial analysts to understand the Trust's operating environment, and may not be appropriate for other purposes. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

However, such forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including risks associated with real property ownership, debt financing, interest and financing, capital requirements, credit risk, general uninsured losses, developments, future property acquisitions, competition for real property investments, environmental matters, land leases, potential conflicts of interest and tax-related matters. These risks and others are more fully discussed under the heading "Risks and Uncertainties" and elsewhere in this MD&A, as well as under the heading "Risk Factors" in the Trust's most recent annual information form. Although the forward-looking statements contained in this MD&A are based on what management believes to be reasonable assumptions, including those discussed under the heading "Outlook" and elsewhere in this MD&A, the Trust cannot assure investors that actual results will be consistent with these forward-looking statements.

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information may include, but are not limited to: a stable retail environment; relatively low and stable interest costs; a continuing trend toward land use intensification, including residential development in urban markets, access to equity and debt capital markets to fund, at acceptable costs, future capital requirements and to enable our refinancing of debts as they mature; the availability of investment opportunities for growth in Canada; and the timing and ability of the Trust to sell certain properties, and the valuations to be realized on property sales relative to current IFRS values. Certain statements included in this MD&A may be considered "financial outlook" for purposes of applicable Canadian securities laws, and as such the financial outlook may not be appropriate for purposes other than this MD&A. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement.

These forward-looking statements are made as at the date of this MD&A and the Trust assumes no obligation to update or revise them to reflect new events or circumstances unless otherwise required by applicable securities legislation.

All amounts in the MD&A are expressed in millions of Canadian dollars, except where otherwise stated. Per Unit amounts are expressed on a diluted basis, except where otherwise stated.

Additional information relating to the Trust, including the Trust's annual information form for the year ended December 31, 2017, can be found at www.sedar.com.

Business Overview and Strategic Direction

The Trust is an unincorporated open-ended mutual fund trust governed by the laws of the Province of Alberta. The Trust Units are listed and publicly traded on the Toronto Stock Exchange ("TSX") under the symbol "SRU.UN".

The Trust's vision is to create exceptional places to shop, work and live. The Trust's purpose is to develop, lease, construct, own and manage shopping centres and office buildings that provide retailers with a platform to reach their customers through convenient locations, intelligent designs, and a desirable tenant mix, and also, to provide high-quality office space for tenants to locate effective workspaces. The Trust is also continuing to work on opportunities to provide residential housing (in various forms), seniors housing and self storage facilities at certain of its shopping centre properties across Canada, as well as developing certain of its urban properties to provide a mix of retail, residential, office and self storage space.

The Trust's shopping centres focus on value-oriented retailers and include strong national and regional names as well as strong neighbourhood merchants. It is expected that Walmart will continue to be the dominant anchor tenant in the portfolio and that its presence will continue to attract other retailers and consumers.

As at June 30, 2018, the Trust has an ownership interest in 154 shopping centres with total income producing gross leasable area of 34.2 million square feet, one office property, seven development properties and two mixed-use properties, located in communities across Canada. Generally, the Trust's centres are conveniently located close to major highways, which, along with the anchor stores, provide significant draws to the Trust's portfolio, attracting both value-oriented retailers and consumers. In 2015, the Trust, through a subsidiary limited partnership, acquired the right from Penguin to use the "SmartCentres" brand, which has historically represented a family and value-oriented shopping experience. In 2017, the Trust changed its name from Smart Real Estate Investment Trust to SmartCentres Real Estate Investment Trust in order to further streamline the recognition, branding, and goodwill associated with the SmartCentres' brand among investors, retailers, municipal officials and consumers.

Mixed-Use Development

Two examples of the Trust's evolution into mixed-use development are: (i) the Vaughan Metropolitan Centre ("VMC") in Vaughan, Ontario, and (ii) the Laval high-rise residential project in Laval, Quebec. In addition, the Trust is currently working on initiatives for the following properties: (i) the Toronto StudioCentre ("StudioCentre") in Toronto, Ontario, (ii) the Vaughan North West ("Vaughan NW") Townhouse site in Vaughan, Ontario, (iii) the development of up to 1.5 million square feet of residential space, in various forms, in Pointe-Claire, Quebec, (iv) the development of up to 2.5 million square feet of residential space, in various forms, at Westside Mall in Toronto, Ontario, and (v) the development of approximately 108,000 rentable square feet of self storage rental space with nearly 1,000 self storage units in varying sizes on a 2.23 acre land parcel located at Toronto (Leaside) in Toronto, Ontario.

Acquisitions

Subject to the availability of acquisition opportunities, the Trust intends to grow distributions, in part through the accretive acquisition of properties. The current environment for acquisitions is very competitive with a limited supply of economically viable, higher quality properties coming to the market. The Trust explores acquisition opportunities as they arise but will pursue only acquisitions that management believes are either strategic and/or accretive relative to its long-term cost of capital. The Trust measures accretion by assessing whether an acquisition will generate a sustainable economic return to Unitholders immediately upon closing.

Developments, Earnouts and Mezzanine Financing

Developments, Earnouts and Mezzanine Financing continue to be a significant component of the Trust's strategic plan. "Developments", as noted in the table below, represent the potential gross leasable area that the Trust plans to develop for its own account and exclude the Trust's share of VMC which is separately reflected below. "Earnouts" are defined as the gross leasable area to be developed and leased to third parties, on lands previously purchased from Penguin and its partners. "Mezzanine Financing" purchase options are exercisable against the borrower of the mezzanine financing once a certain level of development and leasing at a shopping centre is achieved and typically allow the Trust as a lender to acquire 50% of the completed shopping centre at agreed-upon formulas, based on a market capitalization rate at the time the option is exercised. If the specified level of development and leasing is not achieved prior to the maturity date of the loan and the loan is repaid, then the option terminates. If an applicable property is to be sold prior to the maturity date of the loan and prior to the applicable option being triggered, then the Trust has a right of first refusal with respect to such sale.

As at June 30, 2018, the Trust's potential gross leasable area subject to Developments, Earnouts and Mezzanine Financing is summarized as follows:

(in thousands of square feet)	June 30, 2018
Retail developments	3,327
Premium outlets	123
VMC (Office Phase 1 and Office Phase 2)[1]	80
Planned developments not subject to Earnouts	3,530
Planned developments subject to Earnouts	516
Future estimated development area	4,046
Lands under Mezzanine Financing	615
Potential gross leasable area	**4,661**

(1) The potential gross leasable area excludes future phases of office, retail and all residential development.

Pursuant to the transaction completed on May 28, 2015 (the "Transaction"), which involved the acquisition of both a significant portfolio of real estate and the Penguin platform (see MD&A for the year ended December 31, 2015 for details) – all leasing and development work on behalf of Penguin and other vendors is now managed by, and will be completed by, the Trust under contract with those parties. Earnouts occur where the vendors retain responsibility for certain developments on behalf of the Trust for additional proceeds calculated based on a predetermined, or formula-based, capitalization rate, net of land and development costs incurred by the Trust. Pursuant to the Transaction, the Trust is now responsible for managing the completion of Developments and Earnouts and charges fees to the vendors for such management of Earnouts.

Professional Management

Through professional management of the portfolio, the Trust intends to ensure its properties portray an image that will continue to attract consumers and residents, as well as provide preferred locations for its office and retail tenants. Well-managed properties enhance the overall quality of shopping, working and living experiences. The Trust believes its professional management of the portfolio permitted the maintenance of a high in-place occupancy rate of 98.0% at June 30, 2018 (December 31, 2017 – 98.2%) and a committed occupancy rate of 98.2% (December 31, 2017 – 98.3%) that includes executed leases that have not commenced.

Outlook

At June 30, 2018, our balance sheet had assets which totalled approximately $9.5 billion, which includes $8.8 billion of investment properties, $143.6 million of equity accounted investments (which includes our interest in VMC), and $20.9 million of residential development inventory. For the first six months of 2018, our FFO per unit level was $1.13, which represents a 4.6% increase from the same period in 2017, and is principally derived from the continued success of our predominantly Walmart anchored shopping centre portfolio. These asset valuations and current FFO levels do not reflect the expected impact that our vast future development pipeline will have on future FFO and NAV growth levels.

Over the next five years we intend to commence mixed-use development initiatives in: (i) various forms of low-rise and high-rise housing, with particular emphasis on newly constructed purpose-built rental buildings and condominiums, (ii) seniors housing projects, (iii) self storage facilities, (iv) office buildings, (v) medical centres, (vi) hotels, (vii) sound stages and related entertainment industry event facilities, and (viii) digital signs, electrical charging stations and similar forward-thinking initiatives. During 2018, we expect to commence development on a variety of mixed-use projects whose aggregate cost is estimated to be in excess of $1 billion, or $389 million at our share (based on our most recent cost estimates and pro forma information). Over the next five years, together with our partners, we expect to commence development on projects whose aggregate costs are estimated to exceed $7.6 billion, or $2.8 billion at our share (based on our most recent cost estimates and pro forma information).

Collectively these new mixed-use initiatives will create substantial opportunities for inherent growth in both NAV and FFO per unit, and are consistent with our diversification strategy. These new initiatives have two commonalities: they will be developed almost exclusively on sites that are in our existing portfolio of properties across Canada, thus greatly reducing the need to acquire expensive development lands, and they will be directed by our own in-house team of experienced development professionals, together with our "best in class" partners.

We expect that the impact of these new developments will begin to manifest in our operating results later this year, when the 145,000 square foot expansion of the Toronto Premium Outlets (that we own together with Simon Properties) is expected to be completed. Leasing of the newly expanded space continues to exceed our expectations and the premium-oriented occupants that will soon take space at the Toronto Premium Outlets will ensure this centre's continued position as a leading destination shopping centre in the Greater Toronto Area. The full impact to FFO of this newly expanded shopping centre will be realized in 2019. In addition, both the continued lease-up of remaining office and retail space at the KPMG Tower at VMC, and additional new retail leasing in those properties acquired as part of the OneREIT transaction in 2017 are expected to contribute to growth in FFO per unit over the balance of 2018, supporting our expectation of a full fiscal year of growth being experienced in 2019.

Our large and dynamic development program continues to gain scale and momentum against the backdrop of our existing fortified and industry-leading portfolio of predominantly Walmart anchored retail properties. Our retail portfolio of 154 properties, which did not have any Sears locations, continues to experience industry-leading occupancy levels. Over the balance of 2018, we expect to complete developments to accommodate the expanding requirements of well-known retailers including Sports Experts, HomeSense, and Carter's. This core portfolio of over 34 million square feet provides a safe and secure platform from which we can leverage our various mixed-use development opportunities and has been designed to have both strength and agility. In this regard, we are continuously working with our existing tenants to facilitate their various evolving omni-channel and e-commerce platforms.

In 2018, our overall portfolio is expected to generate growth in FFO per unit of approximately 3%, and 4%-5% when transactional gains are included. Specifically, we expect that this growth will be derived from: (i) incremental revenue associated with the 12 properties that were acquired as part of the OneREIT acquisition, (ii) savings in interest costs associated with those mortgages maturing in 2018 with substantially higher interest rates than rates currently available, and (iii) the additional net income attributed to new leases that are commencing in the KPMG Tower at VMC. In 2019, we expect growth in FFO per unit of approximately 5%, which is expected to be largely attributed to the completion of the expansion of the Toronto Premium Outlets, the completion of lease-up of the remaining office and retail space in the KPMG Tower at VMC, the commencement of the PwC lease in the PwC Tower at VMC, and the commencement of several large tenancies in the properties acquired as part of the OneREIT transaction. FFO per unit is expected to grow by 10% in 2020, which is expected to be principally driven by the completion and delivery of some of the Transit City condominiums and the townhouses in Vaughan North West.

Specifically, at the VMC, construction of the PwC/YMCA Tower is progressing on time and on budget, with the building's "curtain wall" being almost complete and preliminary interior work having commenced. The complex is expected to be ready for tenant fit-out in early spring 2019 with commencement of operations later in Q4 2019. In addition, with our partners Penguin and CentreCourt, construction has commenced on each of the three 55 storey residential condominium towers at Transit City, together with a new 1,100 unit multi-level parking facility. The three 55 storey Transit City condominium towers represent over 1,700 residential units, all of which have been presold. Additional condominium phases are being planned and we may introduce the next phase to the market early in 2019. In addition, planning for both the site's first large purpose-built residential rental building, and the site's third office tower are continuing. The potential for VMC's growth and future success is closely linked to the various transit modes that directly serve the property, which include the newly opened VMC subway station, the VIVA Bus Service which continues its westerly expansion, and the soon to be opened SmartCentres Place Bus Terminal, which will serve as the new hub for York Region Transit Services connecting into the VMC Subway Station. The various levels of government that contributed the $3.3 billion public investment required to complete these three transit systems expected their investment to accelerate growth of housing, commerce and retail development in this area. Given the increasing number of cranes that continue to appear in the VMC skyline, we believe these various levels of government must be pleased to witness the scale of development that is quickly enveloping this area.

Pre-sales of the 229 townhomes at the Vaughan North West townhome development, which we are developing with our partner Fieldgate, are expected to begin later in 2018, with first deliveries expected in early 2020. Based on current sales forecasts and budgeted costs, expected returns on this project are estimated to be 20%-25% on total costs. In addition, with our partner, Jadco, we expect to soon commence construction of the first phase of a two phase, 338 unit, purpose built residential rental project in Laval, with completion of the first phase expected in 2020. Based on the market for rental accommodation in Laval and our current estimate for budgeted costs, once stabilized, we expect a 5.6% return on costs. With our partner, SmartStop, we recently announced the transfer of the first property for a self storage facility into the joint venture, which will be located on our Toronto (Leaside) site, proximate to our Leaside Shopping Centre. Once complete, this 4 storey self storage facility will have approximately 1,000 units ranging in size from 25 to 300 square feet. We expect to announce additional information on various other self storage sites, all located in the Greater Toronto Area, later in 2018, and based on the market for self storage rental accommodation and our current estimate for budgeted costs, we expect returns on costs on these projects to be in the 7.0%-8.5% range. Also, with our partner, Revera, we expect to move forward with opportunities to develop retirement homes within the portfolio with the announcement of the first specific locations expected in the next few months.

Work is also progressing on the Toronto StudioCentre, which we own together with Penguin on a 50:50 basis, where we are planning for additional studio, office, retail and potentially hotel space that will approximate 1.0-1.2 million square feet and is expected to be completed over the next 7-10 years. With the continued weakness in the Canadian dollar relative to the US dollar, this property continues to experience high demand for its sound stages and related facilities to support television and film production activity in the City of Toronto. The occupancy level at the Premium Outlets in Montreal (that we own together with Simon Properties) is at 100%, with continuously improving traffic. This continued growth has resulted in us beginning to plan for a potential expansion initiative on several outparcels on this site that are expected to commence over the next several years. Also, with our partner, Simon Properties, we continue to work on two potential additional Premium Outlets locations in Canada that we hope to provide further details on later this year.

These various development initiatives will require manageable amounts of capital. For those initiatives planned to begin in 2018 with whom we have partners, we have either completed or are in the process of completing, construction financing facilities. These include $28.1 million (at our share) for the PwC/YMCA Tower in VMC, $96.5 million (at our share) for the first three towers in Transit City, $17.2 million (at our share) for the first tower of the residential rental project in Montreal, $17.5 million (at our share) for the new retail development in Orleans, and $66.5 million (at our share) for the expansion of the parking and retail facilities at the Toronto Premium Outlets. We are currently beginning the process to source construction financing for the self storage initiatives and expect to establish a bespoke arrangement to accommodate future expansion of this area of our business. We are also near completion of a customized long-term take out financing solution for the KPMG Tower.

For those initiatives planned to begin in 2018 for which we do not have partners, we plan to use our existing sources of funds, including our operating line of credit, to assist with each respective project's completion. As of June 30, 2018 our overall debt levels continue to be manageable at 44.7% debt to aggregate assets and our weighted average cost of secured and unsecured debt is 3.82% and 3.45%, respectively. In a rising interest rate environment, we will continue to seek opportunities to fix interest rates and secure longer-term financing when appropriate. In addition, we are continuing our strategy to repay most maturing mortgages by using our line of credit on an interim basis, and then terming out selectively with unsecured debentures. Our intent is to continue to increase our unencumbered asset pool, which is currently valued at $3.9 billion, with the ultimate goal of enhancing our current BBB (mid) credit rating.

When combined, the strength, stability, and security offered by our dominant operating platform, and our growing mixed-use development platform, are expected to provide our Unitholders with a unique opportunity to participate in FFO and NAV growth over both the medium and longer terms.

Key Business Development, Financial and Operational Highlights for the Three Months Ended June 30, 2018

The Trust continued its growth through Acquisitions, Developments and Earnouts in 2018. During the quarter, the Trust also focused on managing the operation and development of existing properties and raising the capital required for future growth of the business.

Key business development highlights for the three months ended June 30, 2018 include the following:

- During the quarter, the Trust, together with its partner CentreCourt, began construction on the three Transit City Condo towers. Located in SmartCentres Place, next to the new subway station in the VMC, Transit City Condos consists of three towers of 55 storeys each, totalling over 1,700 units. All the units in each of the three towers are substantially sold out and financing is in place for all three towers.

- An investment property in Valleyfield, Quebec, was acquired from a third party, totalling 54,193 square feet of leasable area for a total purchase price of $15.7 million, of which $15.5 million was paid in cash, adjusted for costs of acquisition and other working capital amounts.

- In June 2018, the Trust transferred a property located in Toronto (Leaside) into its joint venture arrangement with SmartStop Asset Management, LLC ("SmartStop"). Under the terms of the joint venture arrangement, several sites currently owned by the Trust have initially been selected for potential development, along with additional future sites to be identified. The Trust will develop and construct the joint venture sites, and SmartStop will operate the SmartStop branded self storage business. The sites will be co-owned 50:50 by each partner.

Financial and operational highlights for the three months ended June 30, 2018 include the following:

- Net income and comprehensive income was $103.7 million, as compared to $124.1 million for the same quarter last year, representing a decrease of $20.4 million or 16.4%.[(1)], which was primarily due to lower IFRS fair value adjustments on revaluation of investment properties.

- Net rental income and other was $124.7 million, as compared to $116.1 million for the same quarter last year, representing an increase of $8.6 million or 7.4%.[(1)]

- Committed occupancy rate and in-place occupancy rate were 98.2% and 98.0%, respectively, compared to the same quarter last year of 98.5% and 98.4%, respectively.

- Cash flows provided by operating activities was $101.1 million, as compared to $74.3 million over the same quarter last year, representing an increase of $26.8 million or 36.0%.[(1)]

- Net income excluding loss on disposition and fair value adjustments was $93.0 million, as compared to $82.2 million over the same quarter last year, representing an increase of $10.8 million or 13.2%.[(2)]

- FFO with one time adjustment and before Transactional FFO increased by $6.7 million or 7.8% to $92.5 million and by $0.02 or 3.6% to $0.57 on a per Unit basis (see "Other Measures of Performance" for details).[(2)]

- FFO with one time adjustment and Transactional FFO increased by $6.1 million or 6.8% to $95.0 million and by $0.02 or 3.5% to $0.59 on a per Unit basis (see "Other Measures of Performance" for details).[(2)]

- ACFO with one time adjustment increased by $3.2 million or 3.7% to $88.4 million compared to the same quarter in 2017 (see "Other Measures of Performance" for details).[(2)]

- Payout ratio to ACFO with one time adjustment increased by 1.5% to 79.9% compared to the same quarter of 2017 (see "Other Measures of Performance" for details).[(2)]

- ACFO with one time adjustment exceeded both distributions declared and distributions paid by $17.7 million and $31.6 million, respectively.[(2)]

(1) Represents a GAAP measure.
(2) Represents a non-GAAP measure. See "Presentation of Non-GAAP Measures".

- Same properties' NOI increased by $1.3 million or 1.1% compared to the same quarter of 2017.[2]

- The weighted average stabilized capitalization rate for the Trust's investment property portfolio was 5.93% (December 31, 2017 – 5.95%). For those income properties valued using the direct income capitalization method, the weighted average stabilized capitalization rate was 5.82% (December 31, 2017 – 5.85%).

- The Trust's unencumbered pool of high-quality assets increased to $3.9 billion (June 30, 2017 – $2.9 billion).

- On May 25, 2018, the Trust issued a notice of redemption to holders of the 5.50% extendible convertible unsecured subordinated debentures due June 30, 2020, representing a redemption in full of all of the currently outstanding Debentures. The Debentures were assumed by SmartCentres from OneREIT on October 4, 2017 in connection with the closing of SmartCentres' acquisition of a portfolio of 12 properties from OneREIT.

(1) Represents a GAAP measure.
(2) Represents a non-GAAP measure. See "Presentation of Non-GAAP Measures".

Subsequent to Quarter End:

- On July 4, 2018, further to the notice issued by the Trust on May 25, 2018, the Trust completed the redemption of the 5.50% Convertible Debentures for $36.3 million in cash, which included the aggregate principal amount outstanding and accrued interest.

- On August 9, 2018, the Board of Trustees approved an increase of $0.05 per Unit (2.9%) in annual distributions to $1.80 per Unit effective October 2018.

Selected Consolidated Financial and Operational Information:

The consolidated financial and operational information shown in the table below includes the Trust's share of equity accounted investments, see the "Equity Accounted Investments" section for details, and represents key financial and operational information for the three months ended June 30, 2018, December 31, 2017 and June 30, 2017. With the exception of net income and comprehensive income, cash flows provided by operating activities, total assets, and equity, all other items represent non-GAAP financial measures.

(in thousands of dollars, except per Unit and other non-financial data)	**June 30, 2018**	December 31, 2017	June 30, 2017
Consolidated Financial and Operational Information			
Net income and comprehensive income[1]	**103,748**	101,911	124,070
Cash flows provided by operating activities[1]	**101,060**	137,492	74,285
Rentals from investment properties[1]	**193,808**	193,925	181,511
Net income and comprehensive income excluding loss on disposition and fair value adjustments[2]	**93,041**	99,108	82,200
Number of retail and other properties	**154**	154	142
Number of properties under development	**7**	7	8
Number of office properties	**1**	1	1
Number of mixed-use properties	**2**	1	1
Total number of properties with an ownership interest	**164**	163	152
Gross leasable area (in thousands of sq. ft.)	**34,207**	34,157	31,940
Future estimated development area (in thousands of sq. ft.)	**4,046**	4,038	4,089
Lands under Mezzanine Financing (in thousands of sq. ft.)	**615**	614	615
Committed occupancy rate	**98.2%**	98.3%	98.5%
In-place occupancy rate	**98.0%**	98.2%	98.4%
Average lease term to maturity	**5.7 years**	5.8 years	6.0 years
Net rental rate (per occupied sq. ft.)	**$15.29**	$15.28	$15.24
Net rental rate excluding Anchors (per occupied sq. ft.)	**$21.62**	$21.61	$21.80
Financial Information			
Investment properties[2][3]	**9,046,739**	8,952,467	8,453,702
Total assets[1]	**9,513,881**	9,380,232	8,843,016
Total unencumbered assets[2]	**3,940,600**	3,387,000	2,914,000
Debt[2][3]	**4,296,836**	4,318,330	3,909,966
Debt to Aggregate Assets[2][3]	**44.7%**	45.4%	43.9%
Debt to Gross Book Value[2][3]	**51.4%**	52.3%	51.5%
Interest Coverage[2][3]	**3.1X**	3.1X	3.1X
Debt to Adjusted EBITDA[2][3]	**8.5X**	8.4X	8.4X
Equity (book value)[1]	**4,921,463**	4,827,457	4,739,552

(1) Represents a GAAP measure.

(2) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and accordingly may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

(3) Includes the Trust's share of equity accounted investments.

The following table represents key financial, per Unit, and payout ratio information for the three months ended June 30, 2018 and June 30, 2017.

(in thousands of dollars, except per Unit information)	**Three Months Ended June 30, 2018**	Three Months Ended June 30, 2017	Variance
Financial Information			
Net income and comprehensive income[1]	**103,748**	124,070	(20,322)
Rentals from investment properties[1]	**193,808**	181,511	12,297
Net income and comprehensive income excluding gain (loss) on disposition and fair value adjustments[2]	**93,041**	82,200	10,841
NOI[2][3]	**126,708**	117,107	9,601
FFO[2][3][4]	**91,036**	85,634	5,402
FFO with one time adjustment and before Transactional FFO[2][3][4]	**92,538**	85,815	6,723
FFO with one time adjustment and Transactional FFO[2][3][4]	**95,012**	88,939	6,073
ACFO[2][3][4][6]	**88,355**	84,997	3,358
ACFO with one time adjustment[2][3][4]	**88,355**	85,178	3,177
Distributions declared	**70,634**	66,806	3,828
Surplus of ACFO with one time adjustment over distributions declared[2]	**17,721**	18,372	(651)
Surplus of ACFO with one time adjustment over distributions paid[2]	**31,617**	30,672	945
Units outstanding[6]	**160,704,177**	156,455,314	4,248,863
Weighted average – basic	**160,415,583**	156,256,467	4,159,116
Weighted average – diluted[7]	**161,220,808**	156,916,777	4,304,031
Per Unit Information (Basic/Diluted)			
Net income and comprehensive income	**$0.65/$0.64**	$0.79/$0.79	$-0.14/$-0.15
Net income and comprehensive income excluding loss on disposition and fair value adjustments	**$0.58/$0.58**	$0.53/$0.52	$0.05/$0.06
FFO with one time adjustment and before Transactional FFO[2][3][4]	**$0.58/$0.57**	$0.55/$0.55	$0.03/$0.02
FFO with one time adjustment and transactional FFO[2][3][4]	**$0.59/$0.59**	$0.57/$0.57	$0.02/$0.02
Distributions declared	**$0.437**	$0.425	$0.012
Payout ratio Information			
Payout ratio to ACFO[2][3][4][5]	**79.9%**	78.6%	1.3%
Payout ratio to ACFO with one time adjustment[2][3][4]	**79.9%**	78.4%	1.5%

(1) Represents a GAAP measure.
(2) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and accordingly may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.
(3) Includes the Trust's share of equity accounted investments.
(4) See "Other Measures of Performance" for a reconciliation of these measures to the nearest consolidated financial statement measure.
(5) The calculation of the Trust's ACFO and related ACFO payout ratio, including comparative amounts, is a new financial metric pursuant to the February 2018 REALpac White Paper on ACFO. Comparison with other reporting issuers may not be appropriate. Payout ratio is calculated as declared distributions divided by ACFO.
(6) Total Units outstanding include Trust Units and LP Units, including Units classified as liabilities. LP Units classified as equity in the consolidated financial statements are presented as non-controlling interests.
(7) The diluted weighted average includes the vested portion of the deferred unit plan.

Results of Operations

The Trust's real estate portfolio has grown through Acquisitions and completed Developments and Earnouts during the course of the past year resulting in increases in operating results for the three and six months ended June 30, 2018, as compared to the three and six months ended June 30, 2017.

Quarterly Comparison to Prior Year

The following summarizes net income and comprehensive income, NOI, NOI related ratios, and recovery ratios, for the three months ended June 30, 2018 and June 30, 2017, and to provide additional information, reflects the Trust's share of equity accounted investments:

(in thousands of dollars)	**Three Months Ended June 30, 2018**			Three Months Ended June 30, 2017			
	Trust	**Equity Accounted Investments**	**Total**	Trust	Equity Accounted Investments	Total	Variance
	(GAAP)	**(Non-GAAP)**	**(Non-GAAP)**	(GAAP)	(Non-GAAP)	(Non-GAAP)	(Non-GAAP)
			(A)			(B)	(A-B)
Net income and comprehensive income	**97,022**	**6,726**	**103,748**	122,771	1,299	124,070	(20,322)
Net base rent	**124,709**	**1,711**	**126,420**	117,273	1,066	118,339	8,081
Property tax and insurance recoveries	**46,746**	**482**	**47,228**	44,133	200	44,333	2,895
Property operating cost recoveries	**18,325**	**462**	**18,787**	15,913	231	16,144	2,643
Miscellaneous revenue	**4,028**	**629**	**4,657**	2,580	115	2,695	1,962
Rentals from investment properties	**193,808**	**3,284**	**197,092**	179,899	1,612	181,511	15,581
Service and other revenues	**3,753**	**—**	**3,753**	3,742	—	3,742	11
Rentals from investment properties and other	**197,561**	**3,284**	**200,845**	183,641	1,612	185,253	15,592
Recoverable property operating costs	**(66,487)**	**(922)**	**(67,409)**	(61,561)	(522)	(62,083)	(5,326)
Property management fees and costs	**(1,359)**	**(72)**	**(1,431)**	(1,221)	(39)	(1,260)	(171)
Non-recoverable costs	**(1,270)**	**(237)**	**(1,507)**	(1,003)	(59)	(1,062)	(445)
Property operating costs	**(69,116)**	**(1,231)**	**(70,347)**	(63,785)	(620)	(64,405)	(5,942)
Other expenses	**(3,790)**	**—**	**(3,790)**	(3,741)	—	(3,741)	(49)
Property operating costs and other	**(72,906)**	**(1,231)**	**(74,137)**	(67,526)	(620)	(68,146)	(5,991)
NOI[1]	**124,655**	**2,053**	**126,708**	116,115	992	117,107	9,601
NOI as a percentage of net base rent	**100.0%**	**120.0%**	**100.2%**	99.0%	93.1%	99.0%	1.2%
NOI as a percentage of rentals from investment properties	**64.3%**	**62.5%**	**64.3%**	64.5%	61.5%	64.5%	(0.2)%
NOI as a percentage of rentals from investment properties and other	**63.1%**	**62.5%**	**63.1%**	63.2%	61.5%	63.2%	(0.1)%
Recovery ratio (including prior year adjustments)	**97.9%**	**102.4%**	**97.9%**	97.5%	82.6%	97.4%	0.5%
Recovery ratio (excluding prior year adjustments)	**97.2%**	**102.4%**	**97.3%**	96.9%	83.7%	96.8%	0.5%

(1) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and accordingly may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

For the three months ended June 30, 2018, net income and comprehensive income decreased by $20.3 million or 16.4% compared to the same quarter in 2017. The primary reasons for the decrease pertain to:

(i) fair value adjustments on revaluation of investment properties being lower by $26.1 million principally due to changes in lease, NOI and cap rate assumptions relating to the Trust's portfolio;
(ii) a $5.6 million decrease in fair value adjustment on financial instruments principally due to the increase in the Trust's unit price as compared to the prior period (as financial instruments are fair valued at the balance sheet date);
(iii) a $2.7 million increase in net interest expense principally due to the debt assumed as part of the Arrangement; and
(iv) a $0.9 million increase in general and administrative expense, of which, $1.5 million pertains to CEO transition and related costs;

Offset by the following factors:

(v) an $8.5 million increase in net rental income and other due to the growth of the portfolio, predominantly from the properties acquired pursuant to the Arrangement;
(vi) a $5.4 million increase in earnings from equity accounted investments, primarily due to both: (a) an increase in the fair value adjustments on revaluation of investment properties, principally VMC, and (b) an increase in rental revenues from an investment property acquired pursuant to the Arrangement;
(vii) $0.6 million in an acquisition related gain arising from the Arrangement; and
(viii) $0.5 million in disposition related gains.

For the three months ended June 30, 2018, NOI increased by $9.6 million or 8.2% compared to the same quarter in 2017, which was primarily due to:

(i) a $6.8 million NOI increase predominantly from the properties acquired pursuant to the Arrangement;
(ii) a $1.3 million increase in same property NOI;
(iii) a $0.8 million NOI increase resulting from the Acquisition, Earnouts and Developments completed during the current quarter; and
(iv) a $0.7 million increase in lease termination fees and other adjustments earned during the current quarter.

With respect to the total recovery ratio (including the Trust's share of equity accounted investments), both including and excluding prior year adjustments (as discussed above), the Trust recovered 97.9% and 97.3%, respectively, of total recoverable expenses during the three months ended June 30, 2018, compared to 97.4% and 96.8%, respectively, in the same quarter in 2017.

Year-to-Date Comparison to Prior Year

The following summarizes net income and comprehensive income, NOI, and NOI related ratios, for the six months ended June 30, 2018 and June 30, 2017, and to provide additional information, reflects the Trust's share of equity accounted investments:

(in thousands of dollars)	**Six Months Ended June 30, 2018**			Six Months Ended June 30, 2017			
	Trust	**Equity Accounted Investments**	**Total**	Trust	Equity Accounted Investments	Total	Variance
	(GAAP)	**(Non-GAAP)**	**(Non-GAAP)**	(GAAP)	(Non-GAAP)	(Non-GAAP)	(Non-GAAP)
			(A)			(B)	(A-B)
Net income (loss) and comprehensive income (loss)	**195,612**	**8,602**	**204,214**	184,444	(375)	184,069	20,145
Net base rent	**248,729**	**3,479**	**252,208**	234,621	1,951	236,572	15,636
Property tax and insurance recoveries	**94,024**	**892**	**94,916**	88,178	393	88,571	6,345
Property operating cost recoveries	**40,278**	**897**	**41,175**	35,260	448	35,708	5,467
Miscellaneous revenue	**6,159**	**1,029**	**7,188**	5,007	215	5,222	1,966
Rentals from investment properties	**389,190**	**6,297**	**395,487**	363,066	3,007	366,073	29,414
Service and other revenues	**6,804**	**—**	**6,804**	6,422	—	6,422	382
Rentals from investment properties and other	**395,994**	**6,297**	**402,291**	369,488	3,007	372,495	29,796
Recoverable property operating costs	**(138,202)**	**(1,806)**	**(140,008)**	(127,410)	(1,044)	(128,454)	(11,554)
Property management fees and costs	**(3,084)**	**(136)**	**(3,220)**	(2,385)	(74)	(2,459)	(761)
Non-recoverable costs	**(2,289)**	**(387)**	**(2,676)**	(867)	(81)	(948)	(1,728)
Property operating costs	**(143,575)**	**(2,329)**	**(145,904)**	(130,662)	(1,199)	(131,861)	(14,043)
Other expenses	**(6,840)**	**—**	**(6,840)**	(6,433)	—	(6,433)	(407)
Property operating costs and other	**(150,415)**	**(2,329)**	**(152,744)**	(137,095)	(1,199)	(138,294)	(14,450)
NOI[1]	**245,579**	**3,968**	**249,547**	232,393	1,808	234,201	15,346
NOI as a percentage of net base rent	**98.7%**	**114.1%**	**98.9%**	99.1%	92.7%	99.0%	(0.1)%
NOI as a percentage of rentals from investment properties	**63.1%**	**63.0%**	**63.1%**	64.0%	60.1%	64.0%	(0.9)%
NOI as a percentage of rentals from investment properties and other	**62.0%**	**63.0%**	**62.0%**	62.9%	60.1%	62.9%	(0.9)%
Recovery ratio (including prior year adjustments)	**97.2%**	**99.1%**	**97.2%**	96.9%	80.6%	96.7%	0.5%
Recovery ratio (excluding prior year adjustments)	**96.9%**	**99.1%**	**96.9%**	96.6%	81.2%	96.5%	0.4%

(1) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and accordingly may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

For the six months ended June 30, 2018, net income and comprehensive income increased by $20.1 million or 10.9% compared to the same period in 2017. The primary reasons for the increase pertain to:

(i) a $15.5 million increase in net rental income and other due to the growth of the portfolio, predominantly from the properties acquired pursuant to the Arrangement;
(ii) a $9.0 million increase in earnings from equity accounted investments, primarily due to both an increase in the fair value adjustment on investment properties and an increase in rental revenues from an investment property acquired pursuant to the Arrangement; and
(iii) a $0.8 million increase in net acquisition related gain and others;

Offset by the following factors:

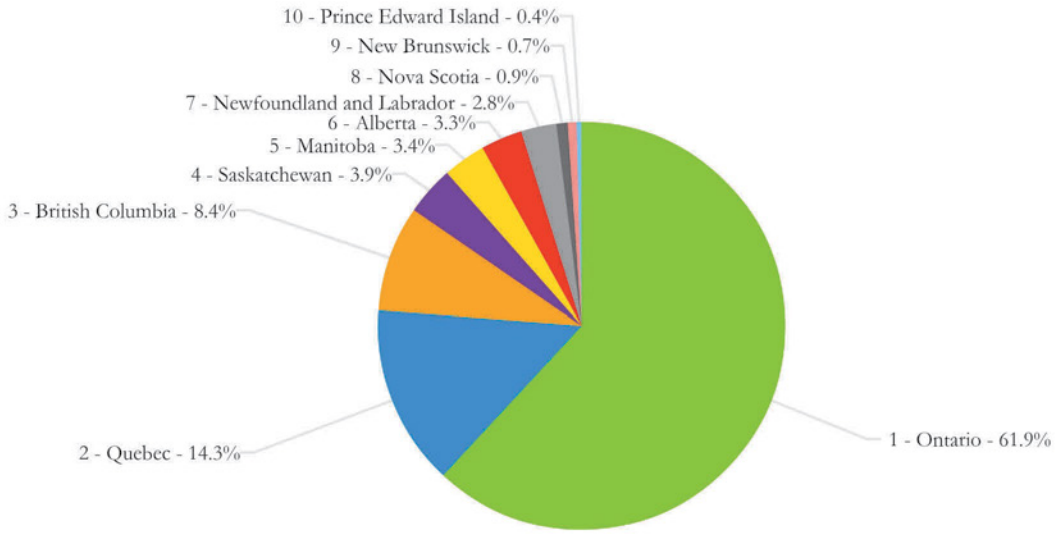
(iv) a $2.7 million net increase in interest expense;
(v) a $1.3 million increase in non-recoverable costs primarily relating to a $1.1 million reversal of a bad debt provision in the prior year comparative period; and
(vi) a $1.2 million lower fair value adjustment on revaluation of investment properties and other financial instruments.

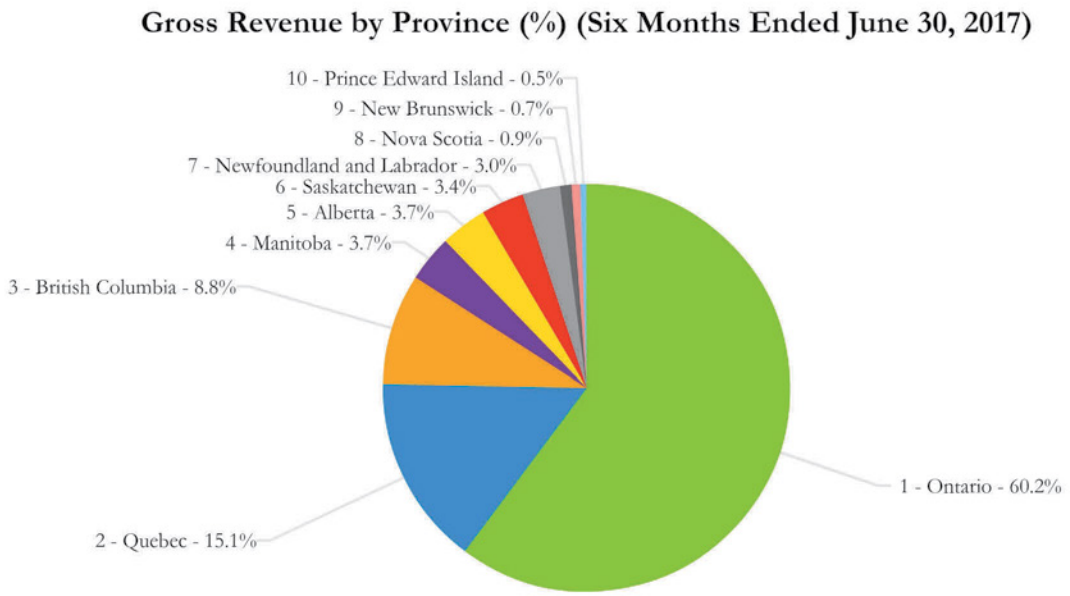
For the six months ended June 30, 2018, NOI increased by $15.3 million or 6.6% compared to the same period in 2017, which was primarily due to:

(i) a $13.2 million NOI increase predominantly from the properties acquired pursuant to the Arrangement;
(ii) a $1.2 million increase in same property NOI;
(iii) a $0.6 million increase in straight-lining of rents; and
(iv) a $0.2 million increase in lease termination fees and other adjustments earned during the current quarter.

With respect to the total recovery ratio (including the Trust's share of equity accounted investments), both including and excluding prior year adjustments (as discussed above), the Trust recovered 97.2% and 96.9%, respectively, of total recoverable expenses during the six months ended June 30, 2018, compared to 96.7% and 96.5%, respectively, in the same period last year.

Gross Revenue by Province (%) (Six Months Ended June 30, 2018)





The Trust's portfolio is located across Canada with properties in each province. With respect to the portfolio's gross revenue, 76.2% (June 30, 2017 – 75.3%) is derived from Ontario and Quebec, primarily in the Greater Toronto and Greater Montreal areas.

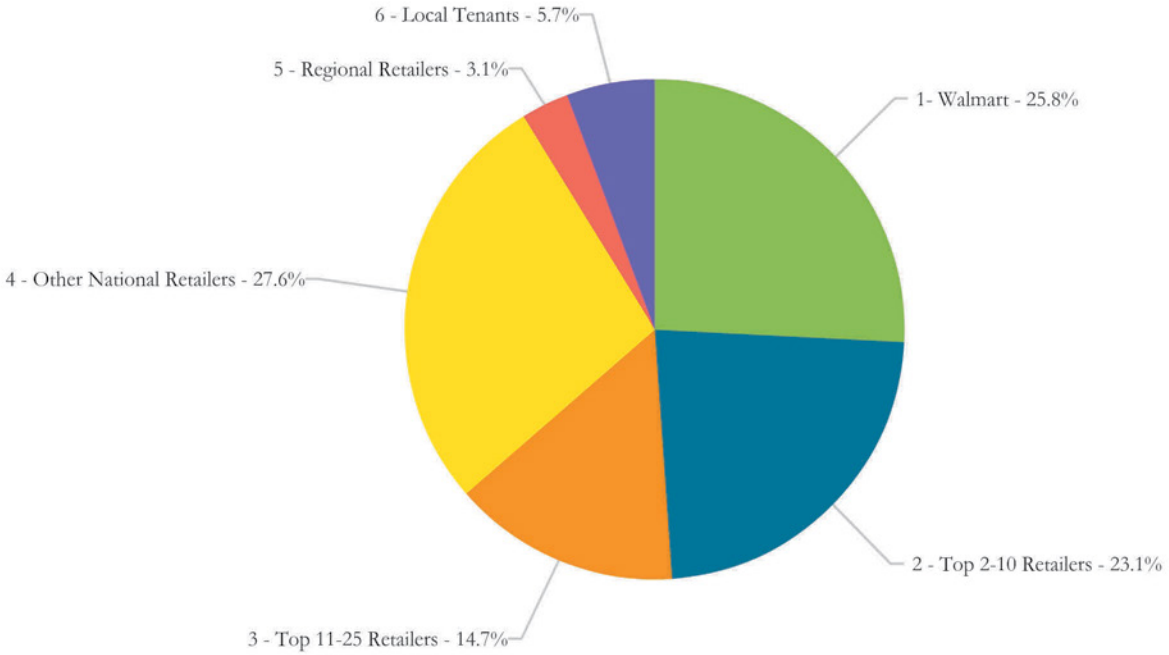
Top 25 Tenants

The 25 largest tenants (by annualized gross rental revenue) account for 63.8% of portfolio revenue as follows:

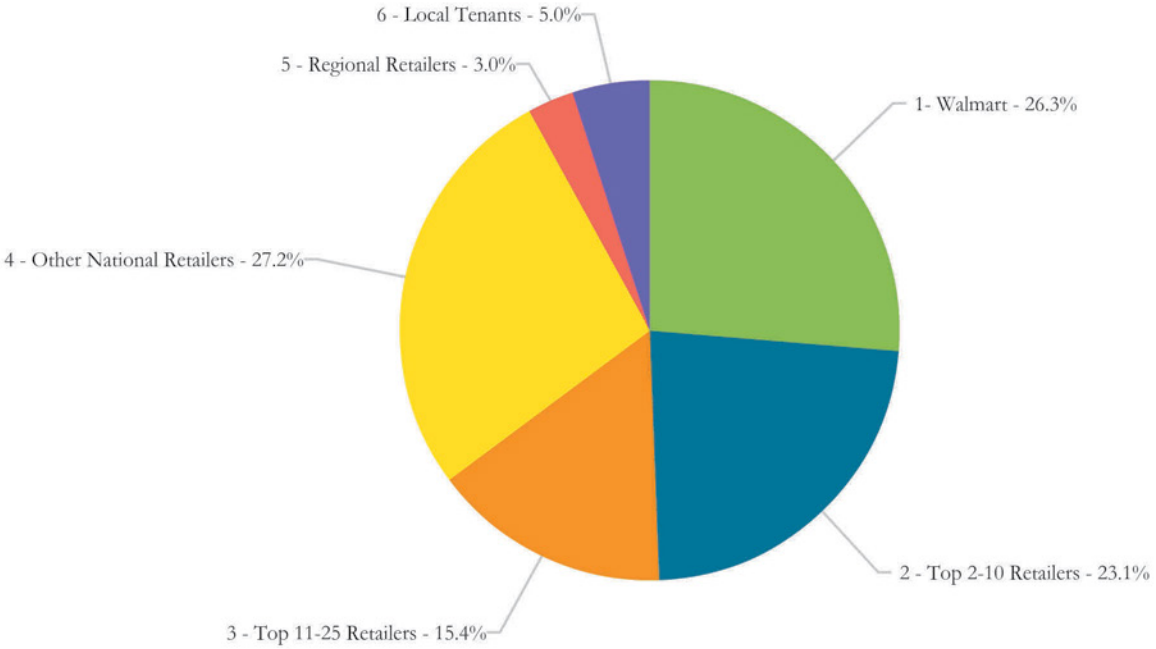
#	Tenant	Number of Stores	Annualized Gross Rental Revenue ($ millions)	Percentage of Total Annualized Gross Rental Revenue	Leased Area (sq. ft.)	Leased Area as a Percentage of Total Gross Leasable Area
1	Walmart[1]	101	201.7	25.8%	14,107,316	41.2%
2	Canadian Tire, Mark's and FGL Sports	71	35.1	4.5%	1,354,586	4.0%
3	Winners, HomeSense, Marshalls	53	31.9	4.1%	1,350,495	3.9%
4	Loblaws and Shoppers Drug Mart	24	21.5	2.8%	899,056	2.6%
5	Lowe's, RONA	9	18.5	2.4%	1,023,223	3.0%
6	Sobeys	18	18.2	2.3%	782,029	2.3%
7	Reitmans	94	16.3	2.1%	522,129	1.5%
8	Best Buy	22	13.7	1.8%	504,321	1.5%
9	Dollarama	52	12.9	1.7%	490,904	1.4%
10	Michaels	25	11.9	1.5%	477,249	1.4%
11	LCBO	34	11.7	1.5%	326,970	1.0%
12	Recipe Unlimited (formerly Cara Operations)	51	9.9	1.3%	255,342	0.7%
13	Staples	21	9.9	1.3%	449,599	1.3%
14	Bonnie Togs	46	8.2	1.1%	225,652	0.7%
15	Bulk Barn	52	7.8	1.0%	242,998	0.7%
16	Gap Inc.	23	7.8	1.0%	241,968	0.7%
17	The Brick	9	7.8	1.0%	278,293	0.8%
18	Toys R Us	7	7.2	0.9%	268,880	0.8%
19	CIBC	27	7.0	0.9%	147,298	0.4%
20	Dollar Tree, Dollar Giant	27	6.5	0.8%	225,819	0.7%
21	Metro	8	6.3	0.8%	306,664	0.9%
22	Sail	4	6.2	0.8%	226,255	0.7%
23	GoodLife Fitness Clubs	11	6.2	0.8%	249,417	0.7%
24	Sleep Country	35	6.1	0.8%	169,096	0.5%
25	Ricki's, Cleo, Urban Barn & Warehouse One	37	6.1	0.8%	169,895	0.5%
		861	496.4	63.8%	25,295,454	73.9%

(1) The Trust has a total of 101 Walmart locations under lease, of which 96 are supercentres. The Trust has 14 shopping centres with Walmart as shadow anchors, of which 13 are supercentres.

Annualized Gross Rental Revenue by Tenant (%) (Three Months Ended June 30, 2018)



Annualized Gross Rental Revenue by Tenant (%) (Three Months Ended June 30, 2017)



Same Properties NOI

NOI from continuing operations is defined as rentals from investment properties less property-specific costs, net of service and other revenues. Disclosing the NOI contribution from each of same properties, acquisitions, dispositions, Earnouts and Development activities highlights the impact each component has on aggregate NOI. Straight-lining of rent and other adjustments have been excluded from NOI attributed to same properties, acquisitions, dispositions, Earnouts and Development activities in the table below to highlight the impact of growth in occupancy, rent uplift and productivity.

Quarterly Comparison to Prior Year

(in thousands of dollars)	**Three Months Ended June 30, 2018**	Three Months Ended June 30, 2017	Variance	Variance (%)
Net rental income	**124,692**	116,114	8,578	7.4 %
Service and other revenues	**3,753**	3,742	11	0.3 %
Other expenses	**(3,790)**	(3,741)	(49)	1.3 %
NOI[1]	**124,655**	116,115	8,540	7.4 %
NOI from equity accounted investments[1]	**2,053**	992	1,061	107.0 %
Total Portfolio NOI before adjustments[1]	**126,708**	117,107	9,601	8.2 %
Adjustments:				
Royalties	**198**	177	21	11.9 %
Straight-lining of rents	**(625)**	(451)	(174)	38.6 %
Lease termination and other adjustments	**(742)**	(20)	(722)	N/R[2]
Amortization of tenant improvements	**1,761**	1,613	148	9.2 %
Total Portfolio NOI after adjustments[1]	**127,300**	118,426	8,874	7.5 %
NOI sourced from:				
Acquisitions	**(6,753)**	—	(6,753)	N/R[2]
Dispositions	**2**	(100)	102	(102.0)%
Earnouts and Developments	**(1,190)**	(292)	(898)	307.5 %
Same Properties NOI[1]	**119,359**	118,034	1,325	1.1 %

(1) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and accordingly may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

(2) N/R - Not representative

"Same properties" in the above table refer to those income properties that were owned by the Trust from April 1, 2017 to June 30, 2017 and from April 1, 2018 to June 30, 2018. The same properties NOI for the three months ended June 30, 2018 increased by $1.3 million or 1.1% compared to the same quarter in 2017, which was primarily due to:

(i) a $0.9 million increase in miscellaneous revenue principally relating to increased income from parking at VMC and other rental revenue at both Toronto Premium Outlets and Toronto StudioCentre;
(ii) a $0.3 million increase in both prior year tax adjustments and higher recoverable expenses; and
(iii) a $0.1 million increase in rental revenue attributed to lease step-ups and the leasing of previously vacant units.

The increase in NOI from acquisitions of $6.8 million, as illustrated in the above table, was principally attributed to the growth of the portfolio during the quarter ended June 30, 2018 primarily as a result of the Arrangement. The increase in NOI from equity accounted investments of $1.1 million is attributed to one property acquired in connection with the Arrangement, and additional tenants taking space in the KPMG Tower in Vaughan.

Please see the beginning of the "Results of Operations" section for a commentary on the change in NOI for the three months ended June 30, 2018.

Year-to-Date Comparison to Prior Year

(in thousands of dollars)	**Six Months Ended June 30, 2018**	Six Months Ended June 30, 2017	Variance	Variance (%)
Net rental income	**245,615**	232,404	13,211	5.7 %
Service and other revenues	**6,804**	6,422	382	5.9 %
Other expenses	**(6,840)**	(6,433)	(407)	6.3 %
NOI[1]	**245,579**	232,393	13,186	5.7 %
NOI from equity accounted investments[1]	**3,968**	1,808	2,160	119.5 %
Total Portfolio NOI before adjustments[1]	**249,547**	234,201	15,346	6.6 %
Adjustments:				
Royalties	**358**	329	29	8.8 %
Straight-lining of rents	**(1,331)**	(779)	(552)	70.9 %
Lease termination and other adjustments	**(819)**	(571)	(248)	43.4 %
Amortization of tenant improvements	**3,495**	3,263	232	7.1 %
Total Portfolio NOI after adjustments[1]	**251,250**	236,443	14,807	6.3 %
NOI sourced from:				
Acquisitions	**(13,176)**	—	(13,176)	N/R[2]
Dispositions	**101**	(236)	337	(142.8)%
Earnouts and Developments	**(2,083)**	(1,277)	(806)	63.1 %
Same Properties NOI[1]	**236,092**	234,930	1,162	0.5 %

(1) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and accordingly may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

(2) N/R - Not representative

"Same properties" in the above table refer to those income properties that were owned by the Trust from January 1, 2017 to June 30, 2017 and from January 1, 2018 to June 30, 2018. The same properties NOI for the six months ended June 30, 2018 increased by $1.2 million or 0.5% compared to the same period in 2017, which was primarily due to:

(i) a $1.1 million increase in miscellaneous revenue principally relating to increased income from parking at VMC and other rental revenue at both Toronto Premium Outlets and Toronto StudioCentre;
(ii) a $0.8 million increase in rental revenue attributed to lease step-ups and the leasing of previously vacant units; and
(iii) a $0.5 million increase in prior year tax adjustments and higher recoverable expenses;

Offset by the following factors:

(iv) a $1.3 million increase in miscellaneous expenses principally relating to a $1.1 million reversal in 2017 of previously recorded general bad debt provisions.

Excluding the impact of a $1.1 million reversal in 2017 of previously recorded general bad debt provisions (noted above), year-over-year same property growth for the six months ended June 30, 2018 would have been 1.0%.

The increase in NOI from acquisitions of $13.2 million, as illustrated in the above table, was principally attributed to the growth of the portfolio during the period ended June 30, 2018 primarily as a result of the Arrangement. The increase in NOI from equity accounted investments of $2.2 million is attributed to additional tenants taking space in the KPMG Tower in VMC, and one property acquired in connection with the Arrangement.

Please see the beginning of the "Results of Operations" section for a commentary on the change in NOI for the six months ended June 30, 2018.

Annual Run-Rate NOI

Annual Run-Rate NOI is a forward-looking, non-GAAP measure. Management's estimate of the Annual Run-Rate NOI (excluding the impact of straight-line rent and other non-recurring items including but not limited to bad debt provisions and termination fees) at June 30, 2018 is $504.6 million (December 31, 2017 – $505.8 million; June 30, 2017 – $471.8 million). The Annual Run-Rate NOI is computed by annualizing the current quarter NOI and making adjustments for the impact of straight-line rent and other non-recurring items including but not limited to bad debt provisions and termination fees. This estimate does not reflect income to be recognized from committed leases that have not yet commenced. Similarly, this estimate does not include the loss of income from space expected to be vacated over the next twelve months. The estimated Annual Run-Rate NOI improved by $32.7 million or 6.9% from June 30, 2017, which was primarily attributed to properties acquired pursuant to the Arrangement.

The sensitivity analysis below shows the impact on Annual Run-Rate NOI relating to changes in the NOI growth rate for the three and six months ended June 30, 2018:

			Three Months Ended		
Growth rate change:	**(1.0)%[1]**	**(0.5)%[1]**	**June 30, 2018**	**0.5%[1]**	**1.0%[1]**
Annual Run-Rate NOI (in thousands of dollars)	499,783	502,170	**504,557**	506,944	509,331

(1) Sensitivity rates in the table above are provided for illustrative purposes only and are not indicative of future expectations in annual growth rates.

There are no assurances for Annual Run-Rate NOI growth rates, however, assuming a 1.0% NOI growth rate over 2018 (remainder of year) and 2019, and all other variables remaining constant including total Units outstanding, FFO is forecasted to increase by $0.016 and $0.032 per Unit, respectively. Similarly, assuming a 1.0% reduction in the NOI growth rate over 2018 (remainder of year) and 2019, FFO is forecasted to decrease by $0.016 and $0.032 per Unit. Annual Run-Rate NOI is forward-looking information. See "Forward-Looking Statements".

Adjusted EBITDA

The following table represents a reconciliation of net income and comprehensive income to Adjusted EBITDA for the 12 months ended June 30, 2018 and June 30, 2017:

	12 Months Ended June 30		
(in thousands of dollars)	**2018**	2017	Variance
Net income and comprehensive income[1]	**376,069**	394,689	(18,620)
Add (deduct) the following items[1]:			
Net interest expense	**140,435**	130,912	9,523
Yield maintenance on redemption of unsecured debentures	**—**	19,178	(19,178)
Amortization of equipment and intangible assets	**2,118**	2,051	67
Amortization of tenant improvements	**6,820**	6,457	363
Fair value adjustment on revaluation of investment properties	**(19,387)**	(80,018)	60,631
Fair value adjustment on financial instruments	**(1,577)**	(9,941)	8,364
Adjustment for supplemental contribution	**3,765**	—	3,765
Loss on sale of investment properties	**271**	176	95
Target settlement proceeds, net	**—**	(259)	259
Transition costs[2]	**1,502**	—	1,502
Transactional FFO – gain on sale of land to co-owners	**3,727**	3,124	603
Acquisition related gain, net	**(19,317)**	—	(19,317)
Adjusted EBITDA[1]	**494,426**	466,369	28,057

(1) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and, accordingly, may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

(2) Transition costs include the costs of CEO transition and other related costs of $1.5 million for the three months ended June 30, 2018 (three months ended June 30, 2017 – $nil).

Leasing Activities and Lease Expiries

The Trust's portfolio of well located, value-based and predominantly Walmart anchored shopping centres has provided an attractive foundation from which to do business for many retailers. Walmart's continued growth and success in Canada results in improved traffic flows that assist all tenants in the Trust's shopping centres. As such, the Trust has experienced industry-leading occupancy rates for the past decade. In the past few years, however, pressure on occupancy and rents has been brought on by an oversupply of vacant retail space stemming principally from the closure of Target and Sears locations. Retailers also face an economic climate of rising labour costs (in some provinces) and retailers have had to adapt quickly in response. The Trust will continue to proactively engage tenants to maximize retention and attract new tenants adding new uses to any of its available space.

Value-based retailers such as Costco, Canadian Tire, Dollarama, Winners, HomeSense, Marshalls and Old Navy have been performing well and are actively expanding their store numbers. Restaurant companies, including Recipe Unlimited (formerly Cara Operations), are in expansion mode. Medical services such as clinics and diagnostic labs have been taking more space within the Trust's portfolio, in line with health needs from an aging population.

As the Trust continues to adapt to changes in the retail environment, the focus remains on maintaining a strong and relevant portfolio which meets the needs of each community with a variety of uses including grocery, pharmacy, restaurant, fitness and personal care. The combination of these uses maintains the Trust's strong value-oriented focus, while supporting our strategy of delivering new services and uses in each community.

Leasing Activities

For the quarter ended June 30, 2018, the Trust achieved an in-place occupancy rate of 98.0% (June 30, 2017 – 98.4%). The Trust's committed occupancy rate, which represents the occupancy level for tenants taking occupancy after the quarter, for the quarter ended June 30, 2018 was 98.2% (June 30, 2017 – 98.5%).

As at June 30, 2018, approximately 133,435 square feet of space has been leased or is in the final stages of being leased for occupancy of vacant space in future quarters. The Trust's quarterly occupancy rate is summarized below for in-place occupancy as well as committed occupancy:

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
In-place occupancy rate	**98.0%**	98.0%	98.2%	98.5%	98.4%
Committed occupancy rate	**98.2%**	98.1%	98.3%	98.6%	98.5%

The following table represents a continuity of the Trust's occupancy level for the quarter ended June 30, 2018 as compared to the previous quarter:

(in square feet)	**Vacant Area**	**Occupied Area**	**Leasable Area**	**Occupancy Level (%)**
Beginning balance – March 31, 2018	**690,319**	**33,467,732**	**34,158,051**	**98.0%**
New vacancies	84,235	(84,235)	—	
New leases	(98,189)	98,189	—	
Subtotal	676,365	33,481,686	34,158,051	
Acquisitions	—	54,193	54,193	
Transferred from properties under development to income properties	—	1,000	1,000	
Transferred from income properties to properties under development	(6,962)	—	(6,962)	
Other	(901)	1,960	1,059	
Ending balance – June 30, 2018	**668,502**	**33,538,839**	**34,207,341**	**98.0%**

2018 and 2019 Lease Expiries and Related Renewals

As at June 30, 2018, the Trust completed or was near completion on lease renewals totalling 2,043,411 square feet of space, representing approximately 73.8% of 2018 lease expiries (June 30, 2017 – 66.1%) at an average rental rate of $19.96 per square foot (June 30, 2017 – $19.53 per square foot). As at June 30, 2018, for 2019 lease maturities, the Trust completed or was near completion on renewals totalling 629,270 square feet or 18.7% of 2019 maturities.

	2018	2017	Variance
Lease expiries in the current year	**2,767,838**	2,044,839	722,999
Renewals year to date:			
Square feet – renewed	**1,742,683**	1,042,332	700,351
Square feet – near completion	**300,728**	308,510	(7,782)
Total renewals completed and near completion	**2,043,411**	1,350,842	692,569
Renewal percentage – complete and near completion	**73.8%**	66.1%	7.7%
Average net rent per square foot on renewed leases	**$19.96**	$19.53	$0.43
Average net rent per square foot on leases near completion	**$24.18**	$21.57	$2.61
Increase in average net rent per square foot on renewed leases	**$0.67**	$0.43	$0.24
Percentage increase in average net rent per square foot on renewed leases	**3.5%**	2.2%	1.3%
Percentage increase in average net rent per square foot on renewed leases excluding anchor tenants	**3.7%**	1.8%	1.9%

Lease expiries for the total portfolio as at June 30, 2018 are as follows:

Year of Expiry	**Total Area (sq. ft.)**	**Percentage of Total Area (%)**	**Annualized Base Rent ($000s)**	**Average Base Rent psf[1] ($)**
Month-to-month and holdovers	370,857	1.1%	6,845	18.46
2018 (remainder of year)	639,725	1.9%	13,172	20.59
2019	3,052,962	8.9%	45,538	14.92
2020	3,764,953	11.0%	54,991	14.61
2021	3,804,009	11.1%	54,707	14.38
2022	4,364,713	12.8%	62,673	14.36
2023	4,148,452	12.1%	69,262	16.70
Beyond	13,393,168	39.1%	205,543	15.35
Vacant	668,502	2.0%	—	—
Total	34,207,341	100.0%	512,731	15.29

(1) The total average base rent per square foot excludes vacant space of 668,502 square feet.

Lease expiries for the portfolio excluding Anchor tenants as at June 30, 2018 are as follows:

Year of Expiry	**Total Area (excluding Anchor tenants) (sq. ft.)**	**Percentage of Total Area (excluding Anchor tenants) (%)**	**Proportion of Area (excluding Anchor tenants) (%)**	**Annualized Base Rent ($000s)**	**Average Base Rent psf[1] ($)**
Month-to-month and holdovers	344,716	1.0%	2.4%	6,545	18.99
2018 (remainder of year)	559,988	1.6%	3.9%	11,272	20.13
2019	1,731,094	5.1%	12.1%	35,458	20.48
2020	1,812,827	5.3%	12.7%	37,098	20.46
2021	1,618,726	4.7%	11.3%	33,623	20.77
2022	1,626,843	4.8%	11.4%	36,815	22.63
2023	1,998,795	5.8%	14.1%	45,867	22.95
Beyond	3,939,644	11.5%	27.6%	88,077	22.36
Vacant	634,051	1.9%	4.5%	—	—
Total	14,266,684	41.7%	100.0%	294,755	21.62

(1) The total average base rent per square foot excludes vacant space of 634,051 square feet.

Lease Expiries
(in millions of square feet)

Lease Expiries – Walmart versus Other Anchors
(in millions of square feet)

Other Measures of Performance

The following are measures sometimes used by Canadian real estate investment trusts ("REITs") as indicators of financial performance. Management uses these measures to analyze operating performance. Because one of the factors that may be considered relevant by prospective investors is the cash distributed by the Trust relative to the price of the Units, management believes these measures are useful supplemental measures that may assist prospective investors in assessing an investment in Units. The Trust analyzes its cash distributions against these measures to assess the stability of the monthly cash distributions to Unitholders. Because these measures are not standardized as prescribed by IFRS, they may not be comparable to similar measures presented by other REITs. These measures are not intended to represent operating profits for the period; nor should they be viewed as an alternative to net income and comprehensive income, cash flows from operating activities or other measures of financial performance calculated in accordance with IFRS. The calculations are derived from the unaudited interim condensed consolidated financial statements for the period ended June 30, 2018, unless otherwise stated, do not include any assumptions, do not include any forward-looking information and are consistent with prior reporting periods.

Weighted Average Number of Units

The weighted average number of Trust Units and LP Units is used in calculating the Trust's net income and comprehensive income per Unit, net income and comprehensive income excluding loss on disposition and fair value adjustments per Unit, and FFO per Unit. The corresponding diluted per Unit amounts are adjusted for the dilutive effect of the vested portion of deferred units granted under the Trust's deferred unit plan unless they are anti-dilutive. To calculate diluted FFO per Unit for the three and six months ended June 30, 2018, vested deferred units are added back to the weighted average Units outstanding because they are dilutive.

The following table sets forth the weighted average number of Units outstanding for the purpose of FFO per Unit calculations in this MD&A:

	Three Months Ended June 30		**Six Months Ended June 30**	
(number of Units)	**2018**	2017	**2018**	2017
Trust Units	**133,301,318**	130,702,208	**133,068,306**	130,516,304
Class B LP Units	**16,360,023**	16,349,048	**16,358,337**	16,349,048
Class D LP Units	**311,022**	311,022	**311,022**	311,022
Class B LP II Units	**756,525**	756,525	**756,525**	756,525
Class B LP III Units	**3,802,262**	3,777,335	**3,802,262**	3,777,335
Class B LP IV Units	**3,046,121**	3,046,121	**3,046,121**	3,046,121
Class B Oshawa South LP Units	**688,336**	688,336	**688,336**	688,336
Class D Oshawa South LP Units	**251,649**	251,649	**251,649**	251,649
Class B Oshawa Taunton LP Units	**374,223**	374,223	**374,223**	374,223
Class B Series ONR LP Units	**1,254,114**	—	**1,254,114**	—
Class B Series 1 ONR LP I Units	**132,881**	—	**132,881**	—
Class B Series 2 ONR LP I Units	**137,109**	—	**137,109**	—
LP Units	**27,114,265**	25,554,259	**27,112,579**	25,554,259
Total Units – Basic	**160,415,583**	156,256,467	**160,180,885**	156,070,563
Vested deferred units	**805,225**	660,310	**764,171**	639,254
Total Units and vested deferred units – Diluted	**161,220,808**	156,916,777	**160,945,056**	156,709,817

Funds From Operations

FFO is a non-GAAP financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALpac, which published a White Paper describing the intended use of FFO, last revised in February 2018. It is the Trust's view that IFRS net income does not necessarily provide a complete measure of the Trust's recurring operating performance. This is primarily because IFRS net income includes items such as fair value changes of investment property that are subject to market conditions and capitalization rate fluctuations and gains and losses on the disposal of investment properties, including associated transaction costs and taxes, which Management believes are not representative of a company's economic earnings. For these reasons, the Trust has adopted REALpac's definition of FFO, which was created by the real estate industry as a supplemental measure of operating performance. FFO is computed as IFRS consolidated net income and comprehensive income attributable to Unitholders adjusted for items such as, but not limited to, unrealized changes in the fair value of investment properties and transaction gains and losses on the acquisition or disposal of investment properties calculated on a basis consistent with IFRS.

FFO should not be construed as an alternative to net income and comprehensive income or cash flows provided by or used in operating activities determined in accordance with IFRS. The Trust's method of calculating FFO is in accordance with REALpac's recommendations, but may differ from other issuers' methods and, accordingly, may not be comparable to FFO reported by other issuers.

A reconciliation of FFO to net income and comprehensive income can be found below.

Adjusted Funds From Operations

AFFO is a non-GAAP financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALpac. In February 2017, REALpac issued a White Paper introducing a new non-GAAP financial measure called Adjusted Cashflow from Operations, which is intended to measure sustainable economic cash flows (see below for more on ACFO). This White Paper also re-defined AFFO as a measure of recurring economic earnings. Upon further consideration of the White Paper discussed above, management has concluded to adopt ACFO as a measure of sustainable cash flows and has no longer reported the previously reported AFFO, effective January 1, 2018.

Adjusted Cashflow From Operations

ACFO is not a term defined under IFRS and may not be comparable to similar measures used by other real estate entities. The Trust calculates its ACFO in accordance with REALpac's "White Paper on Adjusted Cashflow from Operations (ACFO)" for IFRS issued in February 2017, and subsequently amended in February 2018. The purpose of the White Paper is to provide reporting issuers and stakeholders with greater guidance on the definitions of ACFO and to help promote more consistent disclosure from reporting issuers. ACFO is intended to be used as a sustainable, economic cash flow metric. The Trust considers ACFO an input to determine the appropriate level of distributions to Unitholders as it adjusts cash flows from operations to better measure sustainable, economic cash flows. Prior to the initial issuance of the February 2017 White Paper for ACFO, there was no industry standard to calculate a sustainable, economic cash flow metric.

A reconciliation of ACFO to cash provided by operating activities can be found below.

Determination of Distributions

Pursuant to the Declaration of Trust, the Trust endeavours to distribute annually such amount as is necessary to ensure the Trust will not be subject to tax on its net income under Part I of the Income Tax Act.

Management determines the Trust's Unit cash distribution rate by, among other considerations, its assessment of cash flow as determined using certain non-GAAP measures. As such, management believes the cash distributions are not an economic return of capital, but a distribution of sustainable cash flow from operations. Management had historically targeted a payout ratio range of approximately 77% to 82% of AFFO, which allowed for any unforeseen expenditures for the maintenance of productive capacity. Given that ACFO levels are likely subject to more volatility than AFFO levels, management expects to establish a targeted payout ratio for ACFO that is expected to be wider than the historical AFFO targeted payout ratio range. Given both existing ACFO and distribution levels, and current facts and assumptions, management does not anticipate cash distributions will be reduced or suspended in the foreseeable future.

In any given period, the distributions declared may differ from cash provided by operating activities, primarily due to seasonal fluctuations in non-cash operating items (amounts receivable, prepaid expenses, deposits, accounts payable and accrued liabilities). These seasonal or short-term fluctuations are funded, if necessary, by the Trust's revolving operating facility. In addition, the distributions declared include a component funded by the Trust's distribution reinvestment plan. Management anticipates that distributions declared will, in the foreseeable future, continue to vary from net income and comprehensive income because net income and comprehensive income include fair value adjustments to investment properties, fair value changes in financial instruments, and other adjustments and also because distributions are determined based on non-GAAP cash flow measures, which include consideration of the maintenance of productive capacity. Accordingly, the Trust does not use IFRS net income and comprehensive income as a proxy for distributions. Management will continue to assess the sustainability of cash and non-cash distributions in each financial reporting period.

Cash Flows from Operating Activities and Distributions Declared

As required by National Policy 41-201, "Income Trusts and Other Indirect Offerings", the table "Distributions and ACFO Highlights", provided on page 35, outlines the differences between cash flows provided by operating activities (per consolidated financial statements) and total distributions, as well as the differences between net income and comprehensive income (loss) and total distributions, in accordance with the guidelines.

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", the table below reconciles cash flows provided by operating activities to adjusted cash flows from operating activities for the three and six months ended June 30, 2018 and June 30, 2017:

	Three Months Ended June 30		**Six Months Ended June 30**	
(in thousands of dollars)	**2018**	2017	**2018**	2017
Cash flows provided by operating activities	**101,060**	74,285	**145,123**	130,623
Add (deduct):				
Normalizing adjustments, the elimination of actual sustaining expenditures and other[1]	**(12,705)**	10,712	**25,040**	29,774
Adjusted cash flows from operating activities[2]	**88,355**	84,997	**170,163**	160,397
Distributions declared	**70,634**	66,806	**141,042**	133,456
Surplus of ACFO with one time adjustment over distributions declared	**17,721**	18,191	**29,121**	26,941
Distributions from Units classified as equity	**69,722**	66,567	**139,217**	132,978
Distributions from Units classified as liabilities	**912**	239	**1,825**	478

(1) Please see the Reconciliation of ACFO for details of adjustments.

(2) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and, accordingly, may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

Reconciliation of FFO

The table and analysis below illustrate a reconciliation of the Trust's net income and comprehensive income (GAAP measures) to FFO, and FFO with one time adjustment and Transactional FFO (non-GAAP measures) for the three months ended June 30, 2018 and June 30, 2017:

(in thousands of dollars, except per Unit amounts)	**Three Months Ended June 30, 2018**	Three Months Ended June 30, 2017	Variance	Variance (%)
Net income and comprehensive income	**103,748**	124,070	(20,322)	(16.4)%
Add (deduct):				
Fair value adjustment on revaluation of investment properties[1]	**(14,599)**	(40,662)	26,063	(64.1)%
Fair value adjustment on financial instruments	**4,209**	(1,433)	5,642	N/R[7]
(Gain) loss on sale of investment properties	**(317)**	156	(473)	N/R[7]
Amortization of intangible assets	**333**	333	—	— %
Amortization of tenant improvement allowance	**1,643**	1,579	64	4.1 %
Distributions on LP Units and vested deferred units recorded as interest expense	**1,266**	514	752	146.3 %
Salaries and related costs attributed to leasing activities[2]	**180**	1,324	(1,144)	(86.4)%
Acquisition related gain, net	**(608)**	—	(608)	— %
Adjustments relating to equity accounted investments:				
Rental revenue adjustment – tenant improvement amortization	**57**	33	24	72.7 %
Indirect interest with respect to the development portion[3]	**373**	417	(44)	(10.6)%
Fair value adjustment on revaluation of investment properties	**(5,339)**	(367)	(4,972)	N/R[7]
Fair value adjustment on financial instruments	**39**	(330)	369	N/R[7]
Adjustment for supplemental contribution	**51**	—	51	— %
FFO[4]	**91,036**	85,634	5,402	6.3 %
One time adjustment:				
Yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs	**—**	181	(181)	(100.0)%
Transition costs[5]	**1,502**	—	1,502	— %
FFO with one time adjustment and before Transactional FFO[4]	**92,538**	85,815	6,723	7.8 %
Transactional FFO – gain on sale of land to co-owners	**2,474**	3,124	(650)	(20.8)%
FFO with one time adjustment and Transactional FFO[4]	**95,012**	88,939	6,073	6.8 %
Per Unit – basic/diluted[6]:				
FFO[4]	**$0.57/$0.56**	$0.55/$0.55	$0.02/$0.01	3.6%/1.8%
FFO with one time adjustment and before Transactional FFO[4]	**$0.58/$0.57**	$0.55/$0.55	$0.03/$0.02	5.5%/3.6%
FFO with one time adjustment and Transactional FFO[4]	**$0.59/$0.59**	$0.57/$0.57	$0.02/$0.02	3.5%/3.5%
Payout ratio:				
FFO[4]	**77.5%**	77.3%	0.2%	0.3%
FFO with one time adjustment and before Transactional FFO[4]	**76.2%**	77.3%	(1.1)%	(1.4)%
FFO with one time adjustment and Transactional FFO[4]	**74.2%**	74.6%	(0.4)%	(0.5)%

(1) Fair value adjustment on revaluation of investment properties is described in section "Investment Properties".

(2) Adjusted salaries and related costs attributed to leasing of $0.2 million were incurred in the three months ended June 30, 2018 (three months ended June 30, 2017 – $1.3 million) and were eligible to be added back to FFO based on the definition of FFO, in the REALpac White Paper published in February 2018, which provided for an adjustment to incremental leasing expenses for the cost of salaried staff. This adjustment to FFO results in more comparability between Canadian publicly traded real estate entities that expensed their internal leasing departments and those that capitalized external leasing expenses.

(3) Indirect interest is not capitalized to properties under development of equity accounted investments under IFRS but is a permitted adjustment under REALpac's definition of FFO. The amount is based on the total cost incurred with respect to the development portion of equity accounted investments multiplied by the Trust's weighted average cost of debt.

(4) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and accordingly may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

(5) Transition costs include the costs of CEO transition and other related costs of $1.5 million for the three months ended June 30, 2018 (three months ended June 30, 2017 – $nil).

(6) Diluted FFO and diluted FFO with one time adjustment are adjusted for the dilutive effect of vested deferred units, which are not dilutive for net income purposes. To calculate diluted FFO and diluted FFO with one time adjustment for the three months ended June 30, 2018, 805,225 vested deferred units are added back to the weighted average Units outstanding (three months ended June 30, 2017 – 660,310 vested deferred units).

(7) N/R - Not representative

For the three months ended June 30, 2018, FFO with one time adjustment and Transactional FFO increased by $6.1 million or 6.8% to $95.0 million, and by $0.02 or 3.5% to $0.59 on a per Unit basis, which was primarily due to the following:

(i) a $9.6 million increase in NOI, as a result of increases in rentals from investment properties pursuant to the Arrangement (see details in the "Results of Operations" section); and
(ii) a $0.6 million increase in interest income;

Offset by the following factors:

(iii) a $2.8 million increase in interest expense, net of both the increase in distributions on LP Units and vested deferred units recorded as interest expense of $0.7 million, and, the decrease in yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs of $0.2 million,
(iv) a $0.7 million decrease in Transactional FFO – gain on sale of land to co-owners; and
(v) a $0.6 million increase in general and administrative expense, net of both the decrease in salaries and related costs attributed to leasing activities of $1.2 million, and, the increase in transition costs of $1.5 million.

The table and analysis below illustrate a reconciliation of the Trust's net income and comprehensive income (GAAP measures) to FFO, and FFO with one time adjustment and Transactional FFO (non-GAAP measures) for the six months ended June 30, 2018 and June 30, 2017:

(in thousands of dollars, except per Unit amounts)	**Six Months Ended June 30, 2018**	Six Months Ended June 30, 2017	Variance	Variance (%)
Net income and comprehensive income	**204,214**	184,069	20,145	10.9 %
Add (deduct):				
Fair value adjustment on revaluation of investment properties[1]	**(25,470)**	(26,971)	1,501	(5.6)%
Fair value adjustment on financial instruments	**(1,028)**	(702)	(326)	46.4 %
Loss on sale of investment properties	**140**	156	(16)	(10.3)%
Amortization of intangible assets	**666**	666	—	— %
Amortization of tenant improvement allowance	**3,260**	3,198	62	1.9 %
Distributions on LP Units and vested deferred units recorded as interest expense	**2,498**	1,012	1,486	146.8 %
Salaries and related costs attributed to leasing activities[2]	**1,836**	2,884	(1,048)	(36.3)%
Acquisition related gain, net	**(838)**	—	(838)	— %
Adjustments relating to equity accounted investments:				
Rental revenue adjustment – tenant improvement amortization	**114**	66	48	72.7 %
Indirect interest with respect to the development portion[3]	**653**	858	(205)	(23.9)%
Fair value adjustment on revaluation of investment properties	**(6,235)**	1,989	(8,224)	N/R[7]
Fair value adjustment on financial instruments	**51**	(404)	455	(112.6)%
Adjustment for supplemental contribution	**462**	—	462	— %
FFO[4]	**180,323**	166,821	13,502	8.1 %
One time adjustment:				
Yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs	**—**	2,721	(2,721)	(100.0)%
Transition costs[5]	**1,502**	—	1,502	— %
FFO with one time adjustment and before Transactional FFO[4]	**181,825**	169,542	12,283	7.2 %
Transactional FFO – gain on sale of land to co-owners	**2,964**	3,124	(160)	(5.1)%
FFO with one time adjustment and Transactional FFO[4]	**184,789**	172,666	12,123	7.0 %
Per Unit – basic/diluted[6]:				
FFO[4]	**$1.13/$1.12**	$1.07/$1.06	$0.06/$0.06	5.6%/5.7%
FFO with one time adjustment and before Transactional FFO[4]	**$1.14/$1.13**	$1.09/$1.08	$0.05/$0.05	4.6%/4.6%
FFO with one time adjustment and Transactional FFO[4]	**$1.15/$1.15**	$1.11/$1.10	$0.04/$0.05	3.6%/4.5%
Payout ratio:				
FFO[4]	**78.1%**	80.2%	(2.1)%	(2.6)%
FFO with one time adjustment and before Transactional FFO[4]	**77.5%**	78.7%	(1.2)%	(1.5)%
FFO with one time adjustment and Transactional FFO[4]	**76.2%**	77.3%	(1.1)%	(1.4)%

(1) Fair value adjustment on revaluation of investment properties is described in section "Investment Properties".

(2) Adjusted salaries and related costs attributed to leasing of $1.8 million were incurred in the six months ended June 30, 2018 (six months ended June 30, 2017 – $2.9 million) and were eligible to be added back to FFO based on the definition of FFO, in the REALpac White Paper published in February 2018, which provided for an adjustment to incremental leasing expenses for the cost of salaried staff. This adjustment to FFO results in more comparability between Canadian publicly traded real estate entities that expensed their internal leasing departments and those that capitalized external leasing expenses.

(3) Indirect interest is not capitalized to properties under development of equity accounted investments under IFRS but is a permitted adjustment under REALpac's definition of FFO. The amount is based on the total cost incurred with respect to the development portion of equity accounted investments multiplied by the Trust's weighted average cost of debt.

(4) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and accordingly may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.
(5) Transition costs include the costs of CEO transition and other related costs of $1.5 million for the six months ended June 30, 2018 (six months ended June 30, 2017 – $nil).
(6) Diluted FFO and diluted FFO with one time adjustment are adjusted for the dilutive effect of vested deferred units, which are not dilutive for net income purposes. To calculate diluted FFO and diluted FFO with one time adjustment for the six months ended June 30, 2018, 764,171 vested deferred units are added back to the weighted average Units outstanding (six months ended June 30, 2017 – 639,254 vested deferred units).
(7) N/R - Not representative

For the six months ended June 30, 2018, FFO with one time adjustment and Transactional FFO increased by $12.1 million or 7.0% to $184.8 million, and by $0.05 or 4.5% to $1.15 on a per Unit basis, which was primarily due to the following:

(i) a $15.3 million increase in NOI, as a result of increases in rentals from investment properties pursuant to the Arrangement (see details in the "Results of Operations" section);
(ii) a $1.0 million increase in interest income; and
(iii) a $0.5 million decrease in general and administrative expense, net of both the decrease in salaries and related costs attributed to leasing activities of $1.0 million, and, the increase in transition costs of $1.5 million;

Partially offset by the following factor:

(iv) a $4.9 million increase in interest expense, net of both the increase in distributions on LP Units and vested deferred units recorded as interest expense of $1.5 million, and, the decrease in yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs of $2.7 million.

Reconciliation of ACFO

The table and analysis below illustrate a reconciliation of the Trust's cash flows provided by operating activities to ACFO for the three months ended June 30, 2018 and June 30, 2017:

(in thousands of dollars)	**Three Months Ended June 30, 2018**	Three Months Ended June 30, 2017	Variance
Cash flows provided by operating activities	**101,060**	74,285	26,775
Adjustments to working capital items that are not indicative of sustainable cash available for distribution[1]	**(9,808)**	12,967	(22,775)
Notional interest capitalization	**373**	417	(44)
Expenditures on direct leasing costs and tenant incentives	**1,668**	1,190	478
Expenditures on tenant incentives for properties under development	**87**	—	87
Actual sustaining capital expenditures	**(1,168)**	(288)	(880)
Actual sustaining leasing commissions	**(787)**	(292)	(495)
Actual sustaining tenant improvements	**(1,170)**	(897)	(273)
Non-cash interest expense	**(6,948)**	(6,897)	(51)
Non-cash interest income	**1,680**	1,388	292
Acquisition related gain, net	**(608)**	—	(608)
Transactional FFO – gain on sale of land to co-owners	**2,474**	3,124	(650)
Transition costs[2]	**1,502**	—	1,502
ACFO[3]	**88,355**	84,997	3,358
One time adjustment:			
Yield maintenance on redemption of unsecured debentures	**—**	181	(181)
ACFO with one time adjustments[3]	**88,355**	85,178	3,177
ACFO[3]	**88,355**	84,997	3,358
Distributions declared	**70,634**	66,806	3,828
Surplus of ACFO over distributions declared	**17,721**	18,191	(470)
Payout ratio:			
ACFO[3]	**79.9%**	78.6%	1.3%
ACFO with one time adjustment[3]	**79.9%**	78.4%	1.5%

(1) Adjustment to working capital items include, but are not limited to, changes in prepaids, accounts receivables, deposits, accounts payables and other working capital items that are not indicative of sustainable cash available for distribution.
(2) Transition costs include the costs of CEO transition and other related costs of $1.5 million for the six months ended June 30, 2018 (six months ended June 30, 2017 – $nil).
(3) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and, accordingly, may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

For the three months ended June 30, 2018, ACFO with one time adjustment increased by $3.2 million or 3.7% to $88.4 million compared to the same quarter in 2017, which was primarily due to the following:

(i) a $26.8 million increase in cash flows provided by operating activities;

Partially offset by the following factors:

(ii) a $22.8 million decrease in adjustments to working capital items that are not indicative of sustainable cash available for distribution; and

(iii) a $0.7 million decrease in Transactional FFO – gain on sale of land to co-owners.

The payout ratio relating to ACFO with one time adjustment for the three months ended June 30, 2018 increased by 1.5% to 79.9% compared to the same quarter last year, for the reasons noted above.

The table and analysis below illustrate a reconciliation of the Trust's cash flows provided by operating activities to ACFO for the six months ended June 30, 2018 and June 30, 2017:

(in thousands of dollars)	**Six Months Ended June 30, 2018**	Six Months Ended June 30, 2017	Variance
Cash flows provided by operating activities	**145,123**	130,623	14,500
Adjustments to working capital items that are not indicative of sustainable cash available for distribution[1]	**22,516**	29,438	(6,922)
Notional interest capitalization	**653**	858	(205)
Expenditures on direct leasing costs and tenant incentives	**4,776**	2,539	2,237
Expenditures on tenant incentives for properties under development	**(44)**	—	(44)
Actual sustaining capital expenditures	**(1,792)**	(2,344)	552
Actual sustaining leasing commissions	**(1,155)**	(494)	(661)
Actual sustaining tenant improvements	**(3,909)**	(1,923)	(1,986)
Non-cash interest expense	**(2,997)**	(4,190)	1,193
Non-cash interest income	**3,364**	2,766	598
Acquisition related gain, net	**(838)**	—	(838)
Transactional FFO – gain on sale of land to co-owners	**2,964**	3,124	(160)
Transition costs[2]	**1,502**	—	1,502
ACFO[3]	**170,163**	160,397	9,766
One time adjustment:			
Yield maintenance on redemption of unsecured debentures	**—**	2,721	(2,721)
ACFO with one time adjustment[3]	**170,163**	163,118	7,045
ACFO[3]	**170,163**	160,397	9,766
Distributions declared	**141,042**	133,456	7,586
Surplus of ACFO over distributions declared	**29,121**	26,941	2,180
Payout ratio:			
ACFO[3]	**82.9%**	83.2%	(0.3)%
ACFO with one time adjustment[3]	**82.9%**	81.8%	1.1%

(1) Adjustment to working capital items include, but are not limited to, changes in prepaids, accounts receivables, deposits, accounts payables and other working capital items that are not indicative of sustainable cash available for distribution.

(2) Transition costs include the costs of CEO transition and other related costs of $1.5 million for the six months ended June 30, 2018 (six months ended June 30, 2017 – $nil).

(3) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and, accordingly, may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

For the six months ended June 30, 2018, ACFO with one time adjustment increased by $7.0 million to $170.2 million compared to the same period in 2017, which was primarily due to the following:

(i) a $14.5 million increase in cash flows provided by operating activities;

Partially offset by the following factor:

(ii) a $6.9 million decrease in adjustments to working capital items that are not indicative of sustainable cash available for distribution.

The payout ratio relating to ACFO with one time adjustment for the six months ended June 30, 2018 increased by 1.1% to 82.9% compared to the same period last year, for the reasons noted above.

Distributions and ACFO Highlights

The following table is provided for historical continuity only:

	Three Months Ended June 30			Six Months Ended June 30		
(in thousands of dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Cash flows provided by operating activities	**101,060**	74,285	26,775	**145,123**	130,623	14,500
Distributions declared	**70,634**	66,806	3,828	**141,042**	133,456	7,586
Distributions paid	**56,738**	54,506	2,232	**113,752**	108,907	4,845
ACFO[1]	**88,355**	84,997	3,358	**170,163**	160,397	9,766
ACFO with one time adjustment[1]	**88,355**	85,178	3,177	**170,163**	163,118	7,045
Surplus of ACFO with one time adjustment over distributions declared	**17,721**	18,372	(651)	**29,121**	29,662	(541)
Surplus of ACFO with one time adjustment over distributions paid	**31,617**	30,672	945	**56,411**	54,211	2,200
Surplus (shortfall) of cash flows provided by operating activities over distributions declared	**30,426**	7,479	22,947	**4,081**	(2,833)	6,914
Surplus of cash flows provided by operating activities over distributions paid	**44,322**	19,779	24,543	**31,371**	21,716	9,655

(1) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and accordingly may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

Amounts Receivable, Prepaid Expenses, Deposits, Deferred Financing Costs and Other

The timely collection of amounts receivable is a critical component associated with the Trust's treasury management and cash management functions. The components of amounts receivable, prepaid expenses and deposits, deferred financing costs and other are as follows:

	June 30, 2018	December 31, 2017	Variance
Amounts receivable			
Tenant receivables (a)	**24,484**	11,870	12,614
Unbilled other tenant receivables (b)	**11,182**	5,712	5,470
Other non-tenant receivables (c)	**28,011**	19,904	8,107
	63,677	37,486	26,191
Loss allowance	**(3,303)**	(3,237)	(66)
Prepaid expenses and deposits (d)	**35,430**	5,579	29,851
Deferred financing costs	**1,300**	1,484	(184)
Other	**2,461**	2,017	444
	99,565	43,329	56,236

As at June 30, 2018, total amounts receivable, loss allowance, prepaid expenses and deposits, deferred financing costs and other increased by $56.2 million compared to December 31, 2017. The following is a commentary on the material variances noted in the table above:

a) Tenant receivables
The $12.6 million increase in tenant receivables is primarily due to the seasonal billing of interim realty taxes for anchor and other major tenants that do not contribute instalment payments on a monthly basis. These amounts are considered to be current and/or collectible and are at various stages of the billing and collection process, as applicable.

b) Unbilled other tenant receivables
The $5.5 million increase in unbilled other tenant receivables is due to:

(i) an increase in CAM and property tax recoveries and chargebacks of $4.3 million, which are considered to be current and/or collectible and are at various stages of the billing and collection process, as applicable; and
(ii) an increase in percentage rent receivable from Toronto Premium Outlets and Montreal Premium Outlets of $1.2 million.

c) Other non-tenant receivables
The $8.1 million increase in other non-tenant receivables is primarily due to:

(i) an increase in development and property management fees, shared costs and other service fees pursuant to the Development and Services Agreement of $3.2 million (see "Related Party"); and
(ii) an increase in transition service fees billings of $2.0 million.

d) Prepaid expenses and deposits
The $29.9 million increase in prepaid expenses and deposits for the six months ended June 30, 2018 is primarily due to a $29.5 million increase in prepaid realty taxes associated with annual realty taxes on the Trust's investment properties.

Mortgages, Loans and Notes Receivable, and Interest Income

The following table summarizes mortgages, loans and notes receivable as at June 30, 2018 and December 31, 2017:

(in thousands of dollars)	**June 30, 2018**	December 31, 2017	Variance
Mortgages, loans and notes receivable			
Mortgages receivable (Mezzanine Financing)	**130,696**	127,704	2,992
Loans receivable	**143,581**	31,503	112,078
Notes receivable	**2,979**	2,979	—
	277,256	162,186	115,070

Mortgages Receivable (Mezzanine Financing)

In addition to direct property acquisitions, the Trust has provided Mezzanine Financing to Penguin on terms that include an option to acquire an interest in the mortgaged property once a certain level of development and leasing is achieved. As at June 30, 2018, the Trust had total commitments of $282.1 million to fund mortgages receivable under this program. Five mortgages have an option entitling the Trust to acquire an additional interest in the property upon a certain level of development and leasing being achieved, with the acquisition price calculated pursuant to an agreed-upon formula, based on a market capitalization rate at the time the option is exercised. The properties under the Mezzanine Financing have 0.6 million potential square feet available (discussed in "Potential Future Pipeline"). If the specified level of development and leasing is not achieved prior to the maturity date of the loan, and the loan and accrued interest are repaid, then the option terminates. If an applicable property is to be sold prior to the maturity date of the loan and prior to the applicable option being triggered, then the Trust has a right of first refusal with respect to such sale.

The details of the mortgages receivable (by maturity date) are set out in the following table:

(in thousands of dollars)

Property	Amount Outstanding ($)	Committed ($)	Amount Guaranteed by Penguin ($)	Maturity Date	Interest Rate	Purchase Option % of Property[7]	Potential Area Upon Exercising Purchase Option (sq. ft.)
Salmon Arm, BC[1][2]	15,051	20,907	15,051	August 2018	4.82%	—	—
Innisfil, ON[1][3]	19,745	27,077	10,566	December 2020	3.65%	—	—
Aurora (South), ON[4]	15,809	30,543	15,809	March 2022	4.48%	50%	96,500
Mirabel (Shopping Centre), QC[5]	—	18,262	—	December 2022	7.50%	—	—
Mirabel (Option Lands), QC[6]	—	5,721	—	December 2022	7.50%	—	—
Pitt Meadows, BC[4]	27,146	68,664	27,146	November 2023	4.92%	50%	37,500
Vaughan (7 & 427), ON	17,182	53,127	17,182	December 2023	6.06%	50%	151,015
Caledon (Mayfield), ON[4]	9,206	14,033	9,206	April 2024	4.77%	50%	101,865
Toronto (StudioCentre), ON[1][4]	26,557	43,759	16,057	June 2024	4.74%	25%	227,831
	130,696	282,093	111,017		4.77%[8]		614,711

(1) The Trust owns a 50% interest in these properties, with the other 50% interest owned by Penguin. These loans are secured against Penguin's interest in the property.
(2) Monthly variable rate based on a fixed rate of 6.35% on loans outstanding up to $7.2 million and banker's acceptance rate plus 1.75% on any additional loans above $7.2 million.
(3) The monthly variable rate is based on the banker's acceptance rate plus 2.00%. The interest rate on this mortgage will reset in 2018 to the four-year Government of Canada bond rate plus 4.0%, subject to a lower limit of 6.75% and an upper limit of 7.75%.
(4) These loans were amended in 2017. See the "Loan amendments" section below for details.
(5) The Trust owns a 33.3% interest in this property. The loan is secured against a 33.3% interest owned by Penguin, as well as a guarantee by Penguin.
(6) The Trust owns a 25% interest in this property. The loan is secured against a 25% interest owned by Penguin, as well as a guarantee by Penguin.
(7) The Trust has an option to purchase an additional purchase option percentage from the borrower in these properties upon a certain level of development and leasing being achieved. As at June 30, 2018, it is management's expectation that the Trust will exercise these purchase options.
(8) Represents the weighted average effective interest rate.

Interest on these mortgages accrues monthly as follows: (i) at a variable rate based on the banker's acceptance rate plus 1.75% to 4.20% or at the Trust's cost of capital (as defined in the mortgage agreement) plus 0.25% on mortgages receivable of $123.5 million (December 31, 2017 – $120.5 million); and (ii) at fixed rates of 6.35% to 7.50% on mortgages receivable of $7.2 million (December 31, 2017 – $7.2 million) which is added to the outstanding principal up to a predetermined maximum accrual after which it is payable in cash monthly or quarterly. Additional interest of $74.5 million (December 31, 2017 – $77.5 million) may be accrued on certain of the mortgages receivable before cash interest must be paid.

The mortgage security includes a first or second charge on properties, assignments of rents and leases, and general security agreements. In addition, $111.0 million (December 31, 2017 – $108.0 million) of the outstanding balance is guaranteed by Penguin Properties Inc., one of Penguin's companies. The loans are subject to individual loan guarantee agreements that provide additional guarantees for all interest and principal advanced on outstanding amounts. The guarantees decrease on achievement of certain specified value-enhancing events. All mortgages receivable are considered by management to be fully collectible.

Assuming that developments are completed as anticipated, and assuming that borrowers repay their mortgages in accordance with the terms of the agreements governing such mortgages, expected repayments of the outstanding balances would be as follows:

(in thousands of dollars)	Mortgages (#)	Principal Repayments ($)
2018	1	15,051
2020	1	19,745
2022	3	15,809
2023	2	44,328
2024	2	35,763
	9	130,696

Loan amendments

In April 2017, there were four mortgages receivable for which the maturity dates were amended from an original range of years 2017 to 2020 to a revised range of years 2022 to 2024. These extensions were provided principally because of delays associated with market conditions, anticipated municipal and related approvals, and development-related complexities. The committed facilities on these mortgages receivable were amended to reflect an increase from $141.0 million to $157.0 million. In addition, the interest rates on these mortgages receivable were amended from a range of fixed interest rates of 6.75% to 7.00% to a revised range of banker's acceptance rates plus 2.75% to 4.20%. These amended interest rates were established pursuant to independent opinions obtained that provided current market-based interest rates for similar development-based opportunities.

For the three months ended June 30, 2018, the total interest accrued was $1,537 (three months ended June 30, 2017 – $1,262). For the six months ended June 30, 2018, the total interest accrued was $2,992 (six months ended June 30, 2017 – $2,516).

Loans Receivable

The details of the loans receivable (by maturity date) are set out in the following table:

Issued to	Maturity Date	Interest Rate	June 30, 2018	December 31, 2017
PCVP[1]	August 2018	Variable	**111,820**	—
Unrelated party[2]	September 2018	4.50%	**11,500**	11,500
Unrelated party[3]	March 2019	5.50%	**9,804**	9,804
Penguin[4]	November 2020	Variable	**10,457**	10,199
			143,581	31,503

(1) This loan was provided to the Penguin-Calloway Vaughan Partnership ("PCVP") (in which the Trust has a 50% interest) on February 25, 2018, and bears interest at 2.31% per annum from the advance date to March 20, 2018, and thereafter it is equal to 76 basis points plus the 90-day Canadian Dealer Offer Rate (CDOR) and is payable on March 21, June 21, September 21 and December 21. The Trust reflects the activity from the PCVP as an equity accounted investment (see also Note 6, "Equity accounted investments", in the unaudited interim condensed consolidated financial statements for the six months ended June 30, 2018), and 100% of the loan provided to the PCVP is recorded in the unaudited interim condensed consolidated financial statements for the six months ended June 30, 2018.

(2) This loan is secured by either a first or second charge on properties, assignments of rents and leases, and general security agreements.

(3) In 2017, a loan receivable of $9,804 was provided pursuant to an agreement with an unrelated party to use in acquiring a 50% interest in development lands. The loan bears interest at 5.50% payable quarterly, interest only, matures in March 2019 and is secured by a first charge on the 50% interest of the development lands held by the unrelated party.

(4) This loan was provided pursuant to a development management agreement with Penguin with a total loan facility of $20,000. Repayment of the pro rata share of the outstanding loan amount is due upon the completion of each Earnout event. The loan bears interest at 10 basis points plus the lower of: (i) the Canadian prime rate plus 45 basis points, and (ii) the CDOR plus 145 basis points.

The following illustrates the activity in loans receivable for the three and six months ended June 30:

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	**2018**	2017
Loans issued	**—**	9,804	**—**	9,804
Amounts funded	**—**	—	**111,916**	157
Interest accrued	**82**	58	**162**	116
	82	9,862	**112,078**	10,077

Notes Receivable

Notes receivable of $3.0 million (December 31, 2017 – $3.0 million) have been granted to Penguin. These secured demand notes bear interest at 9.00% per annum.

Interest Income

The following table summarizes the components of interest income for the three and six months ended June 30, 2018 and June 30, 2017:

	Three Months Ended June 30			Six Months Ended June 30		
(in thousands of dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Interest income						
Mortgage interest	**1,537**	1,263	274	**2,992**	2,517	475
Loan interest	**1,039**	698	341	**1,775**	1,389	386
Note receivable interest	**67**	67	—	**133**	133	—
Bank interest	**89**	105	(16)	**347**	208	139
	2,732	2,133	599	**5,247**	4,247	1,000

Interest Expense

For the three months ended June 30, 2018, interest expense incurred totalled $35.3 million, which represents an increase of $3.3 million compared to the same quarter last year. The increase of $3.3 million was primarily attributed to:

(i) a $3.2 million increase in interest at stated rates primarily due to additional debt assumed pursuant to the Arrangement;
(ii) a $0.8 million increase in distributions on vested deferred units and Units classified as liabilities primarily due to the issuance of additional Units classified as liabilities in connection with the Arrangement;

Offset by the following factors:

(iii) a $0.5 million increase in interest capitalized to properties under development and residential development inventory, and
(iv) a $0.2 million decrease in yield maintenance on redemption of unsecured debentures.

For the six months ended June 30, 2018, interest expense incurred totalled $70.8 million, which represents an increase of $3.7 million compared to the same period last year. The increase of $3.7 million was primarily attributed to:

(i) a $6.0 million increase in interest at stated rates principally due to additional debt assumed pursuant to the Arrangement;
(ii) a $1.5 million increase in distributions on vested deferred units and Units classified as liabilities primarily due to the issuance of additional Units classified as liabilities in connection with the Arrangement;
(iii) a $0.4 million increase in amortization of acquisition date fair value adjustments on assumed debt primarily due to debt assumed in connection with the Arrangement;

Partially offset by the following factors:

(iv) a $2.7 million decrease in yield maintenance on redemption of unsecured debentures as none were redeemed during the six months ended June 30, 2018;
(v) a $1.3 million increase in interest capitalized to properties under development and residential development inventory, and
(vi) a $0.1 million decrease in amortization of deferred financing costs.

The following table summarizes the components of interest expense for the three and six months ended June 30, 2018 and June 30, 2017:

	Three Months Ended June 30			Six Months Ended June 30		
(in thousands of dollars)	**2018**	2017	Variance	**2018**	2017	Variance
Interest at stated rates	**39,246**	36,024	3,222	**78,788**	72,781	6,007
Amortization of acquisition date fair value adjustments on assumed debt	**(581)**	(787)	206	**(1,241)**	(1,608)	367
Amortization of deferred financing costs	**852**	993	(141)	**1,720**	1,785	(65)
Distributions on vested deferred units and Units classified as liabilities	**1,266**	514	752	**2,498**	1,012	1,486
	40,783	36,744	4,039	**81,765**	73,970	7,795
Less:						
Interest capitalized to properties under development	**(5,253)**	(4,918)	(335)	**(10,609)**	(9,660)	(949)
Interest capitalized to residential development inventory	**(198)**	—	(198)	**(399)**	—	(399)
Interest associated with operating activities	**35,332**	31,826	3,506	**70,757**	64,310	6,447
Yield maintenance on redemption of unsecured debentures	**—**	181	(181)	**—**	2,721	(2,721)
Total interest expense	**35,332**	32,007	3,325	**70,757**	67,031	3,726
Weighted average interest rate (inclusive of deferred financing costs)	**3.75%**	3.78%	(0.03)%	**3.78%**	3.80%	(0.02)%

General and Administrative Expense

Total general and administrative expense before allocation

For the three months ended June 30, 2018, total general and administrative expense before allocation was $18.5 million representing an increase of $3.0 million or 19.6% compared to the same quarter in 2017. The increase can be partially attributed to:

(i) a net increase in salaries and benefits of $2.1 million, which is primarily due to an increase in deferred unit plan (DUP) costs associated with the vesting of previously unvested grants pursuant to the CEO transition, as well as a general increase in salaries and benefits related to the Arrangement; and
(ii) an increase in professional fees of $0.4 million.

For the six months ended June 30, 2018, total general and administrative expense before allocation was $35.2 million representing an increase of $3.2 million or 9.9% compared to the same period in 2017. The increase can be attributed to:

(i) a net increase in salaries and benefits of $1.7 million, due to the same factors noted above for the three months ended June 30, 2018, as well as adjustments made to the Long Term Incentive Plan (LTIP) liability that are related to the Trust's unit price and estimated performance relative to the Trust's peers; and
(ii) a $0.7 million increase in professional fees; and
(iii) a $0.9 million increase in other costs;

Offset by the following factor:

(iv) a $0.2 million decrease in public company costs.

Total amounts charged to Penguin and third parties, allocated and capitalized

For the three months ended June 30, 2018, total amounts charged to Penguin and third parties, allocated and capitalized of $12.1 million increased by $2.1 million or 20.8% compared to the same quarter in 2017. This increase is primarily due to:

(i) an increase in the amounts capitalized to properties under development and other assets of $1.7 million; and
(ii) an increase in amounts allocated to property operating costs of $0.4 million.

For the six months ended June 30, 2018, total amounts charged to Penguin and third parties, allocated and capitalized of $23.5 million increased by $4.2 million or 21.6% compared to the same period in 2017. This increase is primarily due to:

(i) an increase in the amounts capitalized to properties under development and other assets of $2.5 million;
(ii) an increase in amounts allocated to property operating costs of $1.3 million; and
(iii) an increase in time billings, leasing, management fee, development fees and other fees of $0.9 million;

Offset by the following factor:

(iv) a decrease in shared service costs charged to Penguin and a third party of $0.5 million.

(in thousands of dollars)	Note[1]		**Three Months Ended June 30, 2018**	Three Months Ended June 30, 2017	Variance
Salaries and benefits			**13,203**	11,057	2,146
Master planning services fee charged by Penguin per the Services Agreement	21		**875**	875	—
Professional fees			**1,156**	717	439
Public company costs			**680**	501	179
Rent and occupancy			**564**	614	(50)
Amortization of intangible assets	8		**333**	333	—
Other costs including information technology, marketing, communications and other employee expenses			**1,682**	1,362	320
Total general and administrative expense before allocation		**(A)**	**18,493**	15,459	3,034
Less:					
Costs to provide transition services charged to Penguin	21		**(917)**	(1,000)	83
Time billings, leasing, management fees, development fees and other fees	21		**(2,601)**	(2,128)	(473)
Shared service costs charged to Penguin and a third party	21		**(235)**	(613)	378
Total amounts charged to Penguin and third parties		**(B)**	**(3,753)**	(3,741)	(12)
Allocated to property operating costs			**(3,532)**	(3,105)	(427)
Capitalized to properties under development and other assets			**(4,860)**	(3,204)	(1,656)
Total amounts allocated and capitalized		**(C)**	**(8,392)**	(6,309)	(2,083)
Total amounts charged to Penguin and third parties, allocated and capitalized		**(D = B + C)**	**(12,145)**	(10,050)	(2,095)
General and administrative expense (net)		**(E = A + D)**	**6,348**	5,409	939
Less:					
Adjusted salaries and related costs attributed to leasing[2]		**(F)**	**(180)**	(1,324)	1,144
General and administrative expense excluding internal leasing expense		**(G = E + F)**	**6,168**	4,085	2,083
As a percentage of rental from investment properties[3]			**3.2%**	3.0%	0.2%

(1) The note reference relates to the corresponding note disclosure in the unaudited interim condensed consolidated financial statements for the period ended June 30, 2018.

(2) Adjusted salaries and related costs attributed to leasing of $0.2 million were incurred in the three months ended June 30, 2018 (three months ended June 30, 2017 – $1.3 million) and were eligible to be added back to FFO based on the definition of FFO, in the REALpac White Paper published in February 2018, which provided for an adjustment to incremental leasing expenses for the cost of salaried staff. This adjustment to FFO results in more comparability between Canadian publicly traded real estate entities that expensed their internal leasing departments and those that capitalized external leasing expenses.

(3) Determined as general and administrative expense (net) divided by rental revenue from investment properties including rental revenue from equity accounted investments.

(in thousands of dollars)	Note[1]		**Six Months Ended June 30, 2018**	Six Months Ended June 30, 2017	Variance
Salaries and benefits			**24,656**	22,923	1,733
Master planning services fee charged by Penguin per the Services Agreement	21		**1,750**	1,750	—
Professional fees[2]			**2,072**	1,401	671
Public company costs			**1,389**	1,548	(159)
Rent and occupancy			**1,197**	1,228	(31)
Amortization of intangible assets	8		**666**	666	—
Other costs including information technology, marketing, communications and other employee expenses			**3,465**	2,523	942
Total general and administrative expense before allocation		**(A)**	**35,195**	32,039	3,156
Less:					
Costs to provide transition services charged to Penguin	21		**(1,917)**	(2,000)	83
Time billings, leasing, management fees, development fees and other fees	21		**(4,373)**	(3,443)	(930)
Shared service costs charged to Penguin and a third party	21		**(513)**	(978)	465
Total amounts charged to Penguin and third parties		**(B)**	**(6,803)**	(6,421)	(382)
Allocated to property operating costs			**(7,440)**	(6,125)	(1,315)
Capitalized to properties under development and other assets			**(9,299)**	(6,811)	(2,488)
Total amounts allocated and capitalized		**(C)**	**(16,739)**	(12,936)	(3,803)
Total amounts charged to Penguin and third parties, allocated and capitalized		**(D = B + C)**	**(23,542)**	(19,357)	(4,185)
General and administrative expense (net)		**(E = A + D)**	**11,653**	12,682	(1,029)
Less:					
Adjusted salaries and related costs attributed to leasing[3]		**(F)**	**(1,836)**	(2,884)	1,048
General and administrative expense excluding internal leasing expense		**(G = E + F)**	**9,817**	9,798	19
As a percentage of rental from investment properties[4]			**2.9%**	3.5%	(0.6)%

(1) The note reference relates to the corresponding note disclosure in the unaudited interim condensed consolidated financial statements for the period ended June 30, 2018.

(2) For the six months ended June 30, 2018, professional fees include $0.4 million of aborted deals' expense (six months ended June 30, 2017 – $nil), which were previously capitalized.

(3) Adjusted salaries and related costs attributed to leasing of $1.8 million were incurred in the six months ended June 30, 2018 (six months ended June 30, 2017 – $2.9 million) and were eligible to be added back to FFO based on the definition of FFO, in the REALpac White Paper published in February 2018, which provided for an adjustment to incremental leasing expenses for the cost of salaried staff. This adjustment to FFO results in more comparability between Canadian publicly traded real estate entities that expensed their internal leasing departments and those that capitalized external leasing expenses.

(4) Determined as general and administrative expense (net) divided by rental revenue from investment properties including rental revenue from equity accounted investments.

Earnouts and Developments Completed on Existing Properties

During the quarter ended June 30, 2018, $0.3 million of Developments (including Developments relating to equity accounted investments) were completed and transferred to income properties, compared to $5.9 million in the comparative quarter in 2017.

	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
(in millions of dollars)	**Area (sq. ft.)**	**Investment ($)**	**Annualized Yield (%)**	Area (sq. ft.)	Investment ($)	Annualized Yield (%)
Developments	**1,000**	**0.3**	**15.1%**	15,125	3.5	6.4%
Developments – equity accounted investments	**—**	**—**	**—%**	4,362	2.4	6.3%
	1,000	**0.3**	**15.1%**	19,487	5.9	6.4%

During the six months ended June 30, 2018, $14.3 million of Earnouts and Developments (including Developments relating to equity accounted investments) were completed and transferred to income properties, compared to $36.6 million in the comparative period in 2017.

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
(in millions of dollars)	**Area (sq. ft.)**	**Investment ($)**	**Annualized Yield (%)**	Area (sq. ft.)	Investment ($)	Annualized Yield (%)
Earnouts	**6,675**	**1.5**	**7.3%**	9,575	4.0	6.2%
Developments	**38,655**	**12.8**	**6.6%**	30,076	6.8	5.7%
Developments – equity accounted investments	**—**	**—**	**—%**	53,737	25.8	5.3%
	45,330	**14.3**	**6.7%**	93,388	36.6	5.5%

Maintenance of Productive Capacity

The main focus in a discussion of capital expenditures is to differentiate between those costs incurred to achieve the Trust's longer term goals to produce increased cash flows and Unit distributions, and those costs incurred to maintain the level and quality of the Trust's existing cash flows.

Acquisitions of investment properties and the development of new and existing investment properties (Developments and Earnouts) are the two main areas of capital expenditures that are associated with increasing or enhancing the productive capacity of the Trust. In addition, there are capital expenditures incurred on existing investment properties to maintain the productive capacity of the Trust ("sustaining capital expenditures").

The sustaining capital expenditures are those of a capital nature that are not considered to increase or enhance the productive capacity of the Trust, but rather maintain the productive capacity of the Trust. Leasing and related costs, which include tenant improvements, leasing commissions and related costs, vary with the timing of renewals, vacancies, tenant mix and market conditions. Leasing and related costs are generally lower for renewals of existing tenants when compared to new leases. Leasing and related costs also include internal expenses for leasing activities, primarily salaries, which are eligible to be added back to FFO based on the definition of FFO in the REALpac White Paper published in February 2018. The sustaining capital expenditures and leasing costs are based on actual costs incurred during the period. FFO is a non-IFRS measure. See "Presentation of Non-GAAP Measures" and "Other Measures of Performance".

The following is a discussion and analysis of capital expenditures of a maintenance nature (actual sustaining recoverable and non-recoverable capital expenditures and leasing costs). Earnouts, Acquisitions and Developments are discussed elsewhere in the MD&A. Given that a significant proportion of the Trust's portfolio is relatively new, management does not believe that actual sustaining capital expenditures will have an impact on the Trust's ability to pay distributions at their current level.

(in thousands of dollars, except per Unit amounts)	Three Months Ended June 30			Six Months Ended June 30		
	2018	2017	Variance	**2018**	2017	Variance
Adjusted salaries and related costs attributed to leasing	**180**	1,324	(1,144)	**1,836**	2,884	(1,048)
Actual sustaining leasing commissions	**787**	292	495	**1,155**	494	661
Actual sustaining tenant improvements[1]	**1,170**	897	273	**3,909**	1,923	1,986
Total actual sustaining leasing and related costs	**2,137**	2,513	(376)	**6,900**	5,301	1,599
Actual sustaining capital expenditures (recoverable and non-recoverable)	**1,168**	288	880	**1,792**	2,344	(552)
Total actual sustaining leasing costs and capital expenditures	**3,305**	2,801	504	**8,692**	7,645	1,047
Per Unit – diluted	**$0.02**	$0.02	$0.00	**$0.05**	$0.03	$0.02

Investment Properties

The portfolio consists of 34.2 million square feet of income producing gross leasable area and 4.0 million square feet of future potential gross leasable area in 164 properties and the option to acquire a 50.0% interest (0.6 million square feet) in five investment properties on their completion pursuant to the terms of Mezzanine Financing. The portfolio is located across Canada, with assets in each of the 10 provinces. The Trust continues to expand the breadth of its portfolio to include residential (single-family, condominium and rental), retirement homes, office, and self storage, either on its large urban properties as an adjunct to its well-located existing shopping centres that are dominant in their trade area. By selecting well-located centres, the Trust attracts quality tenants at market rental rates.

As at June 30, 2018, the fair value of investment properties, including investment properties classified as equity accounted investments, totalled $9,046.7 million, compared to $8,952.5 million at December 31, 2017, resulting in a net increase of $94.2 million. This net increase was primarily due to:

(i) additions to investment properties of $51.2 million (where $37.3 million pertains to the Trust and $13.9 million pertains to equity accounted investments) predominantly from the expansion of the Toronto Premium Outlets and the construction of the PwC Tower at VMC as part of the joint venture, PCVP (see also, "Equity accounted investments");

(ii) fair value adjustments of $26.4 million due to adjustments to underlying assumptions in valuation models including but not limited to net operating income, capitalization rates and leasing assumptions (where $25.5 million pertains to the Trust and $1.0 million pertains to equity accounted investments);

(iii) acquisition, and related adjustments, of investment properties of $21.2 million which relates to: a $15.7 million acquisition of a property in Valleyfield, Quebec, from a third party, and a $5.7 million acquisition of development lands at Toronto (Leaside) which is recorded in equity accounted investments;

(iv) capitalized interest of $10.7 million (where $10.6 million pertains to the Trust and $0.1 million pertains to equity accounted investments); and

(v) $3.1 million of the Trust's Earnout Fees on the properties subject to development management agreements;

Partially offset by the following factor:

(vi) dispositions of $18.3 million, which primarily relates to $10.7 million of development lands as part of the Trust's contribution to joint ventures, Laval C Apartments LP and Leaside SAM LP (see also, "Equity accounted investments"), and $7.4 million of development land transferred to Residences III LP in connection with the Transit City condominium, as recorded in equity accounted investments.

The following table summarizes the changes in values of investment properties including the Trust's share of equity accounted investments for the period ended June 30, 2018 and year ended December 31, 2017:

	June 30, 2018			December 31, 2017		
(in thousands of dollars)	**Income Properties**	**Properties Under Development**	**Total Investment Properties**	Income Properties	Properties Under Development	Total Investment Properties
Investment properties						
Balance – beginning of period	**8,220,153**	**513,156**	**8,733,309**	7,757,109	485,308	8,242,417
Acquisition, and related adjustments, of investment properties	**15,736**	**—**	**15,736**	399,064	14,936	414,000
Transfer to income properties from properties under development	**12,073**	**(12,073)**	**—**	62,586	(62,586)	—
Transfer from income properties to properties under development	**(8,408)**	**8,408**	**—**	(30,500)	30,500	—
Earnout Fees on properties subject to development management agreements	**1,145**	**1,906**	**3,051**	5,101	—	5,101
Additions to investment properties	**2,659**	**34,637**	**37,296**	14,343	73,095	87,438
Capitalized interest	**—**	**10,609**	**10,609**	—	19,618	19,618
Transfer to residential development inventory	**—**	**—**	**—**	—	(19,392)	(19,392)
Dispositions	**(43)**	**(10,844)**	**(10,887)**	(8,016)	(22,920)	(30,936)
Net additions	**23,162**	**32,643**	**55,805**	442,578	33,251	475,829
Fair value adjustment on revaluation of investment properties	**22,989**	**2,481**	**25,470**	20,466	(5,403)	15,063
Balance – end of period	**8,266,304**	**548,280**	**8,814,584**	8,220,153	513,156	8,733,309
Investment properties classified as equity accounted investments						
Balance – beginning of period	**130,530**	**88,628**	**219,159**	59,277	123,167	182,443
Acquisitions	**—**	**5,422**	**5,422**	35,088	2,118	37,205
Transfer from properties under development to income properties[1]	**(236)**	**236**	**—**	41,837	(41,837)	—
Additions to investment properties	**—**	**13,887**	**13,887**	—	21,481	21,481
Dispositions	**—**	**(7,373)**	**(7,373)**	—	(20,046)	(20,043)
Capitalized interest	**—**	**107**	**107**	—	472	472
Fair value adjustment on revaluation of investment properties	**869**	**84**	**953**	(5,672)	3,273	(2,399)
Balance – end of period	**131,163**	**100,991**	**232,155**	130,530	88,628	219,159
Total balance (including investment properties classified as equity accounted investments) – end of period	**8,397,467**	**649,271**	**9,046,739**	8,350,683	601,784	8,952,467

(1) For the period ended June 30, 2018, the transfer from properties under development to income properties included a prior period transfer adjustment of $0.3 million (six months ended June 30, 2017 - $nil).

Valuation Methodology

From July 1, 2015 to June 30, 2018, the Trust has had approximately 81% (by value) or 67% (by number of properties) of its operating portfolio appraised externally by independent national real estate appraisal firms with representation and expertise across Canada.

The determination of which properties are externally appraised and which are internally appraised by management is based on a combination of factors, including property size, property type, tenant mix, strength and type of retail node, age of property and location. Commencing in the first quarter of 2014, the Trust on an annual basis has had external appraisals performed on 15%–20% of the portfolio, rotating properties to ensure that at least 50% (by value) of the portfolio is valued externally over a three-year period.

The remaining portfolio is valued internally by management utilizing a valuation methodology that is consistent with the external appraisals. Management performed these valuations by updating cash flow information reflecting current leases, renewal terms and market rents and applying updated capitalization rates determined, in part, through consultation with the external appraisers and available market data. The fair value of properties under development reflects the impact of development agreements (see Note 4 in the unaudited interim condensed consolidated financial statements for the period ended June 30, 2018 for further discussion).

Fair values were primarily determined through the income approach. For each property, the valuation methodology was conducted and reliance placed upon: (a) a direct capitalization method, which is an estimate of the relationship between value and stabilized income, and (b) a discounted cash flow method, which is an estimate of the present value of future cash flows over a specified horizon, including the potential proceeds from a deemed disposition.

For the quarter ended June 30, 2018, investment properties (including properties under development) with a total carrying value of $1,387.5 million (June 30, 2017 – $1,549.3 million) were valued internally by the Trust with updated capitalization rates provided by external parties, and investment properties with a total carrying value of $7,659.2 million (June 30, 2017 – $6,904.4 million) were valued internally by the Trust. Based on these valuations, the aggregate weighted average stabilized capitalization rate on the Trust's portfolio as at June 30, 2018 was 5.82% (June 30, 2017 – 5.82%).

Acquisitions of Investment Properties

Acquisition during the six months ended June 30, 2018

In June 2018, the Trust completed the acquisition of a property in Valleyfield, Quebec (which is adjacent to one of the Trust's existing properties), from a third party, totalling 54,193 square feet of leasable area. The total purchase price of this acquisition was $15.7 million, of which $15.5 million was paid in cash, adjusted for costs of acquisition and other working capital amounts.

Properties Under Development

At June 30, 2018, the fair value of properties under development including properties under development recorded in equity accounted investments totalled $649.3 million compared to $601.8 million at December 31, 2017, resulting in a net increase of $47.5 million (for details on the factors influencing this change, see the "Investment Properties" section), presented as follows:

(in thousands of dollars)	**June 30, 2018**	December 31, 2017	Variance
Earnouts subject to option agreements[1]	**49,802**	49,599	203
Developments	**498,478**	463,557	34,921
Total	**548,280**	513,156	35,124
Equity accounted investments	**100,991**	88,628	12,363
Total including equity accounted investments	**649,271**	601,784	47,487

(1) Earnout development costs during the development period are paid by the Trust and funded through interest-bearing secured debt provided by the vendors to the Trust. On completion of the development and the commencement of lease payments by a tenant, the Earnouts will be acquired from the vendors based on predetermined or formula-based capitalization rates ranging from 6.00% to 7.40%, net of land and development costs incurred. Penguin has contractual options to acquire Trust Units and LP Units on completion of Earnouts as shown in Note 13(b) of the unaudited interim condensed consolidated financial statements for the period ended June 30, 2018.

Potential Future Pipeline

Total future Earnouts, Developments and options under Mezzanine Financing (including both the KPMG and PwC office towers at VMC but excluding all other non-retail development initiatives) could increase the existing Trust portfolio by an additional 4.6 million square feet. With respect to the future pipeline, commitments have been negotiated on 343,000 square feet.

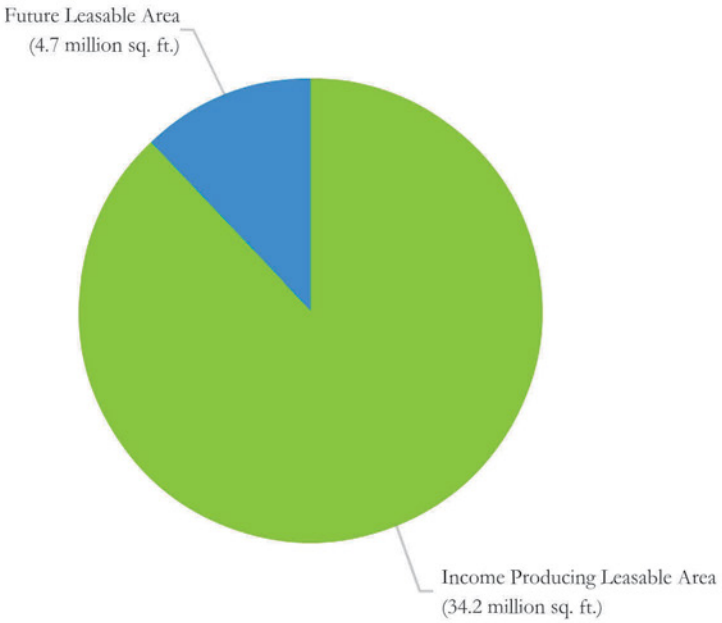
In addition to these initiatives, the Trust is currently assessing additional future potential intensification opportunities that may exist in its portfolio:

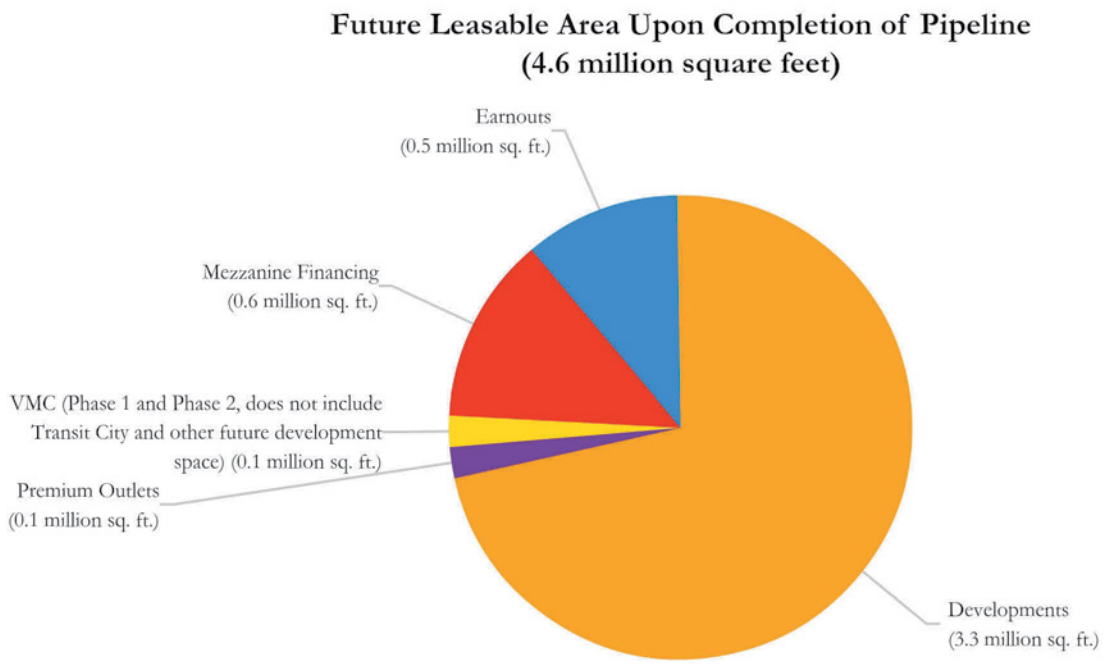
- Pending finalization of the development plan with the City of Vaughan, the Trust expects that VMC will over time have the potential to build, inclusive of completed and phases currently under development, 5.0 million to 5.5 million square feet of office, retail and residential space (at the Trust's 50% interest).

- In addition to VMC, the Trust has identified over 55 sites within its portfolio that have the potential to add, at the Trust's share, in excess of 10.0 million square feet for residential, self storage, and other non-retail uses over the medium to long term at sites including Westside Mall in Toronto, Vaughan North West, Highway 400/7, Laval Centre and Pointe-Claire in Montreal and South Keys in Ottawa, as well as a significant number of shopping centre sites attached to which is vacant development land.

- The Trust is continuing its discussions with various parties to jointly develop parcels within its existing portfolio with residential, seniors housing and self storage uses where such uses make sense in optimizing each centre within its local community. This is expected to occur on adjacent vacant land that would have historically been designated for retail development or in designated parking areas that are no longer needed.

Gross Leasable Area Upon Completion of Pipeline
(38.9 million square feet)





(in thousands of square feet)	Committed	Years 0–3	Beyond Year 3	Total[1]
Earnouts	46	280	190	516
Developments	194	1,183	1,950	3,327
Premium Outlets	64	9	50	123
VMC (Office Phase 1 and Office Phase 2)	39	41	—	80
	343	1,513	2,190	4,046
Mezzanine Financing	—	—	615	615
	343	1,513	2,805	4,661

(1) The timing of development is based on management's best estimates and can be adjusted based on business conditions.

During the quarter ended June 30, 2018, the future properties under development pipeline increased by 85,000 square feet to a total of 4.05 million square feet. The change is summarized as follows:

(in thousands of square feet)	Total Area
Future properties under development pipeline – March 31, 2018	3,961
Add:	
Net adjustment to project densities (for retail space only)	81
Properties transferred from investment properties to properties under development	7
Less:	
Completion of Earnouts and Developments	(3)
Net change	85
Future properties under development pipeline – June 30, 2018	4,046

Committed Retail and Office Pipeline

The following table summarizes the committed investment by the Trust in properties under development as at June 30, 2018:

(in millions of dollars)	Total	Costs Incurred	Future Development Costs
Earnouts	14	3	11
Developments	69	22	47
Premium Outlets	54	41	13
	137	66	71
VMC (Office Phase 1 and Office Phase 2)	22	21	1
	159	87	72

The completion of these committed Earnouts and Developments as currently scheduled is expected to have an average estimated yield of 7.6% in 2018 for the remainder of the year and 5.8% in 2019, which, based on the committed lease arrangements with respect to such Earnouts and Developments, should increase FFO per Unit by $0.009 in 2018 for the remainder of the year or $0.017 annualized, and an additional $0.003 annualized in 2019.

Uncommitted Retail and Office Pipeline

The following table summarizes the estimated future investment by the Trust in properties under development. It is expected the future development costs will be spent over the next three years and beyond:

(in millions of dollars)	Years 0–3	Beyond Year 3	Total	Costs Incurred[1]	Future Development Costs
Earnouts	83	57	140	5	135
Developments	372	672	1,044	445	599
Premium Outlets	7	24	31	9	22
	462	753	1,215	459	756
VMC (Office Phase 1 and Office Phase 2)	24	—	24	22	2
	486	753	1,239	481	758

(1) Properties under development totalled $649.3 million (including equity accounted investments of $101.0 million) which primarily consists of costs of $481.0 million in the uncommitted pipeline, costs of $87.0 million in the committed pipeline, costs of $9.3 million in potential land/parcel sales and costs of $57.7 million of future development land in VMC plus $14.2 million of non-cash development costs relating to future land development and cumulative fair value loss on revaluation of properties under development.

Approximately 11.0% of the properties under development – representing a proportion of gross investment cost (committed and uncommitted) relating to Earnouts ($154.0 million, divided by total potential future development pipeline of $1,398.0 million) – representing 516,000 square feet are lands that are under contract by vendors to develop and lease to third parties for additional proceeds when developed. In certain events, the developer may sell the portion of undeveloped land to accommodate the construction plan that provides the best use of the property. It is management's intention to finance the costs of construction through interim financing or operating facilities and, once rental revenue is stabilized, long-term financing will be arranged. With respect to the remaining gross leasable area, it is expected that 3.5 million square feet of future space will be developed as the Trust leases space and finances the construction costs.

Residential Development Inventory

In 2017, the Trust entered into a co-ownership agreement and related agreements with Fieldgate under which it acquired a 50% interest in the Vaughan NW development lands to develop and sell up to 230 residential townhouse units. The Trust, with its partner Fieldgate, expects to begin the pre-sale program later in 2018.

The following summarizes the activity in residential development inventory for the six months ended June 30, 2018:

	June 30, 2018	December 31, 2017
Balance – beginning of period	**20,267**	—
Transfer of fair value from properties under development	**—**	19,392
Costs capitalized	**672**	875
Balance – end of period	**20,939**	20,267

Equity Accounted Investments

The following summarizes the Trust's ownership interest in each equity accounted investment along with how it is accounted in the Trust's consolidated financial statements:

Equity Accounted Investment	Principal Activity	June 30, 2018	December 31, 2017	June 30, 2017
Investment in associates:				
PCVP	Owns, develops and operates investment properties	**50%**	50%	50%
Residences LP	Owns and develops two residential condominium towers	**25%**	25%	25%
Residences III LP	Develops a residential condominium tower	**25%**	25%	25%
Investment in joint ventures:				
1500 Dundas East LP	Owns and operates an investment property	**30%**	30%	N/A
Laval C Apartments LP	Owns, develops and operates residential apartments	**50%**	N/A	N/A
Leaside SAM LP	Owns, develops and operates a self storage facility	**50%**	N/A	N/A

The following summarizes key components relating to the Trust's equity accounted investments:

	June 30, 2018			December 31, 2017		
(in thousands of dollars)	**Investment in Associates**	**Investment in Joint Ventures**	**Total**	Investment in Associates	Investment in Joint Ventures	Total
Investment – beginning of period	**109,316**	**16,046**	**125,362**	122,677	—	122,677
Contributions	**15,195**	**10,995**	**26,190**	17,824	15,847	33,671
Earnings (loss)	**7,734**	**868**	**8,602**	(2,006)	343	(1,663)
Distributions received	**(16,303)**	**(288)**	**(16,591)**	(29,179)	(144)	(29,323)
Investment – end of period	**115,942**	**27,621**	**143,563**	109,316	16,046	125,362

a) Investment in associates

In 2012, the Trust entered into the Penguin-Calloway Vaughan Partnership ("PCVP") with Penguin (see "Related Party") to develop the Vaughan Metropolitan Centre (VMC), which is expected to consist of approximately 9.0 million to 11.0 million square feet once fully developed, on 53 acres of development land in Vaughan, Ontario.

In 2017, the Trust entered into the VMC Residences Limited Partnership ("Residences LP") and VMC Residences III Limited Partnership ("Residences III LP") with Penguin and a third party, CentreCourt Developments, to develop residential condominium towers, located on the VMC site.

The following summarizes the associated major mixed-use initiatives:

	Project	Type	GLA (sq. ft.)/units	SRU % Share	Completion Year
PCVP	KPMG (Tower #1)	Office	360,000 sq. ft.	50%	2016
	PwC (Tower #2)	Office	105,000 sq. ft.	50%	2019
Residences LP	Transit City I	Condo	551 units	25%	2020
	Transit City II	Condo	559 units	25%	2020
Residences III LP	Transit City III	Condo	606 units	25%	2021

b) Investment in joint ventures

In 2017, pursuant to the Arrangement, the Trust acquired an equity interest in 1500 Dundas East Limited Partnership ("1500 Dundas East LP"), which holds ownership of an investment property in Mississauga, Ontario (Creekside Crossing).

In January 2018, the Trust and Jadco formed a 50:50 joint venture known as Laval Centre Apartments Limited Partnership ("Laval C Apartments LP"), into which the Trust contributed development lands located in Laval, Quebec, previously presented as property under development and Jadco contributed cash. The purpose of the joint venture is to own, develop and operate residential apartments in Laval.

In June 2018, the Trust and SmartStop formed a 50:50 joint venture known as Leaside SAM Limited Partnership ("Leaside SAM LP"), into which the Trust contributed development lands located in Toronto (Leaside), Ontario, previously presented as property under development and the unrelated party contributed land and cash. The purpose of the joint venture is to own, develop and operate a self storage rental facility in Toronto (Leaside).

Related Party

Pursuant to the Trust's declaration of trust ("Declaration of Trust"), provided certain thresholds are met, until July 1, 2020, Penguin is entitled to have a minimum of 25.0% of the votes eligible to be cast at any meeting of Unitholders (the "Voting Top-Up Right"). Pursuant to the Voting Top-Up Right, the Trust will issue additional special voting Units of the Trust ("Special Voting Units") to Penguin to increase its voting rights to 25.0% in advance of a meeting of Unitholders. The total number of Special Voting Units is adjusted for each meeting of the Unitholders based on changes in Penguin's ownership interest. As a result, in connection with the 2018 annual general meeting of Unitholders that is scheduled on May 16, 2018, the Trust issued 266,943 additional Special Voting Units ("Additional Special Voting Units"). These Additional Special Voting Units are not entitled to any interest or share in the distributions or net assets of the Trust; nor are they convertible into any securities of the Trust. There is no value assigned to the Special Voting Units. The Voting Top-Up Right is more particularly described in the Trust's annual information form for the year ended December 31, 2017, which is filed on SEDAR. As at June 30, 2018, Penguin owned 21.9% of the aggregate issued and outstanding Trust Units in addition to the Special Voting Units noted above. The 21.9% ownership would increase to 26.2% if Penguin exercised all remaining options to purchase Units pursuant to existing development and exchange agreements. In addition, the Trust has entered into property management, leasing, development and exchange, and co-ownership agreements with Penguin. Pursuant to its rights under the Declaration of Trust, at June 30, 2018, Penguin has appointed two trustees out of seven.

The Trust has entered into contracts and other arrangements with Penguin on a cost-sharing basis for administrative services and on market terms for leasing and development services and premises rent. The Trust earns interest on funds advanced and opportunity fees related to prepaid land held for development at rates negotiated at the time the Trust acquires retail centres from Penguin.

In addition to agreements and contracts with Penguin described in the Trust's unaudited interim condensed consolidated financial statements, the Trust has the following agreements with Penguin:

1) Pursuant to the Development and Services Agreement, the Trust and certain subsidiary limited partnerships of the Trust provide the following services to Penguin over a five-year term with automatic five-year renewal periods thereafter:

    a. Construction management services and leasing services are provided, at the discretion of Penguin, with respect to certain of Penguin's properties under development for a market-based fee based on construction costs incurred. Fees for leasing services, requested at the discretion of Penguin, are based on various rates that approximate market rates, depending on the term and nature of the lease. In addition, management fees are provided for a market-based fee based on rental revenue.

    b. Transition services relate to activities necessary to become familiar with Penguin projects and establishing processes and systems to accommodate the needs of Penguin.

    c. Support services are provided for a fee based on an allocation of the relevant costs of the support services incurred by the Trust. Such relevant costs include: office administration, human resources, information technology, insurance, legal and marketing.

2) Pursuant to the Services Agreement, Penguin provides certain advisory, consulting and strategic services to the Trust, including but not limited to strategies dealing with development, municipal approvals, acquisitions, dispositions, and construction costs, as well as strategies for marketing new projects and leasing opportunities. The fees associated with this agreement are approximately $0.9 million per quarter for a five-year term (these charges are included in the following table as "Master planning services").

3) The Trust has a lease agreement to rent its office premises from Penguin for a term ending in May 2025.

In addition to related party transactions and balances disclosed elsewhere in this MD&A (including the "Equity accounted investments" section referring to a Supplemental Development Fee Agreement), the following summarizes related party transactions and balances with Penguin and other related parties, including the Trust's share of amounts relating to the Trust's share in equity accounted investments:

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands of dollars)	**2018**	2017	**2018**	2017
Related party transactions with Penguin				
Revenues:				
Service and other revenues:				
Transition services fee revenue	**917**	1,000	**1,917**	2,000
Management fee and other services revenue pursuant to the Development and Services Agreement	**1,709**	1,575	**3,053**	2,509
Support services	**235**	378	**513**	511
	2,861	2,953	**5,483**	5,020
Interest income from mortgages and loans receivable	**1,687**	1,388	**3,287**	2,766
Head lease rents and operating cost recoveries included in head lease rentals from income properties	**371**	185	**604**	603
Expenses and other payments:				
Master planning services:				
Capitalized to properties under development and properties held for development	**875**	875	**1,750**	1,750
Development fees and costs (capitalized to investment properties)	**8**	3	**8**	6
Interest expense (capitalized to properties under development)	**3**	4	**6**	7
Opportunity fees (capitalized to properties under development)[1]	**661**	613	**1,306**	1,205
Rent and operating costs (included in general and administrative expense and property operating costs)	**503**	556	**1,076**	1,112
Time billings, and other administrative costs (included in general and administrative expense and property operating costs)	**16**	35	**33**	35
Leasing and consulting service fees (included in general and administrative expense)	**—**	—	**—**	10
Marketing cost sharing (included in property operating costs)	**11**	11	**32**	32
Related party transactions with PCVP				
Revenues:				
Interest income from mortgages and loans receivable	**692**	—	**1,087**	—

(1) These amounts relate to accrued interest on prepaid land costs subject to future Earnouts.

(in thousands of dollars)	**June 30, 2018**	December 31, 2017	Variance
Related party balances with Penguin			
Receivables:			
Amounts receivable[1]	**14,903**	12,366	2,537
Mortgages receivable	**130,696**	127,704	2,992
Loans receivable[1]	**10,457**	10,199	258
Notes receivable	**2,979**	2,979	—
Total receivables	**159,035**	153,248	5,787
Payables and other accruals:			
Accrued liabilities	**11,428**	9,222	2,206
Future land development obligation	**26,628**	26,642	(14)
Secured debt	**1,061**	1,338	(277)
Total payables and other accruals	**39,117**	37,202	1,915

(1) Excludes amounts receivable and loans receivable presented below as part of balances with equity accounted investments.

The following table summarizes the related party balances with the Trust's equity accounted investments (including PCVP, Residences LP, Laval C Apartments LP and Leaside SAM LP):

	June 30, 2018		December 31, 2017	
	Total	**Penguin**	Total	Penguin
Amounts receivable[1]	**8,805**	**4,301**	3,539	3,195
Loans receivable[2]	**111,820**	**55,910**	—	—
Other unsecured debt	**4,121**	**—**	—	—

(1) Amounts receivable includes Penguin's portion, which represents $4.3 million (December 31, 2017 – $3.2 million) relating to Penguin's 50% investment in the PCVP and 25% investment in Residences LP. As at June 30, 2018, the total amounts receivable of $8.8 million includes $4.5 million relating to equity accounted investments (December 31, 2017 – $0.3 million).
(2) Loans receivable includes Penguin's portion, which represents $55.9 million (December 31, 2017 – $nil) relating to Penguin's 50% investment in the PCVP.

Mortgages receivable

As at June 30, 2018, the weighted average effective interest rate associated with mortgages receivable was 4.77% (December 31, 2017 – 4.47%) (see "Loan amendments" in the "Mortgages, Loans and Notes Receivable, and Interest Income" section for details).

Future land development obligations

The future land development obligations represent payments required to be made to Penguin for certain undeveloped lands acquired from 2006 to 2015, either on completion and rental of additional space on the undeveloped lands or, if no additional space is completed on the undeveloped lands, at the expiry of the 10-year development management agreement periods ending in 2018 (remainder of year) to 2025. The accrued future land development obligations are measured at their estimated fair values using imputed interest rates ranging from 4.50% to 5.50%.

Leasehold interest properties

The Trust has entered into leasehold agreements with Penguin for 15 investment properties.

The financial implications of related party agreements are disclosed elsewhere in the notes to the unaudited interim condensed consolidated financial statements for the period ended June 30, 2018.

Other related party transactions:

	Three Months Ended June 30		**Six Months Ended June 30**	
(in thousands of dollars)	**2018**	2017	**2018**	2017
Legal fees paid to a law firm in which a partner is a trustee of the Trust:				
Costs associated with the Arrangement	**—**	—	**21**	—
Capitalized to investment properties	**129**	204	**345**	204
Included in general and administrative expense	**102**	5	**177**	43
	231	209	**543**	247

Capital Resources and Liquidity

As at June 30, 2018 and March 31, 2018, the Trust had the following capital resources available:

(in thousands of dollars)	**June 30, 2018**	March 31, 2018	Variance
Cash and cash equivalents	**24,660**	13,615	11,045
Unused operating facilities	**297,934**	401,638	(103,704)
	322,594	415,253	(92,659)

On the assumption that cash flow levels permit the Trust to obtain financing on reasonable terms, the Trust anticipates meeting all current and future obligations. Management expects to finance future acquisitions, including committed Earnouts, Developments, Mezzanine Financing commitments and maturing debt from: (i) existing cash balances; (ii) a mix of mortgage debt secured by investment properties, operating facilities, issuance of equity, and convertible and unsecured debentures; (iii) repayments of mortgages receivable; and (iv) the sale of non-core assets. Cash flow generated from operating activities is the primary source of liquidity to pay Unit distributions, sustaining capital expenditures and leasing costs.

As at June 30, 2018, the Trust's capital resources decreased by $92.7 million compared to March 31, 2018, which is primarily due to the following:

(i) repayments of secured debt and other debt of $105.6 million; and
(ii) acquisition of an investment property (Valleyfield, Quebec) of $15.5 million;

Partially offset by the following factor:

(iii) proceeds from issuance of unsecured debt of $13.6 million.

The Trust manages its cash flow from operating activities by maintaining a target debt level. The debt to gross book value, as defined in the Declaration of Trust, as at June 30, 2018 is 51.4% (March 31, 2018 – 51.8%). Including the Trust's capital resources as at June 30, 2018, the Trust could invest an additional $1,188.9 million in new investments and remain at the midpoint of the Trust's target debt to gross book value range of 55% to 60%.

Future obligations, including the estimated costs of the planned development pipeline noted below, total $4,422.7 million, as identified in the following table. Other than contractual maturity dates, the timing of payment of these obligations is management's best estimate based on assumptions with respect to the timing of leasing, construction completion, occupancy and Earnout dates at June 30, 2018.

As at June 30, 2018, the timing of the Trust's future obligations is as follows:

(in thousands of dollars)	**Total**	**2018 (remainder of year)**	**2019**	**2020**	**2021**	**2022**	**Thereafter**
Secured debt	2,218,099	228,226	374,510	199,665	220,608	324,958	870,132
Revolving operating facility	191,000	—	—	—	—	191,000	—
Unsecured debentures	1,810,000	—	—	400,000	150,000	300,000	960,000
Mortgage receivable advances (repayments)[1]	151,397	9,465	17,753	11,405	29,968	5,286	77,520
Development obligations (commitments)	15,971	15,971	—	—	—	—	—
Convertible debentures	36,250	—	—	36,250	—	—	—
	4,422,717	253,662	392,263	647,320	400,576	821,244	1,907,652

(1) Mortgages receivable of $130.7 million at June 30, 2018, and further forecasted commitments of $151.4 million, mature over a period extending to 2024 if the Trust does not exercise its option to acquire the investment properties. Refer to the "Mortgages, Loans and Notes Receivable, and Interest Income" section for timing of principal repayments.

The following represents the Trust's net working capital surplus for the quarter ended June 30, 2018 and March 31, 2018:

(in thousands of dollars)	**June 30, 2018**	March 31, 2018
Current assets	**293,338**	255,886
Less: Current liabilities	**(848,075)**	(707,543)
Working capital deficiency	**(554,737)**	(451,657)
Less: Current portion of debt	**(628,687)**	(511,221)
Net working capital surplus	**73,950**	59,564

As at June 30, 2018 the Trust experienced a working capital deficiency of $554.7 million (March 31, 2018 – $451.7 million). This deficiency includes mortgages, unsecured debentures, convertible debentures and operating lines of credit of $628.7 million (March 31, 2018 – $511.2 million) that have maturity dates within 12 months of the balance sheet date (the convertible debentures were redeemed on July 4, 2018, see "Subsequent Events" for details). It is management's intention to either repay or refinance these maturing liabilities with newly issued secured or unsecured debt, equity or, in certain circumstances not expected to occur frequently, the disposition of certain assets. Any net working capital deficiencies are funded with the Trust's existing $500.0 million revolving operating facility.

It is management's intention to either repay or refinance $195.7 million of maturing secured debt in 2018. Potential upfinancing on maturing debt (in addition to the maturing debt in 2018 noted above) using a 65% loan to value and a 6.25% capitalization rate amounts to $55.8 million in 2018 (remainder of year) and $136.3 million in 2019. In addition, the Trust has an unencumbered asset pool with an approximate fair value totalling $3,940.6 million, which can generate gross financing proceeds on income properties of approximately $2,561.4 million using a 65% loan to value. The secured debt, revolving operating facility, unsecured debentures, mortgage receivable advances, development obligations and convertible debentures will be funded by additional term mortgages, net proceeds on the sale of non-core assets, existing cash or operating lines, the issuance of convertible and unsecured debentures, and equity Units, as necessary.

The Trust's potential development pipeline of $1,398.0 million consists of $154.0 million in Earnouts and $1,244.0 million in Developments. Costs totalling $568.0 million have been incurred to date with a further $830.0 million still to be funded. The future funding includes $146.0 million for Earnouts that will be paid once a lease has been executed and construction of the space commenced. The remaining $684.0 million of Developments will proceed once the Trust has an executed lease and financing in place. Management expects this pipeline to be developed over the next three years and thereafter.

Debt

Summary of activities during the period ended June 30, 2018

The following table summarizes total debt before equity accounted investments and total debt including equity accounted investments, for the six months ended June 30, 2018 and year ended December 31, 2017 as follows:

	June 30, 2018				December 31, 2017			
(in thousands of dollars)	**Balance**	**% of Total Debt**	**Weighted Average Term of Debt (years)**	**Weighted Average Interest Rate of Debt (%)**	Balance	% of Total Debt	Weighted Average Term of Debt (years)	Weighted Average Interest Rate of Debt (%)
Secured debt	**2,218,696**	**52%**	**4.4**	**3.82%**	2,393,633	55%	4.6	3.87%
Unsecured debt	**1,805,550**	**42%**	**5.3**	**3.45%**	1,800,650	42%	5.8	3.42%
Convertible debentures [1]	**36,250**	**1%**	**2.0**	**5.50%**	36,677	1%	2.5	5.50%
Revolving operating facility	**191,000**	**4%**	**3.9**	**3.12%**	—	—%	N/A	—%
Total debt before equity accounted investments	**4,251,496**	**99%**	**4.7**	**3.64%**	4,230,960	98%	5.1	3.69%
Share of debt classified as equity accounted investments	**45,340**	**1%**	**5.4**	**3.82%**	87,370	2%	3.8	3.33%
Total debt including equity accounted investments	**4,296,836**	**100%**	**4.8**	**3.64%**	4,318,330	100%	5.1	3.69%

(1) On July 4, 2018, further to the notice issued by the Trust on May 25, 2018, the Trust completed the redemption of the 5.50% Convertible Debentures for $36.3 million in cash, which included the aggregate principal amount outstanding and accrued interest.

The following table summarizes the activity in debt excluding debt recorded in equity accounted investments, for the six months ended June 30, 2018:

(in thousands of dollars)	Secured Debt	Unsecured Debentures	Other Unsecured Debt	Convertible Debentures	Revolving Operating Facility	Total
Balance – January 1, 2018	2,393,633	1,800,650	—	36,677	—	4,230,960
Borrowings	19,316	—	4,121	—	191,000	214,437
Scheduled amortization	(35,246)	—	—	—	—	(35,246)
Repayments	(158,193)	—	—	—	—	(158,193)
Amortization of acquisition fair value adjustments, net of additions	(1,241)	—	—	—	—	(1,241)
Unamortized acquisition date fair value adjustment	—	—	—	(427)	—	(427)
Financing costs incurred, net of additions	427	779	—	—	—	1,206
Balance – June 30, 2018	**2,218,696**	**1,801,429**	**4,121**	**36,250**	**191,000**	**4,251,496**

Secured Debt

The Trust continues to have access to secured debt due to its strong tenant base and high occupancy levels at mortgage loan levels ranging from 60% to 70% of loan to value. If maturing mortgages in 2018 and 2019 were refinanced using a 10-year secured rate of 3.67%, annualized FFO would increase by $0.004 per Unit for 2018 (remainder of year) and decrease by $0.008 per Unit for 2019. FFO is a non-IFRS measure. See "Presentation of Non-GAAP Measures".

Future principal payments as a percentage of secured debt are as follows:

(in thousands of dollars)	Payments of Principal Amortization ($)	Debt Maturing During Year ($)	Total ($)	Total (%)	Weighted Average Interest Rate of Maturing Debt (%)
2018 (remainder of year)	32,563	195,663	228,226	10%	3.58%
2019	64,292	310,218	374,510	17%	3.29%
2020	59,423	140,242	199,665	9%	5.16%
2021	53,942	166,666	220,608	10%	4.24%
2022	49,698	275,260	324,958	15%	3.54%
Thereafter	128,547	741,585	870,132	39%	3.85%
Total	388,465	1,829,634	2,218,099	100%	3.82%
Acquisition date fair value adjustment			6,619		
Unamortized financing costs			(6,022)		
			2,218,696		

Unsecured debt

The following table summarizes the components of unsecured debt:

(in thousands of dollars)	June 30, 2018	December 31, 2017
Unsecured debentures (a)	**1,801,429**	1,800,650
Other unsecured debt (b)	**4,121**	—
	1,805,550	1,800,650

a) Unsecured Debentures

The following unsecured debentures were issued and outstanding as at June 30, 2018 and December 31, 2017:

(in thousands of dollars)	Maturity Date	Annual Interest Rate	June 30, 2018	December 31, 2017
Series H	July 27, 2020	4.050%	**150,000**	150,000
Series I	May 30, 2023	3.985%	**200,000**	200,000
Series L	February 11, 2021	3.749%	**150,000**	150,000
Series M	July 22, 2022	3.730%	**150,000**	150,000
Series N	February 6, 2025	3.556%	**160,000**	160,000
Series O	August 28, 2024	2.987%	**100,000**	100,000
Series P	August 28, 2026	3.444%	**250,000**	250,000
Series Q	March 21, 2022	2.876%	**150,000**	150,000
Series R	December 21, 2020	Variable[1]	**250,000**	250,000
Series S	December 21, 2027	3.834%	**250,000**	250,000
		3.45%[2]	**1,810,000**	1,810,000
Less: Unamortized financing costs			**(8,571)**	(9,350)
			1,801,429	1,800,650

(1) These unsecured debentures carry a floating rate of three-month CDOR plus 66 basis points.
(2) Represents the weighted average annual interest rate.

Credit Rating of Unsecured Debentures

Dominion Bond Rating Services (DBRS) provides credit ratings of debt securities for commercial issuers that indicate the risk associated with a borrower's capabilities to fulfil its obligations. An investment-grade rating must exceed "BB", with the highest rating being "AAA". The Trust's debentures are rated "BBB" with a stable trend at June 30, 2018.

b) Other unsecured debt

Other unsecured debt totalling $4,121 (December 31, 2017 – $nil) pertains to a loan received from the Laval C Apartments LP and the Leaside SAM LP (see also, "Equity accounted investments") in connection with the contribution agreement relating to the joint venture. The loan is non-interest bearing with repayment terms based on the distributions that are to be paid pursuant to the limited partnership agreement.

Convertible Debentures

5.50% convertible unsecured subordinated debentures, due on June 30, 2020

The $36.3 million of 5.50% convertible unsecured subordinated debentures ("5.50% Convertible Debentures") bore interest at 5.50% per annum, which was payable semi-annually on June 30 and December 31 each year and matured on June 30, 2020. The 5.50% Convertible Debentures were convertible at the debenture holder's option into fully paid Units at any time prior to the earlier of the maturity date and the date fixed for redemption at a conversion price of $51.57 per Unit. On or after October 4, 2017, but prior to June 30, 2018, the 5.50% Convertible Debentures were redeemable, in whole or in part, at the Trust's option, provided that the market price for the Units is not less than 125% of the conversion price. On or after June 30, 2018, but prior to the maturity date, the 5.50% Convertible Debentures were redeemable in whole or in part, at the Trust's option, at a price equal to their principal amount plus accrued interest. On May 25, 2018, the Trust issued a notice of redemption of the 5.50% Convertible Debentures with an aggregate principal amount outstanding of $36.3 million, to be redeemed on July 4, 2018. On July 4, 2018, the Trust completed the redemption of the 5.50% Convertible Debentures for $36.3 million in cash, which included the aggregate principal amount outstanding and accrued interest.

During the six months ended June 30, 2018, $nil of the face value of the 5.50% Convertible Debentures (December 31, 2017 – $nil) was converted into Trust Units.

(in thousands of dollars)	**June 30, 2018**	December 31, 2017
5.50% Convertible Debentures, due on June 30, 2020	**36,250**	36,250
Unamortized acquisition date fair value adjustment	**—**	427
	36,250	36,677

Revolving operating facility

As at June 30, 2018, the Trust has a $500.0 million unsecured revolving operating facility bearing interest at a variable interest rate based on either bank prime rate plus 45 basis points or banker's acceptance rates plus 145 basis points, which matures on May 31, 2022. The facility includes an accordion feature of $250.0 million whereby the Trust has an option to increase its facility amount with the lenders to sustain future operations as required.

(in thousands of dollars)	**June 30, 2018**	December 31, 2017
Revolving operating facility	**500,000**	500,000
Lines of credit – outstanding	**(191,000)**	—
Letters of credit – outstanding	**(11,066)**	(16,862)
Remaining unused operating facility	**297,934**	483,138

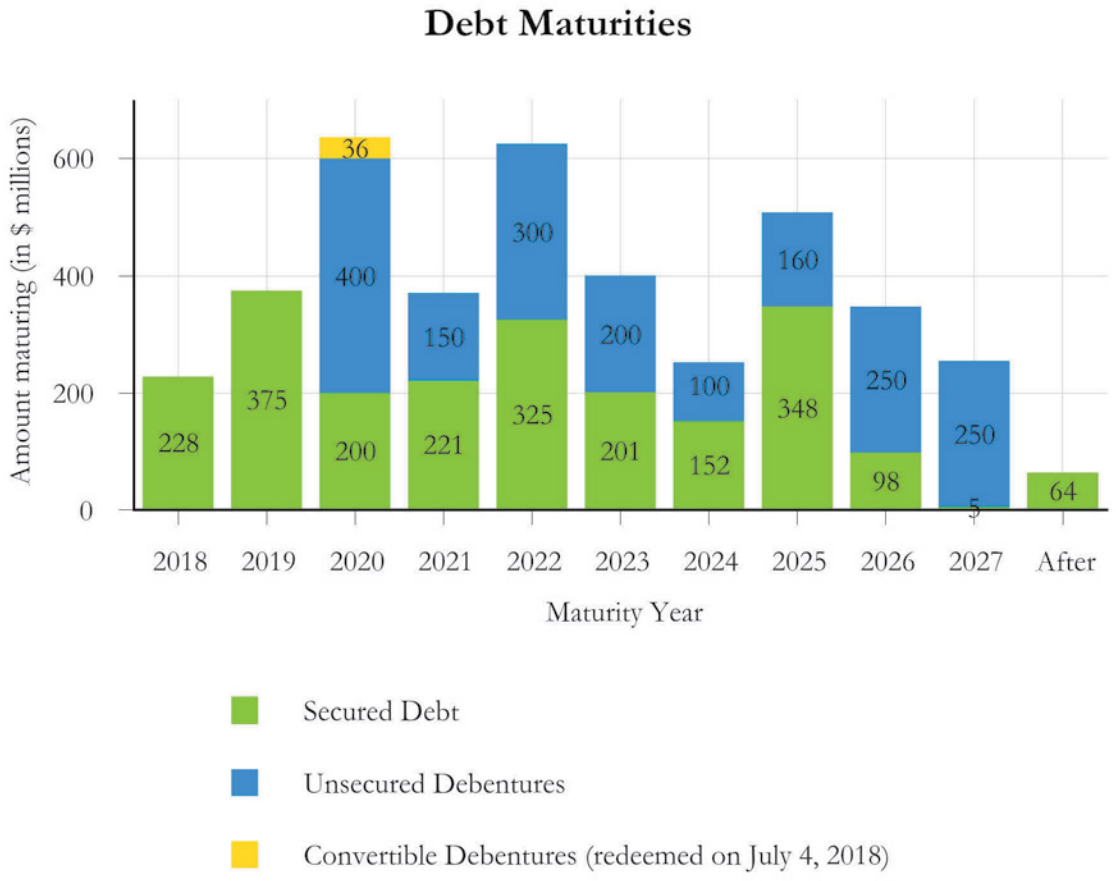
In addition to the letters of credit outstanding on the Trust's revolving operating facility (see above), the Trust also has $29.7 million of letters of credit outstanding with other financial institutions as at June 30, 2018 (December 31, 2017 – $37.8 million).

Unencumbered Assets

As at June 30, 2018, the Trust had $3,940.6 million of unencumbered assets (March 31, 2018 – $3,524.5 million, December 31, 2017 – $3,387.0 million), which reflects the Trust's share of the value of investment properties. In connection with this pool of unencumbered assets, management estimates that the total Forecasted Annualized NOI for the remainder of 2018 will be $243.3 million. Forecasted Annualized NOI is based upon actual results to June 30, 2018 and for the balance of the year is based upon board approved budgets, and includes all known leasing and cost assumptions pertaining to the Trust's income properties that are not encumbered by secured debt, and is a forward-looking non-GAAP measure. See "Presentation of Non-GAAP Measures".

Debt Maturities

The following graph illustrates the debt maturities for secured debt, unsecured debentures and convertible debentures:



Financial Covenants

The unsecured operating facility and unsecured debentures contain numerous terms and covenants that limit the discretion of management with respect to certain business matters. These covenants could in certain circumstances place restrictions on, among other things, the ability of the Trust to create liens or other encumbrances, to pay distributions on its Units or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

In addition, the operating facility and unsecured debentures contain a number of financial covenants that require the Trust to meet certain financial ratios and financial condition tests. A failure to comply with the financial covenants in the operating facility and unsecured debentures could result in a default, which, if not cured or waived, could result in a reduction, suspension or termination of distributions by the Trust and permit acceleration of the relevant indebtedness.

As stipulated by the Declaration of Trust, the Trust monitors its capital structure based on the following ratios: interest coverage ratio, debt to aggregate assets, debt to gross book value, and debt to Adjusted EBITDA. These ratios are used by the Trust to manage an acceptable level of leverage and are not considered measures in accordance with IFRS; nor is there an equivalent IFRS measure. See "Presentation of Non-GAAP Measures". The ratios are as follows:

Ratio	**June 30, 2018**	December 31, 2017
Interest coverage ratio	**3.1X**	3.1X
Debt to aggregate assets	**44.7%**	45.4%
Debt to gross book value (excluding convertible debentures)	**51.4%**	52.3%
Debt to gross book value (including convertible debentures)	**51.8%**	52.8%
Debt to Adjusted EBITDA	**8.5X**	8.4X

The following are the significant financial covenants that the Trust is required by its operating line lenders to maintain: debt to aggregate assets of not more than 65%, secured debt to aggregate assets of not more than 40%, Adjusted EBITDA to debt service (fixed charge coverage ratio) of not less than 1.5, unencumbered investment properties value to consolidated unsecured debt of not less than 1.3 and Unitholders' equity of not less than $2.0 billion. Those ratios and financial covenants are as follows:

Ratio	Threshold	**June 30, 2018**	December 31, 2017
Debt to aggregate assets	65%	**44.7%**	45.4%
Secured debt to aggregate assets	40%	**23.6%**	26.1%
Fixed charge coverage ratio	1.5X	**2.1X**	2.1X
Unencumbered assets to unsecured debt	1.3X	**1.9X**	1.8X
Unitholders' equity (in thousands)	$2,000,000	**$4,921,463**	$4,827,457

The Trust's indentures require its unsecured debentures to maintain debt to gross book value excluding and including convertible debentures of not more than 60% and 65%, respectively, an interest coverage ratio of not less than 1.65 and Unitholders' equity of not less than $500.0 million. Those ratios and financial covenants are as follows:

Ratio	Threshold	**June 30, 2018**	December 31, 2017
Debt to gross book value (excluding convertible debentures)	60%	**51.4%**	52.3%
Debt to gross book value (including convertible debentures)	65%	**51.8%**	52.8%
Interest coverage ratio	1.65X	**3.1X**	3.1X
Unitholders' equity (in thousands)	$500,000	**$4,921,463**	$4,827,457

For the quarter ended June 30, 2018, the Trust was in compliance with all financial covenants.

Unitholders' Equity

The Unitholders' equity of the Trust is calculated based on the equity attributable to the holders of Trust Units and Limited Partnership Units that are exchangeable into Trust Units on a one-for-one basis. These Limited Partnership Units consist of Class B Units of the Trust's subsidiary limited partnerships. Certain of the Trust's subsidiary limited partnerships also have Units classified as liabilities that are exchangeable on a one-for-one basis for Units. The following is a summary of the number of Units outstanding for the period ended June 30, 2018 and year ended December 31, 2017:

Type	**Class and Series**	**June 30, 2018**	December 31, 2017	Variance
Trust Units	N/A	**133,533,268**	132,612,320	920,948
Smart Limited Partnership	Class B Series 1	**14,746,176**	14,746,176	—
Smart Limited Partnership	Class B Series 2	**950,059**	886,956	63,103
Smart Limited Partnership	Class B Series 3	**720,432**	720,432	—
Smart Limited Partnership II	Class B	**756,525**	756,525	—
Smart Limited Partnership III	Class B Series 4	**647,934**	647,934	—
Smart Limited Partnership III	Class B Series 5	**572,337**	572,337	—
Smart Limited Partnership III	Class B Series 6	**449,375**	449,375	—
Smart Limited Partnership III	Class B Series 7	**434,598**	434,598	—
Smart Limited Partnership III	Class B Series 8	**1,698,018**	1,698,018	—
Smart Limited Partnership IV	Class B Series 1	**3,046,121**	3,046,121	—
Smart Oshawa South Limited Partnership	Class B Series 1	**688,336**	688,336	—
Smart Oshawa Taunton Limited Partnership	Class B Series 1	**374,223**	374,223	—
Total Units classified as equity		**158,617,402**	157,633,351	984,051
Smart Limited Partnership	Class D Series 1	**311,022**	311,022	—
Smart Oshawa South Limited Partnership	Class D Series 1	**251,649**	251,649	—
ONR Limited Partnership	Class B	**1,254,114**	1,254,114	—
ONR Limited Partnership I	Class B Series 1	**132,881**	132,881	—
ONR Limited Partnership I	Class B Series 2	**137,109**	137,109	—
Total Units classified as liabilities		**2,086,775**	2,086,775	—
Total Units		**160,704,177**	159,720,126	984,051

The following is a summary of the activities having an impact on Unitholders' equity for the three and six months ended June 30, 2018 and year ended December 31, 2017:

(in thousands of dollars)	**Three Months Ended June 30, 2018**	**Six Months Ended June 30, 2018**	Year Ended December 31, 2017
Unitholders' equity – beginning of the period	**4,871,886**	**4,827,457**	4,663,944
Issuance of Trust Units, net of issuance cost	**13,820**	**27,144**	75,821
Deferred Units exchanged for Trust Units	**—**	**—**	251
Issuance of LP Units classified as equity	**1,731**	**1,865**	832
Net income and comprehensive income	**103,748**	**204,214**	355,926
Distributions to other non-controlling interest	**—**	**—**	(283)
Distributions	**(69,722)**	**(139,217)**	(269,034)
Unitholders' equity – end of the period	**4,921,463**	**4,921,463**	4,827,457

During the quarter ended June 30, 2018, the Trust issued $15.6 million in Units as follows:

	Trust Units (#)	**LP Units (#)**	**Total Units (#)**	**Three Months Ended June 30, 2018 ($ thousands)**
Earnout options exercised	—	58,575	58,575	1,731
Distribution reinvestment plan (DRIP)	471,904	—	471,904	13,820
Total change in Unit equity	471,904	58,575	530,479	15,551

During the three months ended June 30, 2018, distributions declared by the Trust totalled $70.6 million, of which $69.7 million relates to distributions on Units classified as equity, and $0.9 million relates to distributions on Units classified as liabilities that is treated as interest expense (June 30, 2017 – $66.8 million, of which $66.6 million relates to distributions on Units classified as equity, and $0.2 million relates to distributions on Units classified as liabilities that is treated as interest expense), or $0.4375 per Unit (June 30, 2017 – $0.4250 per Unit).

For the three months ended June 30, 2018, the Trust paid $56.8 million in cash distributions and the balance of $13.8 million by issuing 471,904 Trust Units under the DRIP (June 30, 2017 – $54.6 million in cash distributions and the balance of $12.2 million represented by 380,616 Trust Units).

Declared distributions and declared distributions net of DRIP for the three and six months ended June 30, 2018 compared to the prior year comparative periods, were as follows:

	Three Months Ended June 30		**Six Months Ended June 30**	
(in thousands of dollars)	**2018**	2017	**2018**	2017
Declared distributions on:				
Trust Units	**58,765**	55,947	**117,312**	111,735
LP Units	**10,957**	10,620	**21,905**	21,243
Distributions on Units classified as equity	**69,722**	66,567	**139,217**	132,978
Distributions on Units classified as liabilities	**912**	239	**1,825**	478
Total declared distributions	**70,634**	66,806	**141,042**	133,456
Distributions reinvested through DRIP	**(13,820)**	(12,246)	**(27,144)**	(24,723)
Total declared distributions, net of DRIP	**56,814**	54,560	**113,898**	108,733
DRIP as a percentage of total declared distributions	**19.6%**	18.3%	**19.2%**	18.5%

Quarterly Results and Trends

(in thousands of dollars, except percentage, Unit and per Unit amounts)

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Rentals from investment properties[1]	197,092	198,395	196,530	178,752	181,511	184,562	186,702	174,123
NOI[1][2]	126,708	122,839	125,460	117,867	117,107	117,094	120,051	115,138
Net income and comprehensive income[1]	103,748	100,466	101,911	69,946	124,070	59,999	153,889	56,731
FFO[2]	91,036	89,287	90,075	87,754	85,634	81,188	86,954	66,999
Per Unit								
Basic	$0.57	$0.56	$0.57	$0.56	$0.55	$0.52	$0.56	$0.43
Diluted[3]	$0.56	$0.56	$0.56	$0.56	$0.55	$0.52	$0.56	$0.43
FFO with one time adjustment and before Transactional FFO[2][4]	92,538	89,287	90,075	87,754	85,815	83,728	86,954	83,456
Per Unit								
Basic	$0.58	$0.56	$0.57	$0.56	$0.55	$0.54	$0.56	$0.54
Diluted[3][4]	$0.57	$0.56	$0.56	$0.56	$0.55	$0.54	$0.56	$0.54
FFO with one time adjustment and Transactional FFO[2][4]	95,012	89,777	91,020	87,754	88,939	83,728	86,954	83,456
Per Unit								
Basic	$0.59	$0.56	$0.57	$0.56	$0.57	$0.54	$0.56	$0.54
Diluted[3][4]	$0.59	$0.56	$0.57	$0.56	$0.57	$0.54	$0.56	$0.54
Cash flows provided by operating activities	101,060	44,063	137,492	84,967	74,285	56,338	109,672	83,717
Distributions declared	70,634	70,408	70,191	67,018	66,806	66,650	66,463	64,360
Units outstanding[5]	160,704,177	160,173,698	159,720,126	158,196,022	156,455,314	156,072,260	155,686,295	155,300,424
Weighted average Units outstanding								
Basic	160,415,583	159,943,580	159,388,010	156,681,702	156,256,467	155,882,593	155,487,377	155,148,277
Diluted	161,220,808	160,687,906	160,078,219	157,367,314	156,916,777	156,500,558	156,059,467	155,728,508
Total assets	9,513,881	9,416,938	9,380,232	8,839,166	8,843,016	8,886,478	8,738,878	8,647,605
Total unencumbered assets	3,940,600	3,524,500	3,387,000	2,921,700	2,914,000	2,744,600	2,701,700	2,635,200
Total debt[1]	4,296,836	4,269,593	4,318,330	3,889,763	3,909,966	4,031,172	3,894,671	3,896,201
In-place occupancy rate[1]	98.0%	98.0%	98.2%	98.5%	98.4%	98.1%	98.3%	98.3%

(1) Includes the Trust's share of earnings from equity accounted investments.

(2) Represents a non-GAAP measure. The Trust's method of calculating non-GAAP measures may differ from other reporting issuers' methods and, accordingly, may not be comparable. For definitions and basis of presentation of the Trust's non-GAAP measures, refer to the "Presentation of Non-GAAP Measures" section in this MD&A.

(3) Diluted FFO are adjusted for the dilutive effect of the vested Earnout options and vested portion of deferred units, unless they are anti-dilutive.

(4) Q2 2017 excludes the yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs ($0.2 million). Q1 2017 excludes the yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs ($2.5 million). Q3 2016 excludes the yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs ($16.5 million).

(5) Total Units outstanding include Trust Units and LP Units, including Units classified as financial liabilities.

Rentals from investment properties, NOI, net income and comprehensive income and all related financial and operational metrics noted above are not materially impacted by seasonal factors. However, macroeconomic and market trends, as described under the Outlook section of this MD&A, do have an influence on the demand for space, occupancy levels and, consequently, rental revenue and ultimately operating performance.

Overall, quarterly fluctuations in revenue and operating results are mainly attributable to occupancy and same property growth, acquisitions and dispositions.

Rentals from investment properties

The Q3 2016 reduction in rentals from investment properties was impacted by additional vacancy and provisions for bad debt taken in the quarter. For the ensuing quarters up to and including Q3 2017, rentals from investment properties were relatively stable with quarterly fluctuations resulting primarily from leasing and additional recoveries of tax and recoverable operating costs. The increase in Q4 2017 over Q3 2017 results primarily from the revenue attributed to the 12 additional OneREIT properties acquired pursuant to the Arrangement. The increase in rentals from investment properties in 2018 over 2017 is largely due to the six months of rentals from investment properties associated with the Arrangement, as was the case in Q2 2018.

NOI, net income and comprehensive income, FFO and FFO including one time adjustment and Transactional FFO
The above factors concerning rentals from investment properties also affect the quarterly variations in NOI, FFO and FFO with one time adjustment and Transactional FFO.

In addition to the factors noted above, net income and comprehensive income are principally affected quarter-over-quarter by fluctuations in fair value of the Trust's income producing properties, the incidence of yield maintenance costs associated with the early redemption of unsecured debentures and, for Q4 2017, the recognition of an acquisition gain, net, pursuant to the Arrangement and other non-recurring items.

For Q2 2018, FFO including one time adjustment included transition costs in connection with the CEO retirement and other related costs totalling $1.5 million. In addition, Q2 2018 also reflects FFO including one time adjustment and Transactional FFO, which includes Transactional FFO gain on sale of land to co-owner totalling $2.5 million; similar Transactional FFO was reflected in Q4 2017 and Q2 2017, of $0.9 million and $3.1 million, respectively.

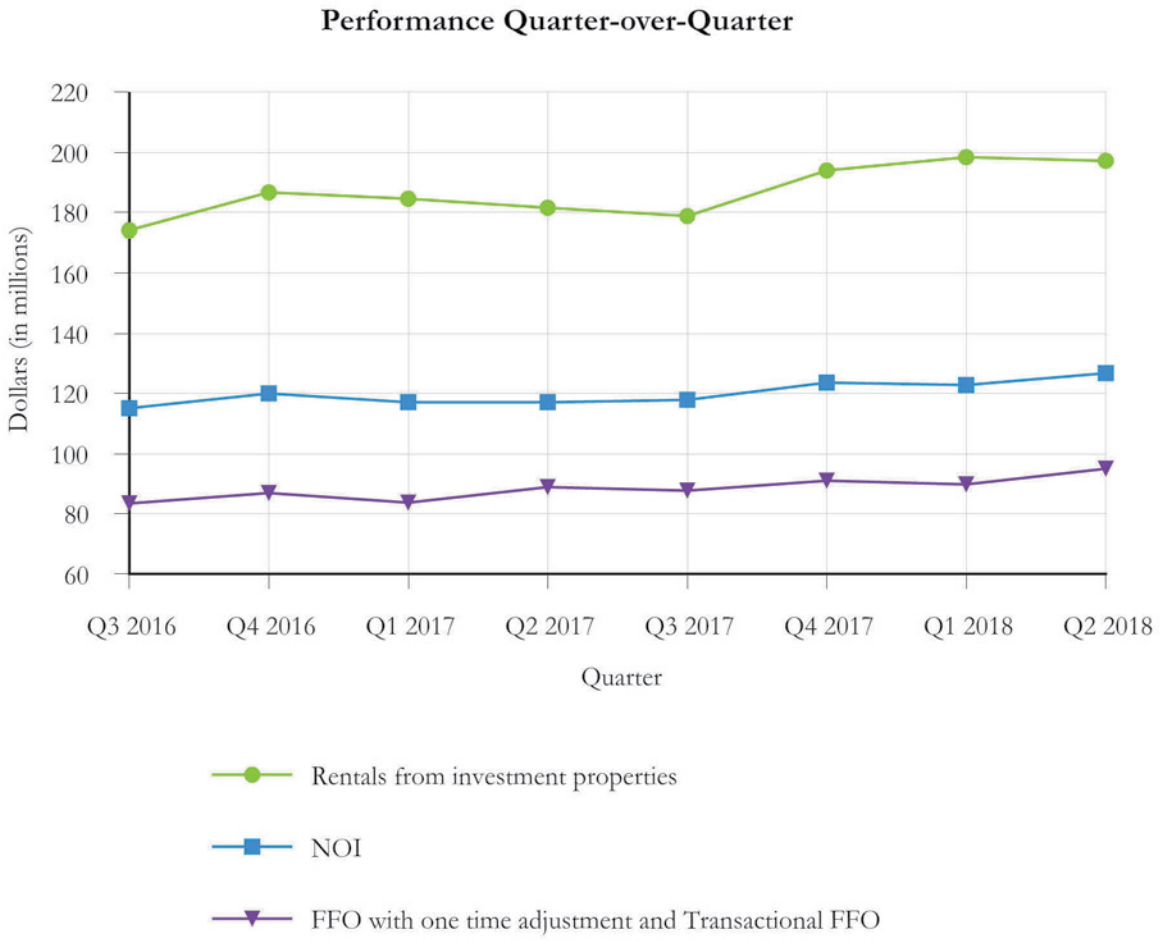
Units outstanding
Quarterly increases in Units outstanding and weighted average units outstanding (basic and diluted) can be attributed to units issued pursuant to: (i) DRIP, (ii) Earnouts, and (iii) the properties under development issuances. The substantive quarter-over-quarter increase in Q4 2017 is attributed to Units issued pursuant to the Arrangement.

Total assets and total debt
The quarter-over-quarter change in total assets and total debt are primarily attributed to: (i) acquisitions and the assumption or arrangement of new debt associated with such acquisitions, and (ii) development and related costs associated with properties under development in the portfolio. The substantive increase in both assets and total debt in Q4 2017 can be attributed to the assets purchased and related debt assumed pursuant to the Arrangement.

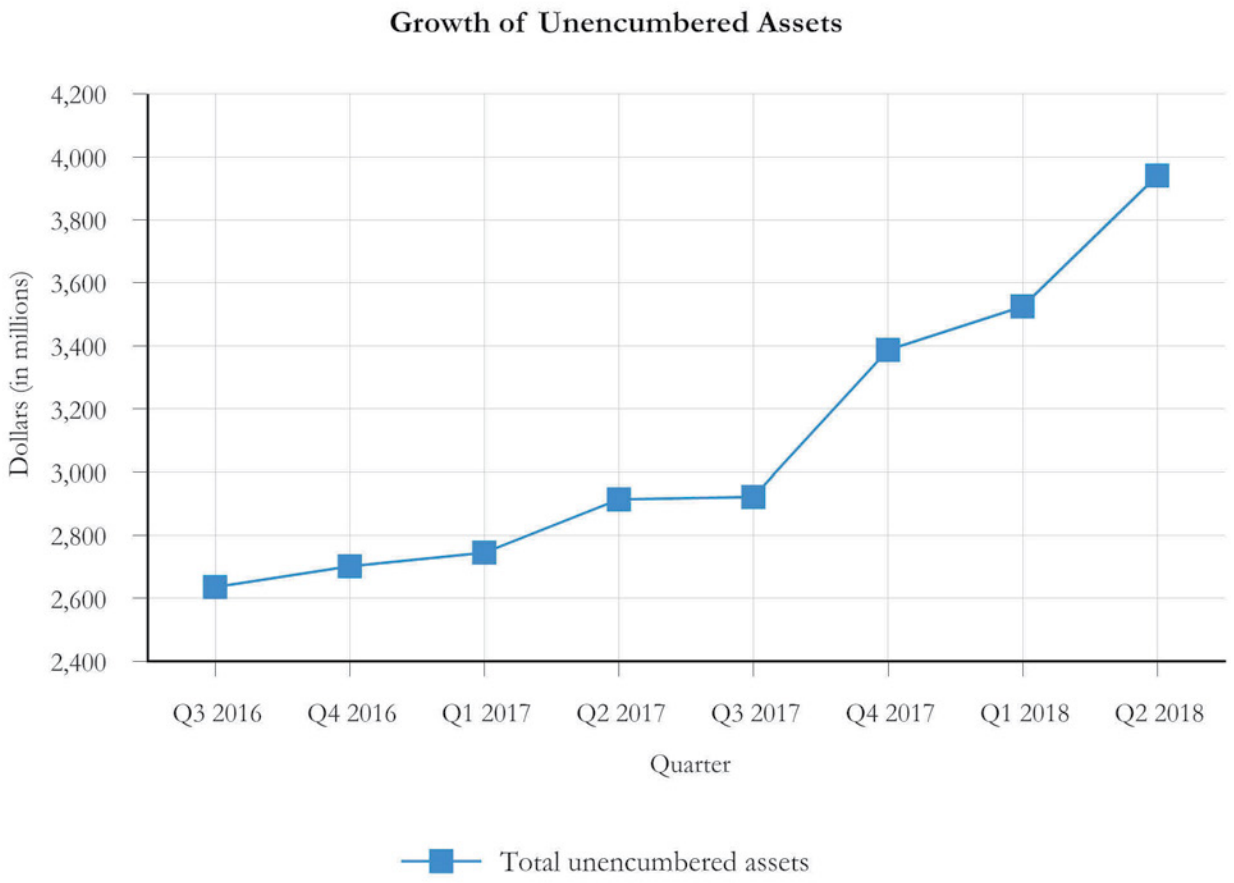
Unencumbered assets
The quarter-over-quarter increase in unencumbered assets over the last two years is primarily attributed to the Trust's practice of repaying maturing mortgages by using its existing credit facilities and unsecured debt, resulting in the related assets remaining unencumbered thereafter.

Occupancy rate
The Trust's in-place occupancy rate has remained relatively stable over the last eight quarters, ranging from a low of 98.0% in Q2 2018 to 98.5% in Q3 2017. Quarterly changes in occupancy rates are primarily caused by: (i) the expiration and non-renewal of existing tenancies, (ii) new leasing, (iii) assumed occupancy/vacancy on acquisitions, and (iv) movements of space in and out of the Trust's portfolio of properties under development. The primary reasons for the reduction in occupancy rate in Q4 2017 and thereafter relate to additional vacancy assumed pursuant to the Arrangement and additional vacancy in the existing portfolio.

General trends in SmartCentres' key performance indicators



The above graph represents the Trust's experience over the last eight quarters pertaining to: (i) rentals from investment properties, (ii) NOI, and (iii) FFO with one time adjustment and Transactional FFO, and reflects the relative stability in performance for each of these various earnings-based metrics.



The above table presents the change in the Trust's interest in investment properties at fair value that are available to it to finance and/or refinance its debt.

Income Taxes and the REIT Exception

The Trust currently qualifies as a "mutual fund trust" as defined in the Income Tax Act (Canada) (the "Tax Act"). In accordance with the Declaration of Trust, distributions to Unitholders are declared at the discretion of the Trustees. The Trust endeavours to distribute to Unitholders, in cash or in Units, in each taxation year its taxable income to such an extent that the Trust will not be liable to income tax under Part I of the Tax Act.

The Tax Act imposes a special taxation regime (the "SIFT Rules") applicable to certain publicly traded income trusts (each a "SIFT"). A SIFT includes a trust resident in Canada with publicly traded units that holds one or more "non-portfolio properties". "Non-portfolio properties" include certain investments in real properties situated in Canada and certain investments in corporations and trusts resident in Canada and in partnerships with specified connections in Canada. Under the SIFT Rules, a SIFT is subject to tax in respect of certain distributions that are attributable to the SIFT's "non-portfolio earnings" (as defined in the Tax Act; generally, income (other than certain dividends) from, or capital gains realized on, "non-portfolio properties", which does not include certain investments in non-Canadian entities), at a rate substantially equivalent to the combined federal and provincial corporate tax rate on certain types of income. The SIFT Rules are not applicable to a SIFT that meets certain specified criteria relating to the nature of its revenues and investments in order to qualify as a real estate investment trust for purposes of the Tax Act (the "REIT Exception"). The Trust qualifies for the REIT Exception as at June 30, 2018.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting – National Instrument 52-109 Compliance

Disclosure Controls and Procedures ("DCP")

The Trust's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have designed or caused to be designed under their direct supervision, the Trust's DCP (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), adopted by the Canadian Securities Administrators) to provide reasonable assurance that: (i) material information relating to the Trust, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the interim filings are being prepared; and (ii) material information required to be disclosed in the annual filings is recorded, processed, summarized and reported on a timely basis. The Trust continues to evaluate the effectiveness of DCP, and changes are implemented to adjust to the needs of new processes and enhancement required. There were no changes in the Trust's internal controls over financial reporting in the second quarter of 2018 that materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

Internal Control Over Financial Reporting ("ICFR")

The Trust's CEO and CFO have also designed, or caused to be designed under their direct supervision, the Trust's ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS.

Inherent Limitations

Notwithstanding the foregoing, because of its inherent limitations a control system can provide only reasonable assurance that the objectives of the control system are met and may not prevent or detect misstatements. Management's estimates may be incorrect, or assumptions about future events may be incorrect, resulting in varying results. In addition, management has attempted to minimize the likelihood of fraud. However, any control system can be circumvented through collusion and illegal acts.

Significant Accounting Estimates and Policies

In preparing the Trust's unaudited interim condensed consolidated financial statements and accompanying notes, it is necessary for management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the period. The significant items requiring estimates are discussed in the Trust's unaudited interim condensed consolidated financial statements for the period ended June 30, 2018, and the notes contained therein.

The Trust's MD&A for the year ended December 31, 2017 also contains a discussion of the significant accounting policies most affected by estimates and judgments used in the preparation of the audited consolidated financial statements for the year ended December 31, 2017. Management determined that at June 30, 2018, there is no change to the assessment of significant accounting policies most affected by estimates and judgments described in the Trust's MD&A for the year ended December 31, 2017, except for the following:

On January 1, 2018, the Trust implemented IFRS 9, "Financial Instruments", IFRS 15, "Revenue from contracts with customers" and IAS 40, "Investment property". The impact on implementation of IFRS 9, IFRS 15 and IAS 40 is described below.

a) IFRS 9, Financial Instruments

IFRS 9 addresses the classification, measurement and derecognition of financial assets and liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard. Following the changes approved by the IASB in July 2014, the new standard also introduces expanded disclosure requirements and changes in presentation. The new impairment model is an expected loss model, which may result in earlier recognition of credit losses. The impact of adopting this standard was immaterial.

Initial Recognition

The Trust recognizes a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Such financial assets or financial liabilities are initially recognized at fair value plus or minus directly attributable transaction costs when a financial asset or financial liability is not recognized at fair value through profit or loss. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Subsequent measurement depends on the initial classification of the financial asset or financial liability.

Classification

The classification of financial assets depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are classified and measured based on the following categories:

- amortized cost
- fair value through other comprehensive income ("FVOCI")
- fair value through profit or loss ("FVTPL")

The following summarizes the Trust's classification and measurement of financial assets and liabilities:

	Classification under IAS 39	Classification under IFRS 9
Financial assets		
Mortgages and loans receivable	Loans and receivables	Amortized cost
Amounts receivable and deposits	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
Financial liabilities		
Accounts and other payables	Other liabilities	Amortized cost
Secured debt	Other liabilities	Amortized cost
Revolving operating facility	Other liabilities	Amortized cost
Unsecured debentures	Other liabilities	Amortized cost
Convertible debentures	Other liabilities	Amortized cost
Units classified as liabilities	FVTPL	FVTPL
Conversion feature of convertible debentures	FVTPL	FVTPL
Earnout options	FVTPL	FVTPL
Interest rate swap agreements	FVTPL	FVTPL

Measurement

i) Modifications of loans and debt

Amendments to mortgages and loans receivable and debt are assessed as either modifications or extinguishments based on the terms of the revised agreements. An amendment is treated as an extinguishment if the present value of cash flows under the terms of the modified loan or debt instrument is at least 10% different from the carrying amount of the original loan or debt. When an extinguishment is determined, the loan or debt is derecognized and the fair value of the loan or debt under the amended terms is recognized, with the difference recorded as a profit or loss. The new loan or debt is carried at amortized cost using the effective interest rate inherent in the new loan or debt. When a modification is determined, the carrying amount of the loan or debt continues to be recognized at amortized cost using the original effective interest rate, with a corresponding adjustment recorded as a profit or loss.

ii) Impairment of financial assets

From January 1, 2018, the Trust assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Trust applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Trust has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

All of the Trust's loans receivable and mortgages receivable at amortized cost are considered to have low credit risk, and the loss allowance recognized during the period was therefore limited to 12 months expected losses. These financial assets are considered by management to be "low credit risk" when these financial assets have a low risk of default and the borrower has a strong capacity to meet its contractual cash flow obligations in the near term.

This assessment illustrated that there was no material impact to financial assets in connection with the change from the incurred loss model to the ECL.

b) IFRS 15, Revenue from contracts with customers

The Trust recognizes non-lease component revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Trust expects to be entitled in exchange for those goods or services – such revenues were previously recorded as "rentals from investment properties" and are now recorded as "rentals from investment properties and other", on the statement of income and comprehensive income. It applies to all contracts with customers, excluding leases, financial instruments and insurance contracts. The Trust has adopted IFRS 15 effective January 1, 2018, retrospectively. The implementation of these amendments was immaterial.

The following summarizes the Trust's non-lease revenue from contracts with customers currently recorded in "rentals from investment properties and other" in the statement of income and comprehensive income:

Category	Nature	Description	Measurement
Rental revenue (previously recorded as rentals from investment properties)	Property operating cost recoveries	The recovery of costs relates to the provision of the following services provided by the lessor: common area maintenance recoveries, chargeback recoveries and administrative recoveries, excluding property tax and insurance recoveries.	Recoveries from tenants are recognized as revenue as services are provided.
Non-rental revenue (previously recorded as service and other revenues)	Service revenue	The Trust provides development, leasing, and property management services to co-owners and partners (including related parties and third parties).	These fees are recognized as the service or activity is performed. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are entitled to be recovered. Where a contract has multiple deliverables, the Trust identifies the different performance obligations of the contract and recognizes the revenue allocated to each obligation as the obligation is met.

c) IAS 40, "Investment Property"

During December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing requirements. The amendment requires that an asset be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual reporting periods beginning on or after January 1, 2018, with earlier adoption permitted. The implementation of this amendment did not have any impact on the Trust.

Future Changes in Accounting Policies

IFRS 16, "Leases"

IFRS 16, "Leases" is a new standard that sets out the principles for the recognition, measurement and disclosure of leases. This new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessors, IFRS 16 carries forward the lessor accounting requirements in IAS 17 "Leases", with enhanced disclosure requirements that will provide information to the users of financial statements about a lessor's risk exposure, particularly to residual value risk. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, although earlier application is permitted for entities that apply IFRS 15. This standard supersedes IAS 17, IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases – Incentives", and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The Trust intends to adopt the new standard on the required effective date of January 1, 2019 without restatement of prior period comparatives.

Risks and Uncertainties

In addition to the risks discussed below, further risks are discussed in the Trust's annual information form for the year ended December 31, 2017 under the heading "Risk Factors".

Real Property Ownership Risk

All real property investments are subject to elements of risk. Such investments are affected by general economic conditions, local real estate markets, supply and demand for leased premises, competition from other available premises and various other factors.

Real estate has a high fixed cost associated with ownership, and income lost due to declining rental rates or increased vacancies cannot easily be minimized through cost reduction. Through well-located, well-designed and professionally managed properties, management seeks to reduce this risk. Management believes prime locations will attract high-quality retailers with excellent covenants and will enable the Trust to maintain economic rents and high occupancy. By maintaining the property at the highest standard through professional management practices, management seeks to increase tenant loyalty.

The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants and on the vacancy rates of the Trust's portfolio of income producing properties. On the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to the Trust than the existing lease. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting the Trust's investment may be incurred. Furthermore, at any time, a tenant of any of the Trust's properties may seek the protection of bankruptcy, insolvency or similar laws that could result in the rejection and termination of such tenant's lease and, thereby, cause a reduction in the cash flow available to the Trust. The ability to rent unleased space in the properties in which the Trust has an interest will be affected by many factors. Costs may be incurred in making improvements or repairs to property. The failure to rent vacant space on a timely basis or at all would likely have an adverse effect on the Trust's financial condition.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether the property is producing any income. If the Trust is unable to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale.

Real property investments tend to be relatively illiquid with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. If the Trust were to be required to liquidate its real property investments, the proceeds to the Trust might be significantly less than the aggregate carrying value of its properties.

The Trust will be subject to the risks associated with debt financing on its properties and it may not be able to refinance its properties on terms that are as favourable as the terms of existing indebtedness. In order to minimize this risk, the Trust attempts to appropriately structure the timing of the renewal of significant tenant leases on the properties in relation to the time at which mortgage indebtedness on such properties becomes due for refinancing.

Significant deterioration of the retail shopping centre market in general, or the financial health of Walmart and other key tenants in particular, could have an adverse effect on the Trust's business, financial condition or results of operations. Also, the emergence of e-commerce as a platform for retail growth has caused many retailers to change their approach to attracting and retaining customers. To the extent that some retailers are unsuccessful in attracting and retaining customers because of the impact of e-commerce on their respective businesses, the Trust may experience additional vacancy and its resulting adverse effects on financial condition and results of operations including occupancy rates, base rental income, tax and operating cost recoveries, leasing and other similar costs.

Development and Construction Risk

Development and construction risk arises from the possibility that completed developed space will not be leased or that costs of development and construction will exceed original estimates, resulting in an uneconomic return from the leasing of such developments. The Trust mitigates this risk by limiting construction of any development until sufficient lease-up has occurred and by entering into fixed price contracts for a large proportion of both development and construction costs.

The Trust also expects to be increasingly involved in mixed-use development projects that include residential condominiums and townhouses, rental apartments, seniors housing and self storage. Purchaser/tenant demand for these uses can be cyclical and is affected by changes in general market and economic conditions, such as consumer confidence, employment levels, availability of financing for home buyers, interest rates, demographic trends, and housing and similar commercial demand. Furthermore, the market value of undeveloped land, buildable lots and housing inventories held by the Trust can fluctuate significantly as a result of changing economic and real estate market conditions. An oversupply of alternative housing, such as new homes, resale homes (including homes held for sale by investors and speculators), foreclosed home and rental properties and apartments, accommodation of seniors housing and self-storage space may (i) reduce the Trust's ability to sell new condominiums and townhouses, depress prices and reduce margins from the sale of condominiums and townhouses, and (ii) have an adverse effect on the Trust's ability to lease rental apartments, seniors housing and self storage units and on the rents charged.

The Trust's construction commitments are subject to those risks usually attributable to construction projects, which include: (i) construction or other unforeseen delays including municipal approvals; (ii) cost overruns; and (iii) the failure of tenants to occupy and pay rent in accordance with existing lease arrangements, some of which are conditional.

Joint Venture Risk

The Trust is a co-owner in several properties including joint ventures with Penguin to develop the VMC, CentreCourt and Penguin to develop Transit City at the VMC, Jadco to develop a residential rental unit project in Laval, Quebec, Fieldgate to develop a 16 acre parcel of land in Vaughan and build approximately 230 freehold townhomes, and various third parties to own and further develop retail and residential properties, which are classified as equity accounted investments. As part of its growth strategy, the Trust expects to increase its participation in additional joint ventures in the future, which may include joint ventures in self storage facilities, retirement homes and other initiatives. The Trust is subject to the risks associated with the conduct of joint ventures. Such risks include disagreements with its partners to develop and operate the properties efficiently and the inability of the partners to meet their obligations to the joint ventures or third parties. Any failure of the Trust or its partners to meet its obligations or any disputes with respect to strategic decision-making or the parties' respective rights and obligations, could have a material adverse effect on the joint ventures, which may have a material adverse effect on the Trust. The Trust attempts to mitigate these risks by continuing to maintain strong relationships with its partners.

Interest and Financing Risk

In the low interest rate environment that the Canadian economy has experienced in recent years, leverage has enabled the Trust to enhance its return to Unitholders. A reversal of this trend, however, could significantly affect the business's ability to meet its financial obligations. In order to minimize this risk, the Trust's policy is to negotiate fixed rate secured debt with staggered maturities on the portfolio and seek to match average lease maturity to average debt maturity. Derivative financial instruments may be utilized by the Trust in the management of its interest rate exposure. The Trust's policy is not to utilize derivative financial instruments for trading or speculative purposes. In addition, the Declaration of Trust restricts total indebtedness permitted on the portfolio.

Interest rate changes will also affect the Trust's development portfolio. The Trust has entered into development agreements that obligate the Trust to acquire up to approximately 0.5 million square feet of additional income properties at a cost determined by capitalizing the rental income at predetermined rates. Subject to the ability of the Trust to obtain financing on acceptable terms, the Trust will finance these acquisitions by issuing additional debt and equity. Changes in interest rates will have an impact on the return from these acquisitions should the rate exceed the capitalization rate used and could result in a purchase being non-accretive. This risk is mitigated as management has certain rights of approval over the developments and acquisitions.

Operating facilities and secured debt exist that are priced at a risk premium over short-term rates. Changes in short-term interest rates will have an impact on the cost of financing. In addition, there is a risk the lenders will not refinance on maturity. By restricting the amount of variable interest rate debt and short-term debt, the Trust has minimized the impact on financial performance.

The Canadian capital markets are competitively priced. In addition, the secured debt market remains strong with lenders seeking quality products. Due to the quality and location of the Trust's real estate, management expects to meet its financial obligations.

Credit Risk

Credit risk arises from cash and cash equivalents, as well as credit exposures with respect to tenant receivables and mortgages and loans receivable. Tenants may experience financial difficulty and become unable to fulfil their lease commitments. The Trust mitigates this risk of credit loss by reviewing tenants' covenants, by ensuring its tenant mix is diversified and by limiting its exposure to any one tenant, except Walmart Canada because of its creditworthiness. Further risks arise in the event that borrowers may default on the repayment of amounts owing to the Trust. The Trust endeavours to ensure adequate security has been provided in support of mortgages and loans receivable. The failure of the Trust's tenants or borrowers to pay the Trust amounts owing on a timely basis or at all would have an adverse effect on the Trust's financial condition. The Trust deposits its surplus cash and cash equivalents in high-credit-quality financial institutions only in order to minimize any credit risk associated with cash and cash equivalents.

Environmental Risk

As an owner of real property, the Trust is subject to various federal, provincial, territorial and municipal laws relating to environmental matters. Such laws provide that the Trust could be liable for the costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect the Trust's ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims against the Trust. The Trust is not aware of any material non-compliance with environmental laws at any of its properties. The Trust is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties or any pending or threatened claims relating to environmental conditions at its properties. The Trust has policies and procedures to review and monitor environmental exposure, including obtaining a Phase I environmental assessment, as appropriate, prior to completion of an acquisition of land, a shopping centre, or other real estate assets. Further investigation is conducted if the Phase I assessments indicate a problem. In addition, the standard lease requires compliance with environmental laws and regulations and restricts tenants from carrying on environmentally hazardous activities or having environmentally hazardous substances on site. The Trust has obtained environmental insurance on certain assets to further manage risk.

The Trust is making the necessary capital and operating expenditures to ensure compliance with environmental laws and regulations. Although there can be no assurances, the Trust does not believe that costs relating to environmental matters will have a material adverse effect on the Trust's business, financial condition or results of operations. However, environmental laws and regulations can change, and the Trust may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have an adverse effect on the Trust's business, financial condition or results of operations.

Capital Requirements

The Trust accesses the capital markets from time to time through the issuance of debt, equity or equity related securities. If the Trust were unable to raise additional funds or renew existing maturing debt on favourable terms, then acquisition or development activities could be curtailed, asset sales accelerated and property-specific financing, purchase and development agreements renegotiated and monthly cash distributions reduced or suspended. However, the Trust anticipates accessing the capital markets on favourable terms due to its high occupancy levels and low lease maturities, combined with strong national tenants in prime retail locations.

Tax Related Risks

There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner that adversely affects the Unitholders.

If the Trust fails to qualify for the REIT Exception, the Trust will be subject to the taxation regime under the SIFT Rules. The Trust qualifies for the REIT Exception as at June 30, 2018. In the event that the REIT Exception did not apply to the Trust, the corresponding application of the SIFT Rules to the Trust could affect the level of cash distributions that would otherwise be made by the Trust and the taxation of such distributions to Unitholders. There can be no assurance that Canadian federal income tax laws with respect to the REIT Exception will not be changed, or that administrative and assessment practices of the Canada Revenue Agency will not develop in a manner that adversely affects the Trust or its Unitholders. Accordingly, no assurance can be given that the Trust will continue to qualify for the REIT Exception.

The extent to which distributions will be tax deferred in the future will depend in part on the extent to which the Trust is able to deduct capital cost allowance or other expenses relating to properties directly or indirectly held by the Trust.

Cyber Security Risk

Cyber security has become an increasingly problematic issue for issuers and businesses in Canada and around the world, including for the Trust and the real estate industry. Cyber attacks against large organizations are increasing in sophistication and are often focused on financial fraud, compromising sensitive data for inappropriate use or disrupting business operations. Such an attack could compromise the Trust's confidential information as well as that of the Trust's employees, tenants and third parties with whom the Trust interacts and may result in negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny, litigation and reputational damage. As a result, the Trust continually monitors for malicious threats and adapts accordingly in an effort to ensure it maintains high privacy and security standards. The Trust invests in cyber defence technologies to support its business model and to protect its systems, employees and tenants by employing industry better practices. The Trust's investments continue to manage the risks it faces today and position the Trust for the evolving threat landscape.

Significant Unitholder Risk

According to reports filed under applicable Canadian securities legislation, as at June 30, 2018, Mitchell Goldhar ("Mr. Goldhar") of Vaughan, Ontario beneficially owns or controls a number of the outstanding Units which, together with the securities he beneficially owns or controls that are exchangeable at his option for Trust Units for no additional consideration and the associated Special Voting Units, represent an approximate 21.9% voting interest in the Trust. Further, according to the above-mentioned reports, as at June 30, 2018, Mr. Goldhar beneficially owns or controls additional rights to acquire Trust Units which, if exercised or converted, would result in him increasing his beneficial economic and voting interest in the Trust to as much as approximately 26.2%. In addition, pursuant to the Voting Top-Up Right, Mr. Goldhar may be issued additional Special Voting Units to entitle Penguin to cast 25% of the votes attached to Voting Units at a meeting of the holders of Voting Units.

If Mr. Goldhar sells a substantial number of Trust Units in the public market, the market price of the Trust Units could fall. The perception among the public that these sales will occur could also produce such an effect. As a result of his voting interest in the Trust, Mr. Goldhar may be able to exert significant influence over matters that are to be determined by votes of the Unitholders of the Trust. The timing and receipt of any takeover or control premium by Unitholders could depend on the determination of Mr. Goldhar as to when to sell Trust Units. This could delay or prevent a change of control that might be attractive to and provide liquidity for Unitholders, and could limit the price that investors are willing to pay in the future for Trust Units.

From time to time, in the normal course of business, the Trust enters into transactions and agreements for services with Penguin. The Trust relies on the agreements with Penguin for development, advisory, consulting and strategic services. See the "Related Party" section for a discussion of transactions with the Trust's significant Unitholder.

Subsequent Events

On July 4, 2018, further to the notice issued by the Trust on May 25, 2018, the Trust completed the redemption of the 5.50% Convertible Debentures for $36.3 million in cash, which included the aggregate principal amount outstanding and accrued interest.

On August 9, 2018, the Board of Trustees approved an increase of $0.05 per Unit (2.9%) in annual distributions to $1.80 per Unit effective October 2018.

Glossary of Terms

Term	Definition
Adjusted Cashflow From Operations ("ACFO")	ACFO is a non-GAAP financial measure and may not be comparable to similar measures used by other real estate entities. The Trust calculates its ACFO in accordance with the Real Property Association of Canada's ("REALpac") White Paper on Adjusted Cashflow from Operations for IFRS issued in February 2018. The purpose of the White Paper is to provide reporting issuers and investors with greater guidance on the definitions of ACFO and to help promote more consistent disclosure from reporting issuers. ACFO is intended to be used as a sustainable, economic cash flow metric. The Trust considers ACFO an input to determine the appropriate level of distributions to Unitholders as it adjusts cash flows from operations to better measure sustainable, economic cash flows.
Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization Expense ("Adjusted EBITDA")	Adjusted earnings before interest expense, income taxes, depreciation expense and amortization expense, as defined by the Trust, is a non-GAAP financial measure that comprises net earnings less income taxes, interest expense, amortization expense and depreciation expense, as well as adjustments for gains and losses on disposal of investment properties including transactional gains and losses on the sale of investment properties to a joint venture that are expected to be recurring, and the fair value changes associated with investment properties and financial instruments, and excludes non-recurring one time adjustments such as, but not limited to, yield maintenance on redemption of unsecured debentures and Transactional FFO – gain on sale of land to co-owners. It is a metric that can be used to help determine the Trust's ability to service its debt, finance capital expenditures and provide for distributions to its Unitholders. Additionally, Adjusted EBITDA removes the non-cash impact of the fair value changes and gains and losses on investment property dispositions. Adjusted EBITDA is reconciled with net income, which is the closest IFRS measure (see "Results of Operations").
Annual Run-Rate NOI	Represents a non-GAAP financial measure and is calculated as management's estimate annualized NOI excluding the impact of straight-line rent and other non-recurring items including but not limited to bad debt provisions and termination fees.
Anchors	Anchors are defined as tenants within a property with gross leasable area greater than 30,000 square feet.
CAM	Defined as common area maintenance.
Debt to Adjusted EBITDA	Defined as debt divided by Adjusted EBITDA. The ratio of total debt to Adjusted EBITDA is included and calculated each period to provide information on the level of the Trust's debt versus the Trust's ability to service that debt. Adjusted EBITDA is used as part of this calculation because the fair value changes and gains and losses on investment property dispositions do not have an impact on cash flow, which is a critical part of this measure (see "Financial Covenants" section).
Debt to Aggregate Assets	Calculated as debt divided by aggregate assets including equity accounted investments ("Aggregate Assets"). The ratio is used by the Trust to manage an acceptable level of leverage and is not considered a measure in accordance with IFRS.
Debt to Gross Book Value	Calculated as debt divided by Aggregate Assets plus accumulated amortization less cumulative unrealized fair value gain or loss with respect to investment property. The ratio is used by the Trust to manage an acceptable level of leverage and is not considered a measure in accordance with IFRS.

Glossary of Terms (continued)

Term	Definition
Earnings Before Interest Expense, Income Taxes, Depreciation Expense and Amortization Expense ("EBITDA")	Earnings before interest expense, income taxes, depreciation expense and amortization expense is a non-GAAP measure that can be used to help determine the Trust's ability to service its debt, finance capital expenditures and provide for distributions to its Unitholders. EBITDA is reconciled with net income, which is the closest IFRS measure (see "Financial Covenants").
Exchangeable Securities	Exchangeable Securities are securities issued by the limited partnership subsidiaries of the Trust that are convertible or exchangeable directly for Units without the payment of additional consideration, including Class B Smart Limited Partnership units ("Class B Smart LP Units") and Units classified as liabilities. Such Exchangeable Securities are economically equivalent to Units as they are entitled to distributions equal to those on the Units and are exchangeable for Units on a one-for-one basis. The issue of a Class B Smart LP Unit and Units classified as liabilities is accompanied by a Special Voting Unit that entitles the holder to vote at meetings of Unitholders.
Fixed Charge Coverage Ratio	Defined as Adjusted EBITDA divided by interest expense on debt and distributions on LP Class D Units and all regularly scheduled principal payments made with respect to indebtedness during the period. The ratio is used by the Trust to manage an acceptable level of leverage and is not considered a measure in accordance with IFRS.
Forecasted Annualized NOI	Represents a forward-looking, non-GAAP measure, and is calculated based on management's estimates of annualized NOI.
Funds From Operations ("FFO")	FFO is a non-GAAP financial measure of operating performance widely used by the Canadian real estate industry based on the definition set forth by REALpac, which published a White Paper describing the intended use of FFO last revised in February 2018. It is the Trust's view that IFRS net income does not necessarily provide a complete measure of the Trust's economic earnings. This is primarily because IFRS net income includes items such as fair value changes of investment property that are subject to market conditions and capitalization rate fluctuations and gains and losses on the disposal of investment properties, including associated transaction costs and taxes, which are not representative of a company's economic earnings. For these reasons, the Trust has adopted REALpac's definition of FFO, which was created by the real estate industry as a supplemental measure of economic earnings.
Interest Coverage Ratio	Defined as Adjusted EBITDA over interest expense, where interest expense excludes the distributions on deferred units and LP Class D Units classified as liabilities and adjustments relating to the early redemption of unsecured debentures. The ratio is used by the Trust to manage an acceptable level of interest expense relative to available earnings and is not considered a measure in accordance with IFRS.
Net Operating Income ("NOI")	NOI (a non-GAAP financial measure) from continuing operations is defined as rentals from investment properties less property-specific costs net of service and other revenues. In the consolidated statements of income and comprehensive income, NOI is presented as "net rental income and other".
Payout Ratio to ACFO	Represents a non-GAAP financial measure and is calculated as distributions declared divided by ACFO. It is the proportion of earnings paid out as dividends to Unitholders. Management determines the Trust's Unit cash distribution rate by, among other considerations, its assessment of cash flow as determined using certain non-GAAP measures. As such, management believes the cash distributions are not an economic return of capital, but a distribution of sustainable cash flow from operations.

Glossary of Terms (continued)

Term	Definition
Penguin	Penguin refers to entities controlled by Mitchell Goldhar, a Trustee, executive chairman and significant Unitholder of the Trust.
Recovery Ratio	Defined as property operating cost recoveries divided by recoverable costs.
Same Properties NOI	To facilitate a more meaningful comparison of NOI between periods, Same properties NOI (a non-GAAP financial measure) amounts are calculated as the NOI attributable to those income properties that were owned by the Trust during the current period and the same period in the prior year. Any NOI from properties either acquired, Earnouts, developed or disposed of, outside of these periods, are excluded from Same Properties NOI.
Shadow Anchor	A shadow anchor is a store or business that satisfies the criteria for an anchor tenant, but which may be located at an adjoining property or on a portion.
SIFT	The Tax Act imposes a special taxation regime for specific investment flow-through trusts ("SIFT") (referred to as the "SIFT Rules") applicable to certain publicly traded income trusts. A SIFT includes a trust resident in Canada with publicly traded units that holds one or more "non-portfolio properties". "Non-portfolio properties" include certain investments in real properties situated in Canada and certain investments in corporations and trusts resident in Canada and in partnerships with specified connections in Canada. Under the SIFT Rules, a SIFT is subject to tax in respect of certain distributions that are attributable to the SIFT's "non-portfolio earnings" (as defined in the Tax Act; generally, income (other than certain dividends) from, or capital gains realized on, "non-portfolio properties", which does not include certain investments in non-Canadian entities), at a rate substantially equivalent to the combined federal and provincial corporate tax rate on certain types of income. The SIFT Rules are not applicable to a SIFT that meets certain specified criteria relating to the nature of its revenues and investments in order to qualify as a real estate investment trust for purposes of the Tax Act.
The Arrangement	On October 4, 2017, the Trust announced the closing of a transaction to acquire a portfolio of 12 retail properties from OneREIT through the acquisition of OneREIT's ONR Limited Partnership as part of a plan of arrangement with OneREIT and others. The Arrangement added 2.2 million square feet of gross leasable area to the Trust's existing portfolio, with 10 of the 12 properties located in Ontario. Further, the portfolio includes 11 food stores, inclusive of 6 Walmart supercentres and a strong mix of national tenants.
The Transaction	On May 28, 2015, the Trust completed the previously announced acquisition of the SmartCentres platform from Mitchell Goldhar as part of a $1,171.2 million transaction that transformed the Trust into a fully integrated real estate developer and operator by adding the SmartCentres platform of development, leasing, planning, engineering, architecture, and construction capabilities. The Transaction also included the acquisition of interests in a portfolio of 22 properties located principally in Ontario and Quebec, including 20 open-format Walmart Supercentre anchored or shadow-anchored shopping centres owned by Mitchell Goldhar and joint venture partners, including Wal-Mart Canada Realty Inc., for $1,116.0 million.
Transactional FFO	Transactional FFO is a non-GAAP financial measure that represents the net financial/economic gain (loss) resulting from a partial sale of an investment property to a third party. Transactional FFO is calculated as the difference between the actual selling price and actual costs incurred for the subject investment property. Because the Trust intends to establish numerous joint ventures with partners in which it plans to co-develop mixed-use projects, the Trust expects such gains (losses) to be recurring and therefore represent part of the Trust's overall distributable earnings.

Glossary of Terms (continued)

Term	Definition
Voting Top-Up Right	Until July 1, 2020, Penguin is entitled to have a minimum of 25.0% of the votes eligible to be cast at any meeting of Unitholders provided certain conditions are met. Pursuant to the Voting Top-Up Right, the Trust will issue additional special voting Units of the Trust to Penguin to increase its voting rights to 25.0% in advance of a meeting of Unitholders. The total number of Special Voting Units is adjusted for each meeting of the Unitholders based on changes in Penguin's ownership interest.

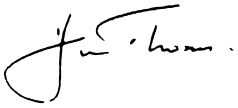
SMARTCENTRES REAL ESTATE INVESTMENT TRUST
UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands of Canadian dollars)

As at,	Note	**June 30, 2018**	December 31, 2017
Assets			
Non-current assets			
Investment properties	4	**8,814,584**	8,733,309
Mortgages, loans and notes receivable	5	**129,082**	135,990
Equity accounted investments	6	**143,563**	125,362
Other assets	7	**83,516**	82,615
Intangible assets	8	**49,798**	50,464
		9,220,543	9,127,740
Current assets			
Residential development inventory	9	**20,939**	20,267
Current portion of mortgages, loans and notes receivable	5	**148,174**	26,196
Amounts receivable, prepaid expenses and deposits, deferred financing costs and other	10	**99,565**	43,329
Cash and cash equivalents	20	**24,660**	162,700
		293,338	252,492
Total assets		**9,513,881**	9,380,232
Liabilities			
Non-current liabilities			
Debt	11	**3,622,809**	3,815,827
Other payables	12	**29,530**	28,753
Other financial liabilities	13	**92,004**	88,603
		3,744,343	3,933,183
Current liabilities			
Current portion of debt	11	**628,687**	415,133
Accounts payable and current portion of other payables	12	**219,388**	204,459
		848,075	619,592
Total liabilities		**4,592,418**	4,552,775
Equity			
Trust Unit equity		**4,073,551**	3,994,259
Non-controlling interests		**847,912**	833,198
		4,921,463	4,827,457
Total liabilities and equity		**9,513,881**	9,380,232

Commitments and contingencies (Note 27)

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

Approved by the Board of Trustees.



Huw Thomas
Trustee

Garry Foster
Trustee

SMARTCENTRES REAL ESTATE INVESTMENT TRUST
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(in thousands of Canadian dollars)

		Three Months Ended June 30		Six Months Ended June 30	
	Note	**2018**	2017	**2018**	2017
Net rental income and other					
Rentals from investment properties and other	17	**197,561**	183,641	**395,994**	369,488
Property operating costs and other	18	**(72,906)**	(67,526)	**(150,415)**	(137,095)
Net rental income and other		**124,655**	116,115	**245,579**	232,393
Other income and expenses					
General and administrative expense	19	**(6,348)**	(5,409)	**(11,653)**	(12,682)
Earnings (loss) from equity accounted investments	6	**6,726**	1,299	**8,602**	(375)
Fair value adjustment on revaluation of investment properties	25	**14,599**	40,662	**25,470**	26,971
Gain (loss) on sale of investment properties	4	**317**	(156)	**(140)**	(156)
Interest expense	11(e)	**(35,332)**	(32,007)	**(70,757)**	(67,031)
Interest income		**2,732**	2,133	**5,247**	4,247
Fair value adjustment on financial instruments	25	**(4,209)**	1,433	**1,028**	702
Acquisition related gain, net		**608**	—	**838**	—
Net income and comprehensive income		**103,748**	124,070	**204,214**	184,069
Net income and comprehensive income attributable to:					
Trust Units		**86,111**	103,767	**169,460**	153,852
Non-controlling interests		**17,637**	20,303	**34,754**	30,217
		103,748	124,070	**204,214**	184,069

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

SMARTCENTRES REAL ESTATE INVESTMENT TRUST
UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars)

		Three Months Ended June 30		Six Months Ended June 30	
	Note	**2018**	2017	**2018**	2017
Cash provided by (used in)					
Operating activities					
Net income and comprehensive income for the period		**103,748**	124,070	**204,214**	184,069
Add (deduct): Other items					
Fair value adjustments	25	**(10,390)**	(42,095)	**(26,498)**	(27,673)
(Gain) loss on sale of investment properties	4	**(317)**	156	**140**	156
Loss (earnings) from equity accounted investments, net of distributions	6	**9,617**	(1,299)	**7,989**	420
Acquisition related gain		**(608)**	—	**(838)**	—
Interest expense	11(e)	**35,332**	32,007	**70,757**	67,031
Cash interest paid associated with operating activities	11(e)	**(28,384)**	(25,110)	**(67,760)**	(62,841)
Interest income		**(2,732)**	(2,133)	**(5,247)**	(4,247)
Interest received		**1,052**	743	**1,883**	1,481
Adjustments/amortization relating to other assets		**1,425**	1,640	**3,002**	3,282
Amortization of intangible assets	8	**333**	333	**666**	666
Finance lease obligation interest		**132**	128	**263**	256
Deferred unit compensation expense, net of redemptions	13(c)	**1,143**	269	**1,376**	558
Long Term Incentive Plan accrual adjustment	12(b)	**164**	241	**(408)**	896
Payment of vested Long Term Incentive Plan performance units	12(b)	**(2,013)**	—	**(2,013)**	(1,765)
Expenditures on direct leasing costs and tenant incentives		**(1,756)**	(1,190)	**(4,732)**	(2,539)
Changes in other non-cash operating items	20	**(5,686)**	(13,475)	**(37,671)**	(29,127)
Cash flows provided by operating activities		**101,060**	74,285	**145,123**	130,623
Financing activities					
Proceeds from issuance of unsecured debentures – net of issuance costs	11(b)	**—**	—	**—**	149,062
Repayment of unsecured debentures including yield maintenance on redemption	11(b)	**—**	(152,721)	**—**	(152,721)
Proceeds from revolving operating facility	11(d)	**107,000**	199,000	**191,000**	254,000
Repayments of revolving operating facility	11(d)	**—**	(80,000)	**—**	(105,000)
Proceeds from issuance of secured debt		**13,620**	103,840	**13,620**	103,840
Proceeds from issuance of other unsecured debt	11(b)	**1,906**	—	**4,120**	—
Repayments of secured debt and other debt		**(105,643)**	(195,827)	**(187,714)**	(237,854)
Distributions paid on Trust Units		**(44,877)**	(43,643)	**(90,030)**	(86,903)
Distributions paid on non-controlling interests and Units classified as liabilities		**(11,861)**	(10,863)	**(23,722)**	(22,004)
Financing costs		**(66)**	(2,675)	**(329)**	(3,179)
Cash flows used in financing activities		**(39,921)**	(182,889)	**(93,055)**	(100,759)
Investing activities					
Acquisitions and Earnouts of investment properties	3	**(15,466)**	—	**(17,064)**	(2,780)
Additions to investment properties		**(29,723)**	(21,005)	**(46,460)**	(34,841)
Additions to investment in associates	6	**(5,604)**	(2,466)	**(15,347)**	(2,916)
Additions to equipment	7	**(18)**	(114)	**(38)**	(128)
Advances of mortgages and loans receivable	5	**—**	(9,803)	**(111,916)**	(9,960)
Net proceeds from sale of investment properties	4	**717**	19,454	**717**	19,454
Cash flows used in investing activities		**(50,094)**	(13,934)	**(190,108)**	(31,171)
Increase (decrease) in cash and cash equivalents during the period		**11,045**	(122,538)	**(138,040)**	(1,307)
Cash and cash equivalents – beginning of period		**13,615**	144,324	**162,700**	23,093
Cash and cash equivalents – end of period		**24,660**	21,786	**24,660**	21,786
Supplemental cash flow information	20				

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

SMARTCENTRES REAL ESTATE INVESTMENT TRUST

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

For the six months ended June 30, 2018 and June 30, 2017
(in thousands of Canadian dollars)

		Attributable to Unitholders			Attributable to LP Units Classified as Non-Controlling Interests				
	Note	Trust Units (Note 15)	Retained Earnings	Unit Equity	LP Units (Note 15)	Retained Earnings	LP Unit Equity	Other Non-Controlling Interest (Note 21)	Total Equity
Equity – January 1, 2018		**2,724,472**	**1,269,787**	**3,994,259**	**629,492**	**200,468**	**829,960**	**3,238**	**4,827,457**
Issuance of Units	15	**27,144**	**—**	**27,144**	**1,865**	**—**	**1,865**	**—**	**29,009**
Net income and comprehensive income		**—**	**169,460**	**169,460**	**—**	**34,564**	**34,564**	**190**	**204,214**
Distributions	16	**—**	**(117,312)**	**(117,312)**	**—**	**(21,905)**	**(21,905)**	**—**	**(139,217)**
Equity – June 30, 2018		**2,751,616**	**1,321,935**	**4,073,551**	**631,357**	**213,127**	**844,484**	**3,428**	**4,921,463**
Equity – January 1, 2017		2,648,400	1,199,175	3,847,575	628,660	184,582	813,242	3,127	4,663,944
Issuance of Units		24,800	—	24,800	—	—	—	—	24,800
Net income and comprehensive income		—	153,852	153,852	—	30,122	30,122	95	184,069
Distributions	16	—	(111,735)	(111,735)	—	(21,243)	(21,243)	(283)	(133,261)
Equity – June 30, 2017		2,673,200	1,241,292	3,914,492	628,660	193,461	822,121	2,939	4,739,552

The accompanying notes are an integral part of the unaudited interim condensed consolidated financial statements.

SMARTCENTRES REAL ESTATE INVESTMENT TRUST
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended June 30, 2018 and June 30, 2017
(in thousands of Canadian dollars, except Unit, square foot and per Unit amounts)

1. Organization
SmartCentres Real Estate Investment Trust and its subsidiaries, previously known as Smart Real Estate Investment Trust ("the Trust") , is an unincorporated open-ended mutual fund trust governed by the laws of the Province of Alberta created under a declaration of trust, dated December 4, 2001, subsequently amended and last restated on October 20, 2017 ("the Declaration of Trust"). The Trust develops, leases, constructs, owns and manages shopping centres, office buildings, high-rise and low-rise residences and a self storage rental facility in Canada, both directly and through its subsidiaries, Smart Limited Partnership, Smart Limited Partnership II, Smart Limited Partnership III, Smart Limited Partnership IV, Smart Oshawa South Limited Partnership, Smart Oshawa Taunton Limited Partnership, Smart Boxgrove Limited Partnership, and includes the following additional subsidiaries that arose as part of a plan of arrangement with OneREIT and others ("the Arrangement") in October 2017: ONR Limited Partnership and ONR Limited Partnership I. The exchangeable securities of these subsidiaries, which are presented as non-controlling interests or as a liability as appropriate, are economically equivalent to Trust Units as a result of voting, exchange and distribution rights as more fully described in Note 15(a). The address of the Trust's registered office is 700 Applewood Crescent, Vaughan, Ontario, L4K 5X3. The Units of the Trust are listed on the Toronto Stock Exchange ("TSX") under the ticker symbol "SRU.UN".

These unaudited interim condensed consolidated financial statements have been approved for issue by the Board of Trustees on August 9, 2018. The Board of Trustees has the power to amend the unaudited interim condensed consolidated financial statements after issue.

At June 30, 2018, the Penguin Group of Companies ("Penguin"), owned by Mitchell Goldhar, owned approximately 21.9% (December 31, 2017 – 22.0%) of the issued and outstanding Units of the Trust and Limited Partnerships (see also Note 21, "Related party transactions").

2. Summary of significant accounting policies
2.1 Basis of presentation
These unaudited interim condensed consolidated financial statements of the Trust have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of unaudited interim condensed consolidated financial statements, International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). The unaudited interim condensed consolidated financial statements contain disclosures that are supplemental to the Trust's annual consolidated financial statements. They do not include all the information and disclosures required by IFRS applicable for annual consolidated financial statements and, therefore, they should be read in conjunction with the annual audited consolidated financial statements.

2.2 Critical accounting estimates and judgments
The preparation of the unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the unaudited interim condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise judgment in applying the Trust's accounting policies. The critical accounting estimates, assumptions, and judgments applied during the quarter are consistent with those set out in Note 2 to the Trust's audited consolidated financial statements for the year ended December 31, 2017 (except where discussed below in section 2.3 "Accounting policies"). Estimates and judgments are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact and are reasonable.

2.3 Accounting policies

The accounting policies followed in these unaudited interim condensed consolidated financial statements are consistent with the policies and method of their application used in the preparation of the audited consolidated financial statements as at and for the year ended December 31, 2017, except as noted below.

On January 1, 2018, the Trust implemented IFRS 9, "Financial Instruments", IFRS 15, "Revenue from contracts with customers" and IAS 40, "Investment Property". The impact on implementation of IFRS 9, IFRS 15 and IAS 40 is described below.

a) IFRS 9, Financial Instruments

IFRS 9 addresses the classification, measurement and derecognition of financial assets and liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard. Following the changes approved by the IASB in July 2014, the new standard also introduces expanded disclosure requirements and changes in presentation. The new impairment model is an expected loss model, which may result in earlier recognition of credit losses. The impact of adopting this standard was immaterial.

Initial Recognition

The Trust recognizes a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Such financial assets or financial liabilities are initially recognized at fair value plus or minus directly attributable transaction costs when a financial asset or financial liability is not recognized at fair value through profit or loss. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Subsequent measurement depends on the initial classification of the financial asset or financial liability.

Classification

The classification of financial assets depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are classified and measured based on the following categories:

- amortized cost
- fair value through other comprehensive income ("FVOCI")
- fair value through profit or loss ("FVTPL")

The following summarizes the Trust's classification and measurement of financial assets and liabilities:

	Classification under IAS 39	Classification under IFRS 9
Financial assets		
Mortgages and loans receivable	Loans and receivables	Amortized cost
Amounts receivable and deposits	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
Financial liabilities		
Accounts and other payables	Other liabilities	Amortized cost
Secured debt	Other liabilities	Amortized cost
Revolving operating facility	Other liabilities	Amortized cost
Unsecured debentures	Other liabilities	Amortized cost
Convertible debentures	Other liabilities	Amortized cost
Units classified as liabilities	FVTPL	FVTPL
Conversion feature of convertible debentures	FVTPL	FVTPL
Earnout options	FVTPL	FVTPL
Interest rate swap agreements	FVTPL	FVTPL

Measurement

i) Modifications of loans and debt

Amendments to mortgages and loans receivable and debt are assessed as either modifications or extinguishments based on the terms of the revised agreements. An amendment is treated as an extinguishment if the present value of cash flows under the terms of the modified loan or debt instrument is at least 10% different from the carrying amount of the original loan or debt. When an extinguishment is determined, the loan or debt is derecognized and the fair value of the loan or debt under the amended terms is recognized, with the difference recorded as a profit or loss. The new loan or debt is carried at amortized cost using the effective interest rate inherent in the new loan or debt. When a modification is determined, the carrying amount of the loan or debt continues to be recognized at amortized cost using the original effective interest rate, with a corresponding adjustment recorded as a profit or loss.

ii) Impairment of financial assets

From January 1, 2018, the Trust assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Trust applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Trust has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

All of the Trust's loans receivable and mortgages receivable at amortized cost are considered to have low credit risk, and the loss allowance recognized during the period was therefore limited to 12 months expected losses. These financial assets are considered by management to be "low credit risk" when these financial assets have a low risk of default and the borrower has a strong capacity to meet its contractual cash flow obligations in the near term.

This assessment illustrated that there was no material impact to financial assets in connection with the change from the incurred loss model to the ECL.

b) IFRS 15, Revenue from Contracts with Customers

The Trust recognizes non-lease component revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Trust expects to be entitled in exchange for those goods or services – such revenues were previously recorded as "rentals from investment properties" and are now recorded as "rentals from investment properties and other", on the statement of income and comprehensive income. It applies to all contracts with customers, excluding leases, financial instruments and insurance contracts. The Trust has adopted IFRS 15 effective January 1, 2018, retrospectively. The implementation of these amendments was immaterial.

The following summarizes the Trust's non-lease revenue from contracts with customers currently recorded in "rentals from investment properties and other" in the statement of income and comprehensive income:

Category	Nature	Description	Measurement
Rental revenue (previously recorded as rentals from investment properties)	Property operating cost recoveries	The recovery of costs relates to the provision of the following services provided by the lessor: common area maintenance recoveries, chargeback recoveries and administrative recoveries, excluding property tax and insurance recoveries.	Recoveries from tenants are recognized as revenue as services are provided.
Non-rental revenue (previously recorded as service and other revenues)	Service revenue	The Trust provides development, leasing, and property management services to co-owners and partners (including related parties and third parties).	These fees are recognized as the service or activity is performed. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are entitled to be recovered. Where a contract has multiple deliverables, the Trust identifies the different performance obligations of the contract and recognizes the revenue allocated to each obligation as the obligation is met.

c) IAS 40, "Investment Property"

During December 2016, the IASB issued an amendment to IAS 40 clarifying certain existing requirements. The amendment requires that an asset be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual reporting periods beginning on or after January 1, 2018, with earlier adoption permitted. The implementation of this amendment did not have any impact on the Trust.

2.4 Future changes in accounting policies

IFRS 16, "Leases"

IFRS 16, "Leases" is a new standard that sets out the principles for the recognition, measurement and disclosure of leases. This new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessors, IFRS 16 carries forward the lessor accounting requirements in IAS 17 "Leases", with enhanced disclosure requirements that will provide information to the users of financial statements about a lessor's risk exposure, particularly to residual value risk. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, although earlier application is permitted for entities that apply IFRS 15. This standard supersedes IAS 17, IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases – Incentives", and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The Trust intends to adopt the new standard on the required effective date of January 1, 2019 without restatement of prior period comparatives.

3. Acquisitions and Earnouts

Acquisitions and Earnouts completed during the six months ended June 30, 2018

In June 2018, the Trust completed the acquisition of a property in Valleyfield, Quebec, from a third party, totalling 54,193 square feet of leasable area. The total purchase price of this acquisition was $15,663, of which $15,466 was paid in cash, adjusted for costs of acquisition and other working capital amounts.

During the six months ended June 30, 2018, pursuant to development management agreements referred to in Note 4 (see also Note 21, "Related party transactions"), the Trust completed the purchase of Earnouts totalling 7,311 square feet of development space and a parcel of land (Toronto (Leaside)) that was transferred to a joint venture that is recorded in equity accounted investments (see Note 6). The purchase price of the Earnouts completed was $3,606, of which $1,865 was satisfied through the issuance of 63,103 Class B Smart LP Units, and the balance paid in cash, adjusted for other working capital amounts.

The following summarizes the consideration for acquisitions and Earnouts completed during the six months ended June 30, 2018:

	Note	Acquisitions	Earnouts	Total
Cash		**15,466**	**1,598**	**17,064**
LP Units issued	4(e)(i)	**—**	**1,865**	**1,865**
Amounts previously funded and other adjustments		**718**	**143**	**861**
		16,184	**3,606**	**19,790**

The Earnouts in the above table do not include the cost of previously acquired freehold land in the amount of $35.

Earnouts completed during the six months ended June 30, 2017

During the six months ended June 30, 2017, pursuant to development management agreements referred to in Note 4 (see also Note 21, "Related party transactions"), the Trust completed the purchase of Earnouts totalling 9,575 square feet of development space from Penguin for $3,956. The purchase price was paid in cash, adjusted for amounts previously funded and other adjustments.

Consideration for the Earnouts completed during the six months ended June 30, 2017 is summarized as follows:

	Total
Cash	**2,780**
Amounts previously funded and other adjustments	**1,176**
	3,956

The Earnouts in the above table do not include the cost of previously acquired freehold land in the amount of $nil.

4. Investment properties

The following summarizes the activities in investment properties for the six months ended June 30, 2018 and the year ended December 31, 2017:

		June 30, 2018			December 31, 2017		
	Note	**Income Properties**	**Properties Under Development**	**Total**	Income Properties	Properties Under Development	Total
Balance – beginning of period		**8,220,153**	**513,156**	**8,733,309**	7,757,109	485,308	8,242,417
Additions:							
Acquisition, and related adjustments, of investment properties		**15,736**	**—**	**15,736**	399,064	14,936	414,000
Transfer to income properties from properties under development		**12,073**	**(12,073)**	**—**	62,586	(62,586)	—
Transfer from income properties to properties under development		**(8,408)**	**8,408**	**—**	(30,500)	30,500	—
Earnout Fees on properties subject to development management agreements	4(e)(i)	**1,145**	**1,906**	**3,051**	5,101	—	5,101
Additions to investment properties		**2,659**	**34,637**	**37,296**	14,343	73,095	87,438
Capitalized interest		**—**	**10,609**	**10,609**	—	19,618	19,618
Transfer to residential development inventory	9	**—**	**—**	**—**	—	(19,392)	(19,392)
Dispositions	4(b)	**(43)**	**(10,844)**	**(10,887)**	(8,016)	(22,920)	(30,936)
Fair value adjustments	25	**22,989**	**2,481**	**25,470**	20,466	(5,403)	15,063
Balance – end of period		**8,266,304**	**548,280**	**8,814,584**	8,220,153	513,156	8,733,309

The costs of both income properties and properties under development as at June 30, 2018 totalled $6,852,079 and $663,137, respectively (December 31, 2017 – $6,831,326 and $623,094, respectively).

Secured debt with a carrying value of $2,218,696 (December 31, 2017 – $2,393,633) is secured by investment properties with a fair value of $4,873,984 (December 31, 2017 – $5,334,774).

Presented separately from investment properties is $82,186 (December 31, 2017 – $80,927) of net straight-line rent receivables and tenant incentives (these amounts are included in "Other assets" – see Note 7) arising from the recognition of rental revenues on a straight-line basis and amortization of tenant incentives over the respective lease terms. The fair value of investment properties has been reduced by these amounts, which are presented separately.

a) Valuation techniques underlying management's estimation of fair value

i) Income properties

Fair value estimates of income properties that are freehold properties were based on a valuation technique known as the direct income capitalization method. In applying the direct income capitalization method, the stabilized net operating income ("NOI") of each property is divided by an overall capitalization rate.

Fair value estimates of income properties that are leasehold interests with purchase options were valued using the direct income capitalization method as described above, adjusted for the present value of the purchase options.

Fair value estimates of income properties that are leasehold interests with no purchase options were valued by present valuing the remaining income stream of the properties.

ii) Properties under development

Properties under development were valued using two primary methods: (i) the direct income capitalization method less any construction costs to complete development and Earnout Fees, if any; or (ii) the sales comparison approach by comparing to recent sales of properties of similar types, locations and quality.

The following summarizes significant unobservable inputs in Level 3 valuations along with corresponding fair values for the period ended June 30, 2018 and year ended December 31, 2017:

		June 30, 2018			
Class	**Valuation Technique**	**Carrying Value**	**Total Stabilized or Forecasted NOI**	**Range of Capitalization or Discount Rates**	**Weighted Average Capitalization or Discount Rate**
Income properties	Direct income capitalization	**7,219,325**	**420,165**	**5.00%–8.20%**	**5.82%**
	Direct income capitalization less present value of purchase option	**828,900**	**52,635**	**5.88%–6.75%**	**6.35%**
	Discounted cash flow	**218,079**	**N/A**	**6.00%–6.50%**	**6.21%**
		8,266,304			
Properties under development	Direct income capitalization	**469,099**	**31,477**	**6.00%–7.96%**	**6.71%**
	Sales comparison	**79,181**	**N/A**	**N/A**	**N/A**
		548,280			
Balance – end of period		**8,814,584**			

		December 31, 2017			
Class	Valuation Technique	Carrying Value	Total Stabilized or Forecasted NOI	Range of Capitalization or Discount Rates	Weighted Average Capitalization or Discount Rate
Income properties	Direct income capitalization	7,173,499	419,650	5.00%–8.14%	5.85%
	Direct income capitalization less present value of purchase option	824,925	52,383	5.88%–6.75%	6.35%
	Discounted cash flow	221,729	N/A	6.00%–6.50%	6.22%
		8,220,153			
Properties under development	Direct income capitalization	429,474	28,646	6.00%–8.00%	6.67%
	Sales comparison	83,682	N/A	N/A	N/A
		513,156			
Balance – end of period		8,733,309			

Fair values are most sensitive to changes in capitalization rates and stabilized or forecasted NOI. Generally, an increase in NOI or a decrease in capitalization rates will result in an increase in the fair value of investment properties and a decrease in NOI or an increase in capitalization rates will result in a decrease in the fair value of investment properties. The capitalization rate magnifies the effect of a change in NOI, with a lower capitalization rate resulting in a greater impact of a change in NOI than a higher capitalization rate.

The analysis below shows the maximum impact on fair values of possible changes in capitalization rates and discount rates, assuming no changes in NOI:

Change in capitalization rate of	**-0.50%**	**-0.25%**	**+0.25%**	**+0.50%**
Increase (decrease) in fair value				
Income properties	756,412	361,231	(331,475)	(636,727)
Properties under development	38,015	18,267	(16,947)	(32,713)

b) Dispositions

Disposition of investment properties during the six months ended June 30, 2018

In January 2018, the Trust contributed its 50% interest in a parcel of land located in Laval, Quebec, to a joint venture arrangement, Laval C Apartments LP, with an unrelated party for a value of $5,127 excluding closing costs of $457 (see also, Note 6(b), "Equity accounted investments"). Concurrent with the sale, the Trust entered into a construction management agreement, a development agreement and a property management agreement with an unrelated party, to develop rental residential apartments on the development land.

In June 2018, the Trust contributed its interest in a parcel of land located in Toronto (Leaside) to a joint venture arrangement, Leaside SAM LP, with an unrelated party, to develop, own and operate a self storage facility for a value of $5,717 excluding closing costs of $356 (see also, Note 6(b), "Equity accounted investments").

Disposition of investment properties during the six months ended June 30, 2017

In June 2017, the Trust sold a 50% interest in development lands in Vaughan, Ontario, to an unrelated party for gross proceeds of $19,392, excluding closing costs of $156, which was satisfied by: (i) a loan receivable of $9,804 bearing interest at 5.50% payable quarterly in interest only, maturing in 2019 and secured by a first charge on the development lands (see also Note 5(b), "Mortgages, loans and notes receivable") and (ii) the balance in cash, adjusted for other working capital amounts. Concurrent with the sale, the Trust entered into a co-ownership agreement and related agreements with an unrelated party to develop and sell townhouse and residential units on the development lands (see also Note 23, "Co-owned property interests").

c) Transfer to residential development inventory during the six months ended June 30, 2017

In conjunction with the disposition in June 2017 discussed in Note 4(b) above, the remaining 50% interest in development lands in Vaughan, Ontario with a fair value of $19,392 was transferred to residential development inventory (see Note 9). The Trust has entered into a co-ownership agreement and related agreements with an unrelated party that acquired the remaining 50% interest of the development lands to develop and sell townhouse and residential units.

d) Leasehold property interests

At June 30, 2018, 16 (December 31, 2017 – 16) investment properties with a fair value of $1,046,979 (December 31, 2017 – $1,046,654) are leasehold property interests accounted for as finance leases.

i) Leasehold property interests without bargain purchase options

The Trust prepaid its entire lease obligations for the 14 leasehold interests with Penguin noted above (see also Note 21, "Related party transactions") in the amount of $888,397 (December 31, 2017 – $888,262), including prepaid land rent of $229,846 (December 31, 2017 – $229,815). On the completion and rental of additional space during the six months ended June 30, 2018, the Trust prepaid its entire lease obligations relating to build-out costs of $135 (year ended December 31, 2017 – $2,068).

ii) Leasehold property interests with bargain purchase options

One leasehold interest commenced in 2003 under the terms of a 35-year lease with Penguin (see also Note 21, "Related party transactions"). The lease requires a $10,000 payment at the end of the lease term in 2038 to exercise a purchase option, which is considered to be a bargain purchase option. The Trust prepaid its entire lease obligation for this property of $57,997 (December 31, 2017 – $57,997). The purchase option price has been included in accounts payable, net of imputed interest at 9.18% of $8,443 (December 31, 2017 – $8,512), in the amount of $1,557 (December 31, 2017 – $1,488) (see also Note 12, "Accounts and other payables").

A second leasehold interest was acquired on February 11, 2015 from a third party and includes a land lease that expires on September 1, 2054. The land lease requires monthly payments ranging from $400 to $600 annually until September 1, 2054, and a $6,000 payment between September 1, 2023 and September 1, 2025 to exercise a purchase option that is considered to be a bargain purchase option. As the Trust intends to exercise the purchase option on September 1, 2023, the purchase option price and the monthly payments up to September 1, 2023 have been included in accounts payable, net of imputed interest at 6.25% of $1,986 (December 31, 2017 – $2,179), in the amount of $6,318 (December 31, 2017 – $6,324) (see also Note 12, "Accounts and other payables").

e) Properties under development

Properties under development consist of the following:

	June 30, 2018	December 31, 2017
Properties under development subject to development management agreements (i)	**49,802**	49,599
Properties under development not subject to development management agreements (ii)	**498,478**	463,557
	548,280	513,156

For the three months ended June 30, 2018, the Trust capitalized a total of $5,253 (three months ended June 30, 2017 – $4,918) of borrowing costs related to properties under development. For the six months ended June 30, 2018, the Trust capitalized a total of $10,609 (six months ended June 30, 2017 – $9,660) of borrowing costs related to properties under development.

i) Properties under development subject to development management agreements

These properties under development (including certain leasehold property interests) are subject to various development management agreements with Penguin, Wal-Mart Canada Realty Inc. and Hopewell Development Corporation – a company in which a trustee is an officer, director and shareholder.

In certain events, the developer/vendor may sell a portion of undeveloped land to accommodate the construction plan that provides the best use of the property, reimbursing the Trust its costs related to such portion, and provides a profit based on a pre-negotiated formula. Pursuant to the development management agreements, the developers/vendors assume responsibility for managing the development of the land on behalf of the Trust and are granted the right for a period of up to 10 years to earn an Earnout Fee (subject to options and extensions in certain circumstances). On completion and rental of additional space on these properties, the Trust is obligated to pay the Earnout Fee and to purchase the additional developments, at a total price calculated by a formula using the net operating rents and predetermined negotiated capitalization rates, on the date rent becomes payable on the additional space (Gross Cost). The Earnout Fee is calculated as the Gross Cost less the associated land and development costs incurred by the Trust.

For additional space completed on land with a fair value of $9,950 (December 31, 2017 – $9,783), the fixed predetermined negotiated capitalization rates range from 6.0% to 7.4% during the five-year period of the respective development management agreements. For additional space completed on land with a fair value of $39,852 (December 31, 2017 – $39,816), the predetermined negotiated capitalization rates are fixed for each contract for either the first one, two, three, four or five years, ranging from 6.0% to 8.0%, and then are determined by reference to the 10-year Government of Canada bond rate at the time of completion plus a fixed predetermined negotiated spread ranging from 2.00% to 3.90% for the remaining term of the 10-year period of the respective development management agreements subject to a maximum capitalization rate ranging from 6.60% to 9.50% and a minimum capitalization rate ranging from 5.75% to 7.50%.

For certain of these properties under development, Penguin and other unrelated parties have been granted Earnout options that give them the right, at their option, to invest up to 40% of the Earnout Fee for one of the agreements and up to 30% to 40% of the Gross Cost for the remaining agreements in Trust Units, Class B and D Smart LP Units, Class B and D Smart LP III Units, Class B Smart LP IV Units, Class B and D Smart Oshawa South LP Units, Class B and D Smart Oshawa Taunton LP Units, Class D Smart Boxgrove LP Units and Class B ONR LP I Units at predetermined option strike prices subject to a maximum number of units (Note 13(b)).

The Earnout options that Penguin and a third party elected to exercise during the three and six months ended June 30, 2018 resulted in the issuance of $1,731 and $1,865 of Class B Smart LP Units, respectively (three and six months ended June 30, 2017 – $nil and $nil, respectively) (see also Note 3, "Acquisitions and Earnouts", and Note 13(b), "Other financial liabilities").

The development costs incurred (exclusive of the cost of land previously acquired) and Earnout Fees paid to vendors relating to the completed retail spaces that have been reclassified to income properties during the three and six months ended June 30, 2018 and June 30, 2017 are as follows:

	Three Months Ended June 30		**Six Months Ended June 30**	
	2018	2017	**2018**	2017
Development costs incurred	**—**	30	**555**	1,257
Earnout Fees paid	**1,906**	—	**3,051**	2,741
	1,906	30	**3,606**	3,998

A certain vendor has provided interest bearing loans to finance additional costs of development.

ii) Properties under development not subject to development management agreements

During the three and six months ended June 30, 2018, the Trust completed the development and leasing of certain properties under development not subject to development management agreements. The value of land and development costs incurred has been reclassified from properties under development into income properties. For the three months ended June 30, 2018, the Trust incurred land and development costs of $2 (three months ended June 30, 2017 – $3,903). For the six months ended June 30, 2018, the Trust incurred land and development costs of $11,484 (six months ended June 30, 2017 – $7,400).

5. Mortgages, loans and notes receivable

Mortgages, loans and notes receivable consist of the following:

	Note	**June 30, 2018**	December 31, 2017
Mortgages receivable (a)	21	**130,696**	127,704
Loans receivable (b)		**143,581**	31,503
Notes receivable (c)	21	**2,979**	2,979
		277,256	162,186
Current		**148,174**	26,196
Non-current		**129,082**	135,990
		277,256	162,186

a) Mortgages receivable of $130,696 (December 31, 2017 – $127,704) have been provided pursuant to agreements with Penguin (see also Note 21, "Related party transactions") in which the Trust will lend up to $282,093 (December 31, 2017 – $282,093) for use in acquiring and/or developing nine (December 31, 2017 – nine) properties across Ontario, Quebec and British Columbia.

The following provides further details on the mortgages receivable (by maturity date) provided to Penguin:

Property	**Committed**	**Maturity Date**	**Interest Rate**	**Purchase Option % of Property[1]**	**June 30, 2018**	December 31, 2017
Salmon Arm, BC[2][3]	20,907	August 2018	4.82%	—	**15,051**	14,697
Innisfil, ON[2][4]	27,077	December 2020	3.65%	—	**19,745**	19,398
Aurora (South), ON[5]	30,543	March 2022	4.48%	50%	**15,809**	15,468
Mirabel (Shopping Centre), QC[6]	18,262	December 2022	7.50%	—	**—**	—
Mirabel (Option Lands), QC[7]	5,721	December 2022	7.50%	—	**—**	—
Pitt Meadows, BC[5]	68,664	November 2023	4.92%	50%	**27,146**	26,503
Vaughan (7 & 427), ON	53,127	December 2023	6.06%	50%	**17,182**	16,692
Caledon (Mayfield), ON[5]	14,033	April 2024	4.77%	50%	**9,206**	8,995
Toronto (StudioCentre), ON[2][5]	43,759	June 2024	4.74%	25%	**26,557**	25,951
	282,093		4.77%[8]		**130,696**	127,704

(1) The Trust has an option to purchase an additional purchase option percentage from the borrower in these properties upon a certain level of development and leasing being achieved. As at June 30, 2018, it is management's expectation that the Trust will exercise these purchase options.
(2) The Trust owns a 50% interest in these properties, with the other 50% interest owned by Penguin. These loans are secured against Penguin's interest in the property.
(3) Monthly variable rate based on a fixed rate of 6.35% on loans outstanding up to $7,237 and banker's acceptance rate plus 1.75% on any additional loans above $7,237.
(4) The monthly variable rate is based on the banker's acceptance rate plus 2.00%. The interest rate on this mortgage will reset in 2018 to the four-year Government of Canada bond rate plus 4.0%, subject to a lower limit of 6.75% and an upper limit of 7.75%.
(5) These loans were amended in 2017. See the "Loan amendments" section below for details.
(6) The Trust owns a 33.3% interest in this property. The loan is secured against a 33.3% interest owned by Penguin, as well as a guarantee by Penguin.
(7) The Trust owns a 25% interest in this property. The loan is secured against a 25% interest owned by Penguin, as well as a guarantee by Penguin.
(8) Represents the weighted average effective interest rate.

Interest on these mortgages accrues monthly as follows: (i) at a variable rate based on the banker's acceptance rate plus 1.75% to 4.20% or at the Trust's cost of capital (as defined in the mortgage agreement) plus 0.25% on mortgages receivable of $123,460 (December 31, 2017 – $120,467); and (ii) at fixed rates of 6.35% to 7.50% on mortgages receivable of $7,237 (December 31, 2017 – $7,237) which is added to the outstanding principal up to a predetermined maximum accrual after which it is payable in cash monthly or quarterly. Additional interest of $74,536 (December 31, 2017 – $77,529) may be accrued on certain of the mortgages receivable before cash interest must be paid.

The mortgage security includes a first or second charge on properties, assignments of rents and leases, and general security agreements. In addition, $111,016 (December 31, 2017 – $108,023) of the outstanding balance is guaranteed by Penguin Properties Inc., one of Penguin's companies. The loans are subject to individual loan guarantee agreements that provide additional guarantees for all interest and principal advanced on outstanding amounts. The guarantees decrease on achievement of certain specified value-enhancing events. All mortgages receivable are considered by management to be fully collectible.

Loan amendments

In April 2017, there were four mortgages receivable for which the maturity dates were amended from an original range of 2017 to 2020 to a revised range of 2022 to 2024. The committed facilities on these mortgages receivable were amended to reflect an increase from $141,000 to $157,000. In addition, the interest rates on these mortgages receivable were amended from a range of fixed interest rates of 6.75% to 7.00% to a revised range of banker's acceptance rates plus 2.75% to 4.20%.

For the three months ended June 30, 2018, the total interest accrued was $1,537 (three months ended June 30, 2017 – $1,262). For the six months ended June 30, 2018, the total interest accrued was $2,992 (six months ended June 30, 2017 – $2,516).

b) Loans receivable as at June 30, 2018 of $143,581 (December 31, 2017 – $31,503) comprise the following (by maturity date):

Issued to	**Maturity Date**	**Interest Rate**	Note	**June 30, 2018**	December 31, 2017
PCVP[1]	August 2018	Variable	21	**111,820**	—
Unrelated party[2]	September 2018	4.50%		**11,500**	11,500
Unrelated party[3]	March 2019	5.50%	4(b)	**9,804**	9,804
Penguin[4]	November 2020	Variable	21	**10,457**	10,199
				143,581	31,503

(1) This loan was provided to the Penguin-Calloway Vaughan Partnership ("PCVP") (in which the Trust has a 50% interest) in February 2018, and bears interest at 2.31% per annum from the advance date to March 20, 2018, and thereafter it is equal to 76 basis points plus the 90-day Canadian Dealer Offer Rate (CDOR) and is payable on March 21, June 21, September 21 and December 21. The Trust reflects the activity from the PCVP as an equity accounted investment (see also Note 6, "Equity accounted investments"), and 100% of the loan provided to the PCVP is recorded in the unaudited interim condensed consolidated financial statements.

(2) This loan is secured by either a first or second charge on properties, assignments of rents and leases, and general security agreements.

(3) In 2017, a loan receivable of $9,804 was provided pursuant to an agreement with an unrelated party to use in acquiring a 50% interest in development lands. The loan bears interest at 5.50% payable quarterly, interest only, matures in March 2019 and is secured by a first charge on the 50% interest of the development lands held by the unrelated party.

(4) This loan was provided pursuant to a development management agreement with Penguin with a total loan facility of $20,000. Repayment of the pro rata share of the outstanding loan amount is due upon the completion of each Earnout event. The loan bears interest at 10 basis points plus the lower of: (i) the Canadian prime rate plus 45 basis points, and (ii) the CDOR plus 145 basis points.

The following illustrates the activity in loans receivable for the three and six months ended June 30:

	Three Months Ended June 30		**Six Months Ended June 30**	
	2018	2017	**2018**	2017
Loans issued	**—**	9,804	**—**	9,804
Amounts funded	**—**	—	**111,916**	157
Interest accrued	**82**	58	**162**	116
	82	9,862	**112,078**	10,077

c) Notes receivable of $2,979 (December 31, 2017 – $2,979) have been granted to Penguin (see also Note 21, "Related party transactions"). These secured demand notes bear interest at the rate of 9.00% per annum.

The estimated fair values of mortgages, loans and notes receivable are based on their respective current market rates, bearing similar terms and risks. This information is disclosed in Note 14, "Fair value of financial instruments".

6. Equity accounted investments

The following summarizes the Trust's ownership interest in each equity accounted investment along with how it is accounted in the Trust's consolidated financial statements:

Equity Accounted Investment	Principal Activity	June 30, 2018	December 31, 2017	June 30, 2017
Investment in associates:				
PCVP	Owns, develops and operates investment properties	**50%**	50%	50%
Residences LP	Owns and develops two residential condominium towers	**25%**	25%	25%
Residences III LP	Develops a residential condominium tower	**25%**	25%	25%
Investment in joint ventures:				
1500 Dundas East LP	Owns and operates an investment property	**30%**	30%	N/A
Laval C Apartments LP	Owns, develops and operates residential apartments	**50%**	N/A	N/A
Leaside SAM LP	Owns, develops and operates a self storage facility	**50%**	N/A	N/A

The following summarizes key components relating to the Trust's equity accounted investments:

	June 30, 2018			December 31, 2017		
	Investment in Associates	**Investment in Joint Ventures**	**Total**	Investment in Associates	Investment in Joint Ventures	Total
Investment – beginning of period	**109,316**	**16,046**	**125,362**	122,677	—	122,677
Contributions	**15,195**	**10,995**	**26,190**	17,824	15,847	33,671
Earnings (loss)	**7,734**	**868**	**8,602**	(2,006)	343	(1,663)
Distributions received	**(16,303)**	**(288)**	**(16,591)**	(29,179)	(144)	(29,323)
Investment – end of period	**115,942**	**27,621**	**143,563**	109,316	16,046	125,362

a) Investment in associates

In 2012, the Trust entered into the Penguin-Calloway Vaughan Partnership ("PCVP") with Penguin (see also Note 21, "Related party transactions") to develop the Vaughan Metropolitan Centre ("VMC"), which is expected to consist of approximately 10.0 million to 11.0 million square feet once fully developed, on 53 acres of development land in Vaughan, Ontario.

In 2017, the Trust entered into the VMC Residences Limited Partnership ("Residences LP") and VMC Residences III Limited Partnership ("Residences III LP") with Penguin and a third party, CentreCourt Developments, to develop residential condominium towers, located on the VMC site.

i) Balance Sheet summary

	June 30, 2018			December 31, 2017		
	PCVP	**Residences LP and Residences III LP**	**Total**	PCVP	Residences LP and Residences III LP	Total
Non-current assets	**386,324**	**—**	**386,324**	373,499	—	373,499
Current assets	**27,751**	**221,896**	**249,647**	27,466	95,588	123,054
Total assets	**414,075**	**221,896**	**635,971**	400,965	95,588	496,553
Non-current liabilities	**44,953**	**6,725**	**51,678**	131,580	—	131,580
Current liabilities	**167,984**	**153,678**	**321,662**	53,672	89,749	143,421
Total liabilities	**212,937**	**160,403**	**373,340**	185,252	89,749	275,001
Net assets	**201,138**	**61,493**	**262,631**	215,713	5,839	221,552
Trust's share of net assets	**100,569**	**15,373**	**115,942**	107,856	1,460	109,316

The PCVP, Residences LP and Residences III LP, have entered into various development construction contracts with existing commitments totalling $225,837, of which the Trust's share is $67,422.

ii) Earnings (loss) summary

	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
	PCVP	**Residences LP and Residences III LP**	**Total**	PCVP	Residences LP and Residences III LP	Total
Revenue	**5,047**	**—**	**5,047**	3,225	—	3,225
Operating expense	**(2,024)**	**—**	**(2,024)**	(1,239)	—	(1,239)
Other sales and related costs	**—**	**(323)**	**(323)**	—	(441)	(441)
Fair value adjustments	**10,240**	**—**	**10,240**	1,392	—	1,392
Interest expense	**(618)**	**—**	**(618)**	(561)	—	(561)
Earnings (loss)	**12,645**	**(323)**	**12,322**	2,817	(441)	2,376
Trust's share of earnings (loss)	**6,271**	**(81)**	**6,190**	1,409	(110)	1,299

In 2017, the Trust entered into a Supplemental Development Fee Agreement with PCVP to provide development services. In accordance with this Supplemental Development Fee Agreement, the Trust invoiced PCVP an amount of $103 related to associated development fees for three months ended June 30, 2018 (three months ended June 30, 2017 – $nil). As a result, the Trust's share of the earnings for the three months ended June 30, 2018 related to its investment in PCVP includes the supplemental cost of $51 (three months ended June 30, 2017 – $nil).

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
	PCVP	**Residences LP and Residences III LP**	**Total**	PCVP	Residences LP and Residences III LP	Total
Revenue	**9,563**	**—**	**9,563**	6,013	—	6,013
Operating expense	**(3,770)**	**—**	**(3,770)**	(2,397)	—	(2,397)
Other sales and related costs	**—**	**(447)**	**(447)**	—	(441)	(441)
Fair value adjustments	**12,035**	**—**	**12,035**	(3,171)	—	(3,171)
Interest expense	**(1,211)**	**—**	**(1,211)**	(975)	—	(975)
Earnings (loss)	**16,617**	**(447)**	**16,170**	(530)	(441)	(971)
Trust's share of earnings (loss)	**7,846**	**(112)**	**7,734**	(265)	(110)	(375)

In accordance with this Supplemental Development Fee Agreement, the Trust invoiced PCVP an amount of $924 related to associated development fees for six months ended June 30, 2018 (six months ended June 30, 2017 – $nil). As a result, the Trust's share of the earnings for the six months ended June 30, 2018 related to its investment in PCVP includes the supplemental cost of $462 (six months ended June 30, 2017 – $nil).

iii) Summary of credit facilities

The development financing relating to the PCVP, Residences LP and Residences III LP comprises pre-development, construction and letters of credit facilities. With respect to the credit facilities relating to the PCVP, the obligations are joint and several to each of the PCVP limited partners. From time to time, the original facility amounts are reduced through repayments and through amended agreements with the financial institutions from which the facilities were obtained.

	June 30, 2018	December 31, 2017
Development facilities – beginning of period	**499,656**	180,693
Reduction	**(19,976)**	(20,000)
Repayment	**(129,400)**	—
Letters of credit released	**(18,504)**	(313)
Additional development facilities obtained	**200,550**	339,276
Development facilities – end of period	**532,326**	499,656
Amount drawn on development facility	**(51,324)**	(130,700)
Letters of credit – outstanding	**(63,748)**	(12,654)
Remaining unused development facilities	**417,254**	356,302
Trust's share of remaining unused development facilities	**123,893**	117,188

PCVP

As at June 30, 2018, the PCVP had the following credit facilities:

- two development facilities totalling $121,176 with interest rates ranging from banker's acceptance rates plus 135 basis points to 145 basis points, that have maturity dates between 2020 and 2021;
- a letter of credit facility totalling $25,000;
- one development facility was settled in February 2018 before maturity.

As at December 31, 2017, the PCVP had the following credit facilities:

- two development facilities totalling $95,276 with interest rates ranging from banker's acceptance rates plus 135 basis points to 145 basis points, that have maturity dates between 2020 and 2021;
- one development facility for $160,380 with a fixed interest rate of 2.88% that matures in 2020.

Residences LP and Residences III LP

As at June 30, 2018, the Residences LP and Residences III LP had the following credit facilities:

- one development facility totalling $244,000 bearing interest at banker's acceptance rates plus 175 basis points, which matures in 2021;
- one development facility totalling $142,150 bearing interest at banker's acceptance rates plus 175 basis points, which matures in 2022.

As at December 31, 2017, the Residences LP had one development facility totalling $244,000 bearing interest at banker's acceptance rates plus 175 basis points, which matures in 2021.

b) Investment in joint ventures

In October 2017, pursuant to the Arrangement (see also Note 1, "Organization"), the Trust acquired an equity interest in 1500 Dundas East Limited Partnership ("1500 Dundas East LP"), which holds ownership of an investment property in Mississauga, Ontario (Creekside Crossing).

In January 2018, the Trust and an unrelated party formed a 50:50 joint venture known as Laval Centre Apartments Limited Partnership ("Laval C Apartments LP"), into which the Trust contributed development lands located in Laval, Quebec, previously presented as property under development and the unrelated party contributed cash. The purpose of the joint venture is to own, develop and operate residential apartments in Laval.

In June 2018, the Trust and an unrelated party formed a 50:50 joint venture known as Leaside SAM Limited Partnership ("Leaside SAM LP"), into which the Trust contributed development lands located in Toronto (Leaside), Ontario, previously presented as property under development and the unrelated party contributed land and cash. The purpose of the joint venture is to own, develop and operate a self storage rental facility in Toronto (Leaside).

i) Balance Sheet summary

	June 30, 2018	December 31, 2017
Non-current assets	**146,673**	124,076
Current assets	**2,868**	3,483
Total assets	**149,541**	127,559
Non-current liabilities	**1,639**	71,933
Current liabilities	**70,653**	2,139
Total liabilities	**72,292**	74,072
Net assets	**77,249**	53,487
Trust's share of net assets	**27,621**	16,046

ii) Earnings summary

	Three Months Ended June 30, 2018	**Six Months Ended June 30, 2018**
Revenue	**2,534**	**5,053**
Operating expense	**(731)**	**(1,482)**
Fair value adjustments	**440**	**394**
Interest expense	**(614)**	**(1,231)**
Earnings	**1,629**	**2,734**
Trust's share of earnings	**536**	**868**

7. Other assets

The components of other assets are as follows:

	June 30, 2018	December 31, 2017
Straight-line rent receivables	**47,051**	46,274
Tenant incentives	**35,135**	34,653
	82,186	80,927
Equipment	**1,330**	1,688
	83,516	82,615

The following table summarizes the activity in other assets for the six months ended June 30, 2018:

	December 31, 2017	**Additions**	**Amortization**	**June 30, 2018**
Straight-line rent receivables	46,274	**4,581**	**(3,804)**	**47,051**
Tenant incentives	34,653	**3,865**	**(3,383)**	**35,135**
	80,927	**8,446**	**(7,187)**	**82,186**
Equipment	1,688	**38**	**(396)**	**1,330**
	82,615	**8,484**	**(7,583)**	**83,516**

8. Intangible assets

The components of intangible assets are as follows:

	June 30, 2018			December 31, 2017		
	Cost	**Accumulated Amortization**	**Net**	Cost	Accumulated Amortization	Net
Intangible assets with finite lives:						
Key joint venture relationships	**36,944**	**3,811**	**33,133**	36,944	3,195	33,749
Trademarks	**2,995**	**309**	**2,686**	2,995	259	2,736
Total intangible assets with finite lives	**39,939**	**4,120**	**35,819**	39,939	3,454	36,485
Goodwill	**13,979**	**—**	**13,979**	13,979	—	13,979
	53,918	**4,120**	**49,798**	53,918	3,454	50,464

The total amortization expense recognized for the three months ended June 30, 2018 amounted to $333 (three months ended June 30, 2017 – $333). The total amortization expense recognized for the six months ended June 30, 2018 amounted to $666 (six months ended June 30, 2017 – $666).

9. Residential development inventory

In 2017, the Trust entered into a co-ownership agreement and related agreements with an unrelated party that acquired a 50% interest of the development lands to develop and sell townhouse and residential units. In conjunction with the disposition on June 29, 2017, the remaining 50% interest in development lands in Vaughan, Ontario with a fair value of $19,392 was transferred to residential development inventory (see also Note 4(c), "Investment properties").

The following summarizes the activity in residential development inventory for the six months ended June 30, 2018 and the year ended December 31, 2017:

	June 30, 2018	December 31, 2017
Balance – beginning of period	**20,267**	—
Transfer from properties under development at fair value	**—**	19,392
Costs capitalized	**672**	875
Balance – end of period	**20,939**	20,267

10. Amounts receivable, prepaid expenses and deposits, deferred financing costs and other

The components of amounts receivable, prepaid expenses and deposits, deferred financing costs and other are as follows:

	June 30, 2018	December 31, 2017
Amounts receivable		
Tenant receivables (a)	**24,484**	11,870
Unbilled other tenant receivables (b)	**11,182**	5,712
Other non-tenant receivables (c)	**28,011**	19,904
	63,677	37,486
Allowance for expected credit loss (d)	**(3,303)**	(3,237)
Prepaid expenses and deposits (e)	**35,430**	5,579
Deferred financing costs	**1,300**	1,484
Other	**2,461**	2,017
	99,565	43,329

a) Tenant receivables

Tenant receivables representing contractual rental payments from tenants are due at the beginning of each month. Common area maintenance ("CAM") and property taxes are considered past due 60 days after billing. Tenant receivables less than 90 days old total $16,956 (December 31, 2017 – $4,493).

b) Unbilled other tenant receivables

Other tenant receivables totalling $11,182 (December 31, 2017 – $5,712) pertain to unbilled CAM and property tax recoveries and chargebacks. These amounts are considered current and/or collectible and are at various stages of the billing and collection process, as applicable.

c) Other non-tenant receivables

Other non-tenant receivables totalling $28,011 (December 31, 2017 – $19,904) include related party receivables of $23,707 (December 31, 2017 – $15,905), see also Note 21. These receivables are unsecured, non-interest bearing and are due on demand.

d) Allowance for expected credit loss

The Trust records the expected credit loss to comply with IFRS 9's simplified approach for amounts receivable where its loss allowance is measured at initial recognition and throughout the life of the receivable at an amount equal to lifetime expected credit losses (ECL).

Amounts receivable net of allowance for ECL are as follows:

	June 30, 2018	December 31, 2017
Amounts receivable	**63,677**	37,486
Allowance for ECL	**(3,303)**	(3,237)
Amount receivables – net of allowance for ECL	**60,374**	34,249

The tenant receivable amounts older than 90 days totalling $4,225 (December 31, 2017 – $4,140), net of allowance for ECL of $3,303 (December 31, 2017 – $3,237), primarily pertain to CAM and property tax queries.

The reconciliation of changes in the allowance for ECL on amounts receivable is as follows:

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Balance – beginning of period	**3,237**	4,490
Additional allowance recognized as expense	**527**	262
Reversal of previous allowances	**(67)**	(1,244)
Net	**460**	(982)
Tenant receivables written off during the period	**(394)**	(210)
Balance – end of period	**3,303**	3,298

e) Prepaid expenses and deposits

Prepaid expenses and deposits totalling $35,430 (December 31, 2017 – $5,579) primarily consist of prepaid realty tax associated with the Trust's investment properties.

11. Debt

Debt consists of the following:

	June 30, 2018	December 31, 2017
Secured debt (a)	**2,218,696**	2,393,633
Unsecured debt (b)	**1,805,550**	1,800,650
Convertible debentures (c)	**36,250**	36,677
Revolving operating facility (d)	**191,000**	—
	4,251,496	4,230,960
Current	**628,687**	415,133
Non-current	**3,622,809**	3,815,827
	4,251,496	4,230,960

a) Secured debt

Secured debt bears interest at a weighted average interest rate of 3.82% at June 30, 2018 (December 31, 2017 – 3.87%). The total includes $1,894,858 (December 31, 2017 – $2,057,918) at fixed interest rates and $323,838 (December 31, 2017 – $335,715) at variable interest rates based on banker's acceptance rates plus a margin. Secured debt matures at various dates between 2018 and 2031 and is secured by first or second registered mortgages over specific income properties and properties under development and first general assignments of leases, insurance and registered chattel mortgages.

Principal repayment requirements for secured debt are as follows:

	Instalment Payments	Lump Sum Payments at Maturity	Total
2018 (remainder of year)	32,563	195,663	228,226
2019	64,292	310,218	374,510
2020	59,423	140,242	199,665
2021	53,942	166,666	220,608
2022	49,698	275,260	324,958
Thereafter	128,547	741,585	870,132
	388,465	1,829,634	2,218,099
Unamortized acquisition date fair value adjustments			6,619
Unamortized financing costs			(6,022)
			2,218,696

b) Unsecured debt

i) Unsecured debentures

Series	Maturity Date	Annual Interest Rate	Interest Payment Dates	June 30, 2018	December 31, 2017
Series H	July 27, 2020	4.050%	January 27 and July 27	**150,000**	150,000
Series I	May 30, 2023	3.985%	May 30 and November 30	**200,000**	200,000
Series L	February 11, 2021	3.749%	February 11 and August 11	**150,000**	150,000
Series M	July 22, 2022	3.730%	January 22 and July 22	**150,000**	150,000
Series N	February 6, 2025	3.556%	February 6 and August 6	**160,000**	160,000
Series O	August 28, 2024	2.987%	February 28 and August 28	**100,000**	100,000
Series P	August 28, 2026	3.444%	February 28 and August 28	**250,000**	250,000
Series Q	March 21, 2022	2.876%	March 21 and September 21	**150,000**	150,000
Series R	December 21, 2020	Variable[1]	March 21, June 21, September 21 and December 21	**250,000**	250,000
Series S	December 21, 2027	3.834%	June 21 and December 21	**250,000**	250,000
		3.45%[2]		**1,810,000**	1,810,000
			Less: Unamortized financing costs	**(8,571)**	(9,350)
				1,801,429	1,800,650

(1) These unsecured debentures carry a floating rate of three-month CDOR plus 66 basis points.
(2) Represents the weighted average annual interest rate.

Unsecured debenture activity for the six months ended June 30, 2018
There was no activity during this period.

Unsecured debenture activity for the six months ended June 30, 2017
Issuances
On March 15, 2017, the Trust issued $150,000 of 2.876% Series Q senior unsecured debentures (net proceeds including issuance costs – $149,062), which are due on March 21, 2022 with semi-annual payments due on March 21 and September 21 each year. The proceeds were used to redeem the outstanding principal on the 3.385% Series J senior unsecured debentures totalling $150,000 (see below for details).

Redemptions
On April 13, 2017, the Trust redeemed $150,000 aggregate principal amount of 3.385% Series J senior unsecured debentures. In addition to paying accrued interest of $1,864, the Trust paid a yield maintenance fee of $2,206 in connection with the redemption.

Credit rating of unsecured debentures
Dominion Bond Rating Services ("DBRS") provides credit ratings of debt securities for commercial issuers that indicate the risk associated with a borrower's capabilities to fulfil its obligations. An investment-grade rating must exceed "BB," with the highest rating being "AAA." The Trust's unsecured debentures are rated "BBB" with a stable trend at June 30, 2018.

ii) Other unsecured debt
Other unsecured debt totalling $4,121 (December 31, 2017 - $nil) pertains to the loan received from the Laval Centre Apartments Limited Partnership totalling $2,214 and the loan received from the Leaside SAM Limited Partnership totalling $1,907 (see Note 6(b), "Equity accounted investments") in connection with contribution agreements relating to the joint ventures. The loans are non-interest bearing with repayment terms based on the distributions that are to be paid pursuant to the limited partnership agreements.

c) Convertible debentures
5.50% convertible unsecured subordinated debentures, due on June 30, 2020
The $36,250 of 5.50% convertible unsecured subordinated debentures ("5.50% Convertible Debentures") bore interest at 5.50% per annum, which was payable semi-annually on June 30 and December 31 each year and matured on June 30, 2020. The 5.50% Convertible Debentures were convertible at the debenture holder's option into fully paid Units at any time prior to the earlier of the maturity date and the date fixed for redemption at a conversion price of $51.57 per Unit. On or after October 4, 2017, but prior to June 30, 2018, the 5.50% Convertible Debentures were redeemable, in whole or in part, at the Trust's option, provided that the market price for the Units is not less than 125% of the conversion price. On or after June 30, 2018, but prior to the maturity date, the 5.50% Convertible Debentures were redeemable in whole or in part, at the Trust's option, at a price equal to their principal amount plus accrued interest. On May 25, 2018, the Trust issued a notice of redemption of the 5.50% Convertible Debentures with an aggregate principal amount outstanding of $36,250, to be redeemed on July 4, 2018. On July 4, 2018, the Trust completed the redemption of the 5.50% Convertible Debentures for $36,272 in cash, which included the aggregate principal amount outstanding and accrued interest.

During the six months ended June 30, 2018, $nil of the face value of the 5.50% Convertible Debentures (December 31, 2017 – $nil) was converted into Trust Units.

	June 30, 2018	December 31, 2017
5.50% Convertible Debentures, due on June 30, 2020	**36,250**	36,250
Unamortized acquisition date fair value adjustment	**—**	427
	36,250	36,677

d) Revolving operating facility

As at June 30, 2018, the Trust has a $500,000 unsecured revolving operating facility bearing interest at a variable interest rate based on either bank prime rate plus 45 basis points or banker's acceptance rates plus 145 basis points, which matures on May 31, 2022. The facility includes an accordion feature of $250,000 whereby the Trust has an option to increase its facility amount with the lenders to sustain future operations as required.

	June 30, 2018	December 31, 2017
Revolving operating facility	**500,000**	500,000
Lines of credit – outstanding	**(191,000)**	—
Letters of credit – outstanding	**(11,066)**	(16,862)
Remaining unused operating facility	**297,934**	483,138

e) Interest expense

Interest expense consists of the following:

		Three Months Ended June 30		**Six Months Ended June 30**	
	Note	**2018**	2017	**2018**	2017
Interest at stated rates		**39,246**	36,024	**78,788**	72,781
Amortization of acquisition date fair value adjustments on assumed debt		**(581)**	(787)	**(1,241)**	(1,608)
Amortization of deferred financing costs		**852**	993	**1,720**	1,785
Distributions on vested deferred units and Units classified as liabilities		**1,266**	514	**2,498**	1,012
		40,783	36,744	**81,765**	73,970
Less:					
Interest capitalized to properties under development		**(5,253)**	(4,918)	**(10,609)**	(9,660)
Interest capitalized to residential development inventory		**(198)**	—	**(399)**	—
Interest associated with operating activities		**35,332**	31,826	**70,757**	64,310
Yield maintenance on redemption of unsecured debentures	11(b)	**—**	181	**—**	2,721
Interest expense		**35,332**	32,007	**70,757**	67,031

Cash interest paid associated with operating activities consists of the following:

	Three Months Ended June 30		**Six Months Ended June 30**	
	2018	2017	**2018**	2017
Interest expense	**35,332**	32,007	**70,757**	67,031
Amortization of acquisition date fair value adjustments on assumed debt	**581**	787	**1,241**	1,608
Amortization of deferred financing costs	**(852)**	(993)	**(1,720)**	(1,785)
Distributions on vested deferred units and Units classified as liabilities	**(1,266)**	(514)	**(2,498)**	(1,012)
Change in interest associated with financing activities	**—**	(181)	**—**	(2,721)
Change in accrued interest payable associated with operating activities	**(5,411)**	(5,996)	**(20)**	(280)
Cash interest paid associated with operating activities	**28,384**	25,110	**67,760**	62,841

f) Other letters of credit

In addition to the letters of credit outstanding on the Trust's revolving operating facility (see 11(e) above), the Trust also has $29,732 of letters of credit outstanding with other financial institutions as at June 30, 2018 (December 31, 2017 – $37,786).

12. Accounts and other payables

Accounts payable and the current portion of other payables that are classified as current liabilities consist of the following:

	June 30, 2018	December 31, 2017
Accounts payable	**81,002**	87,853
Tenant prepaid rent, deposits and other payables	**71,487**	54,982
Accrued interest payable	**23,258**	23,238
Distributions payable	**23,435**	23,292
Realty taxes payable	**14,727**	6,466
Current portion of other payables	**5,479**	8,628
	219,388	204,459

Other payables that are classified as non-current liabilities consist of the following:

	Note	**June 30, 2018**	December 31, 2017
Future land development obligations (a)		**26,628**	26,642
Finance lease obligation	4	**7,875**	7,812
Long Term Incentive Plan liability (b)		**506**	2,927
Total other payables		**35,009**	37,381
Less: Current portion of other payables		**(5,479)**	(8,628)
Total non-current portion of other payables		**29,530**	28,753

a) Future land development obligations

The future land development obligations represent payments required to be made to Penguin (see also Note 21, "Related party transactions") for certain undeveloped lands acquired from 2006 to 2015, either on completion and rental of additional space on the undeveloped lands or, if no additional space is completed on the undeveloped lands, at the expiry of the 10-year development management agreement periods ending in 2018 (remainder of year) to 2025. The accrued future land development obligations are measured at their estimated fair values using imputed interest rates ranging from 4.50% to 5.50%. For the three months ended June 30, 2018 , imputed interest of $300 (three months ended June 30, 2017 – $290) was capitalized to properties under development. For the six months ended June 30, 2018, imputed interest of $585 (six months ended June 30, 2017 – $563) was capitalized to properties under development.

b) Long Term Incentive Plan ("LTIP") liability

	Three Months Ended June 30		**Six Months Ended June 30**	
	2018	2017	**2018**	2017
Balance – beginning of period	**2,355**	2,519	**2,927**	3,629
Accrual adjustment	**164**	241	**(408)**	896
LTIP vested and paid out	**(2,013)**	—	**(2,013)**	(1,765)
Balance – end of period	**506**	2,760	**506**	2,760

13. Other financial liabilities

The components of other financial liabilities are as follows:

	June 30, 2018	December 31, 2017
Units classified as liabilities (a)	**63,708**	64,501
Earnout options (b)	**760**	751
Deferred unit plan (c)	**27,536**	23,351
	92,004	88,603

a) Units classified as liabilities

The following represents the number of Units classified as liabilities that are issued and outstanding. The fair value measurement of the Units classified as liabilities is described in Note 14 "Fair value of financial instruments".

Total number of Units classified as liabilities

	Class D Series 1 Smart LP Units	Class D Series 1 Smart Oshawa South LP Units	Class B ONR LP Units	Class B Series 1 ONR LP I Units	Class B Series 2 ONR LP I Units	Total
Balance – January 1, 2018	**311,022**	**251,649**	**1,254,114**	**132,881**	**137,109**	**2,086,775**
Balance – June 30, 2018	**311,022**	**251,649**	**1,254,114**	**132,881**	**137,109**	**2,086,775**
Balance – January 1, 2017	311,022	251,649	—	—	—	562,671
Balance – June 30, 2017	311,022	251,649	—	—	—	562,671

Carrying value of Units classified as liabilities

	Class D Series 1 Smart LP Units	Class D Series 1 Smart Oshawa South LP Units	Class B ONR LP Units	Class B Series 1 ONR LP I Units	Class B Series 2 ONR LP I Units	Total
Balance – January 1, 2018	**9,614**	**7,778**	**38,764**	**4,107**	**4,238**	**64,501**
Change in carrying value	**(118)**	**(96)**	**(477)**	**(50)**	**(52)**	**(793)**
Balance – June 30, 2018	**9,496**	**7,682**	**38,287**	**4,057**	**4,186**	**63,708**
Balance – January 1, 2017	10,044	8,125	—	—	—	18,169
Change in carrying value	(53)	(43)	—	—	—	(96)
Balance – June 30, 2017	9,991	8,082	—	—	—	18,073

b) Earnout options

As part of the consideration paid for certain investment property acquisitions, the Trust has granted options in connection with the development management agreements (Note 4(e)). On completion and rental of additional space on specific properties, the Earnout options vest and the holder may elect to exercise the options and receive Trust Units, Class B Smart LP Units, Class D Smart LP Units, Class B Smart LP III Units, Class B Smart LP IV Units, Class B Smart Oshawa South LP Units, Class D Smart Oshawa South LP Units, Class B Smart Oshawa Taunton LP Units, Class D Smart Oshawa Taunton LP Units, Class B Smart Boxgrove LP Units and Class B ONR LP I Units, as applicable. Earnout options that have not vested expire at the end of the term of the corresponding development management agreement. In certain circumstances, the Trust may be required to issue additional Earnout options to Penguin. The option strike prices were based on the market price of Trust Units on the date the substantive terms were agreed on and announced. In the case of Class B Smart LP III Units, Class B Smart LP IV Units, Class B Smart Oshawa South LP Units, Class D Smart Oshawa South LP Units, Class B Smart Oshawa Taunton LP Units, Class D Smart Oshawa Taunton LP Units, Class B Smart Boxgrove LP Units, and Class B ONR LP I Units, the strike price is the market price of the Trust Units at the date of exchange.

The following summarizes the change in Units outstanding and proceeds received for the six months ended June 30, 2018:

	Strike Price	Options Outstanding at January 1, 2018	Options Cancelled	Options Exercised	Options Outstanding at June 30, 2018	Proceeds During Six Months Ended June 30, 2018
	($)	(#)	(#)	(#)	(#)	($)
Options to acquire Trust Units						
July 2005	20.10	**108,606**	—	—	**108,606**	—
December 2006	29.55 to 33.55	**53,458**	—	—	**53,458**	—
July 2007	29.55 to 33.00	**1,348,223**	—	—	**1,348,223**	—
		1,510,287	—	—	**1,510,287**	—
Options to acquire Class B Smart LP Units and Class D Smart LP Units[1]						
July 2005 (Earnout)	20.10	**1,354,153**	—	—	**1,354,153**	—
December 2006	29.55 to 30.55	**2,290,052**	—	**(63,103)**	**2,226,949**	**1,865**
July 2007	29.55 to 33.00	**1,600,000**	—	—	**1,600,000**	—
June 2008[2]	20.10	**702,667**	**(17,554)**	—	**685,113**	—
		5,946,872	**(17,554)**	**(63,103)**	**5,866,215**	**1,865**
Options to acquire Class B Smart LP III Units[3]						
September 2010	Market price	**646,669**	—	—	**646,669**	—
August 2011	Market price	**596,219**	—	—	**596,219**	—
August 2013	Market price	**560,071**	—	—	**560,071**	—
September 2014	Market price	**286,054**	—	—	**286,054**	—
		2,089,013	—	—	**2,089,013**	—
Options to acquire Class B Smart LP IV Units[4]						
May 2015	Market price	**446,061**	—	—	**446,061**	—
		446,061	—	—	**446,061**	—
Options to acquire Class B Smart Oshawa South LP Units and Class D Smart Oshawa South LP Units[5]						
May 2015	Market price	**60,000**	—	—	**60,000**	—
		60,000	—	—	**60,000**	—
Options to acquire Class B Smart Oshawa Taunton LP Units and Class D Smart Oshawa Taunton LP Units[6]						
May 2015	Market price	**265,422**	—	—	**265,422**	—
		265,422	—	—	**265,422**	—
Options to acquire Class B Smart Boxgrove LP Units[7]						
May 2015	Market price	**170,000**	—	—	**170,000**	—
		170,000	—	—	**170,000**	—
Options to acquire Class B ONR LP I Units[8]						
October 2017	Market price	**540,000**	—	—	**540,000**	—
		540,000	—	—	**540,000**	—
Total Earnout options		**11,027,655**	**(17,554)**	**(63,103)**	**10,946,998**	**1,865**

(1) Each option is represented by a corresponding Class C Smart LP Unit or Class E Smart LP Unit.
(2) Each option is convertible into Class F Series 3 Smart LP Units. At the holder's option, the Class F Series 3 Smart LP Units may be redeemed for cash at $20.10 per Unit or, on the completion and rental of additional space on certain development properties, the Class F Series 3 Smart LP Units may be exchanged for Class B Smart LP Units.
(3) Each option is represented by a corresponding Class C Smart LP III Unit.
(4) Each option is represented by a corresponding Class C Smart LP IV Unit.
(5) Each option is represented by a corresponding Class C Smart Oshawa South LP Unit or Class E Smart Oshawa South LP Unit.
(6) Each option is represented by a corresponding Class C Smart Oshawa Taunton LP Unit or Class E Smart Oshawa Taunton LP Unit.
(7) Each option is represented by a corresponding Class C Smart Boxgrove LP Unit.
(8) Each option is represented by a corresponding Class C ONR LP I Unit.

The following summarizes the change in Units outstanding and proceeds received for the six months ended June 30, 2017:

	Strike Price	Options Outstanding at January 1, 2017	Options Cancelled	Options Outstanding at June 30, 2017
	($)	(#)	(#)	(#)
Options to acquire Trust Units				
July 2005	20.10	**121,996**	**—**	**121,996**
December 2006	29.55 to 33.55	**53,458**	**—**	**53,458**
July 2007	29.55 to 33.00	**1,348,223**	**—**	**1,348,223**
		1,523,677	**—**	**1,523,677**
Options to acquire Class B LP Units and Class D LP Units[1]				
July 2005 (Earnout)	20.10	**1,358,669**	**—**	**1,358,669**
December 2006	29.55 to 30.55	**2,290,052**	**—**	**2,290,052**
July 2007	29.55 to 33.00	**1,600,000**	**—**	**1,600,000**
June 2008[2]	20.10	**708,004**	**—**	**708,004**
		5,956,725	**—**	**5,956,725**
Options to acquire Class B LP III Units[3][4]				
September 2010	Market price	**646,669**	**—**	**646,669**
August 2011	Market price	**612,701**	**—**	**612,701**
August 2013	Market price	**580,975**	**(5,715)**	**575,260**
September 2014	Market price	**297,530**	**(11,476)**	**286,054**
		2,137,875	**(17,191)**	**2,120,684**
Options to acquire Class B LP IV Units[4][5]				
May 2015	Market price	**446,061**	**—**	**446,061**
		446,061	**—**	**446,061**
Options to acquire Class B Oshawa South LP Units and Class D Oshawa South LP Units[6]				
May 2015	Market price	**60,000**	**—**	**60,000**
		60,000	**—**	**60,000**
Options to acquire Class B Oshawa Taunton LP Units and Class D Oshawa Taunton LP Units[4][7]				
May 2015	Market price	**302,692**	**(37,270)**	**265,422**
		302,692	**(37,270)**	**265,422**
Options to acquire Class B Boxgrove LP Units[8]				
May 2015	Market price	**170,000**	**—**	**170,000**
		170,000	**—**	**170,000**
Total Earnout options		**10,597,030**	**(54,461)**	**10,542,569**

(1) Each option is represented by a corresponding Class C LP Unit or Class E LP Unit.

(2) Each option is convertible into Class F Series 3 LP Units. At the holder's option, the Class F Series 3 LP Units may be redeemed for cash at $20.10 per Unit or, on the completion and rental of additional space on certain development properties, the Class F Series 3 LP Units may be exchanged for Class B LP Units.

(3) Each option is represented by a corresponding Class C LP III Unit.

(4) During the six months ended June 30, 2017, 5,715 Class C LP III Series 6 Units, 11,476 Class C LP III Series 7 Units, and 37,270 Class C and E Oshawa Taunton LP Series 1 Units, were available for conversion into Class B LP III Series 6 Units, Class B LP III Series 7 Units, and Class B and D Oshawa Taunton LP Series 1 Units, respectively, of which nil Class C LP III Series 6 Units, nil Class C LP III Series 7 Units, and nil Class C and E Oshawa Taunton LP Series 1 Units were exercised using the predetermined conversion prices, in exchange for nil Class B LP III Series 6 Units, nil Class B LP III Series 7 Units, nil Class B Oshawa Taunton LP Series 1 Units and nil Class D Oshawa Taunton LP Series 1 Units, respectively, issued based on the market price at the time of issuance. 5,715 Class C LP III Series 6 Units, 11,476 Class C LP III Series 7 Units and 37,270 Class C and E Oshawa Taunton LP Series 1 Units were cancelled due to the price differential between the market price and fixed conversion price.

(5) Each option is represented by a corresponding Class C LP IV Unit.

(6) Each option is represented by a corresponding Class C Oshawa South LP Unit or Class E Oshawa South LP Unit.

(7) Each option is represented by a corresponding Class C Oshawa Taunton LP Unit or Class E Oshawa Taunton LP Unit.

(8) Each option is represented by a corresponding Class C Boxgrove LP Unit.

The following summarizes the change in the fair value of Earnout options:

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	**2018**	2017
Fair value – beginning of period	**615**	1,666	**751**	1,455
Fair value adjustment	**145**	(806)	**9**	(595)
Fair value – end of period	**760**	860	**760**	860

c) Deferred unit plan ("DUP")

The Trust has a deferred unit plan that entitles Trustees and senior management, at the participant's option, to receive deferred units in consideration for Trustee fees or senior management bonuses with the Trust matching the number of units received. Any deferred units granted to Trustees, which include the matching deferred units, vest immediately. Any deferred units granted to senior management as part of their compensation structure vest immediately, and the matching deferred units vest 50% on the third anniversary and 25% on each of the fourth and fifth anniversaries, subject to provisions for earlier vesting in certain events. The deferred units earn additional deferred units ("reinvested units") for the distributions that would otherwise have been paid on the deferred units (i.e., had they instead been issued as Trust Units on the date of grant). Once the matching deferred units have vested, participants are entitled to receive an equivalent number of Trust Units for both the vested deferred units initially granted, and the matching deferred units.

The outstanding deferred units for the six months ended June 30, 2018 and June 30, 2017 are summarized as follows:

	Outstanding	Vested	Non-vested
Balance – January 1, 2018	**819,680**	**692,779**	**126,901**
Granted	**156,293**	**74,679**	**81,614**
Reinvested units from distributions	**27,841**	**23,315**	**4,526**
Vested	**—**	**79,057**	**(79,057)**
Redeemed for cash[1]	**(15,941)**	**(15,941)**	**—**
Forfeited during the period	**(1,605)**	**—**	**(1,605)**
Balance – June 30, 2018	**986,268**	**853,889**	**132,379**
Balance – January 1, 2017	655,301	575,973	79,328
Granted	148,898	73,199	75,699
Reinvested units from distributions	19,175	17,056	2,119
Vested	—	33,894	(33,894)
Exchanged for Trust Units[2]	(3,250)	(3,250)	—
Redeemed for cash[1]	(16,000)	(16,000)	—
Balance – June 30, 2017	804,124	680,872	123,252

(1) During the three months ended June 30, 2018, 8,420 deferred units totalling $247 were redeemed (three months ended June 30, 2017 – 3,000 deferred units totalling $108 were redeemed). During the six months ended June 30, 2018, 15,941 deferred units totalling $472 were redeemed (six months ended June 30, 2017 – 16,000 deferred units totalling $550 were redeemed).

(2) During the three and six months ended June 30, 2018, nil deferred units totalling $nil were exchanged for $nil of Trust Units net of other adjustments (three and six months ended June 30, 2017 – 3,250 deferred units totalling $102 were exchanged for $77 of Trust Units net of other adjustments).

The following summarizes the change in the carrying value of the deferred unit plan:

		Three Months Ended June 30		Six Months Ended June 30	
	Note	**2018**	2017	**2018**	2017
Carrying value – beginning of period		**23,815**	21,848	**23,351**	19,743
Deferred units granted for trustee fees and bonuses		**1,124**	1,071	**2,381**	2,300
Reinvested distributions on vested deferred units	11(e)	**353**	275	**672**	534
Compensation expense – reinvested distributions, amortization and fair value change on unvested deferred units		**1,390**	377	**1,848**	1,108
Exchanged for Trust Units		**—**	(102)	**—**	(102)
Redeemed for cash		**(247)**	(108)	**(472)**	(550)
Fair value adjustment – vested deferred units		**1,101**	(311)	**(244)**	17
Carrying value – end of period		**27,536**	23,050	**27,536**	23,050

14. Fair value of financial instruments

The fair value of financial instruments is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's-length transaction based on the current market for assets and liabilities with the same risks, principal and remaining maturity.

The fair value of the Trust's financial instruments is summarized in the following table:

	June 30, 2018			December 31, 2017		
	Fair Value Through Profit or Loss ("FVTPL")	**Loans Receivable /Other Liabilities**	**Total**	Fair Value Through Profit or Loss ("FVTPL")	Loans Receivable /Other Liabilities	Total
Financial assets						
Mortgages and loans receivable	**—**	**271,897**	**271,897**	—	154,824	154,824
Tenant receivable	**—**	**24,484**	**24,484**	—	11,870	11,870
Financial liabilities						
Secured debt	**—**	**2,253,902**	**2,253,902**	—	2,445,133	2,445,133
Unsecured debt	**—**	**1,796,877**	**1,796,877**	—	1,816,128	1,816,128
Long Term Incentive Plan	**—**	**506**	**506**	—	2,927	2,927
Convertible debentures	**—**	**36,250**	**36,250**	—	36,975	36,975
Units classified as liabilities	**63,708**	**—**	**63,708**	64,501	—	64,501
Earnout options	**760**	**—**	**760**	751	—	751
Deferred unit plan	**27,536**	**—**	**27,536**	23,351	—	23,351

Fair value hierarchy

The Trust values financial assets and financial liabilities carried at fair value using quoted closing market prices, where available. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities. When quoted market prices are not available, the Trust maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3. Valuations at this level are more subjective and, therefore, more closely managed. Such testing has not indicated that any material difference would arise due to a change in input variables.

	June 30, 2018			December 31, 2017		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Recurring measurements:						
Financial liabilities						
Units classified as liabilities	**63,708**	**—**	**—**	64,501	—	—
Earnout options	**—**	**—**	**760**	—	—	751
Deferred unit plan	**—**	**27,536**	**—**	—	23,351	—

Refer to Note 13(b) for a reconciliation of Earnout option fair value measurements.

15. Unit equity

The following represents the number of Units issued and outstanding, and the related carrying value of Unit equity for the six months ended June 30, 2018 and June 30, 2017. The Limited Partnership Units are classified as non-controlling interests in the unaudited interim condensed consolidated balance sheets and the unaudited interim condensed consolidated statements of equity.

		Number of Units Issued and Outstanding			Carrying Amount		
	Note	Trust Units (#)	Smart LP Units (#) (Table A)	Total Units (#)	Trust Units ($)	Smart LP Units ($) (Table B)	Total ($)
Balance – January 1, 2018		**132,612,320**	**25,021,031**	**157,633,351**	**2,724,472**	**629,492**	**3,353,964**
Options exercised	4, 13(b)	**—**	**63,103**	**63,103**	**—**	**1,865**	**1,865**
Distribution reinvestment plan	15(b)	**920,948**	**—**	**920,948**	**27,144**	**—**	**27,144**
Balance – June 30, 2018		**133,533,268**	**25,084,134**	**158,617,402**	**2,751,616**	**631,357**	**3,382,973**
Balance – January 1, 2017		130,132,036	24,991,588	155,123,624	2,648,400	628,660	3,277,060
Deferred Units exchanged for Trust Units	12(c)	2,438	—	2,438	77	—	77
Distribution reinvestment plan	15(b)	766,581	—	766,581	24,723	—	24,723
Balance – June 30, 2017		130,901,055	24,991,588	155,892,643	2,673,200	628,660	3,301,860

Table A: Number of LP Units issued and outstanding

The following represents the number of Units issued and outstanding for the six months ended June 30, 2018 and June 30, 2017.

Unit Type	Class and Series	Balance – January 1, 2018	Options Exercised	Balance – June 30, 2018
			Note 13(b)	
Smart Limited Partnership	**Class B Series 1**	**14,746,176**	**—**	**14,746,176**
Smart Limited Partnership	**Class B Series 2**	**886,956**	**63,103**	**950,059**
Smart Limited Partnership	**Class B Series 3**	**720,432**	**—**	**720,432**
Smart Limited Partnership II	**Class B**	**756,525**	**—**	**756,525**
Smart Limited Partnership III	**Class B Series 4**	**647,934**	**—**	**647,934**
Smart Limited Partnership III	**Class B Series 5**	**572,337**	**—**	**572,337**
Smart Limited Partnership III	**Class B Series 6**	**449,375**	**—**	**449,375**
Smart Limited Partnership III	**Class B Series 7**	**434,598**	**—**	**434,598**
Smart Limited Partnership III	**Class B Series 8**	**1,698,018**	**—**	**1,698,018**
Smart Limited Partnership IV	**Class B Series 1**	**3,046,121**	**—**	**3,046,121**
Smart Oshawa South Limited Partnership	**Class B Series 1**	**688,336**	**—**	**688,336**
Smart Oshawa Taunton Limited Partnership	**Class B Series 1**	**374,223**	**—**	**374,223**
		25,021,031	**63,103**	**25,084,134**

Unit Type	Class and Series	Balance – January 1, 2017	Options Exercised	Balance – June 30, 2017
Smart Limited Partnership	Class B Series 1	14,741,660	—	14,741,660
Smart Limited Partnership	Class B Series 2	886,956	—	886,956
Smart Limited Partnership	Class B Series 3	720,432	—	720,432
Smart Limited Partnership II	Class B	756,525	—	756,525
Smart Limited Partnership III	Class B Series 4	647,934	—	647,934
Smart Limited Partnership III	Class B Series 5	559,396	—	559,396
Smart Limited Partnership III	Class B Series 6	437,389	—	437,389
Smart Limited Partnership III	Class B Series 7	434,598	—	434,598
Smart Limited Partnership III	Class B Series 8	1,698,018	—	1,698,018
Smart Limited Partnership IV	Class B Series 1	3,046,121	—	3,046,121
Smart Oshawa South Limited Partnership	Class B Series 1	688,336	—	688,336
Smart Oshawa Taunton Limited Partnership	Class B Series 1	374,223	—	374,223
		24,991,588	—	24,991,588

Table B: Carrying value of LP Units

The following represents the carrying values of Units issued and outstanding for the six months ended June 30, 2018 and June 30, 2017.

Unit Type	Class and Series	Balance – January 1, 2018	Proceeds From Options Exercised	Balance – June 30, 2018
			Note 13(b)	
Smart Limited Partnership	**Class B Series 1**	**347,675**	**—**	**347,675**
Smart Limited Partnership	**Class B Series 2**	**25,722**	**1,865**	**27,587**
Smart Limited Partnership	**Class B Series 3**	**16,836**	**—**	**16,836**
Smart Limited Partnership II	**Class B**	**17,680**	**—**	**17,680**
Smart Limited Partnership III	**Class B Series 4**	**15,838**	**—**	**15,838**
Smart Limited Partnership III	**Class B Series 5**	**15,356**	**—**	**15,356**
Smart Limited Partnership III	**Class B Series 6**	**11,720**	**—**	**11,720**
Smart Limited Partnership III	**Class B Series 7**	**11,668**	**—**	**11,668**
Smart Limited Partnership III	**Class B Series 8**	**48,732**	**—**	**48,732**
Smart Limited Partnership IV	**Class B Series 1**	**87,477**	**—**	**87,477**
Smart Oshawa South Limited Partnership	**Class B Series 1**	**19,755**	**—**	**19,755**
Smart Oshawa Taunton Limited Partnership	**Class B Series 1**	**11,033**	**—**	**11,033**
		629,492	**1,865**	**631,357**

Unit Type	Class and Series	Balance – January 1, 2017	Proceeds From Options Exercised	Balance – June 30, 2017
Smart Limited Partnership	Class B Series 1	347,583	—	347,583
Smart Limited Partnership	Class B Series 2	25,722	—	25,722
Smart Limited Partnership	Class B Series 3	16,836	—	16,836
Smart Limited Partnership II	Class B	17,680	—	17,680
Smart Limited Partnership III	Class B Series 4	15,838	—	15,838
Smart Limited Partnership III	Class B Series 5	14,974	—	14,974
Smart Limited Partnership III	Class B Series 6	11,362	—	11,362
Smart Limited Partnership III	Class B Series 7	11,668	—	11,668
Smart Limited Partnership III	Class B Series 8	48,732	—	48,732
Smart Limited Partnership IV	Class B Series 1	87,477	—	87,477
Smart Oshawa South Limited Partnership	Class B Series 1	19,755	—	19,755
Smart Oshawa Taunton Limited Partnership	Class B Series 1	11,033	—	11,033
		628,660	—	628,660

a) Authorized Units

i) Trust Units

At June 30, 2018, there were 27,170,909 (December 31, 2017 – 27,107,806) Special Voting Units outstanding. There is no value assigned to the Special Voting Units. A July 2005 agreement preserved Penguin's voting rights at a minimum of 25.0% for a period of 10 years commencing on July 1, 2005, on the condition that Penguin's owner, Mitchell Goldhar, remains a Trustee of the Trust and owns at least 15,000,000 Trust Units, Class B Smart LP and Smart LP III Units, collectively. On May 26, 2015, the Trust extended the voting rights agreement for an additional five years. These Special Voting Units are not entitled to any interest or share in the distributions or net assets of the Trust; nor are they convertible into any Trust securities. The total number of Special Voting Units is adjusted for each annual meeting of the Unitholders based on changes in Penguin's ownership interest.

ii) Smart Limited Partnership Units

The Class A Smart LP Units are entitled to all distributable cash of the LP after the required distributions on the other classes of Units have been paid. At June 30, 2018, there were 75,062,169 (December 31, 2017 – 75,062,169) Class A Smart LP Units outstanding. All Class A Smart LP Units are owned directly by the Trust and have been eliminated on consolidation.

The Class B Smart LP Units and the Class D Smart LP Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B Smart LP Units and Class D Smart LP Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B Smart LP Unit and Class D Smart LP Unit is entitled to one Special Voting Unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B Smart LP Units and the Class D Smart LP Units are considered to be economically equivalent to Trust Units. All Class B Smart LP Units and Class D Smart LP Units (owned by outside parties) have been presented as non-controlling interests and liabilities, respectively.

The Class C Smart LP Units and Class E Smart LP Units are entitled to receive 0.01% of any distributions of the Smart LP and have nominal value assigned in the unaudited interim condensed consolidated financial statements. At the holder's option, and on the completion and rental of additional space on specific properties and payment of a specific predetermined amount per Unit, the Class C Series 1 and Series 2 Smart LP Units, the Class C Series 3 Smart LP Units and the Class E Series 1 Smart LP Units are exchangeable into Class B Smart LP Units, Class F Series 3 Smart LP Units and Class D Series 1 Smart LP Units, respectively, and the Class E Series 2 Smart LP Units are exchangeable into Class D Series 2 Smart LP Units (the Class C Smart LP Units and Class E Smart LP Units are effectively included in the Earnout options – see Note 13(b)). On exercise of the Earnout options relating to the LP, the corresponding Class C Smart LP Units and Class E Smart LP Units are cancelled.

Number of Class C and E Units Outstanding	June 30, 2018	December 31, 2017
Class C Series 1 Smart LP Units	**3,445,341**	3,445,341
Class C Series 2 Smart LP Units	**3,026,949**	3,090,052
Class C Series 3 Smart LP Units	**685,113**	702,667
Class E Series 1 Smart LP Units	**16,704**	16,704
Class E Series 2 Smart LP Units	**800,000**	800,000

Of the 3,445,341 Class C Series 1 Smart LP Units, 1,337,449 Units relate to Earnout options, 1,357,892 Units relate to expired Earnout options and 750,000 Units are cancelled concurrently with Class F Series 3 Smart LP Units on the completion and rental of additional space on specific properties.

The Class F Series 3 Smart LP Units are entitled to receive distributions equivalent to 65.5% of the distributions on Trust Units. At the holder's option, the Class F Series 3 Smart LP Units are exchangeable for $20.10 in cash per Unit or, on the completion and rental of additional space on specific properties, the Class F Series 3 Smart LP Units are exchangeable into Class B Smart LP Units. As at June 30, 2018, there were nil Class F Series 3 Smart LP Units outstanding (December 31, 2017 – nil). On issuance, the Class F Series 3 Smart LP Units are recorded as a liability in the unaudited interim condensed consolidated financial statements.

The Class D Smart LP Units (owned by outside parties) are considered to be a financial liability under IFRS. The Class B Series 1, Class B Series 2 and Class B Series 3 Smart LP Units are classified as equity.

iii) Smart Limited Partnership II Units

The Class A Smart LP II Units are entitled to all distributable cash of Smart LP II after the required distributions on the Class B Smart LP II Units have been paid. At June 30, 2018, there were 208,356 (December 31, 2017 – 208,356) Class A Smart LP II Units outstanding. The Class A Smart LP II Units are owned directly by the Trust and have been eliminated on consolidation.

The Class B Smart LP II Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B Smart LP II Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B Smart LP II Unit is entitled to one Special Voting Unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B Smart LP II Units are considered to be economically equivalent to Trust Units. All Class B Smart LP II Units are owned by outside parties and have been presented as non-controlling interests.

iv) Smart Limited Partnership III Units

The Class A Smart LP III Units are entitled to all distributable cash of Smart LP III after the required distributions on the Class B Smart LP III Units have been paid. At June 30, 2018, there were 12,556,688 (December 31, 2017 – 12,556,688) Class A Smart LP III Units outstanding. The Class A Smart LP III Units are owned directly by the Trust and have been eliminated on consolidation.

The Class B Smart LP III Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B Smart LP III Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B Smart LP III Unit is entitled to one Special Voting Unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B Smart LP III Units are considered to be economically equivalent to Trust Units. All Class B Smart LP III Units are owned by outside parties and have been presented as non-controlling interests.

The Class C Smart LP III Units are entitled to receive 0.01% of any distributions of Smart LP III and have a nominal value assigned in the unaudited interim condensed consolidated financial statements. At the holder's option, and on the completion and rental of additional space on specific properties and payment of a specific formula amount per Unit based on the market price of Trust Units, Class C Series 4 Smart LP III Units, Class C Series 5 Smart LP III Units, Class C Series 6 Smart LP III Units and Class C Series 7 Smart LP III Units are exchangeable into Class B Smart LP III Units (the Class C Smart LP III Units are effectively included in the Earnout options – see Note 13(b)). On exercise of the Earnout options relating to Smart LP III, the corresponding Class C Smart LP III Units are cancelled. At June 30, 2018, there were 2,089,013 (December 31, 2017 – 2,089,013) Class C Smart LP III Units outstanding.

v) Smart Limited Partnership IV Units

The Class A Smart LP IV Units are entitled to all distributable cash of Smart LP IV after the required distributions on the Class B Smart LP IV Units have been paid. At June 30, 2018, there were 102,569 (December 31, 2017 – 102,569) Class A Smart LP IV Units outstanding. The Class A Smart LP IV Units are owned directly by the Trust and have been eliminated on consolidation.

The Class B Smart LP IV Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B Smart LP IV Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B Smart LP IV Unit is entitled to one Special Voting Unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B Smart LP IV Units are considered to be economically equivalent to Trust Units. All Class B Smart LP IV Units are owned by outside parties and have been presented as non-controlling interests.

The Class C Smart LP IV Units are entitled to receive 0.01% of any distributions of Smart LP IV and have a nominal value assigned in the unaudited interim condensed consolidated financial statements. At the holder's option, and on the completion and rental of additional space on specific properties and payment of a specific formula amount per Unit based on the market price of Trust Units, Class C Series 1 Smart LP IV Units are exchangeable into Class B Smart LP IV Units (the Class C Smart LP IV Units are effectively included in the Earnout options – see Note 13(b)). On exercise of the Earnout options relating to Smart LP IV, the corresponding Class C Smart LP IV Units are cancelled. At June 30, 2018, there were 446,061 (December 31, 2017 – 446,061) Class C Smart LP IV Units outstanding.

vi) Smart Oshawa South Limited Partnership Units

The Class A Smart Oshawa South LP Units are entitled to all distributable cash of Smart Oshawa South LP after the required distributions on the other classes of Units have been paid. At June 30, 2018, there were 138,680 (December 31, 2017 – 138,680) Class A Smart Oshawa South LP Units outstanding. The Class A Smart Oshawa South LP Units are owned directly by the Trust and have been eliminated on consolidation.

The Class B Smart Oshawa South LP Units and Class D Smart Oshawa South LP Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B Smart Oshawa South LP Units and Class D Smart Oshawa South LP Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B Smart Oshawa South LP Unit and Class D Smart Oshawa South LP Unit is entitled to one Special Voting Unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B Smart Oshawa South LP Units and Class D Smart Oshawa South LP Units are considered to be economically equivalent to Trust Units. All Class B Smart Oshawa South LP Units and Class D Smart Oshawa South LP Units (owned by outside parties) have been presented as non-controlling interests and liabilities, respectively.

The Class C Smart Oshawa South LP Units and Class E Smart Oshawa South LP Units are entitled to receive 0.01% of any distributions of Smart Oshawa South LP and have a nominal value assigned in the unaudited interim condensed consolidated financial statements. At the holder's option, and on the completion and rental of additional space on specific properties and payment of a specific formula amount per Unit based on the market price of Trust Units, Class C Series 1 Smart Oshawa South LP Units and Class E Series 1 Smart Oshawa South LP Units are exchangeable into Class B Smart Oshawa South LP Units and Class D Smart Oshawa South LP Units, respectively (the Class C Smart Oshawa South LP Units and Class E Smart Oshawa South LP Units are effectively included in the Earnout options – see Note 13(b)). On exercise of the Earnout options relating to Smart Oshawa South LP, the corresponding Class C Smart Oshawa South LP Units and Class E Smart Oshawa South LP Units are cancelled.

Number of Class C and E Units Outstanding	June 30, 2018	December 31, 2017
Class C Series 1 Smart Oshawa South LP Units	**45,000**	45,000
Class E Series 1 Smart Oshawa South LP Units	**15,000**	15,000
	60,000	60,000

The Class D Series 1 Smart Oshawa South LP Units (owned by outside parties) are considered to be a financial liability under IFRS, whereas the Class B Series 1 Smart Oshawa South LP Units are classified as equity.

vii) Smart Oshawa Taunton Limited Partnership Units

The Class A Smart Oshawa Taunton LP Units are entitled to all distributable cash of Smart Oshawa Taunton LP after the required distributions on the Class B Smart Oshawa Taunton LP Units have been paid. At June 30, 2018, there were 637,895 (December 31, 2017 – 637,895) Class A Smart Oshawa Taunton LP Units outstanding. The Class A Smart Oshawa Taunton LP Units are owned directly by the Trust and have been eliminated on consolidation.

The Class B Smart Oshawa Taunton LP Units and Class D Smart Oshawa Taunton LP Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B Smart Oshawa Taunton LP and Class D Smart Oshawa Taunton LP Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B Smart Oshawa Taunton LP Unit and Class D Smart Oshawa Taunton LP Unit is entitled to one Special Voting Unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B Smart Oshawa Taunton LP Units and Class D Smart Oshawa Taunton LP Units are considered to be economically equivalent to Trust Units. All Class B Smart Oshawa Taunton LP Units and Class D Smart Oshawa Taunton LP Units (owned by outside parties) have been presented as non-controlling interests and liabilities, respectively.

The Class C Smart Oshawa Taunton LP Units and Class E Smart Oshawa Taunton LP Units are entitled to receive 0.01% of any distributions of Smart Oshawa Taunton LP and have a nominal value assigned in the unaudited interim condensed consolidated financial statements. At the holder's option, and on the completion and rental of additional space on specific properties and payment of a specific formula amount per Unit based on the market price of Trust Units, Class C Series 1 Smart Oshawa Taunton LP Units and Class E Series 1 Smart Oshawa Taunton LP Units are exchangeable into Class B Smart Oshawa Taunton LP Units and Class D Smart Oshawa Taunton LP Units, respectively (the Class C Smart Oshawa Taunton LP Units and Class E Smart Oshawa Taunton LP Units are effectively included in the Earnout options – see Note 13(b)). On exercise of the Earnout options relating to Smart Oshawa Taunton LP, the corresponding Class C Smart Oshawa Taunton LP Units and Class E Smart Oshawa Taunton LP Units are cancelled.

Number of Class C and E Units Outstanding	June 30, 2018	December 31, 2017
Class C Series 1 Smart Oshawa Taunton LP Units	**132,711**	132,711
Class E Series 1 Smart Oshawa Taunton LP Units	**132,711**	132,711
	265,422	265,422

The Class D Series 1 Smart Oshawa Taunton LP Units (owned by outside parties) are considered to be a financial liability under IFRS, whereas the Class B Series 1 Smart Oshawa Taunton LP Units are classified as equity.

viii) Smart Boxgrove Limited Partnership Units

The Class A Smart Boxgrove LP Units are entitled to all distributable cash of Smart Boxgrove LP after the required distributions on the Class B Smart Boxgrove LP Units have been paid. At June 30, 2018, there were 397,438 (December 31, 2017 – 397,438) Class A Smart Boxgrove LP Units outstanding. The Class A Smart Boxgrove LP Units are owned directly by the Trust and have been eliminated on consolidation.

The Class B Smart Boxgrove LP Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B Smart Boxgrove LP Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B Smart Boxgrove LP Unit is entitled to one Special Voting Unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B Smart Boxgrove LP Units are considered to be economically equivalent to Trust Units. All Class B Smart Boxgrove LP Units are owned by outside parties and have been presented as non-controlling interests. At June 30, 2018, there were nil (December 31, 2017 – nil) Class B Smart Boxgrove LP Units outstanding.

The Class C Smart Boxgrove LP Units are entitled to receive 0.01% of any distributions of Smart Boxgrove LP and have a nominal value assigned in the unaudited interim condensed consolidated financial statements. At the holder's option, and on the completion and rental of additional space on specific properties and payment of a specific formula amount per Unit based on the market price of Trust Units, Class C Series 1 Smart Boxgrove LP Units are exchangeable into Class B Smart Boxgrove LP Units (the Class C Smart Boxgrove LP Units are effectively included in the Earnout options – see Note 13 (b)). On exercise of the Earnout options relating to Smart Boxgrove LP, the corresponding Class C Smart Boxgrove LP Units are cancelled. At June 30, 2018, there were 170,000 (December 31, 2017 – 170,000) Class C Smart Boxgrove LP Units outstanding.

ix) ONR Limited Partnership Units

The Class A ONR LP Units are entitled to all distributable cash of ONR LP after the required distributions on the Class B ONR LP Units have been paid. At June 30, 2018, there were 3,912,943,532 (December 31, 2017 – 3,912,943,532) Class A ONR LP Units outstanding. The Class A ONR LP Units are owned directly by the Trust and have been eliminated on consolidation.

The Class B ONR LP Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B ONR LP Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B ONR LP Unit is entitled to one Special Voting Unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B ONR LP Units are considered to be economically equivalent to Trust Units.

The ONR LP Class B Units are considered to be a financial liability under IFRS.

x) ONR Limited Partnership I Units

The Class A ONR LP I Units are entitled to all distributable cash of ONR LP I after the required distributions on the Class B ONR LP I Units have been paid. At June 30, 2018, there were 38,000,010 (December 31, 2017 – 38,000,010) Class A ONR LP I Units outstanding. The Class A ONR LP I Units are owned directly by the ONR LP and have been eliminated on consolidation.

The Class B ONR LP I Units are non-transferable, except under certain limited circumstances, but are exchangeable into an equal number of Trust Units at the holder's option. Holders of Class B ONR LP I Units are entitled to receive distributions equivalent to the distributions on Trust Units. Each Class B ONR LP I Unit is entitled to one Special Voting Unit, which will entitle the holder to receive notice of, attend and vote at all meetings of the Trust. The Class B ONR LP I Units are considered to be economically equivalent to Trust Units.

The Class B ONR LP I Units are considered to be a financial liability under IFRS.

The Class C ONR LP I Units are entitled to receive 0.01% of any distributions of ONR LP I and have a nominal value assigned in the unaudited interim condensed consolidated financial statements. At the holder's option, and on the completion and rental of additional space on specific properties and payment of a specific formula amount per Unit based on the market price of Trust Units, Class C ONR LP I Units are exchangeable into Class B ONR LP I (the Class C ONR LP I Units are effectively included in the Earnout options – see Note 13(b)). On exercise of the Earnout options relating to ONR LP I, the corresponding Class C ONR LP I Units are cancelled. At June 30, 2018, there were 540,000 (December 31, 2017 – 540,000) Class C ONR LP I Units outstanding.

b) Distribution reinvestment plan ("DRIP")

The Trust enables holders of Trust Units to reinvest their cash distributions in additional Units of the Trust at 97% of the volume weighted average Unit price over the 10 trading days prior to the distribution. The 3% bonus amount is recorded as an additional distribution and issuance of Units.

16. Unit distributions

Pursuant to the Declaration of Trust, the Trust endeavours to distribute annually such amount as is necessary to ensure the Trust will not be subject to tax on its net income under Part I of the Tax Act. Unit distributions declared during the six months ended June 30, 2018 and June 30, 2017 are as follows:

Unit Type Subject to Distributions	Class and Series	**Six Months Ended June 30, 2018**	Six Months Ended June 30, 2017
Distributions on Units classified as equity:			
Trust Units	N/A	**117,312**	111,735
Distributions on Limited Partnership Units			
Smart Limited Partnership	Class B Series 1	**12,903**	12,531
Smart Limited Partnership	Class B Series 2	**789**	754
Smart Limited Partnership	Class B Series 3	**630**	612
Smart Limited Partnership II	Class B	**662**	643
Smart Limited Partnership III	Class B Series 4	**567**	551
Smart Limited Partnership III	Class B Series 5	**501**	476
Smart Limited Partnership III	Class B Series 6	**393**	372
Smart Limited Partnership III	Class B Series 7	**380**	369
Smart Limited Partnership III	Class B Series 8	**1,486**	1,443
Smart Limited Partnership IV	Class B Series 1	**2,665**	2,589
Smart Oshawa South Limited Partnership	Class B Series 1	**602**	585
Smart Oshawa Taunton Limited Partnership	Class B Series 1	**327**	318
Total distributions on Limited Partnership Units		**21,905**	21,243
Distributions on other non-controlling interest	N/A	**—**	283
Total distributions on Units classified as equity		**139,217**	133,261
Distributions on Units classified as liabilities:			
Smart Limited Partnership	Class D Series 1	**272**	264
Smart Oshawa South Limited Partnership	Class D Series 1	**220**	214
ONR Limited Partnership	Class B	**1,097**	—
ONR Limited Partnership I	Class B Series 1	**116**	—
ONR Limited Partnership I	Class B Series 2	**120**	—
Total distributions on LP Units classified as liabilities		**1,825**	478
Distributions paid through DRIP	N/A	**27,144**	24,723

On July 19, 2018, the Trust declared a distribution for the month of July 2018 of $0.14583 per Unit, representing $1.75 per Unit on an annualized basis, to Unitholders of record on July 31, 2018.

17. Rentals from investment properties and other

Rentals from investment properties and other consist of the following:

	Three Months Ended June 30		**Six Months Ended June 30**	
	2018	2017	**2018**	2017
Gross base rent	**126,414**	118,852	**252,112**	237,820
Less: Amortization of tenant incentives	**(1,705)**	(1,579)	**(3,383)**	(3,199)
Net base rent	**124,709**	117,273	**248,729**	234,621
Property tax and insurance recoveries	**46,746**	44,133	**94,024**	88,178
Property operating cost recoveries	**18,325**	15,913	**40,278**	35,260
Miscellaneous revenue	**4,028**	2,580	**6,159**	5,007
Rentals from investment properties	**193,808**	179,899	**389,190**	363,066
Service and other revenues[1]	**3,753**	3,742	**6,804**	6,422
Rentals from investment properties and other	**197,561**	183,641	**395,994**	369,488

[1] For the three months ended June 30, 2018, service and other revenues included $2,861 relating to the fees associated with the Development and Services Agreement with Penguin (three months ended June 30, 2017 – $2,953). For the six months ended June 30, 2018, service and other revenues included $5,483 relating to the fees associated with the Development and Services Agreement with Penguin (six months ended June 30, 2017 – $5,020). See also Note 21 "Related party transactions".

The future contractual minimum base rent payments under non-cancellable operating leases expected from tenants in investment properties are as follows:

	June 30, 2018	June 30, 2017
2017[1]	**—**	274,170
2018[1]	**248,690**	444,599
2019	**470,142**	400,112
2020	**424,502**	356,117
2021	**370,573**	306,419
2022	**316,082**	254,993
Thereafter	**1,022,215**	826,712
	2,852,204	2,863,122

(1) Amounts relate to remainder of year as at the end of the reporting period.

18. Property operating costs and other

Property operating costs and other consist of the following:

	Three Months Ended June 30		**Six Months Ended June 30**	
	2018	2017	**2018**	2017
Recoverable property operating costs[1]	**66,487**	61,561	**138,202**	127,410
Property management fees and costs	**1,359**	1,221	**3,084**	2,385
Non-recoverable costs	**1,270**	1,003	**2,289**	867
Property operating costs	**69,116**	63,785	**143,575**	130,662
Other expenses	**3,790**	3,741	**6,840**	6,433
Property operating costs and other	**72,906**	67,526	**150,415**	137,095

(1) Includes recoverable property tax and insurance costs.

19. General and administrative expense

The general and administrative expense consists of the following:

		Three Months Ended June 30		**Six Months Ended June 30**	
	Note	**2018**	2017	**2018**	2017
Salaries and benefits		**13,203**	11,057	**24,656**	22,923
Master planning services fee charged by Penguin per the Services Agreement	21	**875**	875	**1,750**	1,750
Professional fees		**1,156**	717	**2,072**	1,401
Public company costs		**680**	501	**1,389**	1,548
Rent and occupancy		**564**	614	**1,197**	1,228
Amortization of intangible assets	8	**333**	333	**666**	666
Other costs including information technology, marketing, communications and other employee expenses		**1,682**	1,362	**3,465**	2,523
Total general and administrative expense before allocation		**18,493**	15,459	**35,195**	32,039
Less:					
Costs allocated to other expenses related to the Development and Services Agreement		**(3,753)**	(3,741)	**(6,803)**	(6,421)
Allocated to property operating costs		**(3,532)**	(3,105)	**(7,440)**	(6,125)
Capitalized to properties under development and other assets		**(4,860)**	(3,204)	**(9,299)**	(6,811)
Total amounts charged to Penguin and third parties, allocated and capitalized		**(12,145)**	(10,050)	**(23,542)**	(19,357)
General and administrative expense (net)		**6,348**	5,409	**11,653**	12,682

20. Supplemental cash flow information

	June 30, 2018	December 31, 2017
Cash	**24,660**	162,700

The following summarizes supplemental cash flow information and non-cash transactions:

		Three Months Ended June 30		**Six Months Ended June 30**	
	Note	**2018**	2017	**2018**	2017
Supplemental					
Cash interest paid on total debt		**28,384**	25,291	**67,760**	65,562
Cash interest received		**1,052**	743	**1,883**	1,481
Non-cash transactions					
Adjustment for other working capital amounts		**893**	—	**861**	1,176
Distributions payable	12	**23,435**	22,165	**23,435**	22,165
Liabilities relating to additions to investment properties		**32,207**	23,712	**32,207**	23,712
Value of Units issued:					
Consideration for acquisitions and Earnouts	3	**1,731**	—	**1,865**	—
Distribution reinvestment plan	15	**13,820**	12,246	**27,144**	24,723

Changes in other non-cash operating items

Changes in other non-cash operating items consist of the following:

	Three Months Ended June 30		**Six Months Ended June 30**	
	2018	2017	**2018**	2017
Amounts receivable and prepaid expenses	**(25,983)**	(20,445)	**(56,212)**	(43,961)
Accounts payable and accrued liabilities	**20,297**	6,970	**18,541**	14,834
	(5,686)	(13,475)	**(37,671)**	(29,127)

21. Related party transactions

Transactions with related parties are conducted in the normal course of operations.

At June 30, 2018, Penguin (the Trust's largest Unitholder), owned the following Units, which in total represent approximately 21.9% of the issued and outstanding Units (December 31, 2017 – 22.0%):

Type	**Class and Series**	**June 30, 2018**	December 31, 2017
Trust Units	N/A	**13,782,861**	13,782,861
Smart Limited Partnership	Class B Series 1	**12,488,816**	12,488,816
Smart Limited Partnership	Class B Series 2	**367,550**	304,447
Smart Limited Partnership	Class B Series 3	**720,432**	720,432
Smart Limited Partnership III	Class B Series 4	**647,934**	647,934
Smart Limited Partnership III	Class B Series 5	**572,337**	572,337
Smart Limited Partnership III	Class B Series 6	**449,375**	449,375
Smart Limited Partnership III	Class B Series 7	**434,598**	434,598
Smart Limited Partnership III	Class B Series 8	**1,698,018**	1,698,018
Smart Limited Partnership IV	Class B Series 1	**2,819,411**	2,819,411
Smart Oshawa South Limited Partnership	Class B Series 1	**611,478**	611,478
Smart Oshawa Taunton Limited Partnership	Class B Series 1	**374,223**	374,223
ONR Limited Partnership I	Class B Series 1	**132,881**	132,881
ONR Limited Partnership I	Class B Series 2	**137,109**	137,109
		35,237,023	35,173,920

Certain conditions related to the Declaration of Trust require the Trust to issue such number of additional Special Voting Units to Penguin that will entitle Penguin to cast 25.0% of the aggregate votes eligible to be cast at a meeting of the Unitholders and Special Voting Unitholders ("Voting Top-Up Right"). At June 30, 2018, there were 6,486,636 additional Special Voting Units outstanding (December 31, 2017 – 6,219,693). These Special Voting Units are not entitled to any interest or share in the distributions or net assets of the Trust, nor are they convertible into any Trust securities. There is no value assigned to the Special Voting Units. As a result of the extension for an additional five years of the existing Voting Top-Up Right in favour of Penguin, which was approved by Unitholders at the Trust's 2015 Unitholder meeting, at the request of the TSX, the Trust also redesignated its Trust Units as "Variable Voting Units." Such designation will cease on the termination of the Voting Top-Up Right in 2020. The Voting Top-Up Right is more particularly described in the Trust's management information circular dated April 19, 2018 and filed on the System for Electronic Document Analysis and Retrieval (SEDAR).

Penguin has Earnout options to acquire certain Units as follows:

Type	Class and Series	June 30, 2018	December 31, 2017
Trust Units	N/A	**1,339,835**	1,339,835
Smart Limited Partnership	Class B Series 1	**1,337,449**	1,337,449
Smart Limited Partnership	Class B Series 2	**3,026,949**	3,090,052
Smart Limited Partnership	Class B Series 3	**685,113**	702,667
Smart Limited Partnership III	Class B Series 4	**646,669**	646,669
Smart Limited Partnership III	Class B Series 5	**596,219**	596,219
Smart Limited Partnership III	Class B Series 6	**560,071**	560,071
Smart Limited Partnership III	Class B Series 7	**286,054**	286,054
Smart Limited Partnership IV	Class B Series 1	**409,548**	409,548
Smart Oshawa South Limited Partnership	Class B Series 1	**40,000**	40,000
Smart Oshawa Taunton Limited Partnership	Class B Series 1	**132,711**	132,711
Smart Boxgrove Limited Partnership	Class B Series 1	**170,000**	170,000
ONR Limited Partnership I	Class B Series 2	**540,000**	540,000
		9,770,618	9,851,275

At June 30, 2018, Penguin's ownership would increase to 26.2% (December 31, 2017 – 26.4%) if Penguin were to exercise all remaining Earnout options. Pursuant to its rights under the Declaration of Trust, at June 30, 2018, Penguin has appointed two Trustees out of seven.

The other non-controlling interest, which is included in equity, represents a 5.0% equity interest by Penguin in five consolidated investment properties.

In addition to agreements and contracts with Penguin described elsewhere in these unaudited interim condensed consolidated financial statements, the Trust has the following agreements with Penguin:

1) Pursuant to the Development and Services Agreement, the Trust and certain subsidiary limited partnerships of the Trust provide the following services to Penguin over a five-year term with automatic five-year renewal periods thereafter:

    a. Construction management services and leasing services are provided, at the discretion of Penguin, with respect to certain of Penguin's properties under development for a market-based fee based on construction costs incurred. Fees for leasing services, requested at the discretion of Penguin, are based on various rates that approximate market rates, depending on the term and nature of the lease. In addition, management fees are provided for a market-based fee based on rental revenue.

    b. Transition services relate to activities necessary to become familiar with the Penguin projects and establishing processes and systems to accommodate the needs of Penguin.

    c. Support services are provided for a fee based on an allocation of the relevant costs of the support services incurred by the Trust. Such relevant costs include: office administration, human resources, information technology, insurance, legal and marketing.

2) Pursuant to the Services Agreement, Penguin provides certain advisory, consulting and strategic services to the Trust, including but not limited to strategies dealing with development, municipal approvals, acquisitions, dispositions, and construction costs, as well as strategies for marketing new projects and leasing opportunities. The fees associated with this agreement are $875 per quarter for a five-year term (these charges are included in the following table as "Master planning services").

3) The Trust has a lease agreement to rent its office premises from Penguin for a term ending in May 2025.

In addition to related party transactions and balances disclosed elsewhere in these unaudited interim condensed consolidated financial statements (including Note 3 referring to the purchase of Earnouts, Note 4(d) referring to Leasehold property interests, Note 5 referring to Mortgages, loans and notes receivable, Note 6(a)(ii) referring to a Supplemental Development Fee Agreement, and Note 17 referring to Rentals from investment properties and other), the following summarizes related party transactions and balances with Penguin and other related parties, including the Trust's share of amounts relating to the Trust's share in equity accounted investments:

		Three Months Ended June 30		Six Months Ended June 30	
	Note	**2018**	2017	**2018**	2017
Related party transactions with Penguin					
Revenues:					
Service and other revenues:					
Transition services fee revenue		**917**	1,000	**1,917**	2,000
Management fee and other services revenue pursuant to the Development and Services Agreement		**1,709**	1,575	**3,053**	2,509
Support services		**235**	378	**513**	511
	17	**2,861**	2,953	**5,483**	5,020
Interest income from mortgages and loans receivable		**1,687**	1,388	**3,287**	2,766
Head lease rents and operating cost recoveries included in head lease rentals from income properties		**371**	185	**604**	603
Expenses and other payments:					
Master planning services:					
Capitalized to properties under development and properties held for development	19	**875**	875	**1,750**	1,750
Development fees and costs (capitalized to investment properties)		**8**	3	**8**	6
Interest expense (capitalized to properties under development)		**3**	4	**6**	7
Opportunity fees (capitalized to properties under development)[1]		**661**	613	**1,306**	1,205
Rent and operating costs (included in general and administrative expense and property operating costs)		**503**	556	**1,076**	1,112
Time billings, and other administrative costs (included in general and administrative expense and property operating costs)		**16**	35	**33**	35
Leasing and consulting service fees (included in general and administrative expense)		**—**	—	**—**	10
Marketing cost sharing (included in property operating costs)		**11**	11	**32**	32
Related party transactions with PCVP					
Revenues:					
Interest income from mortgages and loans receivable		**692**	—	**1,087**	—

[1] These amounts relate to accrued interest on prepaid land costs subject to future Earnouts.

	Note	**June 30, 2018**	December 31, 2017
Related party balances with Penguin disclosed elsewhere in the financial statements			
Receivables:			
Amounts receivable[1]	10	**14,903**	12,366
Mortgages receivable	5(a)	**130,696**	127,704
Loans receivable[1]	5(b)	**10,457**	10,199
Notes receivable	5(c)	**2,979**	2,979
Total receivables		**159,035**	153,248
Payables and other accruals:			
Accrued liabilities		**11,428**	9,222
Future land development obligation	12	**26,628**	26,642
Secured debt		**1,061**	1,338
Total payables and other accruals		**39,117**	37,202

(1) Excludes amounts receivable and loans receivable presented below as part of balances with equity accounted investments.

The following table summarizes the related party balances with the Trust's equity accounted investments (including PCVP, Residences LP, Laval C Apartments LP and Leaside SAM LP):

	Note	**June 30, 2018**	December 31, 2017
Amounts receivable[1]	10	**8,805**	3,539
Loans receivable[2]	5(b)	**111,820**	—
Other unsecured debt	11(b)(ii)	**4,121**	—

(1) Amounts receivable includes Penguin's portion, which represents $4,301 (December 31, 2017 – $3,195) relating to Penguin's 50% investment in the PCVP and 25% investment in Residences LP.
(2) Loans receivable includes Penguin's portion, which represents $55,910 (December 31, 2017 – $nil) relating to Penguin's 50% investment in the PCVP.

Mortgages receivable

As at June 30, 2018, the weighted average effective interest rate associated with mortgages receivable from Penguin was 4.77% (December 31, 2017 – 4.47%).

Future land development obligations

The future land development obligations represent payments required to be made to Penguin for certain undeveloped lands acquired from 2006 to 2015, either on completion and rental of additional space on the undeveloped lands or, if no additional space is completed on the undeveloped lands, at the expiry of the 10-year development management agreement periods ending in 2018 (remainder of year) to 2025. The accrued future land development obligations are measured at their estimated fair values using imputed interest rates ranging from 4.50% to 5.50%.

Leasehold interest properties

The Trust has entered into leasehold agreements with Penguin for 15 investment properties (see also Note 4, "Investment properties").

Other related party transactions:

	Three Months Ended June 30		**Six Months Ended June 30**	
	2018	2017	**2018**	2017
Legal fees paid to a law firm in which a partner is a trustee of the Trust:				
Costs associated with the Arrangement	**—**	—	**21**	—
Capitalized to investment properties	**129**	204	**345**	204
Included in general and administrative expense	**102**	5	**177**	43
	231	209	**543**	247

22. Key management and Trustee compensation

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Trust, directly or indirectly. The Trust's key management personnel include the Executive Chairman, Chief Executive Officer, President and Chief Operating Officer, Chief Financial Officer, Chief Development Officer, Executive Vice President – Portfolio Management and Investments. In addition, the Trustees have oversight responsibility for the Trust.

The compensation relating to key management is shown below:

	Three Months Ended June 30		**Six Months Ended June 30**	
	2018	2017	**2018**	2017
Salaries and other short-term employee benefits	**962**	632	**1,516**	1,264
Deferred unit plan	**1,244**	1,477	**1,736**	1,928
Long Term Incentive Plan	**164**	241	**(408)**	896
	2,370	2,350	**2,844**	4,088

The compensation relating to Trustees is shown below:

	Three Months Ended June 30		**Six Months Ended June 30**	
	2018	2017	**2018**	2017
Trustee fees	**191**	122	**424**	270
Deferred unit plan	**360**	111	**488**	219
	551	233	**912**	489

23. Co-owned property interests

The Trust has the following co-owned property interests and includes in the unaudited interim condensed consolidated financial statements its proportionate share of the related assets, liabilities, revenues and expenses of these properties:

	June 30, 2018		December 31, 2017	
	Number of Co-owned Properties[1]	**Ownership Interest**	Number of Co-owned Properties[1]	Ownership Interest
Income producing properties	**17**	**40% – 50%**	17	40% – 50%
Properties under development	**5**	**25% – 60%**	5	25% – 60%
Residential development	**1**	**50.0%**	1	50.0%
Total	**23**		23	

(1) Penguin is a co-owner of seven investment properties, consisting of five properties under development and two income producing properties (December 31, 2017 – seven investment properties, consisting of five properties under development and two income producing properties) (see also Note 21, "Related party transactions").

The following amounts, included in the unaudited interim condensed consolidated financial statements, represent the Trust's proportionate share of the assets and liabilities of the 23 co-owned property interests as at June 30, 2018 (23 co-ownership interests at December 31, 2017).

	June 30, 2018	December 31, 2017
Assets[1]	**1,178,457**	1,137,940
Liabilities	**386,096**	385,373

(1) Includes cash and cash equivalents of $17,070 (December 31, 2017 – $15,270).

The following summarizes the results of operations and cash flows for the three and six months ended June 30, 2018 and June 30, 2017 for the Trust's co-owned property interests:

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	**2018**	2017
Revenues	**22,898**	21,307	**44,039**	41,855
Expenses	**11,571**	10,868	**23,064**	21,903
Income before fair value adjustment	**11,327**	10,439	**20,975**	19,952
Fair value adjustment on investment properties	**7,648**	10,320	**15,786**	17,483
Net income	**18,975**	20,759	**36,761**	37,435
Cash flow provided by operating activities	**7,895**	9,972	**16,081**	15,087
Cash flow provided by financing activities	**7,722**	26,365	**4,106**	28,266
Cash flow used in investing activities	**(11,533)**	(30,224)	**(18,387)**	(33,571)

Management believes the assets of the co-owned property interests are sufficient for the purpose of satisfying the associated obligations of the co-owned property interests.

24. Segmented information

Operating segments are components of an entity that engage in business activities from which they earn revenues and incur expenses (including revenues and expenses related to transactions with the other component(s)), the operations of which can be clearly distinguished and the operating results of which are regularly reviewed by a chief operating decision-maker to make resource allocation decisions and to assess performance.

As at June 30, 2018, the Trust has one reportable segment, which comprises the ownership, development, management and operation of investment properties located in Canada. In measuring performance, the Trust does not distinguish or group its operations on a geographical or any other basis and, accordingly, has a single reportable segment for disclosure purposes.

The Trust's major tenant is Walmart, accounting for 25.8% of the Trust's annualized rentals from investment properties for the six months ended June 30, 2018 (six months ended June 30, 2017 – 26.3%).

25. Adjustments to fair value

The following summarizes the adjustments to fair value for the three and six months ended June 30:

		Three Months Ended June 30		Six Months Ended June 30	
	Note	**2018**	2017	**2018**	2017
Investment properties					
Income properties	4	**11,277**	34,491	**22,989**	21,805
Properties under development	4	**3,322**	6,171	**2,481**	5,166
Fair value adjustment on revaluation of investment properties		**14,599**	40,662	**25,470**	26,971
Financial instruments					
Units classified as liabilities	13(a)	**(2,963)**	309	**793**	96
Earnout options	13(b)	**(145)**	806	**(9)**	595
Deferred unit plan – vested portion	13(c)	**(1,101)**	311	**244**	(17)
Fair value of interest rate swap agreements		**—**	7	**—**	28
Fair value adjustment on financial instruments		**(4,209)**	1,433	**1,028**	702
Total adjustments to fair value		**10,390**	42,095	**26,498**	27,673

26. Risk management

a) *Financial risks*

The Trust's activities expose it to a variety of financial risks, including interest rate risk, credit risk and liquidity risk. The Trust's overall financial risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Trust's financial performance. The Trust may use derivative financial instruments to hedge certain risk exposures.

i) Interest rate risk

The majority of the Trust's debt is financed at fixed rates with maturities staggered over a number of years, thereby mitigating its exposure to changes in interest rates and financing risks. At June 30, 2018, approximately 17.99% (December 31, 2017 – 13.84%) of the Trust's debt is financed at variable rates, exposing the Trust to changes in interest rates on such debt.

The Trust analyzes its interest rate exposure on a regular basis. From time to time, the Trust may enter into fixed-for-floating interest rate swaps as part of its strategy for managing certain interest rate risks. The Trust has recognized the change in fair value associated with interest rate swap agreements in the unaudited interim condensed consolidated statements of income and comprehensive income.

The Trust monitors the historical movement of 10-year Government of Canada bonds for the past two years and performs a sensitivity analysis to show the possible impact on net income of an interest rate shift. The simulation is performed on a quarterly basis to ensure the maximum loss potential is within the limit acceptable to management. Management runs the simulation only for the interest-bearing secured debt and revolving operating facility. The Trust's policy is to capitalize interest expense incurred relating to properties under development (six months ended June 30, 2018 – 13.46% of total interest costs; year ended December 31, 2017 – 12.96% of total interest costs). The sensitivity analysis below shows the maximum impact (net of estimated interest capitalized to properties under development) on net income of possible changes in interest rates on variable-rate debt.

Interest shift of:	-0.50%	-0.25%	+0.25%	+0.50%
Net income increase (decrease)	3,824	1,912	(1,912)	(3,824)

ii) Credit risk

Credit risk arises from cash and cash equivalents, as well as credit exposures with respect to mortgages and loans receivable (Note 5) and tenant receivables (Note 10). Tenants may experience financial difficulty and become unable to fulfil their lease commitments. The Trust mitigates this risk of credit loss by reviewing tenants' covenants, by ensuring its tenant mix is diversified and by limiting its exposure to any one tenant except Walmart. Further risks arise in the event that borrowers of mortgages and loans receivable default on the repayment of amounts owing to the Trust. The Trust endeavours to ensure adequate security has been provided in support of mortgages and loans receivable. The Trust limits cash transactions to high-credit-quality financial institutions to minimize its credit risk from cash and cash equivalents.

iii) Liquidity risk

Liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities and the ability to lease out vacant units. In the next 12 months, $848,075 of liabilities will mature and will need to be settled by means of renewal or payment.

Due to the dynamic nature of the underlying business, the Trust aims to maintain flexibility and opportunities in funding by keeping committed credit lines available, obtaining additional mortgages as the value of investment properties increases, issuing equity and issuing convertible or unsecured debentures.

The key assumptions used in the Trust's estimates of future cash flows when assessing liquidity risk are: the renewal or replacement of the maturing revolving operating facility, secured debt and unsecured debentures, at reasonable terms and conditions in the normal course of business and no major bankruptcies of large tenants. Management believes that it has considered all reasonable facts and circumstances as of today in forming appropriate assumptions. However, as always, there is a risk that significant changes in market conditions could alter the assumptions used.

The Trust's liquidity position is monitored on a regular basis by management. A schedule of principal repayments on secured debt and other debt maturities is disclosed in Note 11.

b) Capital risk management

The Trust defines capital as the aggregate amount of Unitholders' equity, debt and Units classified as liabilities. The Trust's primary objectives when managing capital are: (i) to safeguard the Trust's ability to continue as a going concern so that it can continue to provide returns for Unitholders; and (ii) to ensure the Trust has access to sufficient funds for operating, acquisition (including Earnouts) or development activities.

The Trust sets the amount of capital in proportion to risk. The Trust manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Trust may adjust the amount of distributions paid to Unitholders, issue new Units and debt or sell assets to reduce debt or fund operating, acquisition or development activities.

The Trust anticipates meeting all current and future obligations. Management expects to finance operating, future acquisitions, mortgages receivable, development costs and maturing debt from: (i) existing cash balances; (ii) a mix of debt secured by investment properties, operating facilities, issuance of equity and convertible and unsecured debentures; and (iii) the sale of non-core assets. Cash flow generated from operating activities is the source of liquidity to service debt (except maturing debt), sustaining capital expenditures, leasing costs and Unit distributions.

The Trust monitors its capital structure based on the following ratios: interest coverage ratio, debt to total assets and debt to total earnings before interest, taxes, depreciation and amortization ("EBITDA") and fair value changes associated with investment properties and financial instruments. These ratios are used by the Trust to manage an acceptable level of leverage and are not considered measures in accordance with IFRS, nor are there equivalent IFRS measures.

The following are the significant financial covenants that the Trust is required, by its operating line lenders, to maintain:

Ratio	Threshold
Debt to aggregate assets	65%
Secured debt to aggregate assets	40%
Fixed charge coverage ratio	1.5X
Unencumbered assets to unsecured debt	1.3X
Unitholders' equity	$2,000,000

The Trust's indentures require its unsecured debentures to maintain debt to gross book value including convertible debentures not more than 65%, an interest coverage ratio not less than 1.65 and Unitholders' equity not less than $500,000.

These covenants are required to be calculated based on Canadian generally accepted accounting principles ("GAAP") at the time of debt issuance. If the Trust does not meet all externally imposed financial covenants, then the related debt will become immediately due and payable unless the Trust is able to remedy the default or obtain a waiver from lenders. For the six months ended June 30, 2018, the Trust was in compliance with all financial covenants.

27. Commitments and contingencies

The Trust has certain obligations and commitments pursuant to development management agreements to complete the purchase of Earnouts totalling approximately 0.5 million square feet of development space from Penguin and others over periods extending to 2020, based on a pre-negotiated formula, as more fully described in Note 4. As at June 30, 2018, the carrying value of these obligations and commitments included in properties under development was $49,802 (December 31, 2017 – $49,599). The timing of completion of the purchase of the Earnouts, and the final prices, cannot be readily determined because they are a function of future tenant leasing. The Trust has also entered into various other development construction contracts totalling $15,971 (excluding commitments relating to equity accounted investments, see Note 6) that will be incurred in future periods.

The Trust entered into agreements with Penguin in which the Trust will lend monies in the form of mortgages receivable, as disclosed in Note 5(a). The maximum amount that may be provided under the agreements totals $282,093 (Note 5), of which $130,696 has been provided at June 30, 2018 (December 31, 2017 – $127,704).

Letters of credit totalling $40,798 (including letters of credit drawn down under the revolving operating facility described in Note 11 (d)) have been issued on behalf of the Trust by financial institutions as security for debt and for maintenance and development obligations to municipal authorities.

The Trust carries insurance and indemnifies its Trustees and officers against any and all claims or losses reasonably incurred in the performance of their services to the Trust to the extent permitted by law.

The Trust, in the normal course of operations, is subject to a variety of legal and other claims. Management and the Trust's legal counsel evaluate all claims on their apparent merits and accrue management's best estimate of the likely cost to satisfy such claims. Management believes the outcome of current legal and other claims filed against the Trust, after considering insurance coverage, will not have a significant impact on the Trust's unaudited interim condensed consolidated financial statements.

28. Subsequent events

On July 4, 2018, further to the notice issued by the Trust on May 25, 2018, the Trust completed the redemption of the 5.50% Convertible Debentures for $36,272 in cash, which included the aggregate principal amount outstanding and accrued interest.

CORPORATE INFORMATION

TRUSTEES

Mitchell Goldhar[2]
President & Chief Executive Officer
Penguin Investments Inc.

Executive Chairman
SmartCentres Real Estate Investment Trust

Huw Thomas[2]
Trustee

Jamie McVicar[1, 3]
Trustee

Kevin Pshebniski[1, 2]
President
Hopewell Development Corporation

Garry Foster[1, 2]
Trustee

Michael Young[2, 3]
Principal
Quadrant Capital Partners Inc.

Gregory Howard[2, 3]
Partner
Davies Ward Phillips & Vineberg LLP

[1] Audit Committee
[2] Investment Committee
[3] Corporate Governance and Compensation Committee

SENIOR MANAGEMENT

Mitchell Goldhar
Executive Chairman

Peter Forde
President & Chief Executive Officer

Peter Sweeney
Chief Financial Officer

Mauro Pambianchi
Chief Development Officer

Rudy Gobin
Executive Vice President
Portfolio Management & Investments

Stephen Champion
Executive Vice President
Development

BANKERS

TD Bank Financial Group
BMO Capital Markets
RBC Capital Markets
CIBC World Markets
Scotia Capital Inc.
National Bank of Canada
HSBC Bank Canada
Desjardins Securities Inc.
Raymond James Ltd.
Canaccord Genuity Corp.

AUDITORS

PricewaterhouseCoopers LLP
Toronto, Ontario

LEGAL COUNSEL

Osler, Hoskin & Harcourt LLP
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REGISTRAR & TRANSFER AGENT

Computershare Trust Company of Canada
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