SMARTCENTRES®

MANAGEMENT'S DISCUSSION AND ANALYSIS AND UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Three and Six Months Ended June 30, 2019

INFINITE POSSIBILITIES...

SECOND QUARTER REPORT

TABLE OF CONTENTS

MESSAGE FROM THE EXECUTIVE CHAIRMAN AND THE PRESIDENT & CEO

MITCHELL GOLDHAR
Executive Chairman

PETER FORDE
President & CEO

In addition to our stable portfolio of retail properties, SmartCentres has a significant number of intensification and expansion opportunities on properties it already owns, which are available to increase rental and 'recurring non-recurring' income. This extraordinary potential to develop on our properties synergistically is unique in that it will simultaneously bring additional traffic to the shopping centres, including new customers living on the property. So far, we have identified approximately 20 million square feet of viable space for mixed-use development across 76 SmartCentres properties, representing 168 individual buildings. Approximately 75% of these 168 projects are expected to generate rental income with the remaining 25% generating cash flow from sources such as residential condominium sales, to provide support for the overall development program. Normally such income is non-recurring income, but in our case with our significant land it is expected to be recurring.

During the second quarter we progressed on many new developments including the following:

- For Vaughan Metropolitan Centre (VMC) the final design of a purpose-built 35-storey residential rental tower comprising 451 units, adjacent to our five sold-out Transit City condominium towers (2,752 units).
- At VMC, executed a lease with Scotiabank for the top floor of the PWC-YMCA Tower such that office space in the KPMG Tower and the PWC Tower is now 100% leased.
- In Ottawa, executed an agreement with Selection Group (formerly Reseau Selection) to jointly develop a mixed-use complex at our Laurentian Place shopping centre. The development will consist of a 13-storey apartment building with 180 units and a 14-storey independent supportive living tower with 230 units. Construction is expected to commence in spring 2020.
- Our overall agreements to develop and own new retirement living residences with Revera and to develop and own self-storage locations with SmartStop will soon be generating additional projects which we will be announcing. To date, we have announced three retirement residence projects with Revera and six self-storage buildings.

These announcements are just part of the many mixed-use initiatives we have underway.

SmartCentres is well positioned to deliver sustainable growth for five key reasons:

1. Our extensive real estate assets and land holdings located within or near most of Canada's fastest growing communities. These sites already enjoy high traffic and visibility, and with more than 34 million square feet of predominately Walmart-anchored shopping centres, they play a central role in their communities.

2. Our experienced development-focused team of 150 employees.

3. The proven success of the multi-use developments already underway, including our projects in the VMC, Vaughan North West, Laval, Pointe-Claire, Eglinton Golden Mile and Oakville. These developments will generate new sources of income from residential rentals, seniors' homes and self-storage; and recurring office rents have already commenced at VMC. Our growth will be further augmented by recurring annual profits from condominium and townhouse sales.

4. Our established and ever-growing relationships with experienced, like-minded joint venture partners.

5. Our strong retail portfolio, with industry-leading occupancy rates. Almost 70% of our shopping centre portfolio is in primary markets. The 30% of our portfolio which is in secondary markets has very high occupancy benefiting from the customer traffic that comes with virtually all being anchored by a Walmart store.

In the second quarter, we continued to improve our balance sheet to support our mixed-use development program:

- We redeemed $150.0 million of 3.749% unsecured debentures due in 2021, and
- We arranged a $170.0 million unsecured bank loan at a fixed rate of 3.256% for seven years, with part of the proceeds used to redeem the unsecured debentures.

Our second quarter financial results were in line with our budget expectations. FFO with one time adjustment and before Transactional FFO increased by $5.1 million or 5.6% to $96.1 million. Principally as a result of the equity issue, FFO per Unit remained the same at $0.56. These are expected steady results pending the additional income anticipated to start in the second half of 2020 from our mixed-use development projects.

SmartCentres' unique combination of well-located properties, with a platform of 34 million square feet of 98% leased shopping centres, a disciplined and measured conservative investment approach and a keen eye for current and future intensification opportunities enables us to enjoy continued success. Of course, nothing that SmartCentres is achieving would be possible without the contributions of our in-house team of real estate development experts and our carefully selected joint venture partners. Equally important is the contribution from our dedicated employees, business partners and Trustees and our valued Unitholders, whose continued support serves as the foundation upon which we can build.

Sincerely,

Mitchell Goldhar
Executive Chairman
SmartCentres

Peter Forde
President & CEO
SmartCentres

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

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, 2019, management's outlook and the risks facing the business.

This MD&A should be read in conjunction with the Trust's audited consolidated financial statements for the years ended December 31, 2018 and December 31, 2017, and the unaudited interim condensed consolidated financial statements for the period ended June 30, 2019, 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 8, 2019, which is the date of the press release announcing the Trust's results for the three and six months ended June 30, 2019. 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 and 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, 2019. 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 2019. 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 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 last revised in February 2019. 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 on 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 and costs thereof and returns therefrom; 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, construction and development risks, future property acquisitions, competition for real property investments, environmental matters, land leases, potential conflicts of interest, cyber security risk, significant Unitholder risks 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, 2018, 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 many of its shopping centre properties across Canada, as well as developing certain of its urban properties to provide a mix of retail, residential, office, seniors housing, 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 a growing number of consumers and therefore other retailers.

As at June 30, 2019, the Trust has an ownership interest in 152 shopping centres with total income producing gross leasable area of 34.0 million square feet, one office property, seven development properties and four mixed-use properties, located in communities across Canada. In addition, many of the Trust's properties are shadow-anchored by approximately 9.7 million square feet of large tenancies by well established retailers. 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 "SmartCentres" brand from Penguin, 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 consumers, investors, retailers, municipal officials, lenders and other business partners.

Mixed-Use Development

A few examples of the Trust's evolution into mixed-use development that are currently under construction include: (i) SmartCentres Place at the Vaughan Metropolitan Centre ("VMC") in Vaughan, Ontario, (ii) the high-rise rental residential project in Laval, Quebec, and (iii) Leaside self storage in Toronto, Ontario. In addition, the Trust is currently working on initiatives for many other properties including: (i) the Toronto StudioCentre ("StudioCentre") in Toronto, Ontario, (ii) townhomes with Fieldgate, seniors residence towers with Revera and self-storage with SmartStop at the Vaughan North West ("Vaughan NW") shopping centre 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 residential apartments, seniors residences and self-storage facilities, several of which were recently announced, at various shopping centres in the portfolio.

Acquisitions

Subject to the availability of acquisition opportunities, the Trust intends to grow distributions, in part through the accretive acquisition of properties. The Trust explores acquisition opportunities as they arise but will only pursue acquisitions that management believes are 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. In the table below, "Developments" represent the potential gross leasable area for retail use that the Trust plans to develop for its own account and exclude the Trust's share of VMC which is reflected separately below. "Earnouts" are defined as the gross leasable area for retail use 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 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.

Excluding its large development pipeline which includes 168 identified initiatives of mixed-used projects, the Trust's potential gross leasable area subject to retail Developments, Earnouts and Mezzanine Financing is summarized as follows:

(in thousands of square feet)	**June 30, 2019**	December 31, 2018
Retail Developments	**2,988**	2,850
Premium Outlets	**50**	50
Planned developments not subject to Earnouts	**3,038**	2,900
Planned developments subject to Earnouts	**302**	314
Future estimated retail development area	**3,340**	3,214
Lands under Mezzanine Financing	**615**	615
Potential gross leasable area	**3,955**	3,829

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 97.8% at June 30, 2019 (December 31, 2018 – 98.0%) and a committed occupancy rate (that includes executed leases that have not commenced) of 98.0% at June 30, 2019 (December 31, 2018 – 98.1%).

Outlook

Collectively, we anticipate that the various new mixed-use initiatives that we are planning will create substantial opportunities for inherent growth in both NAV and net income per unit. These initiatives are consistent with our diversification strategy that is designed to enable SmartCentres to leverage our existing portfolio of retail properties as a catalyst to propel substantive future growth. Currently, 168 intensification initiatives have been identified to commence over the next five years on 76 of the 164 properties owned by SmartCentres. In addition, we continue to assess each of our existing properties to identify additional opportunities for mixed-use development. The table below identifies the current status of these 168 identified initiatives.

Description	# Projects Underway	# Projects in Active Planning	# Projects Identified for Future (Minimum)	Total Minimum # Projects Currently Underway, in Active Planning and Identified for Future
Apartment Rentals	9	7	22	38
Residential Condominiums	7	9	13	29
Residential Townhomes	1	4	10	15
Seniors' Residences	2	13	30	45
Office	1	2	—	3
Self-Storage	13	14	11	38
Total	**33**	**49**	**86**	**168**

Over the last several years, there has been a growing secular trend among other Canadian landlords that places heavier weightings and economic values on urban retail locations. We believe this trend dismisses large secondary and medium secondary markets as being more vulnerable to macro-based trends and changing patterns in consumer behaviour. We leverage our unique advantage of having Walmart as the Anchor or Shadow Anchor tenant in both our large secondary and medium secondary markets, as well as Walmart's continued ability to drive high levels of traffic to its stores and the surrounding shopping centres, we are taking an alternative approach. All of our shopping centres that are located in either large secondary or medium secondary markets have high levels of occupancy and relevance, and provide tremendous opportunities for both NAV and FFO growth with many mixed-use opportunities including purpose built residential rental, retirement homes, and self-storage facilities expected to be built on these properties. The table below provides a summary of the locational attributes of our shopping centres, together with current occupancy and NOI contribution levels.

	Centres		Area		NOI	Committed Occupancy
Market Type	**#**	**%**	**Square Feet (in millions)**	**%**	**%**	**%**
Primary	97	62.2	23.0	67.1	72.6	97.5
Large Secondary	32	20.5	6.7	19.5	16.3	98.4
Medium Secondary	27	17.3	4.6	13.4	11.1	98.9
Total	156	100.0	34.3	100.0	100.0	97.8

Because the vast majority of the various mixed use development initiatives we are planning will be developed primarily on sites that are in our existing portfolio of properties across Canada, we will not be required to purchase development land at expensive current market prices. Most of these initiatives are being planned on properties that we have owned for many years and that were developed by the development team we have in-house. We are familiar with: i) the needs and concerns of the communities and their municipal administrations, ii) the existing complement of services and any proposed future improvements to infrastructure and services, iii) any geo-technical and environmental constraints, and iv) the realistic timeframes expected for rezoning and similar entitlements. The financial benefits associated with these various development initiatives will soon begin to contribute substantively to our operating results with the first closings of the Transit City condominium towers commencing in the third quarter of 2020.

The new 144,000 square foot expansion of the Toronto Premium Outlets (which we own together with Simon Properties) which opened in November 2018, is now fully leased. The expanded 502,000 square foot shopping centre is home to a variety of luxury brands which now includes Gucci, Prada, Coach, Armani, Burberry, Saint Laurent, Kate Spade, Montblanc and Zadig & Voltaire. Sales revenue for 2019 is expected to exceed its sales per square foot productivity prior to expansion. At approximately $1,150 per square foot, this asset ranks in the top tier of retail centres in Canada and is one of Simon Properties' best performing Premium Outlets in the world. The Premium Outlets in Montreal (which we also own together with Simon Properties) continues to experience full occupancy, with continuously improving traffic and sales levels with 2019 sales levels expected to exceed $720 per square foot. This continued strength has resulted in us beginning to plan for additional development on several out-parcels on this site that are expected to commence over the next several years. Also, we continue to work with our partner, Simon Properties, on other potential additional Premium Outlets locations in Canada.

At SmartCentres Place in Vaughan, 100% of the office space in the KPMG Tower has now been leased and we are completing the balance of retail leasing on its ground floor. In addition to the recent openings of a Bank of Montreal retail branch and other retail tenants, we continue to receive good levels of interest from other retailers to occupy the balance of ground floor space. Completion of the PwC-YMCA Tower continues on time and on budget. PwC took possession of its space earlier this year to complete its 'fit out' work and expect to open its new office in the fall of 2019. In addition, we recently announced the completion of a lease with Scotiabank which will soon open a retail branch on the ground floor and an office on the entire top floor of the PwC-YMCA Tower. We are also in discussions with a higher end purveyor of coffee and expect to be able to announce further details on this initiative next quarter. The completion of the YMCA space is in progress and is expected to open in the second quarter of 2020. Because of the success in leasing both the KPMG Tower and PwC-YMCA Tower, we have now actively commenced leasing and design discussions for the next phase of office development at SmartCentres Place.

With respect to the Transit City residential phases at SmartCentres Place, there are now five active cranes on the site reflecting the significant level of construction activity that is currently underway, including Transit City's first three 55-storey residential condominium towers, together with a new 1,100 unit multi-level parking facility. Currently, construction activity has reached the 40th, 30th and 10th floors of towers 1, 2 and 3, respectively, and each of towers 1 and 2 are expected to be topped off later this fall. These condominium towers that we are developing with our partners, Penguin and CentreCourt Developments ("CentreCourt"), represent 1,741 residential units, substantially all of which have been pre-sold with average selling prices of $704 psf with all 20% purchaser deposits now fully received.

In addition, together with Penguin and CentreCourt we are pleased to confirm that during the second quarter of 2019, we pre-sold 493 units and 521 units in phases 4 and 5 of Transity City, respectively, once again substantively selling out each phase with average selling prices of over $850 psf. The following table provides additional details on each of the phases:

Phase	# Storeys	# Units Released for Sale	# Units Sold	% of Units Sold to Date	Estimated Completion Period
1	55	551	551	100.0%	2020/2021
2	55	559	559	100.0%	2020/2021
3	55	631	628	99.5%	2021
4	45	498	493	99.0%	2023
5	50	528	521	98.7%	2023
Total		**2,767**	**2,752**	**99.5%**	

Concurrent with the development of phases 4 and 5, together with Penguin, we intend to complete a 35-storey, 451-unit, purpose-built rental building on the site. As we have heard from so many of the purchasers of condominiums in each of the phases that have been pre-sold to date, the growth potential for SmartCentres Place is closely linked to the various transit modes that directly serve the property, including the VMC Subway Station that connects the site directly to downtown Toronto, the VIVA Bus Service, which continues its westerly expansion along Hwy 7, and the soon-to-be-opened SmartCentres Place Bus Terminal that will serve as the new hub for York Region Transit Services connecting into the VMC Subway Station. The various permanent and temporary parking lots that currently service SmartCentres Place are regularly at capacity on a daily basis. Also, vehicular access to/from SmartCentres Place is significantly improving with the recent completion of construction of the re-alignment of the on/off ramps to/from Hwy 400 northbound at Hwy 7. Direct vehicular access to/from SmartCentres Place from/to the newly realigned Hwy 400 northbound on/off ramps is expected to open later in August 2019 with the opening of the southern extension of Applewood Crescent. These critical transportation improvements are expected to bring further prominence to SmartCentres Place and accelerate its pace of development.

In Laval, Quebec, with our partner, Jadco, construction of the first phase of the two-phase, 338-unit, purpose-built residential rental project is proceeding on time and on budget with initial occupancies in the 171-unit, 15-storey first phase, expected early in 2020. Construction of the second phase is now expected to commence in 2020. Economic stabilization of the first tower is expected by the third quarter of 2020, and based on the market for rental accommodation in Laval and our current estimate for budgeted costs, once stabilized, we expect this project to yield a 5.3%-5.8% return on costs.

Earlier in 2019, together with Revera Inc., we announced the execution of an overall agreement to develop and own new retirement living residences across Canada. We also announced the execution of specific site agreements to proceed with the first three projects, which will contain 536 units in Vaughan (two projects) and Oakville. Construction of these three projects is expected to commence in 2020, subject to municipal approvals. In addition, together with Selection Group (formerly Réseau Sélection) we recently announced a two-tower seniors apartments/residences project on undeveloped lands at our Laurentian Place shopping centre in Ottawa. Construction of this 410-unit development is expected to be completed in 2022, and based on our current budgets and estimates, this project is anticipated to generate a return on investment of 6.0%-7.0%. We are continuing to work with our partners to identify additional opportunities to develop retirement home communities within our portfolio of shopping centre locations.

In addition, with our partner SmartStop, construction is progressing on the self-storage project in Leaside, and we will soon commence construction in Oshawa. These new facilities are proximate to our Leaside and Oshawa South shopping centres and once complete, these 4-storey self-storage facilities will each have approximately 1,000 units ranging in size from 25 to 300 square feet. Five other self-storage facilities have been approved including locations at Vaughan NW, Scarborough, Markham, and two locations in Brampton. In each case, lands will be transferred to the partnership with SmartStop as soon as we receive municipal approvals. 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.

Our core portfolio of over 34 million square feet of predominantly Walmart-anchored shopping centres has been designed for both strength and agility, and it provides a strong platform from which we can leverage our various mixed-use development opportunities. We continue to experience steady demand from both existing and prospective tenants in our shopping centres. To date, we have renewed 80.0% of our expiring 2019 lease maturities (2018 - 73.8%) with rental increases, excluding anchor tenants of 4.8% (2018 - 3.7%). During the second quarter of 2019 our overall committed occupancy level remained at 98.0%. These high occupancy levels include the dilutive impact of the recent bankruptcy and closure of 21 Bombay and Bowring locations and 46 Payless Shoes locations in our portfolio representing 103,000 square feet and 107,000 square feet, respectively. Substantively all of these locations are part of Walmart-anchored or shadow-anchored shopping centres, and we expect to backfill these locations over the next 12 to 18 months.

These store closures are representative of the continuous evolution of the retail industry, and although they result in temporary declines in both occupancy and FFO, they do represent opportunities for us to provide well-located space to new and growing tenants. This retail growth is best reflected in our pipeline of retail Developments and Earnouts. Excluding SmartCentres Place, during 2019 we expect to complete approximately 275,000 square feet of new retail developments including additional new stores for well-known retailers such as Indigo, Marshalls, Old Navy, HomeSense, End of the Roll, Yellow, and various restaurants and service-based tenancies. Also, during 2019, we expect to complete Earnouts approximating 42,000 square feet that will include tenants such as Pet Valu, Carter's Osh Kosh and various restaurants. During the first six months of 2019, we completed approximately 88,000 square feet of these new Earnouts and Developments with an average yield of 5.63%.

We also continue to work with our existing tenants to facilitate their evolving omni-channel and e-commerce platforms. Most major retailers are recognizing that the retail industry has reached an inflection point for the growth of online shopping, and are adjusting their business planning strategies respectively. Despite this, we see demand among expanding retailers for physical retail space continuing. Currently, the top expansion retail categories include grocery, dollar stores, fast food and theme-based restaurants, fitness and health facilities, off-price apparel and beauty and cosmetics. According to Cushman and Wakefield Research, during 2017 and 2018 in the United States, 26,911 new retail stores opened as compared to 18,996 retail closures during the same period, and more conservative new shopping centre construction has resulted in the lowest retail vacancy rates in the United States since 2006. Although this type of data is not formally tracked in Canada, we believe similar trends are taking place, and with the balance of vacant Target and Sears space being substantially absorbed or repurposed, we are beginning to see increments in lease renewal rates return to their pre-2015 levels.

In January 2019, we completed a very successful new equity issue that totalled $230.0 million and we are grateful to both the institutional and retail investors that participated in this initiative for their continued support and confidence in SmartCentres. We took the opportunity to issue this new equity to assist with funding requirements that we expect over the next several years as our development pipeline builds. Accordingly, the funds raised have been applied against outstanding indebtedness to reduce our overall debt levels and related debt metrics, to appropriately and conservatively accommodate future levels of expected development financing that will be required to generate future FFO growth (e.g., over the next 5 years, we expect to begin projects with total expected development costs of $9.5 billion of which our share is estimated to be $3.3 billion). Our successful equity issue is, however, having a dilutive impact on FFO per Unit in 2019 and we estimate this to be approximately 3% (or $0.06).

During the second quarter of 2019 FFO per Unit after adjusting for yield maintenance costs was $0.56 which is equal to what we experienced in the comparable quarter last year, notwithstanding the dilution associated with the $230.0 million equity raise. Second quarter 2019 FFO after adjusting for yield maintenance cost increased by $5.1 million to $96.1 million. This growth in FFO was primarily derived from: (i) incremental revenue associated with the expansion of the Toronto Premiums Outlets, (ii) savings in interest costs associated with refinancing those mortgages and similar finance facilities that matured in 2018, and (iii) the additional net income attributed to the commencement of the PwC lease at the PwC-YMCA Tower and other new leases that have commenced in the KPMG Tower at SmartCentres Place.

FFO per Unit is expected to grow by over 10% in 2020, as we begin to experience the start of project completions in our large pipeline of mixed-use developments. Specifically, in 2020, this new level of FFO per Unit is expected to be principally driven by the completion and initial deliveries of units in at least the first two phases of the Transit City condominiums in the third and fourth quarters. Similar levels of FFO from condominium and townhome completions are expected to continue for many years to come.

We continue to focus on further fortifying our balance sheet and the $230.0 million equity issuance is indicative of this focus. Also, during the second quarter of 2019, we redeemed $150.0 million in Series L 3.749% Debentures which were replaced with a new $170.0 million, 7-year, 3.26% fixed rate unsecured bank facility. This accretive financing initiative permits us certainty on interest rates for the next seven years and mitigates any potential dilutive impact from possible interest rate increases that could occur between now and the original February 2021 maturity date of the Series L 3.749% Debentures. In addition, in the first quarter of 2019 we issued $350.0 million in Series T 2.76% debentures maturing in June 2021 which was principally used to repay variable rate mortgages and variable rate project financing. These transactions further strengthen our debt ladder and extend our weighted average term on unsecured debt to 4.4 years. As at June 30, 2019, our overall debt levels continued to decline. Our current Debt to Aggregate Assets ratio is 41.8% (2018 - 44.7%), Debt to Adjusted EBITDA ratio was 7.8x (2018 - 8.5x), and Interest Coverage ratio was 3.3x (2018 - 3.1x). Also, as at June 30, 2019, our weighted average costs of secured and unsecured debt were 4.05% (2018 - 3.93%) and 3.38% (2018 - 3.53%), respectively.

The current interest rate environment in Canada has improved over the last six months. In 2018, Canadian economists expected the Bank of Canada to announce three interest rate increases in 2019 with the expectation that the overnight rate would increase to 2.50% before the end of 2019 from its current level of 1.75%. However, recent forecasts continue to predict sluggish economic growth in Canada over the next two years, thus signalling a more dovish tone by the Bank of Canada. Accordingly, when appropriate, we will take advantage of these favourable borrowing conditions to enhance FFO, extend debt maturities and further mitigate exposure to interest rate risk. The recent early redemption of the Series L debentures, and their replacement with a 7-year fixed-rate unsecured bank loan, and the issuance of Series T debentures to repay variable rate mortgages are examples of our execution of this strategy. 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 or similar unsecured facilities. Our current ratio of secured/unsecured debt is 46%/54% (2018 - 53%/47%). This strategy permits us to continue to increase our unencumbered asset pool, which is currently valued at approximately $4.5 billion (2018 - $3.5 billion), with the ultimate goal of enhancing our current BBB (mid) credit rating.

Our core group of Walmart anchored shopping centres continues to demonstrate resilient strength and industry leading stability. Our operating cashflow levels from this portfolio have continued to support increases in our distributions and for the sixth consecutive year, we are proud to announce a $0.05 increase in our distribution levels, which will result in our units yielding an annual distribution of $1.85. Concurrently, we are focused on 168 mixed use development projects, 33 of which are currently underway. In 2020, this enormous pipeline of development projects is expected to begin to provide substantial financial benefits in both FFO and NAV growth for our Unitholders for many years to come.

Key Business Development, Financial and Operational Highlights for the Three Months Ended June 30, 2019

The Trust continued its growth through Developments and Earnouts in 2019, in addition to the Acquisitions, Developments and Earnouts that took place 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, 2019 include the following:

- Transit City Condo Towers 4 and 5 in SmartCentres Place at the VMC ("Towers 4 and 5") were substantially sold out. Towers 4 and 5 is a joint venture between the Trust, Penguin ("Penguin" refers to entities controlled by Mitchell Goldhar), and CentreCourt. Once complete, Towers 4 and 5 will be 45 and 50 storeys, respectively, consisting of 1,026 residential units, located adjacent to the VMC subway station. Towers 4 and 5, designed by Diamond Schmitt Architects, will complement Transit City Condo Towers 1, 2 and 3 which are currently under construction and when complete will each be 55 storeys, with a total of 1,741 residential units. Concurrent with the development of Towers 4 and 5, together with Penguin, the Trust intends to complete a 35-storey, 451-unit, purpose-built rental building on the site. Upon completion of these first five phases of condo towers and rental building, Transit City will have 3,218 new residential units.

Operational

- Committed and in-place occupancy rates were 98.0% and 97.8%, respectively, as at June 30, 2019, as compared to 98.2% and 98.0%, respectively, as at June 30, 2018. Outlook for new leasing remains strong.

- Rentals from investment properties and other was $196.7 million, as compared to $197.6 million in the same period in 2018, representing a decrease of $0.9 million or 0.4%.[1] This is a result of tenant bankruptcies previously announced.

- Developments and Earnouts totalling 44,250 square feet and 5,682 square feet, respectively, were completed during the quarter yielding a 5.63% average return, which is a higher return than would otherwise typically be available through acquisitions in the current market environment.

- PwC took possession of its new 77,000 square feet of office space to complete its 'fit-out' work and are expected to open its new office at SmartCentres Place in the fall of 2019. The Trust together with Penguin each own a 50% interest in this new office tower.

- The Toronto Premium Outlets, co-owned with Simon Properties, continue to experience high sales levels with approximately $1,150 per square foot, which ranks in the top tier of retail centres in Canada.

- Without the impact of recent tenant bankruptcies, Same properties' NOI would have increased by approximately 1.0%, however, actual Same properties' NOI decreased by $0.4 million or 0.3% as compared to the same period in 2018 as a result of the tenant bankruptcies previously announced.[2]

- The weighted average stabilized capitalization rate for the Trust's investment property portfolio was 5.90% (December 31, 2018 – 5.92%).[2]

Financial

- The Trust redeemed $150.0 million aggregate principal amount of 3.749% Series L senior unsecured debentures due February 11, 2021 (the "Series L Debentures"), constituting all of the Series L Debentures outstanding.

- The Trust arranged a $170.0 million unsecured bank loan at a fixed rate of 3.256% for seven years with a major Canadian financial institution, with part of the proceeds used to redeem the Series L Debentures.

- Net income and comprehensive income for the quarter and comparable period were $95.5 million and $103.7 million, respectively. These results include IFRS fair value gains on investment properties for the quarter of $4.0 million as compared to $14.6 million for the same period in 2018 representing a change of $10.6 million. Accordingly, the primary reason for net income and comprehensive income for the quarter being $8.2 million less than the prior year's comparable quarter can be primarily attributed to the lower level of IFRS fair value gains recorded in the second quarter of 2019.[1]

- Net income and comprehensive income excluding loss on disposition and fair adjustments was $86.2 million as compared to $87.1 million in the same period in 2018, representing a decrease of $1.0 million or 1.1%, which was primarily attributed to yield maintenance costs of $4.3 million recorded during the quarter ended June 30, 2019.[2]

- FFO with one time adjustment for yield maintenance costs increased by $5.1 million or 5.6% to $96.1 million, while per Unit amounts of $0.56 remained the same, as compared to June 30, 2018.[2]

- ACFO with one time adjustment increased by $7.2 million or 8.2% to $95.6 million as compared to the same period in 2018.[2]

- ACFO with one time adjustment exceeded both distributions declared and distributions paid by $18.6 million and $35.7 million, respectively, as compared to the same period in 2018 of $17.7 million and $31.6 million, respectively.

- The Trust's unencumbered pool of high-quality assets increased to $4.5 billion, representing an increase of $559.1 million or 14.2% as compared to June 30, 2018.[2]

- Debt metrics further improved over the comparable quarter in 2018 including Debt to Aggregate Assets of 41.8%, Interest Coverage multiple of 3.3X, Interest Coverage net of capitalized interest multiple of 3.8X, and Debt to Adjusted EBITDA multiple of 7.8X.

Development and Intensification

- Of the 168 mixed-use initiatives planned on 76 of the 164 investment properties owned by the Trust, 33 are currently underway.

- The new 144,000 square foot expansion at Toronto Premium Outlets is now fully leased and occupied.

- 100% of office space in both the KPMG Tower and PwC-YMCA Tower is now leased.

- In addition to existing/committed tenants including TD Bank, BMO, Pumpernickel's and International News, continuing to work with new retail tenants for balance of ground floor space in the KPMG Tower.

- Construction progress for the three 55-storey Transit City 1, 2 and 3 condo towers, representing 1,741 pre-sold residential units, continues on time and on budget, with concrete currently being poured at 40th, 30th and 10th floors, respectively.

- Transit City 4 and 5 condo towers, representing 1,026 residential units, substantially sold out during quarter at an average price exceeding $850 per square foot with construction expected to begin later this year.

- Re-routing of the new off/on ramps from Hwy 400 to Hwy 7 is now complete, with vehicular access directly into SmartCentres Place expected to soon open.

Subsequent to Quarter End:

- The Trust and Penguin signed a 10-year (plus two five-year extensions) lease transaction with Scotiabank in the PwC-YMCA Tower at SmartCentres Place in the VMC. The PwC-YMCA Tower is a 220,000 square foot mixed-use office tower located in the heart of the VMC adjacent to the VMC subway station and bus terminal. Scotiabank will occupy 26,500 square feet, with 23,000 square feet of office space on the 8th floor of the PwC-YMCA Tower, with the balance for a retail branch in the lobby of the tower. Occupancy is targeted for the fall of 2019.

- The Trust has entered into a partnership agreement with Selection Group to develop a mixed-use complex at SmartCentres' Laurentian Place shopping centre in Ottawa, Ontario. The development will consist of a 13-storey apartment building with 180 units and a 14-storey independent supportive living tower with 230 units. The two buildings will rise above a two-level podium structure that will contain some shared common facilities as well as some independent retail shops and services. Three levels of underground parking will also be provided. Construction is expected to begin in the spring of 2020.

- On August 8, 2019, the Board of Trustees approved an increase of $0.05 per Unit (2.8%) in annual distributions to $1.85 per Unit effective October 2019.

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

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 operational and financial information as at June 30, 2019, December 31, 2018 and June 30, 2018.

(in thousands of dollars, except per Unit and other non-financial data)	**June 30, 2019**	December 31, 2018	June 30, 2018
Operational Information			
Number of retail and other properties	**152**	152	154
Number of properties under development	**7**	7	7
Number of office properties	**1**	1	1
Number of mixed-use properties	**4**	4	2
Total number of properties with an ownership interest	**164**	164	164
Gross leasable area (in thousands of sq. ft.)	**34,252**	34,379	34,207
Future estimated retail development area (in thousands of sq. ft.)	**3,340**	3,214	4,046
Lands under Mezzanine Financing (in thousands of sq. ft.)	**615**	615	615
Committed occupancy rate	**98.0%**	98.1%	98.2%
In-place occupancy rate	**97.8%**	98.0%	98.0%
Average lease term to maturity	**5.2 years**	5.4 years	5.7 years
Net retail rental rate (per occupied sq. ft.)	**$15.38**	$15.31	$15.22
Net retail rental rate excluding Anchors (per occupied sq. ft.)	**$22.01**	$21.77	$21.57
Financial Information			
Investment properties(2)(3)	**9,229,352**	9,155,173	9,046,739
Total assets(1)	**9,676,090**	9,459,632	9,513,881
Total unencumbered assets(2)	**4,499,700**	4,250,800	3,940,600
Debt(2)(3)	**4,127,264**	4,236,364	4,296,836
Debt to Aggregate Assets(2)(3)	**41.8%**	43.9%	44.7%
Debt to Gross Book Value(2)(3)	**48.5%**	51.1%	51.4%
Interest Coverage(2)(3)	**3.3X**	3.3X	3.2X
Interest coverage (net of capitalized interest expense)(2)(3)	**3.8X**	3.8X	3.8X
Debt to Adjusted EBITDA(2)(3)	**7.8X**	8.2X	8.5X
Equity (book value)(1)	**5,286,865**	5,008,331	4,921,463

(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.

Quarterly Comparison to Prior Year

The following table represents key financial, per Unit, and payout ratio information for the three months ended June 30, 2019 and June 30, 2018:

(in thousands of dollars, except per Unit information)	**June 30, 2019**	June 30, 2018	Variance
	(A)	(B)	(A–B)
Financial Information			
Rentals from investment properties and other[1]	**196,746**	197,561	(815)
Net income and comprehensive income[1]	**95,513**	103,748	(8,235)
Cash flows provided by operating activities[1]	**80,767**	100,994	(20,227)
Net income and comprehensive income excluding loss on disposition and fair value adjustments[2][3]	**86,158**	87,135	(977)
NOI[2]	**128,217**	126,708	1,509
FFO[2][3][4][5]	**91,781**	91,036	745
FFO with one time adjustment for yield maintenance costs[2][3][4]	**96,121**	91,036	5,085
FFO with one time adjustments and Transactional FFO[2][3][4]	**96,121**	95,012	1,109
ACFO[2][3][4][5]	**91,244**	88,355	2,889
ACFO with one time adjustment[2][3][4]	**95,584**	88,355	7,229
Distributions declared	**76,985**	70,634	6,351
Surplus of ACFO with one time adjustment over distributions declared[2]	**18,599**	17,721	878
Surplus of ACFO with one time adjustment over distributions paid[2]	**35,676**	31,617	4,059
Units outstanding[6]	**170,118,375**	160,704,177	9,414,198
Weighted average – basic	**169,858,745**	160,415,583	9,443,162
Weighted average – diluted[7]	**170,718,814**	161,220,808	9,498,006
Per Unit Information (Basic/Diluted)			
Net income and comprehensive income	**$0.56/$0.56**	$0.65/$0.64	$-0.09/$-0.08
Net income and comprehensive income excluding loss on disposition and fair value adjustments	**$0.51/$0.50**	$0.54/$0.54	$-0.03/$-0.04
FFO[2][3][4][5]	**$0.54/$0.54**	$0.57/$0.56	$-0.03/$-0.02
FFO with one time adjustment for yield maintenance costs[2][3][4]	**$0.57/$0.56**	$0.57/$0.56	$0.00/$0.00
FFO with one time adjustments and Transactional FFO[2][3][4]	**$0.57/$0.56**	$0.59/$0.59	$-0.02/$-0.03
Distributions declared	**$0.450**	$0.437	$0.013
Payout Ratio Information			
Payout ratio to FFO[2][3][4][5]	**83.7%**	77.5%	6.2%
Payout ratio to FFO with one time adjustment for yield maintenance costs[2][3][4]	**79.9%**	77.5%	2.4%
Payout ratio to FFO with one time adjustments and Transactional FFO[2][3][4]	**79.9%**	74.2%	5.7%
Payout ratio to ACFO[2][3][4][5]	**84.4%**	79.9%	4.5%
Payout ratio to ACFO with one time adjustment[2][3][4]	**80.5%**	79.9%	0.6%

(1) Represents a GAAP measure.
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(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 FFO and ACFO and related payout ratios, including comparative amounts, are financial metrics that were determined based on the February 2019 REALpac White Paper on FFO and ACFO, respectively. Comparison with other reporting issuers may not be appropriate. The payout ratio to FFO and the payout ratio to ACFO are calculated as declared distributions divided by FFO and ACFO, respectively.
(6) Total Units outstanding include Trust Units and LP Units, including Units classified as liabilities. LP Units classified as equity in the unaudited interim condensed consolidated financial statements are presented as non-controlling interests.
(7) The diluted weighted average includes the vested portion of the deferred unit plan.

Year-to-Date Comparison to Prior Year

The following table represents key financial, per Unit, and payout ratio information for the six months ended June 30, 2019 and June 30, 2018:

(in thousands of dollars, except per Unit information)	**June 30, 2019**	June 30, 2018	Variance
	(A)	(B)	(A–B)
Financial Information			
Rentals from investment properties and other[1]	**403,179**	395,994	7,185
Net income and comprehensive income[1][3]	**175,486**	204,214	(28,728)
Cash flows provided by operating activities[1]	**133,349**	144,794	(11,445)
Net income and comprehensive income excluding loss on disposition and fair value adjustments[2][3]	**169,062**	170,834	(1,772)
NOI[2]	**254,152**	249,547	4,605
FFO[2][3][4][5]	**180,077**	180,323	(246)
FFO with one time adjustment for yield maintenance costs[2][3][4]	**187,942**	180,323	7,619
FFO with one time adjustments and Transactional FFO[2][3][4]	**187,942**	184,789	3,153
ACFO[2][3][4][5]	**171,620**	170,163	1,457
ACFO with one time adjustment[2][3][4]	**179,485**	170,163	9,322
Distributions declared	**153,701**	141,042	12,659
Surplus of ACFO with one time adjustment over distributions declared[2]	**25,784**	29,121	(3,337)
Surplus of ACFO with one time adjustment over distributions paid[2]	**59,855**	56,411	3,444
Units outstanding[6]	**170,118,375**	160,704,177	9,414,198
Weighted average – basic	**168,706,565**	160,180,885	8,525,680
Weighted average – diluted[7]	**169,589,765**	160,945,056	8,644,709
Per Unit Information (Basic/Diluted)			
Net income and comprehensive income	**$1.04/$1.03**	$1.27/$1.27	$-0.23/$-0.24
Net income and comprehensive income excluding loss on disposition and fair value adjustments	**$1.00/$1.00**	$1.07/$1.06	$-0.07/$-0.06
FFO[2][3][4][5]	**$1.07/$1.06**	$1.13/$1.12	$-0.06/$-0.06
FFO with one time adjustment for yield maintenance costs[2][3][4]	**$1.11/$1.11**	$1.13/$1.12	$-0.02/$-0.01
FFO with one time adjustments and Transactional FFO[2][3][4]	**$1.11/$1.11**	$1.15/$1.15	$-0.04/$-0.04
Distributions declared	**$0.900**	$0.875	$0.025
Payout Ratio Information			
Payout ratio to FFO[2][3][4][5]	**84.8%**	78.1%	6.7%
Payout ratio to FFO with one time adjustment for yield maintenance costs[2][3][4]	**81.2%**	78.1%	3.1%
Payout ratio to FFO with one time adjustments and Transactional FFO[2][3][4]	**81.2%**	76.2%	5.0%
Payout ratio to ACFO[2][3][4][5]	**89.6%**	82.9%	6.7%
Payout ratio to ACFO with one time adjustment[2][3][4]	**85.6%**	82.9%	2.7%

(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 FFO and ACFO and related payout ratios, including comparative amounts, are financial metrics that were determined based on the February 2019 REALpac White Paper on FFO and ACFO, respectively. Comparison with other reporting issuers may not be appropriate. The payout ratio to FFO and the payout ratio to ACFO are calculated as declared distributions divided by FFO and ACFO, respectively.
(6) Total Units outstanding include Trust Units and LP Units, including Units classified as liabilities. LP Units classified as equity in the unaudited interim condensed 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 Developments and Earnouts during the course of the past quarter, in addition to the Acquisitions, Developments and Earnouts that took place in the first quarter of 2019 and in 2018, resulting in increases in operating results for the three and six months ended June 30, 2019, as compared to the three and six months ended June 30, 2018.

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, 2019 and June 30, 2018, and to provide additional information, reflects the Trust's share of equity accounted investments, the sum of which represents a non-GAAP measure:

(in thousands of dollars)	**Three Months Ended June 30, 2019**			Three Months Ended June 30, 2018			
	Trust	**Equity Accounted Investments**	**Total**	Trust	Equity Accounted Investments	Total	Variance
			(Non-GAAP)[1]			(Non-GAAP)[1]	(Non-GAAP)[1]
			(A)			(B)	(A-B)
Net income and comprehensive income[2]	**94,284**	**1,229**	**95,513**	97,022	6,726	103,748	(8,235)
Net base rent	**126,059**	**2,202**	**128,261**	124,709	1,711	126,420	1,841
Property tax and insurance recoveries	**47,673**	**475**	**48,148**	46,746	482	47,228	920
Property operating cost recoveries	**16,710**	**550**	**17,260**	18,325	462	18,787	(1,527)
Miscellaneous revenue	**3,920**	**585**	**4,505**	4,028	629	4,657	(152)
Rentals from investment properties	**194,362**	**3,812**	**198,174**	193,808	3,284	197,092	1,082
Service and other revenues	**2,384**	**—**	**2,384**	3,753	—	3,753	(1,369)
Rentals from investment properties and other	**196,746**	**3,812**	**200,558**	197,561	3,284	200,845	(287)
Recoverable property operating costs and taxes	**(66,482)**	**(1,075)**	**(67,557)**	(66,487)	(922)	(67,409)	(148)
Property management fees and costs	**(966)**	**(88)**	**(1,054)**	(1,359)	(72)	(1,431)	377
Non-recoverable costs	**(1,092)**	**(214)**	**(1,306)**	(1,270)	(237)	(1,507)	201
Property operating costs	**(68,540)**	**(1,377)**	**(69,917)**	(69,116)	(1,231)	(70,347)	430
Other expenses	**(2,424)**	**—**	**(2,424)**	(3,790)	—	(3,790)	1,366
Property operating costs and other	**(70,964)**	**(1,377)**	**(72,341)**	(72,906)	(1,231)	(74,137)	1,796
NOI[3]	**125,782**	**2,435**	**128,217**	124,655	2,053	126,708	1,509
NOI as a percentage of net base rent	**99.8%**	**110.6%**	**100.0%**	100.0%	120.0%	100.2%	(0.2)%
NOI as a percentage of rentals from investment properties	**64.7%**	**63.9%**	**64.7%**	64.3%	62.5%	64.3%	0.4%
NOI as a percentage of rentals from investment properties and other	**63.9%**	**63.9%**	**63.9%**	63.1%	62.5%	63.1%	0.8%
Recovery ratio (including prior year adjustments)	**96.8%**	**95.3%**	**96.8%**	97.9%	102.4%	97.9%	(1.1)%
Recovery ratio (excluding prior year adjustments)	**96.2%**	**95.2%**	**96.2%**	97.2%	97.4%	97.2%	(1.0)%

(1) Except for net income and comprehensive income, this column contains non-GAAP measures because it includes figures that are recorded in equity accounted investments - that are not explicitly disclosed and/or presented in the unaudited interim condensed consolidated financial statements for the three months ended June 30, 2019.

(2) Represents a GAAP measure.

(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.

Excluding acquisition and disposition related gain or loss and fair value adjustments on both financial instruments and investment properties, net income for the three months ended June 30, 2019 decreased by $1.0 million or 1.1% as compared to the same period last year. This decrease was primarily attributed to the following:

- $4.3 million increase in yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs; and
- $0.4 million increase in supplemental cost associated with the VMC (see also Note 6, "Equity Accounted Investments", in the Trust's unaudited interim condensed consolidated financial statements);

Partially offset by the following:

- $1.5 million increase in NOI primarily attributed to Toronto Premium Outlets' expansion and other Earnouts and Developments;
- $1.4 million decrease in general and administrative expenses, principally resulting from both lower LTIP and DUP costs that are tied directly to the Trust's Unit price; and
- $0.8 million decrease in interest expense.

Year-to-Date Comparison to Prior Year

The following summarizes net income and comprehensive income, NOI, NOI related ratios, and recovery ratios, for the six months ended June 30, 2019 and June 30, 2018, and to provide additional information, reflects the Trust's share of equity accounted investments, the sum of which represents a non-GAAP measure:

(in thousands of dollars)	**Six Months Ended June 30, 2019**			Six Months Ended June 30, 2018			
	Trust	**Equity Accounted Investments**	**Total**	Trust	Equity Accounted Investments	Total	Variance
			(Non-GAAP)[1]			(Non-GAAP)[1]	(Non-GAAP)[1]
			(A)			(B)	(A-B)
Net income and comprehensive income[2]	**173,528**	**1,958**	**175,486**	195,612	8,602	204,214	(28,728)
Net base rent	**251,608**	**4,014**	**255,622**	248,729	3,479	252,208	3,414
Property tax and insurance recoveries	**96,130**	**908**	**97,038**	94,024	892	94,916	2,122
Property operating cost recoveries	**42,596**	**1,036**	**43,632**	40,278	897	41,175	2,457
Miscellaneous revenue	**8,042**	**1,068**	**9,110**	6,159	1,029	7,188	1,922
Rentals from investment properties	**398,376**	**7,026**	**405,402**	389,190	6,297	395,487	9,915
Service and other revenues	**4,803**	**—**	**4,803**	6,804	—	6,804	(2,001)
Rentals from investment properties and other	**403,179**	**7,026**	**410,205**	395,994	6,297	402,291	7,914
Recoverable property operating costs and taxes	**(143,898)**	**(2,111)**	**(146,009)**	(138,202)	(1,806)	(140,008)	(6,001)
Property management fees and costs	**(2,165)**	**(169)**	**(2,334)**	(3,084)	(136)	(3,220)	886
Non-recoverable costs	**(2,457)**	**(387)**	**(2,844)**	(2,289)	(387)	(2,676)	(168)
Property operating costs	**(148,520)**	**(2,667)**	**(151,187)**	(143,575)	(2,329)	(145,904)	(5,283)
Other expenses	**(4,866)**	**—**	**(4,866)**	(6,840)	—	(6,840)	1,974
Property operating costs and other	**(153,386)**	**(2,667)**	**(156,053)**	(150,415)	(2,329)	(152,744)	(3,309)
NOI[3]	**249,793**	**4,359**	**254,152**	245,579	3,968	249,547	4,605
NOI as a percentage of net base rent	**99.3%**	**108.6%**	**99.4%**	98.7%	114.1%	98.9%	0.5%
NOI as a percentage of rentals from investment properties	**62.7%**	**62.0%**	**62.7%**	63.1%	63.0%	63.1%	(0.4)%
NOI as a percentage of rentals from investment properties and other	**62.0%**	**62.0%**	**62.0%**	62.0%	63.0%	62.0%	0.0%
Recovery ratio (including prior year adjustments)	**96.4%**	**92.1%**	**96.3%**	97.2%	99.1%	97.2%	(0.9)%
Recovery ratio (excluding prior year adjustments)	**95.8%**	**94.8%**	**95.8%**	96.9%	96.2%	96.9%	(1.1)%

(1) Except for net income and comprehensive income, this column contains non-GAAP measures because it includes figures that are recorded in equity accounted investments - that are not explicitly disclosed and/or presented in the unaudited interim condensed consolidated financial statements for the six months ended June 30, 2019.
(2) Represents a GAAP measure.
(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.

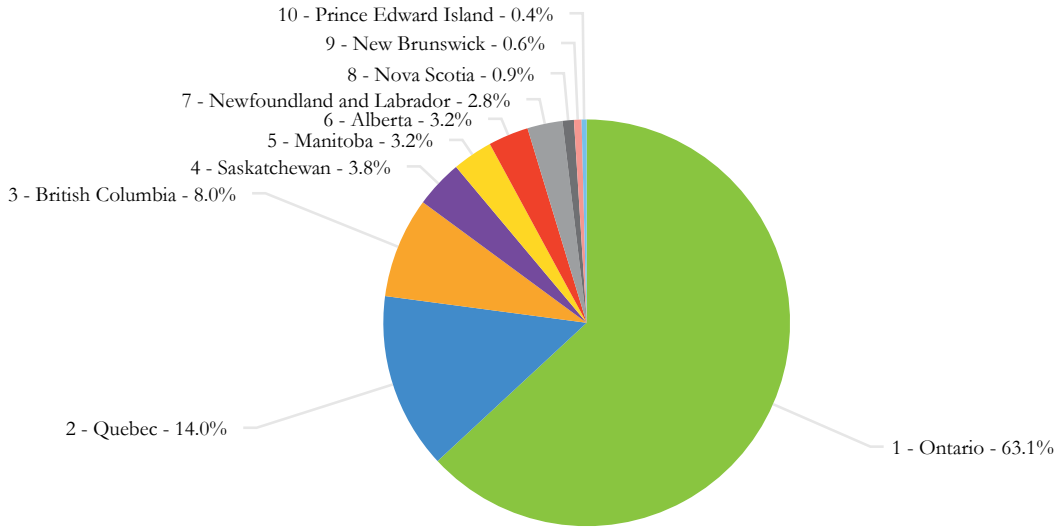
Excluding acquisition and disposition related gain or loss and fair value adjustments on both financial instruments and investment properties, net income for the six months ended June 30, 2019 decreased by $1.8 million or 1.1% as compared to the same period last year. This decrease was primarily attributed to the following:

- $7.9 million increase in yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs;
- $0.7 million net decrease in CAM and realty tax recoveries primarily due to higher vacancy; and
- $0.3 million increase in supplemental cost associated with the VMC (see also Note 6, "Equity Accounted Investments", in the Trust's unaudited interim condensed consolidated financial statements);

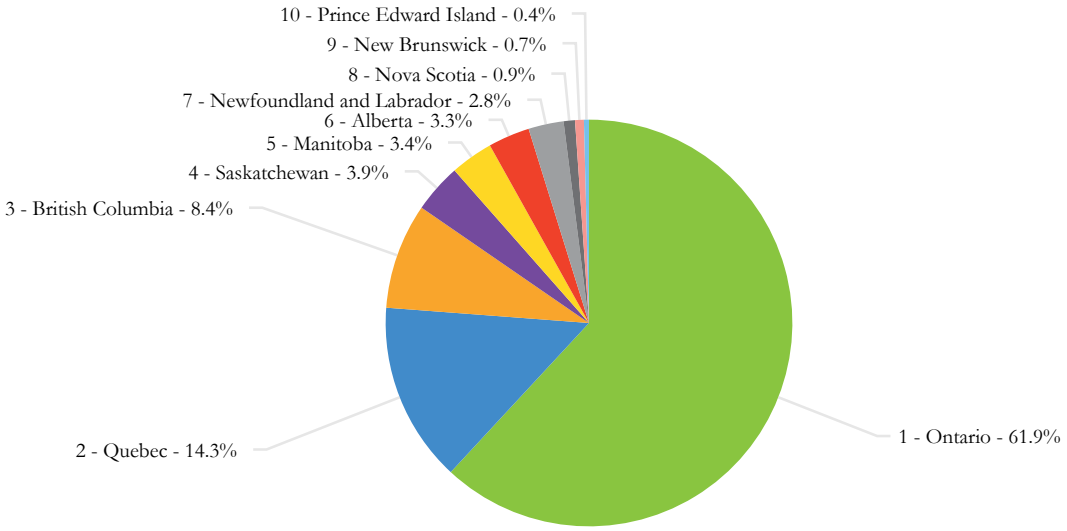
Partially offset by the following:

- $3.7 million net increase in rental income primarily attributed to Toronto Premium Outlets' expansion and other Earnouts and Developments;
- $1.5 million increase in lease termination fees;
- $1.5 million decrease in interest expense; and
- $0.4 million decrease in general and administrative expenses.

Gross Revenue by Province (%) (Six Months Ended June 30, 2019)



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, 77.1% (June 30, 2018 – 76.2%) is derived from Ontario and Quebec, primarily in the Greater Toronto and Greater Montreal areas.

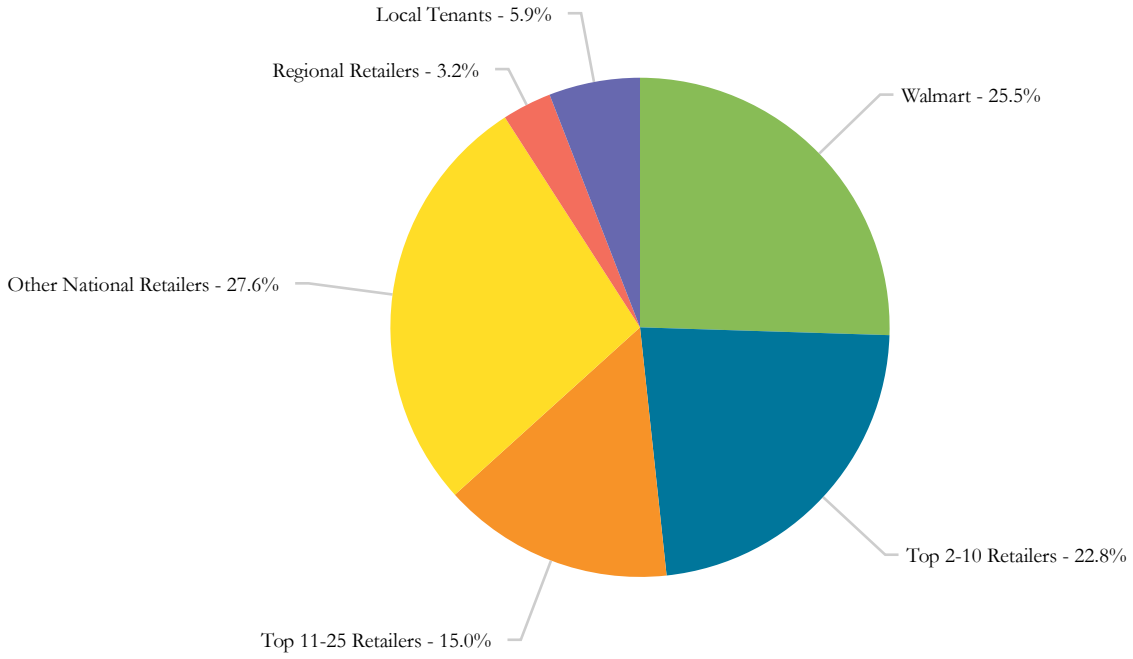
Top 25 Tenants

The 25 largest tenants (by annualized gross rental revenue) account for 63.3% of portfolio revenue as follows:

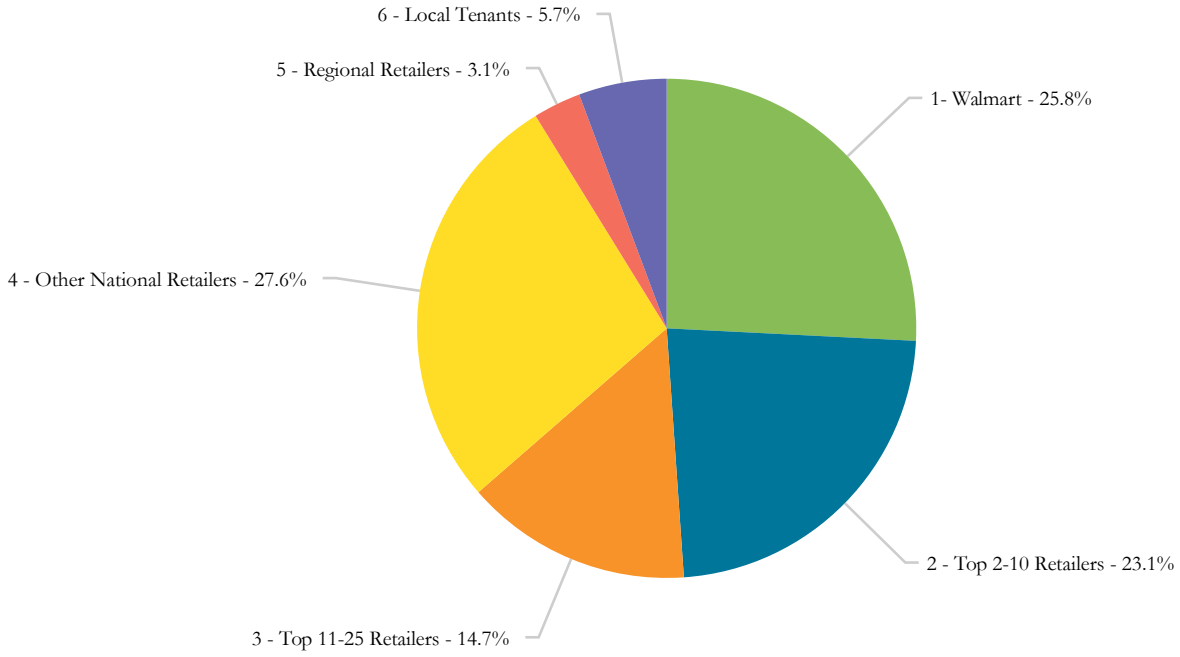
#	Tenant	Number of Stores	Annualized Gross Rental Revenue ($ millions)	Percentage of Total Annualized Gross Rental Revenue	Leased Area (sq. ft.)	Leased Area as a Percentage of Total Gross Leasable Area
1	Walmart[1]	101	202.4	25.5%	14,097,599	41.2%
2	Canadian Tire, Mark's, FGL Sports	73	36.1	4.5%	1,391,307	4.1%
3	Winners, HomeSense, Marshalls	55	33.0	4.2%	1,357,672	4.0%
4	Loblaw, Shoppers Drug Mart	24	21.8	2.7%	899,056	2.6%
5	Lowes, RONA	9	18.6	2.3%	1,023,223	3.0%
6	Sobeys	18	18.2	2.3%	782,029	2.3%
7	Reitmans	88	15.3	1.9%	486,708	1.4%
8	Best Buy	21	13.3	1.7%	484,277	1.4%
9	Dollarama	52	13.2	1.7%	490,904	1.4%
10	Michaels	25	12.0	1.5%	477,249	1.4%
11	LCBO	34	12.0	1.5%	326,970	1.0%
12	Recipe Unlimited	53	11.0	1.4%	271,265	0.8%
13	Staples	21	10.1	1.3%	449,599	1.3%
14	Gap Inc.	26	9.2	1.2%	269,742	0.8%
15	Bonnie Togs	47	8.5	1.1%	225,652	0.7%
16	Bulk Barn	52	8.1	1.0%	242,998	0.7%
17	Toys R Us	7	7.4	0.9%	268,880	0.8%
18	CIBC	27	7.2	0.9%	147,298	0.4%
19	The Brick	10	6.9	0.9%	260,731	0.8%
20	Dollar Tree, Dollar Giant	27	6.7	0.8%	225,819	0.7%
21	Sleep Country	37	6.5	0.8%	177,517	0.5%
22	Ricki's, Cleo, Urban Barn, Warehouse One	38	6.5	0.8%	178,108	0.5%
23	Metro	8	6.4	0.8%	306,664	0.9%
24	GoodLife Fitness Clubs	11	6.2	0.8%	249,417	0.7%
25	Sail	3	6.0	0.8%	214,224	0.6%
		867	502.6	63.3%	25,304,908	74.0%

(1) The Trust has a total of 101 Walmart locations under lease, of which 99 are supercentres. The Trust has 14 shopping centres with Walmart as shadow anchors, all of which are supercentres.

Annualized Gross Rental Revenue by Tenant (%) (Three Months Ended June 30, 2019)



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



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 rents, lease terminations and other adjustments, and amortization of tenant improvements have been excluded from NOI attributed to same properties, acquisitions, dispositions, Earnouts and Development activities in the table below to highlight the impact of changes in occupancy, rent uplift and productivity.

Quarterly Comparison to Prior Year

(in thousands of dollars)	**Three Months Ended June 30, 2019**	Three Months Ended June 30, 2018	Variance	Variance (%)
Net rental income	**125,822**	124,692	1,130	0.9 %
Service and other revenues	**2,384**	3,753	(1,369)	(36.5)%
Other expenses	**(2,424)**	(3,790)	1,366	(36.0)%
NOI[1]	**125,782**	124,655	1,127	0.9 %
NOI from equity accounted investments[1]	**2,435**	2,053	382	18.6 %
Total portfolio NOI before adjustments[1]	**128,217**	126,708	1,509	1.2 %
Adjustments:				
Royalties	**249**	198	51	25.8 %
Straight-lining of rents	**(746)**	(625)	(121)	19.4 %
Lease termination and other adjustments	**(555)**	(897)	342	(38.1)%
Amortization of tenant improvements	**1,830**	1,761	69	3.9 %
Total portfolio NOI after adjustments[1]	**128,995**	127,145	1,850	1.5 %
NOI sourced from:				
Acquisitions	**(201)**	(52)	(149)	N/R[2]
Dispositions	**(17)**	2	(19)	N/R[2]
Earnouts and Developments	**(2,751)**	(714)	(2,037)	N/R[2]
Same Properties NOI[1]	**126,026**	126,381	(355)	(0.3)%

(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, 2018 to June 30, 2018 and from April 1, 2019 to June 30, 2019. The same properties NOI for the three months ended June 30, 2019 decreased by $0.4 million or 0.3% as compared to the same period in 2018, which was primarily due to the following:

- $1.2 million decrease in rental revenue principally due to the bankruptcy filings relating to Bombay and Bowring, and Payless Shoes;

Partially offset by:

- $0.8 million decrease in miscellaneous expense primarily due to both lower bad debt provisions and management fees.

Year-to-Date Comparison to Prior Year

(in thousands of dollars)	**Six Months Ended June 30, 2019**	Six Months Ended June 30, 2018	Variance	Variance (%)
Net rental income	**249,856**	245,615	4,241	1.7 %
Service and other revenues	**4,803**	6,804	(2,001)	(29.4)%
Other expenses	**(4,866)**	(6,840)	1,974	(28.9)%
NOI[1]	**249,793**	245,579	4,214	1.7 %
NOI from equity accounted investments[1]	**4,359**	3,968	391	9.9 %
Total portfolio NOI before adjustments[1]	**254,152**	249,547	4,605	1.8 %
Adjustments:				
Royalties	**458**	358	100	27.9 %
Straight-lining of rents	**(1,261)**	(1,331)	70	(5.3)%
Lease termination and other adjustments	**(2,277)**	(973)	(1,304)	N/R[2]
Amortization of tenant improvements	**3,692**	3,495	197	5.6 %
Total portfolio NOI after adjustments[1]	**254,763**	251,096	3,667	1.5 %
NOI sourced from:				
Acquisitions	**(437)**	(52)	(385)	(96.7)%
Dispositions	**(17)**	101	(118)	N/R[2]
Earnouts and Developments	**(5,346)**	(2,091)	(3,255)	N/R[2]
Same Properties NOI[1]	**248,963**	249,054	(91)	(0.04)%

(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, 2018 to June 30, 2018 and from January 1, 2019 to June 30, 2019. The same properties NOI for the six months ended June 30, 2019 decreased by $0.1 million or 0.04% as compared to the same period in 2018, which was primarily attributed to the following:

- $1.6 million decrease in operating recoveries principally due to the bankruptcy filings relating to Bombay and Bowring, and Payless Shoes;

Partially offset by:

- $1.0 million decrease in miscellaneous expense principally due to lower management fees; and
- $0.5 million increase in miscellaneous revenue.

Annual Run-Rate NOI

Annual Run-Rate NOI is a forward-looking, non-GAAP measure. Management's estimate of the Annual Run-Rate NOI at June 30, 2019 is $507.8 million (June 30, 2018 – $504.6 million).

The Annual Run-Rate NOI is computed by annualizing the current quarter NOI and adjusting for management's estimate of 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 or the loss of income from space expected to be vacated over the next twelve months. The estimated Annual Run-Rate NOI improved by $3.3 million or 0.6% from June 30, 2018, which was primarily attributed to additional revenue sourced from the Toronto Premium Outlets' expansion and other Earnouts and Developments completed in the period.

The sensitivity analysis below shows the impact on Annual Run-Rate NOI relating to changes in the Annual Run-Rate NOI growth rate for the three months ended June 30, 2019:

Growth rate change:	**(1.0)%[1]**	**(0.5)%[1]**	**Annualized June 30, 2019**	**0.5%[1]**	**1.0%[1]**
Annual Run-Rate NOI (in thousands of dollars)	502,747	505,286	**507,825**	510,365	512,904

(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 as to actual Annual Run-Rate NOI growth rates, however, for illustrative purposes, assuming a 1.0% NOI growth rate over 2019 (remainder of year) and 2020, and all other variables remaining constant including total Units outstanding, FFO would be expected to increase by $0.02 and $0.03 per Unit, respectively. Similarly, assuming a 1.0% reduction in the NOI growth rate over 2019 (remainder of year) and 2020, FFO would be expected to decrease by $0.02 and $0.03 per Unit, respectively. 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, 2019 and June 30, 2018:

(in thousands of dollars)	**12 Months Ended June 30, 2019**	12 Months Ended June 30, 2018	Variance
Net income and comprehensive income[1]	**373,960**	376,069	(2,109)
Add (deduct) the following items[1]:			
Interest expense	**142,742**	140,435	2,307
Interest income	**(10,545)**	(9,581)	(964)
Yield maintenance on redemption of unsecured debentures	**7,865**	—	7,865
Amortization of equipment and intangible assets	**2,088**	2,118	(30)
Amortization of tenant improvements	**7,402**	6,820	582
Fair value adjustment on revaluation of investment properties	**(38,230)**	(19,387)	(18,843)
Fair value adjustment on financial instruments	**8,814**	(1,577)	10,391
Adjustment for supplemental contribution	**1,448**	3,765	(2,317)
(Gain) loss on sale of investment properties	**(140)**	271	(411)
Transition costs[2]	**(348)**	1,502	(1,850)
Gain on sale of land to co-owners	**—**	3,727	(3,727)
Acquisition related loss (gain), net	**495**	(19,317)	19,812
Adjusted EBITDA[1]	**495,551**	484,845	10,706

(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 adjustment of $0.3 million for the 12 months ended June 30, 2019 (12 months ended June 30, 2018 - $1.5 million).

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 for many other retailers. Walmart's continued success in Canada results in additional customer visits to the sites that assist all tenants in the Trust's shopping centres. As such, the Trust has experienced industry-leading occupancy rates for the past decade and this is expected to continue given the value-orientation of the portfolio. The Trust will continue to proactively work with its existing tenants to both maximize retention and attract new tenants adding new uses to its available space.

Value-based retailers such as Canadian Tire, Lowes, Dollarama, Winners, HomeSense, Indigo, Marshalls and Old Navy have been performing well and are actively expanding their store numbers. 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. Fitness and Food category tenants also remain active across the country as numerous banners look to continue to grow their store network. The Trust will continue to focus its efforts to meet the needs of each community based on the specific requirements of each. The flexible design of our centres and specific unit sizes allows us to easily redevelop, subdivide and/or expand units as needed.

As the Trust continues to adapt to changes in the retail environment, the focus remains on maintaining a strong and resilient 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 its strategy to deliver new services and uses in each community.

As a result of the bankruptcy filing of Payless Shoes in the second quarter of 2019, the Trust's vacancy level has increased by approximately 107,000 square feet, which represents approximately 0.3% of the Trust's total portfolio of leasable area. All but one of these 46 vacated stores are part of Walmart-anchored or shadow-anchored shopping centres, and the Trust expects to backfill these locations at similar net rents over the next 12-18 months. As at June 30, 2019, the Trust has either re-leased or has active lease negotiations ongoing on approximately more than half of the units vacated by Payless Shoes.

At the quarter ended June 30, 2019, the Trust achieved an occupancy rate of 98.0%, inclusive of committed leases that have not yet commenced (97.8% excluding recently executed deals with future rent commencements). The increase in vacancy over the previous quarter is primarily a result of the vacated Payless Shoes space (as discussed above), and the Q1 2019 closure of 21 Bombay and Bowring locations. These 21 locations represent approximately 0.3% of the Trust's total leasable area and are expected to be substantively backfilled at similar net rents in the next 12 to 18 months.

Leasing Activities

Leasing momentum in 2019 has been very strong wherein the Trust has completed or is near completion on approximately 2.9 million square feet or 80.0% of 2019 lease renewals, which represents an increase in average net retail rent psf on renewed leases excluding Anchor tenants of 4.8%.

As at June 30, 2019, approximately 57,000 square feet of space has been leased and leases will commence in future quarters. The Trust's quarterly occupancy rate is summarized below for in-place occupancy as well as committed occupancy:

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
In-place occupancy rate	**97.8%**	97.8%	98.0%	98.1%	98.0%
Committed occupancy rate	**98.0%**	98.0%	98.1%	98.2%	98.2%

The following table represents a continuity of the Trust's occupancy level for the quarter ended June 30, 2019:

(in square feet)	Vacant Area	Occupied Area	Leasable Area	In-place Occupancy Level (%)
Beginning balance – April 1, 2019	**770,515**	**33,555,167**	**34,325,682**	**97.8%**
New vacancies[1]	283,700	(283,700)	—	
New leases	(188,416)	188,416	—	
Subtotal	865,799	33,459,883	34,325,682	
Transferred from properties under development to income properties	—	49,932	49,932	
Transferred from income properties to properties under development	(125,371)	—	(125,371)	
Other[2]	389	1,361	1,750	
Ending Balance – June 30, 2019	**740,817**	**33,511,176**	**34,251,993**	**97.8%**

(1) Includes 107,000 square feet of gross leasable area from space previously leased to Payless Shoes.
(2) Represents unit area re-measurements within the portfolio.

2019 and 2020 Lease Expiries and Related Renewals

As at June 30, 2019, the Trust completed or was near completion on lease renewals totalling 2,861,648 square feet of space, representing approximately 80.0% of 2019 lease expiries (June 30, 2018 - 73.8% of 2018 expiries) at average rental rates per square foot ("psf") of $14.43 on renewed and near completion leases including Anchor leases ($21.18 excluding 16 anchor tenant renewals included therein) (June 30, 2018 - $20.59, or $22.28 excluding the seven anchor tenant renewals included therein). As at June 30, 2019, for 2020 lease maturities, the Trust completed or was near completion on renewals totalling 403,918 square feet or 10.6% of 2020 maturities (June 30, 2018 - 18.7% of 2019 expiries).

	June 30, 2019	June 30, 2018	Variance
Lease expiries during the period (sq. ft.)	**3,576,441**	2,767,838	808,603
Renewals year to date:			
Square feet – renewed	**2,662,300**	1,742,683	919,617
Square feet – near completion	**199,348**	300,728	(101,380)
Total renewals completed and near completion (sq. ft.)	**2,861,648**	2,043,411	818,237
Renewal percentage – complete and near completion	**80.0%**	73.8%	6.2%
Average net retail rent psf on renewed and near completion leases including Anchor leases	**$14.43**	$20.59	$(6.16)
Average net retail rent psf on renewed and near completion leases excluding Anchor leases	**$21.18**	$22.28	$(1.10)
Average net retail rent psf on leases near completion	**$25.03**	$24.18	$0.85
Increase in average net retail rent psf on renewed leases	**$0.51**	$0.67	$(0.16)
Percentage increase in average net retail rent psf on renewed leases	**3.9%**	3.5%	0.4%
Percentage increase in average net retail rent psf on renewed leases excluding Anchor tenants	**4.8%**	3.7%	1.1%

Total retail and lease expiries for the total portfolio as at June 30, 2019 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	342,043	1.0%	6,638	19.41
2019 (remainder of year)	458,680	1.3%	8,587	18.72
2020	3,743,270	10.9%	51,615	13.79
2021	3,783,403	11.0%	54,015	14.28
2022	4,430,624	12.9%	63,562	14.35
2023	4,377,711	12.8%	76,018	17.36
2024	4,439,810	13.0%	67,222	15.14
Beyond	11,694,645	34.2%	184,146	15.75
Vacant	740,817	2.2%	—	—
Total retail	34,011,003	99.3%	511,803	15.38
Total office	240,990	0.7%		
Total retail and office	34,251,993	100.0%		

(1) The total average base rent per square foot excludes vacant space of 740,817 square feet.

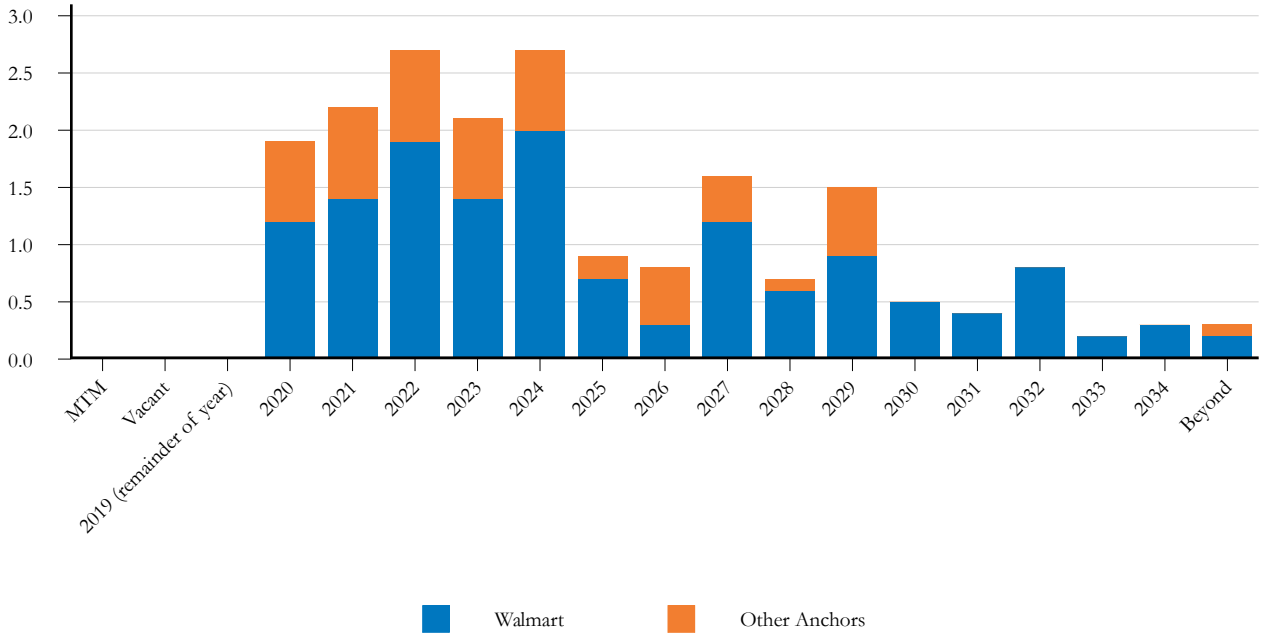
Total retail and office lease expiries for the portfolio excluding Anchor tenants as at June 30, 2019 are as follows:

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	342,043	1.0%	2.4%	6,638	19.41
2019 (remainder of year)	410,072	1.2%	2.9%	7,761	18.93
2020	1,831,955	5.3%	12.8%	35,391	19.32
2021	1,610,934	4.7%	11.3%	32,758	20.33
2022	1,678,761	4.9%	11.8%	37,549	22.37
2023	2,265,475	6.6%	15.9%	53,443	23.59
2024	1,795,083	5.2%	12.6%	41,068	22.88
Beyond	3,553,479	10.4%	24.8%	82,192	23.13
Vacant	740,817	2.2%	5.2%	—	—
Total retail	14,228,619	41.5%	99.7%	296,800	22.01
Total office	44,142	0.1%	0.3%		
Total retail and office	14,272,761	41.6%	100.0%		

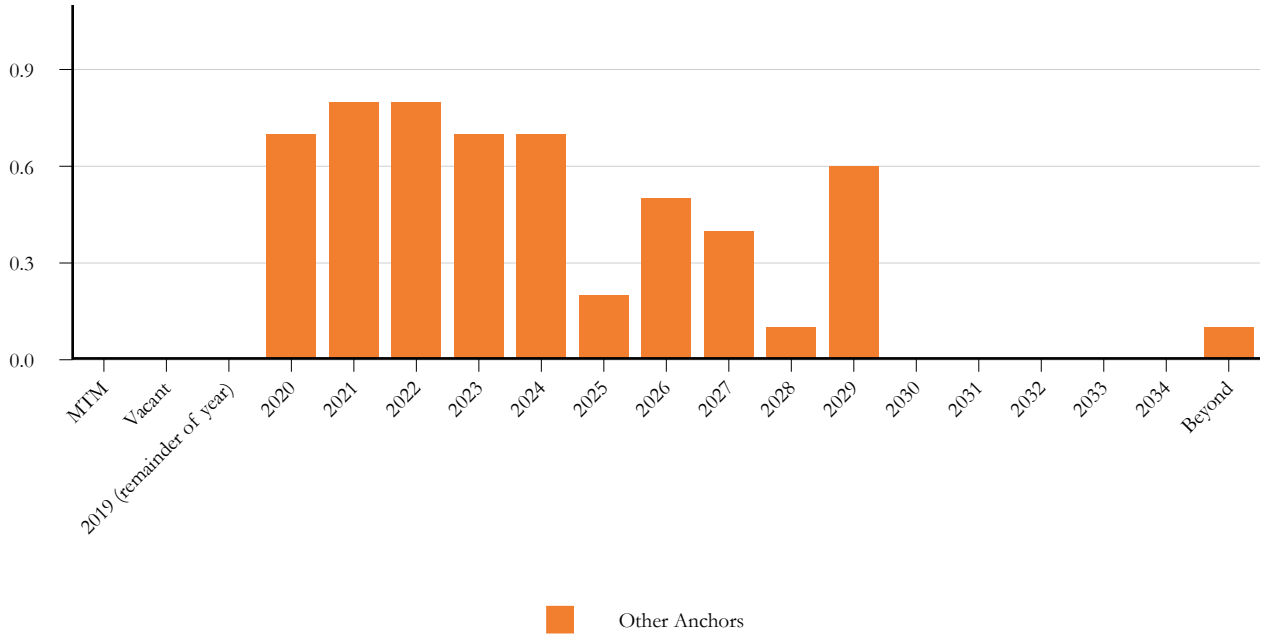
(1) The total average base rent per square foot excludes vacant space of 740,817 square feet.

Retail Lease Expiries
(in millions of square feet)

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



Retail Lease Expiries – 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 year; 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 three and six months ended June 30, 2019, unless otherwise stated, do not include any assumptions, do not include any forward-looking information and are consistent with prior reporting years.

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, 2019, 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)	**2019**	2018	Variance	**2019**	2018	Variance
Trust Units	**142,636,916**	133,301,318	9,335,598	**141,486,418**	133,068,306	8,418,112
Class B LP Units	**16,416,667**	16,360,023	56,644	**16,416,667**	16,358,337	58,330
Class D LP Units	**311,022**	311,022	—	**311,022**	311,022	—
Class F LP Units	**3,383**	—	3,383	**1,701**	—	1,701
Class B LP II Units	**756,525**	756,525	—	**756,525**	756,525	—
Class B LP III Units	**3,818,542**	3,802,262	16,280	**3,818,542**	3,802,262	16,280
Class B LP IV Units	**3,052,504**	3,046,121	6,383	**3,052,504**	3,046,121	6,383
Class B Oshawa South LP Units	**710,416**	688,336	22,080	**710,416**	688,336	22,080
Class D Oshawa South LP Units	**260,417**	251,649	8,768	**260,417**	251,649	8,768
Class B Oshawa Taunton LP Units	**374,223**	374,223	—	**374,223**	374,223	—
Class B Series ONR LP Units	**1,248,140**	1,254,114	(5,974)	**1,248,140**	1,254,114	(5,974)
Class B Series 1 ONR LP I Units	**132,881**	132,881	—	**132,881**	132,881	—
Class B Series 2 ONR LP I Units	**137,109**	137,109	—	**137,109**	137,109	—
LP Units	**27,221,829**	27,114,265	107,564	**27,220,147**	27,112,579	107,568
Total Units – Basic	**169,858,745**	160,415,583	9,443,162	**168,706,565**	160,180,885	8,525,680
Vested deferred units	**860,069**	805,225	54,844	**883,200**	764,171	119,029
Total Units and vested deferred units – Diluted	**170,718,814**	161,220,808	9,498,006	**169,589,765**	160,945,056	8,644,709

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 2019. 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 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 last revised in February 2019. 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 on 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 (Canada).

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. 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 later in this report, 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, 2019 and June 30, 2018:

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands of dollars)	**2019**	2018	**2019**	2018
Cash flows provided by operating activities	**80,767**	100,994	**133,349**	144,794
Add:				
Normalizing adjustments, actual sustaining expenditures adjustments and other[1]	**10,477**	(12,639)	**38,271**	25,369
Adjusted cash flows from operating activities[2]	**91,244**	88,355	**171,620**	170,163
Distributions declared	**76,985**	70,634	**153,701**	141,042
Surplus of ACFO over distributions declared	**14,259**	17,721	**17,919**	29,121
Distributions for Units classified as equity	**76,044**	69,722	**151,820**	139,217
Distributions for Units classified as liabilities	**941**	912	**1,881**	1,825
Total Distributions declared	**76,985**	70,634	**153,701**	141,042

(1) This represents the adjustments that are added to/deducted from, cash flows provided by operating activities, in order to determine ACFO. Refer to the subsection entitled "Reconciliation of ACFO" provided later in this report, for details.

(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 adjustments and Transactional FFO (non-GAAP measures) for the three months ended June 30, 2019 and June 30, 2018:

(in thousands of dollars, except per Unit amounts)	**Three Months Ended June 30, 2019**	Three Months Ended June 30, 2018	Variance	Variance (%)
Net income and comprehensive income	**95,513**	103,748	(8,235)	(7.9)%
Add (deduct):				
Fair value adjustment on revaluation of investment properties[1]	**(4,015)**	(14,599)	10,584	(72.5)%
Fair value adjustment on financial instruments[2]	**(5,209)**	4,209	(9,418)	N/R[8]
Loss (gain) on sale of investment properties	**79**	(317)	396	N/R[8]
Amortization of intangible assets	**333**	333	—	— %
Amortization of tenant improvement allowance	**1,827**	1,643	184	11.2 %
Distributions on Units classified as liabilities and vested deferred units recorded as interest expense	**1,333**	1,266	67	5.3 %
Salaries and related costs attributed to leasing activities[3]	**1,402**	180	1,222	N/R[8]
Acquisition related gain, net	**—**	(608)	608	N/R[8]
Adjustments relating to equity accounted investments:				
Rental revenue adjustment – tenant improvement amortization	**78**	57	21	36.8 %
Indirect interest with respect to the development portion[4]	**198**	373	(175)	(46.9)%
Fair value adjustment on revaluation of investment properties	**(232)**	(5,339)	5,107	N/R[8]
Fair value adjustment on financial instruments	**—**	39	(39)	N/R[8]
Adjustment for supplemental contribution	**474**	51	423	N/R[8]
FFO[5]	**91,781**	91,036	745	0.8 %
One time adjustments:				
Yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs	**4,340**	—	4,340	— %
FFO with one time adjustment of yield maintenance costs	**96,121**	91,036	5,085	5.6 %
Transition costs[6]	**—**	1,502	(1,502)	N/R[8]
FFO with one time adjustments and before Transactional FFO[5]	**96,121**	92,538	3,583	3.9 %
Transactional FFO – gain on sale of land to co-owners	**—**	2,474	(2,474)	N/R[8]
FFO with one time adjustments and Transactional FFO[5]	**96,121**	95,012	1,109	1.2 %
Per Unit – basic/diluted[7]:				
FFO[5]	**$0.54/$0.54**	$0.57/$0.56	$-0.03/$-0.02	-5.3%/-3.6%
FFO with one time adjustments of yield maintenance costs[5]	**$0.57/$0.56**	$0.57/$0.56	$0.00/$0.00	0.0%/0.0%
FFO with one time adjustments and before Transactional FFO[5]	**$0.57/$0.56**	$0.58/$0.57	$-0.01/$-0.01	-1.7%/-1.8%
FFO with one time adjustments and Transactional FFO[5]	**$0.57/$0.56**	$0.59/$0.59	$-0.02/$-0.03	-3.4%/-5.1%
Payout Ratio:				
FFO[5]	**83.7%**	77.5%	6.2%	8.0%
FFO with one time adjustment of yield maintenance costs[5]	**79.9%**	77.5%	2.4%	3.1%
FFO with one time adjustments and before Transactional FFO[5]	**79.9%**	76.2%	3.7%	4.9%
FFO with one time adjustments and Transactional FFO[5]	**79.9%**	74.2%	5.7%	7.7%

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

(2) Fair value adjustment on valuation of financial instruments comprises the following financial instruments: units classified as liabilities, Earnout options and deferred unit plan - vested portion. The significant assumptions made in determining the fair value and fair value adjustments for these financial instruments are more thoroughly described in the Trust's audited consolidated financial statements for the year ended December 31, 2018.

(3) Adjusted salaries and related costs attributed to leasing of $1,402 were incurred in the three months ended June 30, 2019 (three months ended June 30, 2018 – $0.2 million) and were eligible to be added back to FFO based on the definition of FFO, in the REALpac White Paper published in February 2019, 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) 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.

(5) 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.

(6) Transition costs include the costs of CEO transition and other related costs of $nil for the three months ended June 30, 2019 (three months ended June 30, 2018 - $1.5 million).

(7) Diluted FFO is adjusted for the dilutive effect of vested deferred units, which are not dilutive for net income purposes. To calculate diluted FFO for the three months ended June 30, 2019, 860,069 vested deferred units are added back to the weighted average Units outstanding (three months ended June 30, 2018 – 805,225 vested deferred units).

(8) N/R - Not representative

For the three months ended June 30, 2019, FFO with one time adjustment of yield maintenance costs increased by $5.1 million or 5.6% to $96.1 million, while per Unit amounts remained the same. This increase of $5.1 million was primarily attributed to the following:

- $1.5 million increase in NOI;
- $1.5 million decrease in general and administrative expense;
- $1.2 million increase in FFO add back for the salaries and related costs attributed to leasing activities; and
- $0.9 million net decrease in interest expense.

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, 2019 and June 30, 2018:

(in thousands of dollars, except per Unit amounts)	**Six Months Ended June 30, 2019**	Six Months Ended June 30, 2018	Variance	Variance (%)
Net income and comprehensive income	**175,486**	204,214	(28,728)	(14.1)%
Add (deduct):				
Fair value adjustment on revaluation of investment properties[1]	**(12,912)**	(25,470)	12,558	(49.3)%
Fair value adjustment on financial instruments[2]	**7,206**	(1,028)	8,234	N/R[8]
(Gain) loss on sale of investment properties	**(827)**	140	(967)	N/R[8]
Amortization of intangible assets	**666**	666	—	— %
Amortization of tenant improvement allowance	**3,562**	3,260	302	9.3 %
Distributions on Units classified as liabilities and vested deferred units recorded as interest expense	**2,691**	2,498	193	7.7 %
Salaries and related costs attributed to leasing activities[3]	**2,968**	1,836	1,132	61.7 %
Acquisition related gain, net	**—**	(838)	838	N/R[8]
Adjustments relating to equity accounted investments:				
Rental revenue adjustment – tenant improvement amortization	**144**	114	30	26.3 %
Indirect interest with respect to the development portion[4]	**409**	653	(244)	(37.4)%
Fair value adjustment on revaluation of investment properties	**(78)**	(6,235)	6,157	N/R[8]
Fair value adjustment on financial instruments	**—**	51	(51)	N/R[8]
Adjustment for supplemental contribution	**762**	462	300	64.9 %
FFO[5]	**180,077**	180,323	(246)	(0.1)%
One time adjustments:				
Yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs	**7,865**	—	7,865	N/R[7]
FFO with one time adjustment of yield maintenance costs	**187,942**	180,323	7,619	4.2 %
Transition costs[6]	**—**	1,502	(1,502)	N/R[8]
FFO with one time adjustments and before Transactional FFO[5]	**187,942**	181,825	6,117	3.4 %
Transactional FFO – gain on sale of land to co-owners	**—**	2,964	(2,964)	N/R[8]
FFO with one time adjustments and Transactional FFO[5]	**187,942**	184,789	3,153	1.7 %
Per Unit – basic/diluted[7]:				
FFO[5]	**$1.07/$1.06**	$1.13/$1.12	$-0.06/$-0.06	-5.3%/-5.4%
FFO with one time adjustments of yield maintenance costs[5]	**$1.11/$1.11**	$1.13/$1.12	$-0.02/$-0.01	-1.8%/-0.9%
FFO with one time adjustments and before Transactional FFO[5]	**$1.11/$1.11**	$1.14/$1.13	$-0.03/$-0.02	-2.6%/-1.8%
FFO with one time adjustments and Transactional FFO[5]	**$1.11/$1.11**	$1.15/$1.15	$-0.04/$-0.04	-3.5%/-3.5%
Payout Ratio:				
FFO[5]	**84.8%**	78.1%	6.7%	8.6%
FFO with one time adjustments of yield maintenance costs[5]	**81.2%**	78.1%	3.1%	4.0%
FFO with one time adjustments and before Transactional FFO[5]	**81.2%**	77.5%	3.7%	4.8%
FFO with one time adjustments and Transactional FFO[5]	**81.2%**	76.2%	5.0%	6.6%

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

(2) Fair value adjustment on valuation of financial instruments comprises the following financial instruments: units classified as liabilities, Earnout options and deferred unit plan - vested. The significant assumptions made in determining the fair value and fair value adjustments for these financial instruments are more thoroughly described in the Trust's audited consolidated financial statements for the year ended December 31, 2018.

(3) Adjusted salaries and related costs attributed to leasing of $3.0 million were incurred in the six months ended June 30, 2019 (six months ended June 30, 2018 – $1.8 million) and were eligible to be added back to FFO based on the definition of FFO, in the REALpac White Paper published in February 2019, 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) 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.

(5) 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.

(6) Transition costs included the costs of CEO transition and other related costs of $nil for the six months ended June 30, 2019 (six months ended June 30, 2018 - $1.5 million).

(7) Diluted FFO is adjusted for the dilutive effect of vested deferred units, which are not dilutive for net income purposes. To calculate diluted FFO for the six months ended June 30, 2019, 883,200 vested deferred units are added back to the weighted average Units outstanding (six months ended June 30, 2018 – 764,171 vested deferred units).

(8) N/R - Not representative

For the six months ended June 30, 2019, FFO with one time adjustment of yield maintenance increased by $7.6 million or 4.2% to $187.9 million, and decreased by $0.01 or 0.9% to $1.11 on a per Unit basis primarily due to the dilutive impact of the $230.0 million equity offering in January 2019. This increase of $7.6 million was primarily attributed to the following:

- $4.6 million increase in NOI;
- $1.3 million net decrease in interest expense;
- $1.1 million increase in FFO add back for the salaries and related costs attributed to leasing activities; and
- $0.4 million decrease in general and administrative expense.

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, 2019 and June 30, 2018:

(in thousands of dollars)	**Three Months Ended June 30, 2019**	Three Months Ended June 30, 2018	Variance	Variance %
Cash flows provided by operating activities	**80,767**	100,994	(20,227)	(20.0)%
Adjustments to working capital items that are not indicative of sustainable cash available for distribution[1]	**12,280**	(9,808)	22,088	N/R[5]
Notional interest capitalization[2]	**198**	373	(175)	(46.9)%
Expenditures on direct leasing costs and tenant incentives	**1,397**	1,668	(271)	(16.2)%
Expenditures on tenant incentives for properties under development	**89**	87	2	2.3 %
Actual sustaining capital expenditures	**(582)**	(1,168)	586	N/R[5]
Actual sustaining leasing commissions	**(350)**	(787)	437	(55.5)%
Actual sustaining tenant improvements	**(1,428)**	(1,170)	(258)	22.1 %
Non-cash interest expense	**(2,832)**	(6,882)	4,050	(58.8)%
Non-cash interest income	**1,705**	1,680	25	1.5 %
Acquisition related gain, net	**—**	(608)	608	N/R[5]
Transactional FFO – gain on sale of land to co-owners	**—**	2,474	(2,474)	N/R[5]
Transition costs[3]	**—**	1,502	(1,502)	(100.0)%
ACFO[4]	**91,244**	88,355	2,889	3.3 %
One time adjustment:				
Yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs	**4,340**	—	4,340	N/R[5]
ACFO with one time adjustment[4]	**95,584**	88,355	7,229	8.2 %
ACFO[4]	**91,244**	88,355	2,889	3.3 %
Distributions declared	**76,985**	70,634	6,351	9.0 %
Surplus of ACFO over distributions declared	**14,259**	17,721	(3,462)	(19.5)%
Payout Ratio:				
ACFO[4]	**84.4%**	79.9%	4.5%	5.6 %
ACFO with one time adjustment[4]	**80.5%**	79.9%	0.6%	0.8 %

(1) Adjustment to working capital items include, but are not limited to, changes in prepaid expenses and deposits, accounts receivables, accounts payables and other working capital items that are not indicative of sustainable cash available for distribution.
(2) See "Indirect interest with respect to the development portion" as presented in the reconciliation of FFO for the three months ended June 30, 2019.
(3) Transition costs include the costs of CEO transition and other related costs of $nil for the three months ended June 30, 2019 (three months ended June 30, 2018 - $1.5 million).
(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) N/R - Not representative

For the three months ended June 30, 2019, ACFO with one time adjustment increased by $7.2 million or 8.2% to $95.6 million as compared to the same quarter in 2018, which was primarily due to items previously identified (see Results of Operations section).

The Payout Ratio relating to ACFO with one time adjustment for the three months ended June 30, 2019 increased by 0.8% to 80.5% as compared to the same quarter last year, primarily as a result of 7,360,000 Units being issued as part of the $230.0 million equity offering in January 2019.

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, 2019 and June 30, 2018:

(in thousands of dollars)	**Six Months Ended June 30, 2019**	Six Months Ended June 30, 2018	Variance	Variance %
Cash flows provided by operating activities	**133,349**	144,794	(11,445)	(7.9)%
Adjustments to working capital items that are not indicative of sustainable cash available for distribution[1]	**34,295**	22,516	11,779	52.3 %
Notional interest capitalization[2]	**409**	653	(244)	(37.4)%
Expenditures on direct leasing costs and tenant incentives	**2,510**	4,776	(2,266)	(47.4)%
Expenditures on tenant incentives for properties under development	**1,592**	(44)	1,636	N/R[5]
Actual sustaining capital expenditures	**(3,817)**	(1,792)	(2,025)	N/R[5]
Actual sustaining leasing commissions	**(549)**	(1,155)	606	(52.5)%
Actual sustaining tenant improvements	**(2,360)**	(3,909)	1,549	(39.6)%
Non-cash interest expense	**2,539**	(2,668)	5,207	(195.2)%
Non-cash interest income	**3,652**	3,364	288	8.6 %
Acquisition related gain, net	**—**	(838)	838	N/R[5]
Transactional FFO – gain on sale of land to co-owners	**—**	2,964	(2,964)	N/R[5]
Transition costs[3]	**—**	1,502	(1,502)	N/R[5]
ACFO[4]	**171,620**	170,163	1,457	0.9 %
One time adjustment:				
Yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs	**7,865**	—	7,865	N/R[5]
ACFO with one time adjustment[4]	**179,485**	170,163	9,322	5.5 %
ACFO[4]	**171,620**	170,163	1,457	0.9 %
Distributions declared	**153,701**	141,042	12,659	9.0 %
Surplus of ACFO over distributions declared	**17,919**	29,121	(11,202)	(38.5)%
Payout Ratio:				
ACFO[4]	**89.6%**	82.9%	6.7%	8.1 %
ACFO with one time adjustment[4]	**85.6%**	82.9%	2.7%	3.3 %

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

(2) See "Indirect interest with respect to the development portion" as presented in the reconciliation of FFO for the six months ended June 30, 2019.

(3) Transition costs included the costs of CEO transition and other related costs of $nil for the six months ended June 30, 2019 (six months ended June 30, 2018 - $1.5 million).

(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) N/R - Not representative

For the six months ended June 30, 2019, ACFO with one time adjustment increased by $9.3 million or 5.5% to $179.5 million compared to the same period in 2018, which was primarily due to items previously identified (see Results of Operations section).

The Payout Ratio relating to ACFO with one time adjustment for the six months ended June 30, 2019 increased by 3.3% to 85.6% as compared to the same quarter last year, primarily as a result of 7,360,000 Units being issued as part of the $230.0 million equity offering in January 2019.

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)	**2019**	2018	Variance	**2019**	2018	Variance
Cash flows provided by operating activities	**80,767**	100,994	(20,227)	**133,349**	144,794	(11,445)
Distributions declared	**76,985**	70,634	6,351	**153,701**	141,042	12,659
Distributions paid	**59,908**	56,738	3,170	**119,630**	113,752	5,878
ACFO with one time adjustment[1]	**95,584**	88,355	7,229	**179,485**	170,163	9,322
Surplus of ACFO with one time adjustment over distributions declared	**18,599**	17,721	878	**25,784**	29,121	(3,337)
Surplus of ACFO with one time adjustment over distributions paid	**35,676**	31,617	4,059	**59,855**	56,411	3,444
Surplus (shortfall) of cash flows provided by operating activities over distributions declared	**3,782**	30,360	(26,578)	**(20,352)**	3,752	(24,104)
Cash flows provided by operating activities over distributions paid	**20,859**	44,256	(23,397)	**13,719**	31,042	(17,323)

(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, 2019, cash flows provided by operating activities as compared to the same period in 2018 decreased by $20.2 million. This decrease is primarily due to: (a) the timing of interest payments, including yield maintenance amounts, of approximately $7.0 million, (b) higher distributions received from equity accounted investees in 2018 of approximately $5.0 million, and (c) net working capital and other adjustments of approximately $8.0 million.

For the six months ended June 30, 2019, the $20.4 million shortfall of cash flows provided by operating activities over distributions declared is primarily due to: a) higher operating costs for the first quarter as a result of seasonal anomalies such as snow removal and utility expenses, and b) yield maintenance costs of $7.9 million incurred during the period. This shortfall was funded through the distribution reinvestment plan ("DRIP") and the operating facility.

Amounts Receivable, Allowance for Expected Credit Loss, Prepaid Expenses and 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, allowance for expected credit loss, prepaid expenses and deposits, deferred financing costs and other are as follows:

(in thousands of dollars)	**June 30, 2019**	December 31, 2018	Variance
Amounts receivable			
Tenant receivables (a)	**27,891**	17,329	10,562
Unbilled other tenant receivables (b)	**12,341**	7,574	4,767
Receivables from related party – excluding equity accounted investments (c)	**19,865**	16,741	3,124
Receivables from related party – equity accounted investments (c)	**12,125**	10,967	1,158
Other non-tenant receivables	**2,761**	3,030	(269)
	74,983	55,641	19,342
Allowance for expected credit loss	**(3,295)**	(3,114)	(181)
Prepaid expenses and deposits (d)	**33,519**	4,953	28,566
Deferred financing costs	**2,292**	1,638	654
Other	**3,763**	2,785	978
	36,279	6,262	30,017
	111,262	61,903	49,359

As at June 30, 2019, total amounts receivable, allowance for expected credit loss, prepaid expenses and deposits, deferred financing costs and other increased by $49.4 million as compared to December 31, 2018. The following is a commentary on the material variances noted:

(a) Tenant receivables
The $10.6 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 collectible and are at various stages of the billing and collection process, as applicable.

(b) Unbilled other tenant receivables
The $4.8 million increase in unbilled other tenant receivables is primarily due to an increase in accrued CAM receivable resulting from seasonal expenditures.

(c) Receivables from related party
The $3.1 million increase in receivables from related party – excluding equity accounted investments is primarily due to an increase in development and property management fees, shared cost and other service fees pursuant to the Development and Services Agreement.

The $1.2 million increase in receivables from related party – equity accounted investments is primarily due to an increase in development fees for the Penguin-Calloway Vaughan Partnership ("PCVP").

(d) Prepaid expenses and deposits
The $28.6 million increase in prepaid expenses and deposits is primarily due to an increase in prepaid realty taxes (see also (a) above).

Mortgages, Loans and Notes Receivable, and Interest Income

The following table summarizes mortgages, loans and notes receivable as at June 30, 2019 and December 31, 2018:

(in thousands of dollars)	**June 30, 2019**	December 31, 2018	Variance
Mortgages, loans and notes receivable			
Mortgages receivable (Mezzanine Financing)	**136,194**	134,221	1,973
Loans receivable	**125,045**	19,949	105,096
Notes receivable	**2,979**	2,979	—
	264,218	157,149	107,069

Mortgages Receivable (Mezzanine Financing)

In addition to direct property acquisitions, the Trust has provided Mezzanine Financing to Penguin (see also, "Related Party") 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, 2019, 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 at Period End**	**Purchase Option % of Property[1]**	**Potential Area Upon Exercising Purchase Option (sq. ft.)**
Salmon Arm, BC[2][3]	14,965	20,907	14,965	April 2020	4.99%	—	—
Innisfil, ON[2][4]	21,036	27,077	7,711	December 2020	6.75%	—	—
Aurora (South), ON	16,594	30,543	16,594	March 2022	4.87%	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	28,615	68,664	28,615	November 2023	5.29%	50%	37,500
Vaughan (7 & 427), ON	17,350	53,127	17,350	December 2023	6.08%	50%	151,015
Caledon (Mayfield), ON	9,690	14,033	9,690	April 2024	5.14%	50%	101,865
Toronto (StudioCentre), ON[2]	27,944	43,759	27,944	June 2024	5.11%	25%	227,831
	136,194	282,093	122,869		5.48%[7]		614,711

(1) The Trust has a purchase option from the borrower in these properties upon a certain level of development and leasing being achieved. As at June 30, 2019, 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 the banker's acceptance rate plus 1.75% on any additional loans above $7,237. In July 2019, the maturity date of the loan was extended to April 2020.
(4) In August 2018, the interest rate on this mortgage reset 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%. Prior to August 2018, the interest rate was based on the banker's acceptance rate plus 2.0%.
(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) Represents the weighted average 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 $107.9 million (December 31, 2018 – $106.6 million), and (ii) at fixed rates of 6.35% to 7.50% on mortgages receivable of $28.3 million (December 31, 2018 – $27.6 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 $67.3 million (December 31, 2018 – $71.0 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, $122.9 million (December 31, 2018 – $114.5 million) of the outstanding balance is guaranteed by Penguin. 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 (#)	Repayments of outstanding balances ($)
2019 (remainder of the year)	1	14,965
2020	1	21,036
2022	3	16,594
2023	2	45,965
2024	2	37,634
	9	136,194

The following table illustrates the interest accrued and repayments for the three and six months ended June 30:

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands of dollars)	**2019**	2018	**2019**	2018
Balance - beginning of period	**136,071**	129,159	**134,221**	127,704
Interest accrued	**1,816**	1,537	**3,666**	2,992
Repayment of interest	**(850)**	—	**(850)**	—
Repayment of principal	**(843)**	—	**(843)**	—
Balance - end of period	**136,194**	130,696	**136,194**	130,696

Loans Receivable

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

(in thousands of dollars)

Issued to	Maturity Date	Interest Rate	June 30, 2019	December 31, 2018
Unrelated party[1]	November 2020	6.25%	**9,804**	9,804
Penguin[2]	November 2020	Variable	**10,464**	10,145
Penguin[3]	June 2021	2.76%	**13,624**	—
PCVP[4]	June 2021	2.76%	**91,153**	—
			125,045	19,949

(1) 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 will mature in November 2020, and bears interest at 6.25% per annum. In addition, the loan is secured by a first charge on the 50% interest of the development lands held by the unrelated party.

(2) This loan receivable 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.

(3) This loan receivable was provided pursuant to a loan agreement with Penguin for a total loan facility of $26,226. See further details below.

(4) This loan receivable was provided to the Penguin-Calloway Vaughan Partnership (in which the Trust has a 50% interest) for a total loan facility of $90,600. See further details below.

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	
(in thousands of dollars)	**2019**	2018	**2019**	2018
Balance - beginning of period	**33,407**	143,499	**19,949**	31,503
Loans issued	**90,600**	—	**103,826**	—
Advances	**300**	—	**434**	111,916
Interest accrued	**738**	82	**836**	162
Balance - end of period	**125,045**	143,581	**125,045**	143,581

In April 2019, the Trust entered into a loan agreement with PCVP (in which the Trust has a 50% interest) for a total loan facility of $90.6 million, bearing interest at 2.76% per annum. The facility was advanced in full in April 2019. Unless prepaid in accordance with the terms of the loan agreement, principal and any accrued and unpaid interest in respect of the loan receivable shall be repaid in full in June 2021. The Trust reflects the activity from the PCVP as an equity accounted investment (see also Note 6, "Equity accounted investments", in the Trust's unaudited interim condensed consolidated financial statements), 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, 2019.

In March 2019, the Trust entered into a loan agreement with Penguin for a non-revolving principal advance facility of $13.2 million and a non-revolving construction facility of $13.0 million, which combine for a total loan facility of $26.2 million, bearing interest at a fixed rate of 2.76% and a variable rate based on banker's acceptance rate plus 150 basis points, respectively. The principal advance facility was advanced in full in March 2019. Unless prepaid in accordance with the terms of the loan agreement, principal and any accrued and unpaid interest in respect of the loan receivable shall be repaid in full in June 2021.

In February 2018, the Trust advanced a loan in the amount of $111.8 million to the PCVP that was interest bearing at 2.31% per annum from the advance date to March 20, 2018, and thereafter was equal to 76 basis points plus the 90-day Canadian Dealer Offer Rate (CDOR) and was payable on March 21, June 21, September 21 and December 21. In September 2018, the loan receivable was fully repaid and closed.

Notes Receivable

Notes receivable of $3.0 million (December 31, 2018 – $3.0 million) have been granted to Penguin (see also, "Related Party" section). 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, 2019 and June 30, 2018:

	Three Months Ended June 30			**Six Months Ended June 30**		
(in thousands of dollars)	**2019**	2018	Variance	**2019**	2018	Variance
Interest income						
Mortgage interest (a)	**1,816**	1,537	279	**3,666**	2,992	674
Loan interest (b)	**891**	1,039	(148)	**1,123**	1,775	(652)
Note receivable interest	**67**	67	—	**133**	133	—
Bank interest	**178**	89	89	**489**	347	142
	2,952	2,732	220	**5,411**	5,247	164

(a) Mortgage interest

For the six months ended June 30, 2019, mortgage interest increased by $0.7 million as compared to the same period in 2018, which was primarily due to an increase in variable interest rates, as well as the impact from compounding interest on outstanding mortgages receivable.

(b) Loan interest

For the six months ended June 30, 2019, loan interest decreased by $0.7 million as compared to the same period in 2018 primarily due to a loan receivable of $111.8 million to PCVP bearing interest at 2.31% per annum that was fully repaid in September 2018.

Interest Expense

The following table summarizes the components of interest expense for the three and six months ended June 30, 2019 and June 30, 2018:

	Three Months Ended June 30			Six Months Ended June 30		
(in thousands of dollars)	**2019**	2018	Variance	**2019**	2018	Variance
Interest at stated rates	**37,357**	39,246	(1,889)	**74,901**	78,788	(3,887)
Amortization of acquisition date fair value adjustments on assumed debt	**(525)**	(581)	56	**(1,058)**	(1,241)	183
Amortization of deferred financing costs	**1,005**	852	153	**1,875**	1,720	155
	37,837	39,517	(1,680)	**75,718**	79,267	(3,549)
Less:						
Interest capitalized to properties under development	**(4,577)**	(5,253)	676	**(9,026)**	(10,609)	1,583
Interest capitalized to residential development inventory	**(231)**	(198)	(33)	**(460)**	(399)	(61)
	33,029	34,066	(1,037)	**66,232**	68,259	(2,027)
Yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs	**4,340**	—	4,340	**7,865**	—	7,865
	37,369	34,066	3,303	**74,097**	68,259	5,838
Distributions on vested deferred units and Units classified as liabilities	**1,335**	1,266	69	**2,693**	2,498	195
Total interest expense	**38,704**	35,332	3,372	**76,790**	70,757	6,033
Weighted average interest rate (inclusive of deferred financing costs)	**3.69%**	3.75%	(0.06)%	**3.69%**	3.78%	(0.09)%
Capitalized interest as a percentage of total interest expense	**12.42%**	15.43%	(3.01)%	**12.35%**	15.56%	(3.21)%

For the three months ended June 30, 2019, interest expense incurred totalled $38.7 million, representing an increase of $3.4 million as compared to the same period in 2018, which was primarily due to the following:

- $4.3 million increase in yield maintenance on redemption of unsecured debentures as none were redeemed during the three months ended June 30, 2018;

Partially offset by the following:

- $0.9 million decrease in interest expense principally due to refinancing of debt at lower interest rates.

For the six months ended June 30, 2019, interest expense incurred totalled $76.8 million representing an increase of $6.0 million as compared to the same period in 2018, which was primarily due to the following:

- $7.9 million increase in yield maintenance on redemption of unsecured debentures as none were redeemed during the six months ended June 30, 2018;

Partially offset by the following:

- $1.9 million decrease in interest expense principally due to refinancing of debt at lower interest rates.

General and Administrative Expense

The following summarizes general and administrative expense before allocation, general and administrative expense, net (as presented in the unaudited interim condensed consolidated statements of income and comprehensive income), general and administrative expense excluding internal leasing expense, and general and administrative expense, net as a percentage of rental from investment properties, for the three and six months ended June 30, 2019 and June 30, 2018:

Quarterly Comparison to Prior Year

(in thousands of dollars)	Note[1]		**Three Months Ended June 30, 2019**	Three Months Ended June 30, 2018	Variance
Salaries and benefits			**12,016**	13,203	(1,187)
Master planning services fee - by Penguin	21		**1,750**	875	875
Professional fees			**863**	1,156	(293)
Public company costs			**607**	680	(73)
Rent and occupancy			**463**	564	(101)
Amortization of intangible assets	8		**333**	333	—
Other costs including information technology, marketing, communications and other employee expenses			**1,527**	1,682	(155)
Total general and administrative expense before allocation		**(A)**	**17,559**	18,493	(934)
Less:					
Allocated to property operating costs			**(3,542)**	(3,532)	(10)
Capitalized to properties under development and other assets			**(5,439)**	(4,860)	(579)
Total amounts allocated and capitalized		**(B)**	**(8,981)**	(8,392)	(589)
Costs to provide transition services charged to Penguin	21		**(667)**	(917)	250
Time billings, leasing, management fees, development fees and other fees	21		**(2,997)**	(2,601)	(396)
Shared service costs charged to Penguin	21		**(47)**	(235)	188
Total amounts charged		**(C)**	**(3,711)**	(3,753)	42
Total amounts allocated, capitalized and charged		**(D = B + C)**	**(12,692)**	(12,145)	(547)
General and administrative expense (net)		**(E = A + D)**	**4,867**	6,348	(1,481)
Less:					
Adjusted salaries and related costs attributed to leasing[2]		**(F)**	**(1,402)**	(180)	(1,222)
General and administrative expense excluding internal leasing expense		**(G = E + F)**	**3,465**	6,168	(2,703)
As a percentage of rentals from investment properties[3]			**2.5%**	3.2%	(0.7)%

(1) The note reference relates to the corresponding note disclosure in the unaudited interim condensed consolidated financial statements for the six months ended June 30, 2019.

(2) Adjusted salaries and related costs attributed to leasing of $1.4 million were incurred in the three months ended June 30, 2019 (three months ended June 30, 2018 – $0.2 million) and were eligible to be added back to FFO based on the definition of FFO, in the REALpac White Paper published in February 2019, 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.

Total general and administrative expense before allocation for the three months ended June 30, 2019

For the three months ended June 30, 2019, total general and administrative expense before allocation was $17.6 million, representing a decrease of $0.9 million or 5.1% as compared to the same period last year. This decrease can be attributed primarily to: (i) a $1.4 million decrease in both DUP and LTIP expenses, (ii) a $0.5 million decrease in professional fees and other costs, and partially offset by (iii) a $0.9 million increase in Master planning service fees.

Total amounts allocated, capitalized and charged for the three months ended June 30, 2019

Total amounts allocated, capitalized and charged to Penguin and third parties of $12.7 million increased by $0.5 million or 4.5% for the three months ended June 30, 2019 as compared to the same period last year. This increase is primarily due to a net $0.5 million increase in the amounts capitalized to properties under development and other assets.

Year-to-Date Comparison to Prior Year

(in thousands of dollars)	Note[1]		**Six Months Ended June 30, 2019**	Six Months Ended June 30, 2018	Variance
Salaries and benefits			**25,595**	24,656	939
Master planning services fee - by Penguin	21		**5,600**	1,750	3,850
Professional fees			**1,970**	2,072	(102)
Public company costs			**1,230**	1,389	(159)
Rent and occupancy			**1,075**	1,197	(122)
Amortization of intangible assets	8		**666**	666	—
Other costs including information technology, marketing, communications and other employee expenses			**2,824**	3,465	(641)
Total general and administrative expense before allocation		**(A)**	**38,960**	35,195	3,765
Less:					
Allocated to property operating costs			**(7,370)**	(7,440)	70
Capitalized to properties under development and other assets			**(13,767)**	(9,299)	(4,468)
Total amounts allocated and capitalized		**(B)**	**(21,137)**	(16,739)	(4,398)
Costs to provide transition services charged to Penguin	21		**(1,417)**	(1,917)	500
Time billings, leasing, management fees, development fees and other fees	21		**(4,794)**	(4,373)	(421)
Shared service costs charged to Penguin	21		**(383)**	(513)	130
Total amounts charged		**(C)**	**(6,594)**	(6,803)	209
Total amounts allocated, capitalized and charged		**(D = B + C)**	**(27,731)**	(23,542)	(4,189)
General and administrative expense (net)		**(E = A + D)**	**11,229**	11,653	(424)
Less:					
Adjusted salaries and related costs attributed to leasing[2]		**(F)**	**(2,968)**	(1,836)	(1,132)
General and administrative expense excluding internal leasing expense		**(G = E + F)**	**8,261**	9,817	(1,556)
As a percentage of rentals from investment properties[3]			**2.8%**	2.9%	(0.1)%

(1) The note reference relates to the corresponding note disclosure in the unaudited interim condensed consolidated financial statements for the six months ended June 30, 2019.

(2) Adjusted salaries and related costs attributed to leasing of $3.0 million were incurred in the six months ended June 30, 2019 (six months ended June 30, 2018 – $1.8 million) and were eligible to be added back to FFO based on the definition of FFO, in the REALpac White Paper published in February 2019, 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.

Total general and administrative expense before allocation for the six months ended June 30, 2019

For the six months ended June 30, 2019, total general and administrative expense before allocation was $39.0 million, representing an increase of $3.8 million or 10.7% as compared to the same period last year. This increase can be attributed primarily to: (i) a $3.9 million increase in Master planning services fee, (ii) a $0.9 million increase in salaries and benefits, and partially offset by (iii) a $1.0 million decrease in professional fees, public company costs and others.

Total amounts allocated, capitalized and charged for the six months ended June 30, 2019

Total amounts allocated, capitalized and charged to Penguin and third parties of $27.7 million increased by $4.2 million or 17.8% for the six months ended June 30, 2019 as compared to the same period last year. This increase can be attributed primarily to a $4.5 million increase in the amounts capitalized to properties under development and other assets, partially offset by a $0.3 million net decrease in the amounts charged to Penguin and third parties.

Earnouts and Developments Completed on Existing Properties

For the three months ended June 30, 2019, $25.4 million of Earnouts and Developments (including Developments relating to equity accounted investments) were completed and transferred to income properties, as compared to $0.3 million in the same quarter last year.

	Three Months Ended June 30, 2019			Three Months Ended June 30, 2018		
	Area (sq. ft.)	**Investment ($ millions)**	**Annualized Yield (%)**	Area (sq. ft.)	Investment ($ millions)	Annualized Yield (%)
Earnouts	**5,682**	**1.6**	**7.5%**	—	—	—%
Developments	**4,823**	**2.3**	**6.9%**	1,000	0.3	15.1%
Developments – equity accounted investments	**39,427**	**21.5**	**5.4%**	—	—	—%
	49,932	**25.4**	**5.6%**	1,000	0.3	15.1%

For the six months ended June 30, 2019, $56.1 million of Earnouts and Developments (including Developments relating to equity accounted investments) were completed and transferred to income properties, as compared to $14.3 million in the same period last year.

	Six Months Ended June 30, 2019			Six Months Ended June 30, 2018		
	Area (sq. ft.)	**Investment ($ millions)**	**Annualized Yield (%)**	Area (sq. ft.)	Investment ($ millions)	Annualized Yield (%)
Earnouts	**20,662**	**7.9**	**7.0%**	6,675	1.5	7.3%
Developments	**76,457**	**23.7**	**5.9%**	38,655	12.8	6.6%
Developments – equity accounted investments	**44,649**	**24.5**	**5.4%**	—	—	—%
	141,768	**56.1**	**5.8%**	45,330	14.3	6.7%

Maintenance of Productive Capacity

Differentiating 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 is key in the Trust's consideration of capital expenditures. 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 new leases, 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 last revised in February 2019. 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.

	Three Months Ended June 30			**Six Months Ended June 30**		
(in thousands of dollars, except per Unit amounts)	**2019**	2018	Variance	**2019**	2018	Variance
Adjusted salaries and related costs attributed to leasing	**1,402**	180	1,222	**2,968**	1,836	1,132
Actual sustaining leasing commissions	**350**	787	(437)	**549**	1,155	(606)
Actual sustaining tenant improvements[1]	**1,428**	1,170	258	**2,360**	3,909	(1,549)
Total actual sustaining leasing and related costs	**3,180**	2,137	1,043	**5,877**	6,900	(1,023)
Actual sustaining capital expenditures (recoverable and non-recoverable)	**582**	1,168	(586)	**3,817**	1,792	2,025
Total actual sustaining leasing costs and capital expenditures	**3,762**	3,305	457	**9,694**	8,692	1,002
Per Unit – diluted	**$0.02**	$0.02	—	**$0.06**	$0.05	$0.01

(1) Includes a $1.1 million payment to a tenant pursuant to a lease amending agreement for the six months ended June 30, 2018.

Investment Properties

The portfolio consists of 34.0 million square feet of income producing gross leasable area and 3.3 million square feet of future potential gross leasable area in 164 properties and the option to acquire a 50.0% interest in four investment properties and 25.0% interest in another investment property (0.6 million square feet) 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, on its large urban properties or as an adjunct to its well-located existing shopping centres that are strong in their trade area. By selecting well-located centres, the Trust attracts quality tenants at market rental rates.

The following table summarizes the changes in values of investment properties including the Trust's share of equity accounted investments for the six months ended June 30, 2019 and year ended December 31, 2018:

	June 30, 2019			December 31, 2018		
(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	**8,404,513**	**500,544**	**8,905,057**	8,220,153	513,156	8,733,309
Acquisition, and related adjustments, of investment properties	**—**	**852**	**852**	15,761	645	16,406
Transfer to income properties from properties under development	**28,009**	**(28,009)**	**—**	146,966	(146,966)	—
Transfer from income properties to properties under development	**(30,100)**	**30,100**	**—**	(16,199)	16,199	—
Earnout Fees on properties subject to development management agreements	**3,685**	**—**	**3,685**	2,850	2,865	5,715
Capital expenditures	**3,817**	**—**	**3,817**	11,106	—	11,106
Leasing costs	**549**	**—**	**549**	1,916	—	1,916
Development expenditures	**—**	**31,612**	**31,612**	—	83,971	83,971
Capitalized interest	**—**	**9,026**	**9,026**	—	20,858	20,858
Dispositions	**(95)**	**(5,863)**	**(5,958)**	(43)	(18,946)	(18,989)
Net additions	**5,865**	**37,718**	**43,583**	162,357	(41,374)	120,983
Fair value adjustment on revaluation of investment properties	**15,778**	**(2,866)**	**12,912**	22,003	28,762	50,765
Balance – end of period	**8,426,156**	**535,396**	**8,961,552**	8,404,513	500,544	8,905,057
Investment properties classified as equity accounted investments						
Balance – beginning of period	**137,328**	**112,788**	**250,117**	130,530	88,628	219,159
Acquisitions	**—**	**—**	**—**	—	6,028	6,028
Transfer to income properties from properties under development[1]	**24,502**	**(24,502)**	**—**	5,296	(5,296)	—
Capital expenditures	**463**	**—**	**463**	115	—	115
Development expenditures	**—**	**16,458**	**16,458**	—	34,432	34,432
Capitalized interest	**—**	**685**	**685**	—	158	158
Dispositions	**—**	**—**	**—**	—	(16,214)	(16,214)
Net additions	**24,965**	**(7,359)**	**17,606**	5,411	19,108	24,519
Fair value adjustment on revaluation of investment properties	**60**	**18**	**78**	1,387	5,052	6,439
Balance – end of period	**162,353**	**105,447**	**267,801**	137,328	112,788	250,117
Total balance (including investment properties classified as equity accounted investments) – end of period	**8,588,509**	**640,843**	**9,229,352**	8,541,841	613,332	9,155,173

(1) For the six months ended June 30, 2019, the transfer from properties under development to income properties included a prior period transfer adjustment of $nil (year ended December 31, 2018 – $0.3 million).

As at June 30, 2019, the fair value of investment properties, including investment properties classified as equity accounted investments, totalled $9,229.4 million, as compared to $9,155.2 million at December 31, 2018, resulting in a net increase of $74.2 million. This net increase was primarily due to the following:

- development expenditures of $48.1 million (where $31.6 million relates to the Trust and $16.5 million relates to the Trust's share of equity accounted investments), which principally reflects additional spending on properties under development, as well as certain capitalized general and administrative and other expenses attributed to various projects;
- net fair value adjustments of $13.0 million (where a $12.9 million gain relates to the Trust and a $0.1 million gain relates to the Trust's share of equity accounted investments) due to adjustments to underlying assumptions in valuation models including but not limited to: net operating income, capitalization rates and leasing assumptions;
- capitalized interest of $9.7 million (where $9.0 million relates to the Trust and $0.7 million relates to the Trust's share of equity accounted investments);
- capital expenditures of $4.3 million (where $3.8 million relates to the Trust and $0.5 million relates to the Trust's share of equity accounted investments);
- Earnout Fees of $3.7 million on properties subject to development management agreements, all of which relates to the Trust;

Partially offset by the following:

- dispositions of $6.0 million, which primarily relate to the sale of parcels of land located in Jonquiere, Quebec, and Woodstock, Ontario, to unrelated parties.

Valuation Methodology

From July 1, 2016 to June 30, 2019, the Trust has had approximately 61.1% (by value) or 66.6% (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 six months ended June 30, 2019 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 six months ended June 30, 2019, investment properties (including properties under development) with a total carrying value of $1,912.5 million (December 31, 2018 – $2,038.0 million) were valued using capitalization rates provided by external national appraisers, and investment properties with a total carrying value of $7,049.0 million (December 31, 2018 – $6,867.0 million) were valued internally by the Trust. Based on these valuations, the aggregate weighted average stabilized capitalization rate on the Trust's income properties portfolio as at June 30, 2019 was 5.80% (December 31, 2018 – 5.82%).

Properties Under Development

At June 30, 2019, the fair value of properties under development including properties under development recorded in equity accounted investments totalled $640.8 million as compared to $613.3 million at December 31, 2018, resulting in a net increase of $27.5 million (for details on the factors influencing this change, see the "Investment Properties" section), presented as follows:

(in thousands of dollars)	**June 30, 2019**	December 31, 2018	Variance
Developments	**486,937**	449,908	37,029
Earnouts subject to option agreements[1]	**48,459**	50,636	(2,177)
Total	**535,396**	500,544	34,852
Equity accounted investments	**105,447**	112,788	(7,341)
Total including equity accounted investments	**640,843**	613,332	27,511

(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 six months ended June 30, 2019.

Potential Future Pipeline

Total future retail Earnouts, Developments and options under Mezzanine Financing could increase the existing Trust portfolio by an additional 3.8 million square feet. With respect to the future pipeline, commitments have been negotiated on 198,000 square feet.

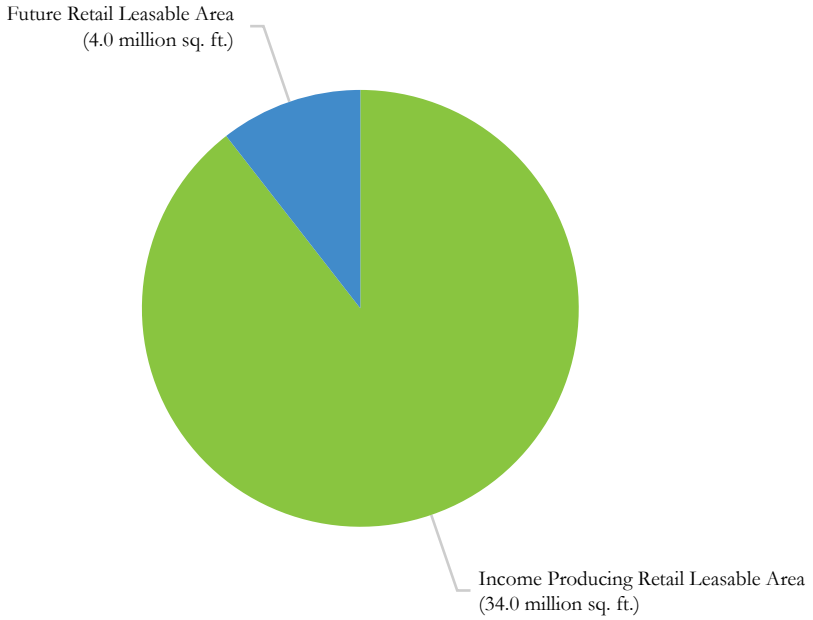
In addition to these initiatives, the Trust is currently assessing additional future potential intensification opportunities that may exist in its portfolio:

- 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).

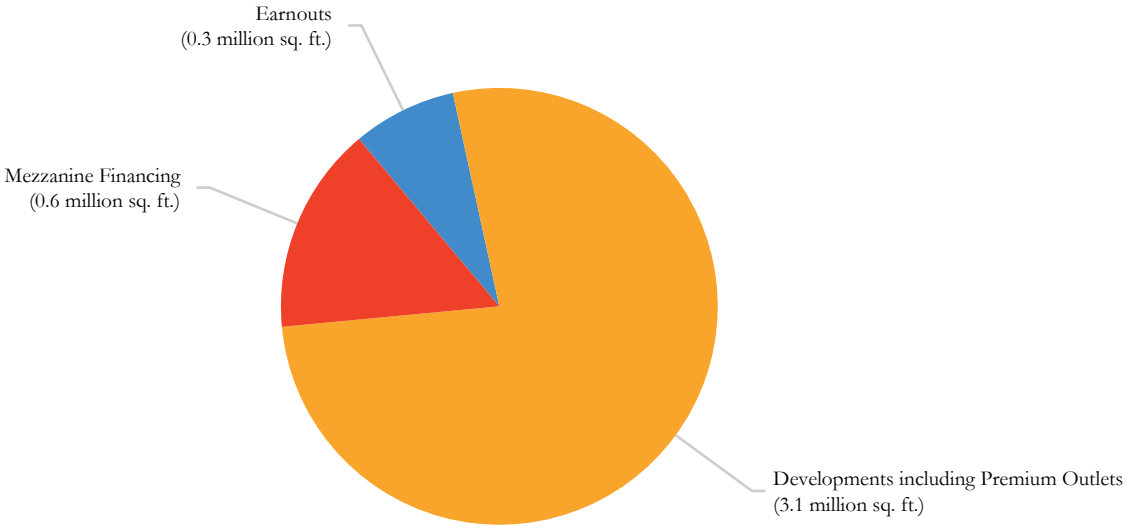
- In addition to VMC, the Trust has identified 76 sites within its portfolio that have the potential to add, at the Trust's share, in excess of 10.0 million square feet for residential, self-storage, and other non-retail uses over the medium to long term at sites including Westside Mall in Toronto, Vaughan 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 with adjacent 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 Retail Pipeline - excludes non-retail development initiatives (38.0 million square feet)



Future Leasable Area Upon Completion of Retail Pipeline - excludes non-retail development initiatives (4.0 million square feet)



The following table summarizes the potential future pipeline in properties under development as at June 30, 2019:

(in thousands of square feet)	Committed	Years 0–3	Beyond Year 3	Total[1]
Earnouts	27	182	93	302
Developments	171	1,410	1,407	2,988
Premium Outlets	—	—	50	50
	198	1,592	1,550	3,340
Mezzanine Financing	—	—	615	615
	198	1,592	2,165	3,955

(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, 2019, the future retail properties under development pipeline increased by 112,000 square feet to a total of 3.3 million square feet. The change is summarized as follows:

(in thousands of square feet)	Total Area
Future retail properties under development pipeline – March 31, 2019	3,228
Add:	
Properties transferred from investment properties to properties under development	125
Less:	
Completion of Earnouts and Developments	(11)
Net adjustment to project densities	(2)
Net change	112
Future retail properties under development pipeline – June 30, 2019	3,340

Committed Retail Pipeline

The following table summarizes the committed investment by the Trust in properties under development as at June 30, 2019:

(in millions of dollars)	Total Cost	Costs Incurred	Estimated Future Development Costs
Earnouts	9	4	5
Developments	56	25	31
	65	29	36

The completion of these committed Earnouts and Developments as currently scheduled is expected to have an average estimated yield of 6.3% in 2019 (remainder of year) and 6.1% in 2020, which, based on the committed lease arrangements with respect to such Earnouts and Developments, should increase FFO per Unit by $0.002 in 2019 (remainder of year) and an additional $0.004 in 2020.

Uncommitted Retail 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 Cost	Costs Incurred[1]	Future Development Costs
Earnouts	59	31	90	6	84
Developments	420	457	877	338	539
Premium Outlets	—	24	24	3	21
	479	512	991	347	644

(1) Properties under development totalled $640.8 million (including equity accounted investments of $105.4 million) which primarily consists of costs of $347.0 million in the uncommitted pipeline, costs of $29.0 million in the committed pipeline, costs of $99.9 million in potential land/parcel sales and costs of $105.4 million of future development land in VMC plus $59.2 million of non-cash development costs relating to future land development and cumulative fair value loss on revaluation of properties under development.

Approximately 9.4% of the properties under development – representing a proportion of gross investment cost (committed and uncommitted) relating to Earnouts ($99.0 million, divided by total potential future development pipeline of $1,056.0 million) – representing 302,000 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 3.0 million square feet of future space will be developed as the Trust leases space and finances the related construction costs.

Residential Development Inventory

Residential development inventory consists of development lands, co-owned with Fieldgate, located at Vaughan North West, Ontario, for the purpose of developing and selling residential townhouse units.

The following summarizes the activity in residential development inventory for the six months ended June 30, 2019 and year ended December 31, 2018:

(in thousands of dollars)	**June 30, 2019**	December 31, 2018
Balance – beginning of period	**23,429**	20,267
Development costs	**22**	2,345
Capitalized interest	**460**	817
Balance – end of period	**23,911**	23,429

Equity Accounted Investments

The following summarizes the Trust's ownership interest in each equity accounted investment as reflected in the Trust's unaudited interim condensed consolidated financial statements:

Equity Accounted Investment	**Principal Intended Activity**	**June 30, 2019**	December 31, 2018	June 30, 2018
Investment in associates:				
PCVP	Own, develop and operate investment properties	**50%**	50%	50%
Residences LP	Own, develop and sell two residential condominium towers (Transit City I and II)	**25%**	25%	25%
Residences III LP	Own, develop and sell a residential condominium tower (Transit City III)	**25%**	25%	25%
East Block Residences LP	Own, develop and sell two residential condominium towers (Transit City IV and V)	**25%**	25%	N/A
Investment in joint ventures:				
1500 Dundas East LP	Own and operate a retail investment property	**30%**	30%	30%
Laval C Apartments LP	Own, develop and operate residential apartments	**50%**	50%	50%
Leaside SAM LP	Own, develop and operate a self-storage facility	**50%**	50%	50%
Oshawa South Self Storage LP	Own, develop and operate a self-storage facility	**50%**	50%	N/A

The following summarizes key components relating to the Trust's equity accounted investments for the six months ended June 30, 2019 and year ended December 31, 2018:

	June 30, 2019			December 31, 2018		
(in thousands of dollars)	**Investment in Associates**	**Investment in Joint Ventures**	**Total**	Investment in Associates	Investment in Joint Ventures	Total
Investment – beginning of period	**116,284**	**30,022**	**146,306**	109,316	16,046	125,362
Contributions	**1,793**	**108**	**1,901**	18,808	12,976	31,784
Earnings	**1,210**	**748**	**1,958**	8,963	1,576	10,539
Distributions received	**(6,261)**	**(288)**	**(6,549)**	(20,803)	(576)	(21,379)
Investment – end of period	**113,026**	**30,590**	**143,616**	116,284	30,022	146,306

a) Investment in associates

In 2012, the Trust entered into the PCVP with Penguin (see also Note 21, "Related party transactions", in the Trust's unaudited interim condensed consolidated financial statements) to develop the 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.

In 2018, the Trust entered into the VMC East Block Residences Limited Partnership ("East Block Residences LP") with Penguin and a third party, CentreCourt Developments, to develop additional residential condominium towers, located on the VMC site.

Note that limited partnerships involving residential developments, as discussed above, are hereinafter collectively referred to as "VMC Residences".

The following summarizes the associated major mixed-use initiatives:

	Project	Type	Estimated GLA (sq. ft.)/ units	Trust Share	Expected Completion Year
PCVP	KPMG (Tower #1)	Office	360,000 sq. ft.	50%	Completed
	PwC-YMCA (Tower #2)	Office	105,000 sq. ft.	50%	2019
	Office (Tower #3)	Office	600,000 sq. ft.	50%	2024
	Office (Tower #4)	Office	300,000 sq. ft.	50%	2026
	Residential Rental	Apartments	450 units	50%	2023-2024
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	631 units	25%	2021
East Block Residences	Transit City IV and V	Condo	1,013 units	25%	2023-2024

The VMC

During the six months ended June 30, 2019, the Trust experienced continued success and progress at the VMC, including:

i) KPMG Office Tower:

The KPMG Office Tower office space is 100% leased-up, including existing/committed tenants such as KPMG, Green for Life, Harley-Davidson Canada, Bank of Montreal, Miller Thomson LLP, FM Global, Pumpernickel's, Marc Anthony, TD Bank and International News.

ii) PwC-YMCA Tower:

Both the YMCA and PwC have taken possession of their space during the quarter ended June 30, 2019. PwC is scheduled to open later in 2019 while the YMCA is expected to open in the second quarter of 2020. Subsequent to quarter end, the Trust and Penguin signed a 10-year (plus two 5-year extensions) lease transaction with Scotiabank to be a tenant occupying both the building's top floor and a retail branch on the ground floor and they are expected to open for business later in 2019.

iii) VMC Residential:

Construction of Transit City 1, 2 and 3 condo towers is progressing on time and on budget with closings expected to commence in the third quarter of 2020, approximating 1,716 units. Project costs are substantially all committed as at June 30, 2019. Transit City Condos 4 and 5, which comprise 45 and 50 storeys, respectively, are substantially sold out as at June 30, 2019. Concurrent with the construction of Transit City Condos 4 and 5 will be the development of a 35-storey purpose built rental building.

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 a retail 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 SmartStop contributed land and cash. The purpose of the joint venture is to own, develop and operate a self-storage rental facility in Toronto (Leaside).

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

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 2019 annual general meeting of Unitholders that occurred on May 31, 2019, the Trust issued 2,940,452 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, 2018, which is filed on SEDAR. As at June 30, 2019, Penguin owned 20.8% of the aggregate issued and outstanding Trust Units in addition to the Special Voting Units noted above. The 20.8% ownership would increase to 24.9% 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, 2019, 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 elsewhere in this MD&A, 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 development services agreement entered in May 2015 (the "2015 Agreement"), Penguin provides specified services to the Trust in connection with the development of four of its projects, namely the VMC, the StudioCentre property, Westside Mall and the Vaughan 400 & 7 Shopping Centre, until May 2020. In return for those services Penguin is entitled to annual master planning fees of $3.5 million for the term of the 2015 Agreement and has earned this amount in each year to date. Since that time, as a result of the Trust's significant increase in development activity throughout its portfolio, the scope of services being provided by Penguin to the Trust in respect of development activities is greatly expanding and is expected to continue to do so for the foreseeable future. Penguin has agreed to provide such expanded services on the understanding by both parties that the 2015 Agreement will be appropriately amended to provide for the significantly expanded services and will therefore also include an adjustment to compensation received by Penguin. It will also provide for the extension of the term of such services in the future beyond the current expiry date of the 2015 Agreement (May 2020). All terms of the amended services agreement have not been finalized. The special independent committee of the Board of Trustees is in the process of negotiating such amendments.

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 in the Trust's unaudited interim condensed consolidated financial statements (including Note 3 referring to the purchase of Earnouts, Note 4(c) 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	
(in thousands of dollars)	Note[1]	**2019**	2018	**2019**	2018
Related party transactions with Penguin					
Revenues:					
Service and other revenues:					
Transition services fee revenue		**667**	917	**1,417**	1,917
Management fee and other services revenue pursuant to the Development and Services Agreement		**1,370**	1,709	**2,621**	3,053
Support services		**182**	235	**383**	513
	17	**2,219**	2,861	**4,421**	5,483
Interest income from mortgages and loans receivable		**2,067**	1,687	**4,081**	3,287
Head lease rents and operating cost recoveries included in head lease rentals from income properties		**235**	371	**470**	604
Expenses and other payments:					
Master planning services:					
Capitalized to properties under development	19	**1,750**	875	**5,600**	1,750
Development fees and costs (capitalized to investment properties)		**—**	8	**—**	8
Interest expense (capitalized to properties under development)		**—**	3	**11**	6
Opportunity fees (capitalized to properties under development)[2]		**701**	661	**1,385**	1,306
Rent and operating costs (included in general and administrative expense and property operating costs)		**(67)**	503	**397**	1,076
Time billings and other administrative costs (included in general and administrative expense and property operating costs)		**31**	16	**51**	33
Marketing costs (included in property operating costs)		**11**	11	**22**	32
Related party transactions with PCVP					
Revenues:					
Interest income from mortgages and loans receivable		**553**	692	**553**	1,087
Rent and operating costs (included in general and administrative expense and property operating costs)		**650**	—	**650**	—

(1) The note reference relates to the corresponding note disclosure in the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2019.
(2) These amounts relate to accrued interest on prepaid land costs subject to future Earnouts.

(in thousands of dollars)	Note[1]	**June 30, 2019**	December 31, 2018
Related party balances with Penguin disclosed elsewhere in the financial statements			
Receivables:			
Amounts receivable[2]	10(c)	**19,865**	16,741
Mortgages receivable	5(a)	**136,194**	134,221
Loans receivable	5(b)	**24,087**	10,145
Notes receivable	5(c)	**2,979**	2,979
Total receivables		**183,126**	164,086
Payables and other accruals:			
Accounts payable	12(c)	**19,816**	13,834
Future land development obligation	12(c)	**27,119**	26,567
Secured debt		**318**	2,635
Total payables and other accruals		**47,253**	43,036

(1) The note reference relates to the corresponding note disclosure in the unaudited interim condensed consolidated financial statements for the six months ended June 30, 2019.
(2) Excludes amounts 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:

(in thousands of dollars)	Note[1]	**June 30, 2019**	December 31, 2018
Related party balances disclosed elsewhere in the financial statements			
Amounts receivable[2]	10(c)	**12,125**	10,967
Loans receivable[3]	5(b)	**91,153**	—
Other unsecured debt	11(b)(ii)	**2,214**	3,766

(1) The note reference relates to the corresponding note disclosure in the unaudited interim condensed consolidated financial statements for the six months ended June 30, 2019.
(2) Amounts receivable includes Penguin's portion, which represents $5.8 million (December 31, 2018 – $5.3 million) relating to Penguin's 50% investment in the PCVP and 25% investment in VMC Residences.
(3) Loans receivable includes Penguin's portion, which represents $45,577 (December 31, 2018 – $nil) relating to Penguin's 50% investment in the PCVP.

Mortgages receivable

As at June 30, 2019, the weighted average interest rate associated with mortgages receivable from Penguin was 5.48% (December 31, 2018 – 5.59%) (see also Note 5, "Mortgages, loans and notes receivable" in the Trust's unaudited interim condensed consolidated financial statements).

Future land development obligations

The future land development obligations represent payments required to be made to Penguin for certain undeveloped lands acquired by the Trust from Penguin 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 2019 to 2025. The accrued future land development obligations are measured at their amortized values using imputed interest rates ranging from 4.50% to 5.50% (see also Note 4, "Investment properties", in the Trust's unaudited interim condensed consolidated financial statements).

Leasehold interest properties

The Trust has entered into leasehold agreements with Penguin for 15 investment properties (see also Note 4, "Investment properties" in the Trust's unaudited interim condensed consolidated financial statements).

Other related party transactions:

	Three Months Ended June 30		**Six Months Ended June 30**	
(in thousands of dollars)	**2019**	2018	**2019**	2018
Legal fees paid to a law firm in which a partner, Mr. Gregory Howard, is a trustee of the Trust:				
Costs associated with the Arrangement	**—**	—	**—**	21
Capitalized to investment properties	**49**	129	**1,366**	345
Included in general and administrative expense	**86**	102	**382**	177
	135	231	**1,748**	543
Accounts payable to a legal firm in which a partner is a trustee of the Trust:	**—**	—	**341**	—

Capital Resources and Liquidity

As at June 30, 2019 and March 31, 2019, the Trust had the following capital resources available:

(in thousands of dollars)	**June 30, 2019**	March 31, 2019	Variance
Cash and cash equivalents	**33,944**	104,575	(70,631)
Unused operating facility	**467,951**	490,456	(22,505)
Unused other credit facilities	**80,000**	80,000	—
	581,895	675,031	(93,136)

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 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, 2019, the Trust's capital resources decreased by $70.6 million as compared to March 31, 2019, which is primarily due to the following:

- redemption of unsecured debentures including yield maintenance on redemption of $154.3 million;
- net repayment of secured debt of $22.8 million;
- additions to investing activities including Earnouts, investment properties and equity accounted investments of $21.5 million;
- advances of mortgages and loans receivable of $90.1 million; and
- distributions paid on Trust Units, non-controlling interests and Units classified as liabilities of $59.9 million;

Partially offset by the following:

- proceeds from issuance of other unsecured debt and credit facility of $170.0 million;
- cash provided by operating activities, excluding yield maintenance payment, of $85.0 million; and
- proceeds from revolving operating facility of $23.0 million.

During the quarter ended June 30, 2019, the Trust also drew $22.5 million, net of repayment of letters of credit, from the unsecured revolving operating facility.

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, 2019 is 48.5% (March 31, 2019 – 49.0%). Including the Trust's capital resources as at June 30, 2019, the Trust could invest an additional $1,766.6 million (March 31, 2019 - $1,683.2 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 $4.2 billion, 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, 2019.

As at June 30, 2019, the timing of the Trust's future obligations is as follows:

(in thousands of dollars)	**Total**	**2019**	**2020**	**2021**	**2022**	**2023**	**Thereafter**
Secured debt	1,830,246	106,886	201,492	258,534	326,449	223,163	713,722
Unsecured debt	2,182,214	—	250,000	352,214	300,000	200,000	1,080,000
Mortgage receivable advances[1]	145,899	10,299	20,550	34,967	8,018	14,489	57,576
Development obligations (commitments)[2]	28,140	28,140	—	—	—	—	—
	4,186,499	145,325	472,042	645,715	634,467	437,652	1,851,298

(1) Mortgages receivable of $136.2 million at June 30, 2019, and further forecasted commitments of $145.9 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.

(2) The Trust is in the process of refining its estimates of development obligations for the years subsequent to 2019. This total does not include commitments associated with equity accounted investments of $243.7 million, of which the Trust's share is $67.1 million.

As at June 30, 2019, the timing of the equity accounted investment's future obligations including development obligations is as follows:

(in thousands of dollars)	Total	2019	2020	2021	2022	2023	Thereafter
Secured debt	256,300	6,505	14,324	58,877	37,660	15,216	123,718
Development obligations (commitments)	243,735	72,830	72,830	72,830	25,245	—	—
Total	500,035	79,335	87,154	131,707	62,905	15,216	123,718

As at June 30, 2019, the timing of the Trust's share of equity accounted investment's future obligations including development obligations is as follows:

(in thousands of dollars)	Total	2019	2020	2021	2022	2023	Thereafter
Secured debt	99,580	2,563	5,735	16,725	13,528	5,971	55,058
Development obligations (commitments)	67,133	20,101	20,101	20,101	6,830	—	—
Total Trust's share	166,713	22,664	25,836	36,826	20,358	5,971	55,058

The following represents the Trust's net working capital surplus (deficiency) as at June 30, 2019 and March 31, 2019:

(in thousands of dollars)	June 30, 2019	March 31, 2019
Current assets	**184,082**	229,529
Less: Current liabilities	**(420,048)**	(360,129)
Working capital deficiency	**(235,966)**	(130,600)
Less: Current portion of debt	**(189,175)**	(144,061)
Net working capital (deficiency) surplus	**(46,791)**	13,461

As at June 30, 2019 the Trust experienced a working capital deficiency of $236.0 million (March 31, 2019 – $130.6 million). This deficiency includes mortgages, unsecured debentures and operating lines of credit of $189.2 million (March 31, 2019 – $144.1 million) that have maturity dates within 12 months of the balance sheet date. 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.

As noted in the Unitholders' Equity section, in January 2019, the Trust successfully raised $230.0 million in new equity. The Trust used approximately $200.0 million of these proceeds to repay outstanding amounts on its operating lines of credit and the balance was used for other general purposes. It is management's intention to either repay or refinance $73.9 million of maturing secured debt in 2019. Potential upfinancing on maturing debt using a 65% loan to value and a 6.25% capitalization rate amounts to $92.0 million in 2019 (remainder of year) and $111.0 million in 2020. In addition, the Trust has an unencumbered asset pool with an approximate fair value totalling $4.5 billion, which can generate gross financing proceeds on income properties of approximately $2,878.6 million using a 65% loan to value. The secured debt, unsecured debt, mortgage receivable advances and development obligations will be funded by additional term mortgages, net proceeds on the sale of certain assets, existing cash or operating lines, the issuance of unsecured debentures, and equity Units, as necessary.

The Trust's estimated potential development pipeline of $1,056.0 million consists of $99.0 million estimated to be payable in Earnouts and $957.0 million estimated for the costs of developing land categorized in Developments. Costs totalling $376.0 million have been incurred to date with a further $680.0 million of potential Development costs still to be funded. The future funding includes $89.0 million for future Earnouts that will be paid once a lease has been executed and construction of the space commenced. The remaining $591.0 million of costs of developing lands categorized under Developments will proceed once the Trust has an executed lease and financing is in place.

Debt

The following table summarizes total debt before equity accounted investments and total debt including equity accounted investments, at June 30, 2019 and December 31, 2018:

	June 30, 2019				December 31, 2018			
(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	**1,829,717**	**44%**	**4.4**	**4.05%**	2,103,379	50%	4.4	3.93%
Unsecured debt	**2,174,967**	**53%**	**4.4**	**3.38%**	1,886,105	45%	4.8	3.53%
Revolving operating facility	**23,000**	**1%**	**4.1**	**3.42%**	121,000	2%	4.6	3.64%
Total debt before equity accounted investments	**4,027,684**	**98%**	**4.4**	**3.69%**	4,110,484	97%	4.7	3.73%
Share of debt classified as equity accounted investments	**99,580**	**2%**	**16.6**	**3.92%**	125,880	3%	14.1	3.85%
Total debt including equity accounted investments	**4,127,264**	**100%**	**4.7**	**3.69%**	4,236,364	100%	4.9	3.73%

The following table summarizes the activity in debt including debt recorded in equity accounted investments, for the six months ended June 30, 2019:

(in thousands of dollars)	**Secured Debt**	**Unsecured Debt**	**Revolving Operating Facility**	**Equity Accounted Investments**	**Total**
Balance – January 1, 2019	**2,103,379**	**1,886,105**	**121,000**	**125,880**	**4,236,364**
Borrowings	2,624	670,000	23,000	13,205	708,829
Scheduled amortization	(33,087)	—	—	(1,107)	(34,194)
Repayments	(242,668)	(381,552)	(121,000)	(38,300)	(783,520)
Amortization of acquisition fair value adjustments, net of additions	(1,058)	—	—	(88)	(1,146)
Financing costs incurred, net of additions	527	414	—	(10)	931
Balance – June 30, 2019	**1,829,717**	**2,174,967**	**23,000**	**99,580**	**4,127,264**

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 2019 (remainder of year) and 2020 were refinanced using a 10-year secured rate of 3.21%, annualized FFO would increase by $0.012 per Unit for 2019 (remainder of year) and increase by $0.014 per Unit for 2020. FFO is a non-IFRS measure, see "Presentation of Non-GAAP Measures" for further information.

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 (%)**
2019 (remainder of year)	33,024	73,862	106,886	6%	5.98%
2020	61,250	140,242	201,492	11%	5.16%
2021	55,798	202,736	258,534	14%	4.16%
2022	51,189	275,260	326,449	18%	3.54%
2023	42,914	180,249	223,163	12%	4.59%
Thereafter	89,289	624,433	713,722	39%	3.64%
Total	333,464	1,496,782	1,830,246	100%	4.06%
Acquisition date fair value adjustment			4,456		
Unamortized financing costs			(4,985)		
			1,829,717		4.05%

Unsecured Debt

The following table summarizes the components of unsecured debt:

(in thousands of dollars)	June 30, 2019	December 31, 2018
Unsecured debentures (a)	**1,852,753**	1,802,339
Credit facilities (b)	**320,000**	80,000
Other unsecured debt (c)	**2,214**	3,766
	2,174,967	1,886,105

(a) Unsecured debentures

The following unsecured debentures were issued and outstanding as at June 30, 2019 and December 31, 2018:

(in thousands of dollars)

Series	Maturity Date	Annual Interest Rate	June 30, 2019	December 31, 2018
Series H	July 27, 2020	4.050%	**—**	150,000
Series I	May 30, 2023	3.985%	**200,000**	200,000
Series L	February 11, 2021	3.749%	**—**	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
Series T	June 23, 2021	2.757%	**350,000**	—
		3.28%[2]	**1,860,000**	1,810,000
		Unamortized financing costs	**(7,247)**	(7,661)
			1,852,753	1,802,339

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

Unsecured debenture activity for the six months ended June 30, 2019

Issuance

In March 2019, the Trust issued $350.0 million of 2.757% Series T senior unsecured debentures (net proceeds including issuance costs – $349.3 million), which are due on June 23, 2021 with semi-annual payments due on June 23 and December 23 of each year. The proceeds were used to repay existing indebtedness and for general Trust purposes.

Redemptions

In June 2019, the Trust redeemed $150.0 million aggregate principal of 3.749% Series L senior unsecured debentures. In addition to paying accrued interest of $2.1 million, the Trust paid a yield maintenance fee of $4.0 million in connection with the redemption. The redemption was funded by advances from the non-revolving credit facility.

In March 2019, the Trust redeemed $150.0 million aggregate principal of 4.050% Series H senior unsecured debentures. In addition to paying accrued interest of $0.7 million, the Trust paid a yield maintenance fee of $3.3 million in connection with the redemption. The redemption was funded by advances from the non-revolving credit facility.

Unsecured debenture activity for the six months ended June 30, 2018

There was no activity during the six months ended June 30, 2018.

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 as at June 30, 2019.

(b) Credit facilities

In May 2019, the Trust entered into an unsecured non-revolving credit facility totalling $170.0 million bearing interest at a fixed interest rate of 3.26% and matures on June 24, 2026. As at June 30, 2019, $170.0 million was drawn to fund the redemption of 3.749% Series L unsecured debentures.

In March 2019, the Trust entered into an unsecured non-revolving credit facility totalling $150.0 million bearing interest at a fixed interest rate of 3.59% and matures on March 7, 2024. As at June 30, 2019, $150.0 million was drawn to fund the redemption of 4.050% Series H senior unsecured debentures.

In August 2018, the Trust entered into an unsecured non-revolving credit facility totalling $80.0 million, bearing interest at a variable interest rate based on either bank prime rate plus 20 basis points or the banker's acceptance rate plus 120 basis points, and matures on July 31, 2023. In January 2019, an amendment was made to permit the Trust to have a one time repayment on all outstanding drawdowns and, following the repayment, the Trust may draw up to $80.0 million on the facility until September 30, 2019. The balance of the credit facility of $80.0 million was repaid in February 2019.

(c) Other unsecured debt

Other unsecured debt totalling $2.2 million (December 31, 2018 – $3.8 million) pertains to loans received from equity accounted investments (see also, "Equity accounted investments") in connection with contribution agreements relating to 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.

Revolving Operating Facility

As at June 30, 2019, 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 the banker's acceptance rate plus 145 basis points, which matures on July 31, 2023. 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, 2019**	December 31, 2018
Revolving operating facility	**500,000**	500,000
Lines of credit – outstanding	**(23,000)**	(121,000)
Letters of credit – outstanding	**(9,049)**	(9,940)
Remaining unused operating facility	**467,951**	369,060

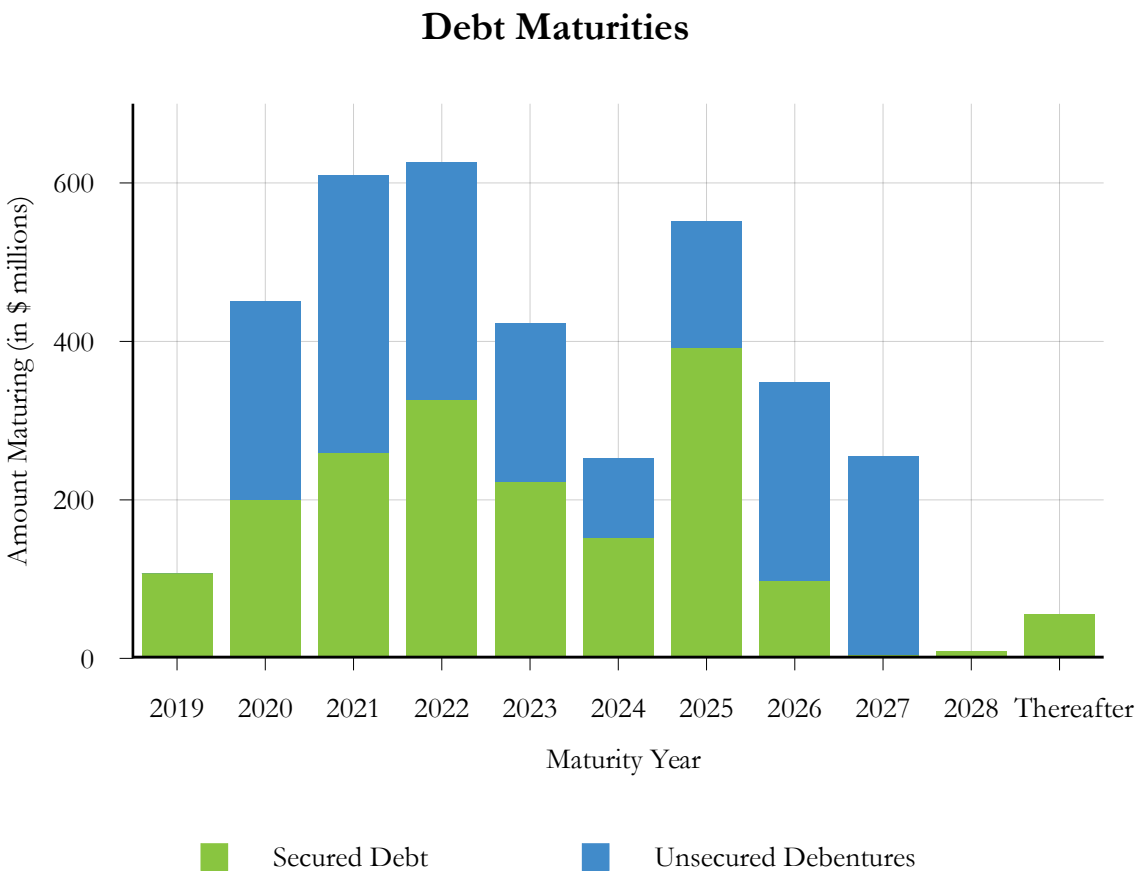
In addition to the letters of credit outstanding on the Trust's revolving operating facility (see above), the Trust also has $29.0 million of letters of credit outstanding with other financial institutions as at June 30, 2019 (December 31, 2018 – $28.9 million).

Unencumbered Assets

As at June 30, 2019, the Trust had $4.5 billion of unencumbered assets (December 31, 2018 – $4.3 billion), 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 2019 to be $266.5 million. Forecasted Annualized NOI is computed by annualizing the current quarter NOI for 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 and unsecured 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, 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". These ratios are as follows:

Ratios	**June 30, 2019**	December 31, 2018
Interest coverage	**3.3X**	3.3X
Interest coverage (net of capitalized interest expense)[1]	**3.8X**	3.6X
Debt to aggregate assets	**41.8%**	43.9%
Debt to gross book value (excluding convertible debentures)	**48.5%**	51.1%
Debt to gross book value (including convertible debentures)	**48.5%**	51.1%
Debt to Adjusted EBITDA	**7.8X**	8.2X

(1) This ratio is not stipulated by the Declaration of Trust and is disclosed for information purposes.

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 1.5X, unencumbered investment properties value to consolidated unsecured debt of not less than 1.3X and Unitholders' equity of not less than $2.0 billion. These ratios and financial covenants are as follows:

Ratios	Threshold	**June 30, 2019**	December 31, 2018
Debt to aggregate assets	65%	**41.8%**	43.9%
Secured debt to aggregate assets	40%	**19.6%**	23.1%
Fixed charge coverage	1.5X	**2.3X**	2.2X
Unencumbered assets to unsecured debt	1.3X	**2.05X**	2.12X
Unitholders' equity (in thousands)	$2,000,000	**$5,286,865**	$5,008,331

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 of not less than 1.65X and Unitholders' equity of not less than $500.0 million. These ratios and financial covenants are as follows:

Ratios	Threshold	**June 30, 2019**	December 31, 2018
Debt to gross book value (excluding convertible debentures)	60%	**48.5%**	51.1%
Debt to gross book value (including convertible debentures)	65%	**48.5%**	51.1%
Interest coverage	1.65X	**3.3X**	3.3X
Unitholders' equity (in thousands)	$500,000	**$5,286,865**	$5,008,331

For the three months ended June 30, 2019, 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 ("Exchangeable Securities") 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 six months ended June 30, 2019 and year ended December 31, 2018:

Type	Class and Series	June 30, 2019	December 31, 2018	Variance
Trust Units	N/A	**142,895,043**	134,498,397	8,396,646
Smart Limited Partnership	Class B Series 1	**14,746,176**	14,746,176	—
Smart Limited Partnership	Class B Series 2	**950,059**	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	**664,214**	664,214	—
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	**3,052,504**	3,052,504	—
Smart Oshawa South Limited Partnership	Class B Series 1	**710,416**	710,416	—
Smart Oshawa Taunton Limited Partnership	Class B Series 1	**374,223**	374,223	—
Total Units classified as equity		**168,023,920**	159,627,274	8,396,646
Smart Limited Partnership	Class D Series 1	**311,022**	311,022	—
Smart Limited Partnership	Class F Series 3	**4,886**	—	4,886
Smart Oshawa South Limited Partnership	Class D Series 1	**260,417**	260,417	—
ONR Limited Partnership	Class B	**1,248,140**	1,248,140	—
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		**2,094,455**	2,089,569	4,886
Total Units		**170,118,375**	161,716,843	8,401,532

The following is a summary of the activities having an impact on Unitholders' equity for the three and six months ended June 30, 2019 and year ended December 31, 2018:

(in thousands of dollars)	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019	Year Ended December 31, 2018
Unitholders' equity – beginning of the period	**5,250,361**	**5,008,331**	4,827,457
Issuance of Trust Units	**16,998**	**262,810**	56,656
Units issuance cost	**—**	**(9,634)**	(250)
Deferred Units exchanged for Trust Units	**37**	**61**	—
Trust options exercised for Trust Units	**—**	**1,631**	—
Issuance of LP Units classified as equity	**—**	**—**	3,245
Units exchanged	**—**	**—**	191
Net income and comprehensive income	**95,513**	**175,486**	402,947
Distributions to other non-controlling interest	**—**	**—**	(515)
Distributions	**(76,044)**	**(151,820)**	(281,400)
Unitholders' equity – end of the period	**5,286,865**	**5,286,865**	5,008,331

During the quarter ended June 30, 2019, the Trust issued $17.0 million in Units as follows:

	Trust Units (#)	LP Units (#)	Total Units (#)	Three Months Ended June 30, 2019 ($ thousands)
Distribution reinvestment plan (DRIP)	502,746	—	502,746	**16,998**
Deferred units exchanged for Trust Units	1,118	—	1,118	**37**
Total change in Unit equity	503,864	—	503,864	**17,035**

During the three months ended June 30, 2019, distributions declared by the Trust totalled $77.0 million of which $76.0 million relates to distributions on Units classified as equity, and $1.0 million relates to distributions on Units classified as liabilities that is treated as interest expense (June 30, 2018 – $70.6 million, of which $69.7 million relates to distributions on Units classified as equity, and $1.0 million relates to distributions on Units classified as liabilities that is treated as interest expense), or $0.4500 per Unit (June 30, 2018 – $0.4375 per Unit).

For the three months ended June 30, 2019, the Trust paid $60.0 million in cash distributions and the balance of $17.0 million by issuing 502,746 Trust Units under the DRIP (June 30, 2018 – $56.8 million in cash distributions and the balance of $13.8 million by issuing 471,904 Trust Units under the DRIP).

Declared distributions and declared distributions net of DRIP for the three and six months ended June 30, 2019 as compared to the prior year comparative periods, were as follows:

	Three Months Ended June 30		**Six Months Ended June 30**	
(in thousands of dollars)	**2019**	2018	**2019**	2018
Distributions declared on:				
Trust Units	**64,737**	58,765	**129,205**	117,312
LP Units	**11,307**	10,957	**22,615**	21,905
Distributions on Units classified as equity	**76,044**	69,722	**151,820**	139,217
Distributions on Units classified as liabilities	**941**	912	**1,881**	1,825
Total distributions declared	**76,985**	70,634	**153,701**	141,042
Distributions reinvested through DRIP	**(16,998)**	(13,820)	**(32,810)**	(27,144)
Total distributions declared, net of DRIP	**59,987**	56,814	**120,891**	113,898
DRIP as a percentage of total distributions declared	**22.1%**	19.6%	**21.3%**	19.2%

Quarterly Results and Trends

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

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Rentals from investment properties[1][2]	**198,174**	207,227	200,545	194,883	197,092	198,395	196,530	178,752
NOI[1][2]	**128,217**	125,934	127,105	128,761	126,708	122,839	125,460	117,867
Net income and comprehensive income[1]	**95,513**	79,973	102,580	96,155	103,748	100,466	101,911	69,946
FFO[2]	**91,781**	88,296	93,139	93,722	91,036	89,287	90,075	87,754
Per Unit								
Basic	**$0.54**	$0.53	$0.58	$0.58	$0.57	$0.56	$0.57	$0.56
Diluted[3]	**$0.54**	$0.52	$0.57	$0.58	$0.56	$0.56	$0.56	$0.56
FFO with one time adjustment and before Transactional FFO[2]	**96,121**	91,821	92,791	93,722	92,538	89,287	90,075	87,754
Per Unit								
Basic	**$0.57**	$0.55	$0.57	$0.58	$0.58	$0.56	$0.57	$0.56
Diluted[3]	**$0.56**	$0.55	$0.57	$0.58	$0.57	$0.56	$0.56	$0.56
FFO with one time adjustment and Transactional FFO[2]	**96,121**	91,821	92,791	93,722	95,012	89,777	91,020	87,754
Per Unit								
Basic	**$0.57**	$0.55	$0.57	$0.58	$0.59	$0.56	$0.57	$0.56
Diluted[3]	**$0.56**	$0.55	$0.57	$0.58	$0.59	$0.56	$0.57	$0.56
Cash flows provided by operating activities	**80,767**	56,768	131,475	74,656	101,060	44,063	137,492	84,967
Distributions declared	**76,988**	76,716	73,151	70,889	70,634	70,408	70,191	67,018
Units outstanding[4]	**170,118,375**	169,609,625	161,716,843	161,222,910	160,704,177	160,173,698	159,720,126	158,196,022
Weighted average Units outstanding								
Basic	**169,858,745**	167,541,581	161,471,118	160,950,811	160,415,583	159,943,580	159,388,010	156,681,702
Diluted	**170,718,814**	168,448,169	162,341,647	161,810,678	161,220,808	160,687,906	160,078,219	157,367,314
Total assets	**9,676,090**	9,608,647	9,459,632	9,427,341	9,513,881	9,416,938	9,380,232	8,839,166
Total unencumbered assets	**4,499,700**	4,451,600	4,250,800	4,116,100	3,940,600	3,524,500	3,387,000	2,921,700
Total debt[1]	**4,127,264**	4,139,682	4,236,364	4,256,252	4,296,836	4,269,593	4,318,330	3,889,763
In-place occupancy rate[1]	**97.8%**	97.8%	98.0%	98.1%	98.0%	98.0%	98.2%	98.5%

(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) 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 typically not materially impacted by seasonal factors, excluding the impact of snow removal costs during snow seasons. 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, Earnouts, Developments and dispositions.

Rentals from investment properties

The increase in the fourth quarter of 2017 over the third quarter of 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 the first quarter of 2019, in contrast to previous quarters as well as the second quarter of 2019, was primarily due to the seasonal impact of CAM and other operating recoveries, due in large part to the difficult winter, and related snow removal costs, experienced across Canada.

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 both the Trust's income producing properties and financial instruments, the incidence of yield maintenance costs associated with the early redemption of unsecured debentures and, for the fourth quarter of 2017, the recognition of an acquisition gain, net, pursuant to the Arrangement and other non-recurring items.

For the second quarter of 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, the second quarter of 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 the fourth quarter of 2017 and the second quarter of 2017, of $0.9 million and $3.1 million, respectively.

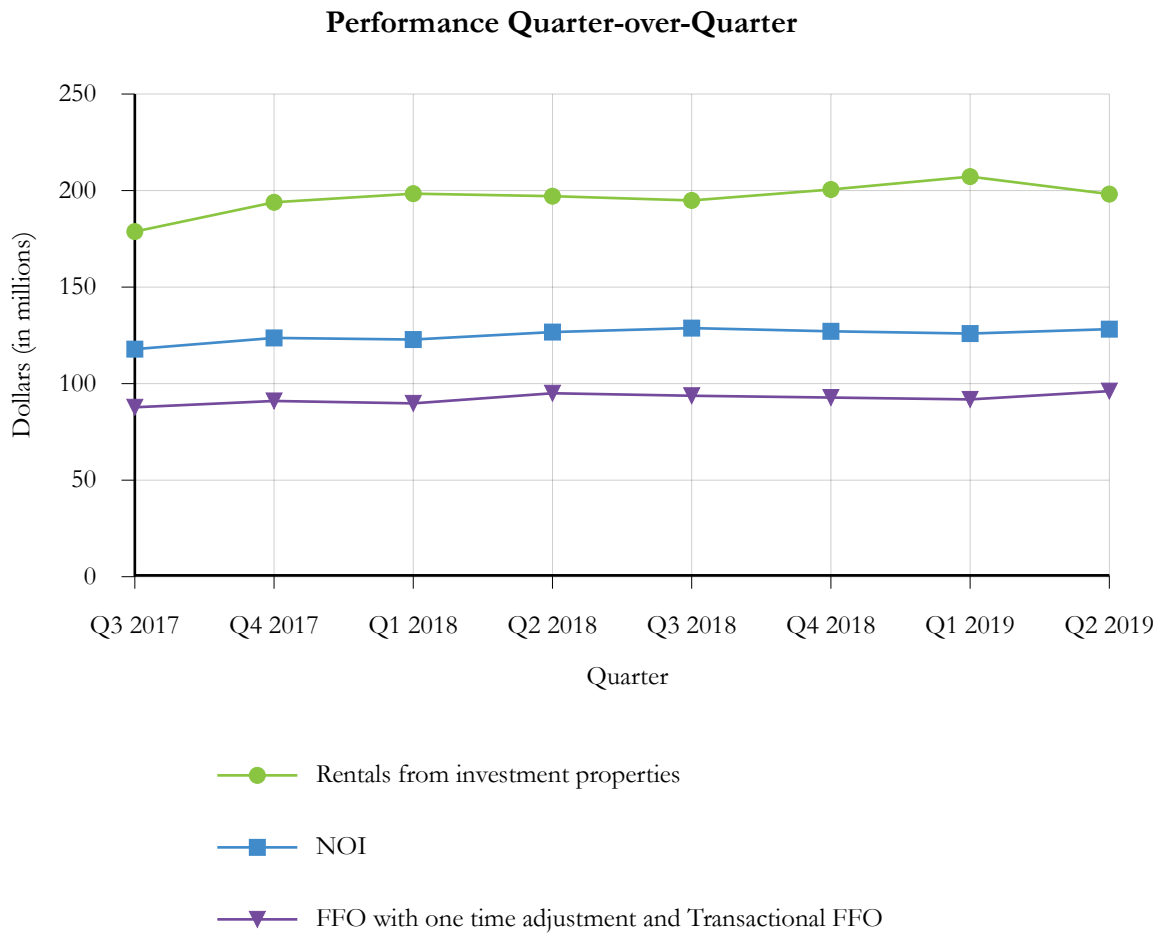
Units outstanding
Quarterly increases in Units outstanding and weighted average Units outstanding (basic and diluted) can be attributed to Units issued pursuant to: (i) DRIP, (ii) Earnouts, and (iii) the equity raise of $230.0 million in Q1 2019 resulting in the issuance of 7,360,000 Trust Units.

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. The Trust acquired an additional investment property (Valleyfield, Quebec) in the second quarter of 2018 for $15.7 million which has added to the asset base. In Q3 and Q4 2018, the Trust obtained additional secured and unsecured debt.

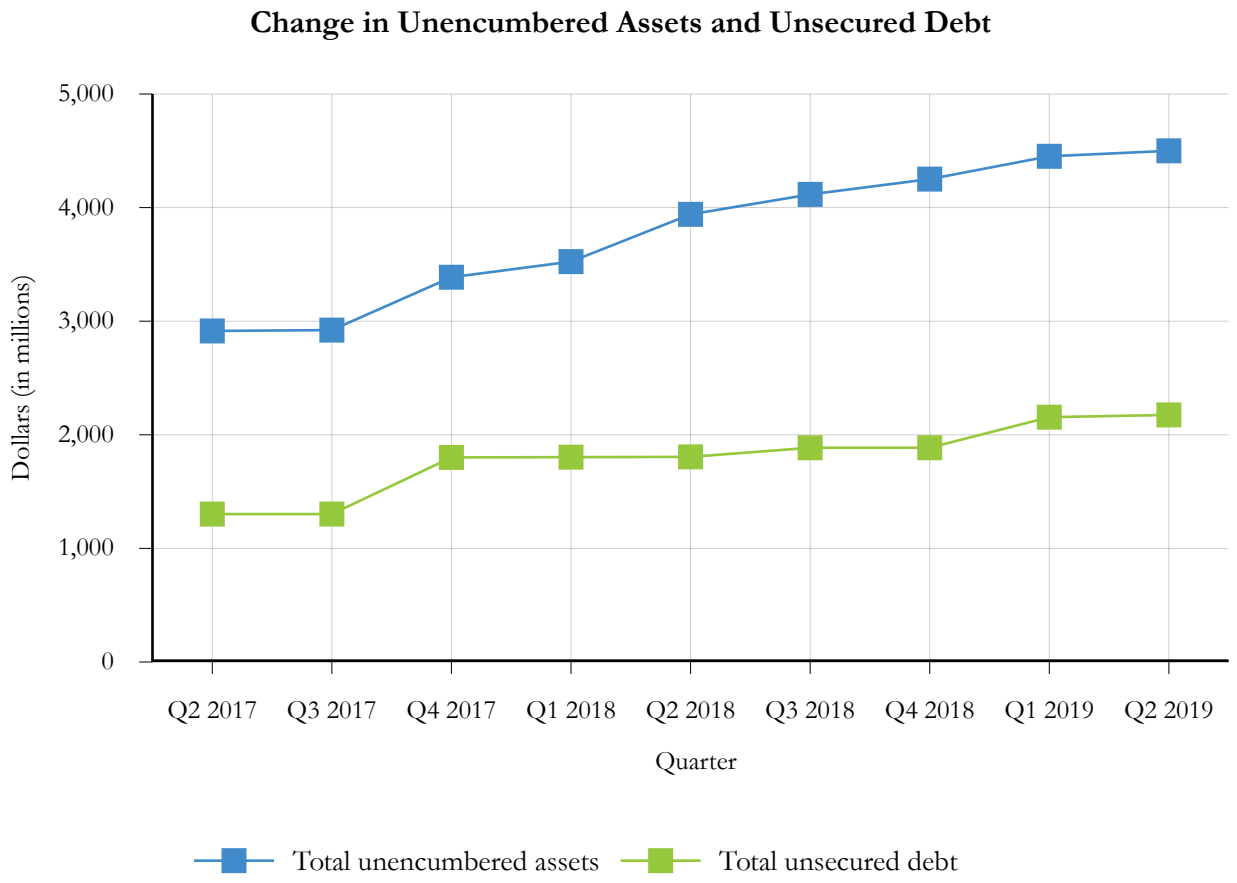
Unencumbered assets
The quarter-over-quarter increase in unencumbered assets over the last two years is primarily attributed to the Trust's practice of repaying maturing mortgages by using its existing credit facilities and unsecured debt, resulting in the related assets remaining unencumbered thereafter.

Occupancy rate
The Trust's in-place occupancy rate has remained relatively stable over the last eight quarters, ranging from a low of 97.8% in the first and second quarters of 2019 to a high of 98.5% in Q3 2017. The primary reason for the reduction in occupancy rate since Q3 2017 relates to additional vacancy in the portfolio. Quarterly changes in occupancy rates are primarily caused by: (i) the expiration, bankruptcies, closures, and non-renewals 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.

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 unencumbered assets and unsecured debt over the last two years and reflects the Trust's strategy to increase its unencumbered pool of high-quality assets.

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, 2019.

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 enhancements as required. There were no changes in the Trust's internal controls over financial reporting in the period ended June 30, 2019 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 three months ended June 30, 2019, and the notes contained therein.

The Trust's MD&A for the year ended December 31, 2018 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, 2018. Management determined that as at June 30, 2019, 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, 2018, except for the following:

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".

Effective January 1, 2019, the Trust has adopted IFRS 16 applying the modified retrospective approach and accordingly the prior period comparatives have not been restated. On initial application, the Trust has elected to record the right-of-use assets at the amount equal to the lease liabilities as of January 1, 2019, with no net impact on retained earnings. When lease liabilities are initially measured, the Trust used its incremental borrowing rate at January 1, 2019 to discount lease payments. Lease liabilities are subsequently measured at amortized cost using the effective interest method. However, as and when rent changes as a result of lease payments being linked to a rate or index, leased assets and liabilities have to be remeasured. A lease modification is accounted for as a separate lease if:

- The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- The consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope.

In addition, the Trust has also elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for lease terms less than 12 months and leases of low-value assets.

The Trust has made the following changes in presentation:

- In the unaudited interim condensed consolidated financial statements of income and comprehensive income, amortization of the right-of-use assets is recognized, except in respect of leases of investment property;
- In the unaudited interim condensed consolidated balance sheet, the right-of-use assets, the non-current and the current lease liabilities; and
- In the unaudited interim condensed consolidated statements of cash flows, amortization of the right-of-use assets, interest paid and repayment of lease liabilities are presented separately.

The table below shows the reconciliation from the operating lease commitments as at December 31, 2018 to the opening balance for the lease liabilities as at January 1, 2019:

(in thousands of dollars)	**Total**
Operating lease commitments as at December 31, 2018	746
Discounted using the weighted average incremental borrowing rate at January 1, 2019	(45)
Short-term leases	(70)
Lease liabilities as at January 1, 2019	**631**

The table below shows the changes in the book value of right-of-use assets and lease liabilities for the period ended June 30, 2019:

(in thousands of dollars)	**Right-of-use assets**	**Lease liabilities**
Net book value as at January 1, 2019	**631**	**631**
Depreciation and amortization/repayment	(90)	(84)
Net book value as at June 30, 2019	**541**	**547**

Future Changes in Accounting Policies

Amendments to IFRS 3, Business Combinations

The IASB published amendments to IFRS 3 in relation to whether a transaction meets the definition of a business combination. The amendments clarify the definition of a business, as well as provide additional illustrative examples, including those relevant to the real estate industry. A significant change in the amendment is the option for an entity to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. This will be relevant where the value of the acquired entity is concentrated in one property, or a group of similar properties. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, and to asset acquisitions that occur on or after the beginning of that period. Early application is permitted. The Trust intends to adopt the amendments to IFRS 3 on the required effective date of January 1, 2020.

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, 2018 under the heading "Risk Factors".

Real Property Ownership and Leasing 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 strong covenants and will enable the Trust to maintain economic rents and high occupancy. By maintaining properties at the highest standards 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 experience 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. In addition, the Trust attempts to stagger the maturities of its various levels of debt over an extended period of time.

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 is becoming increasingly involved in mixed-use development projects that include residential condominiums and townhomes, 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 townhomes, depress prices and reduce margins from the sale of condominiums and townhomes, 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 SmartCentres Place, CentreCourt and Penguin to develop Transit City at SmartCentres Place, Jadco to develop a residential rental unit project in Laval, Quebec, Fieldgate to develop a 16-acre parcel of land in Vaughan and build townhomes, SmartStop to develop and operate various self-storage locations, Revera to develop and operate retirement home communities, 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 additional joint ventures in condominiums, 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 and unsecured debt with staggered maturities on the portfolio and where appropriate, 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 0.3 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, secured debt and unsecured 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 both variable interest rate debt and short-term debt, the Trust minimizes the impact of changes in short term rates 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, 2019. 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. The Trust intends to take all necessary steps to continue to qualify for the REIT Exception. However, 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. Furthermore, the determination as to whether the Trust qualifies for the REIT Exception in a particular taxation year can only be made at the end of such taxation year. 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, 2019, 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 20.8% voting interest in the Trust. Further, according to the above-mentioned reports, as at June 30, 2019, 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 24.9%. 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

The Trust and Penguin signed a 10-year (plus two five-year extensions) lease transaction with Scotiabank in the PwC-YMCA Tower at SmartCentres Place in the VMC. The PwC-YMCA Tower is a 220,000 square foot mixed-use office tower located in the heart of the VMC adjacent to the VMC subway station and bus terminal. Scotiabank will occupy 26,500 square feet, with 23,000 square feet of office space on the 8th floor of the PwC-YMCA Tower, with the balance for a retail branch in the lobby of the tower. Occupancy is targeted for the fall of 2019.

The Trust has entered into a partnership agreement with Selection Group to develop a mixed-use complex at SmartCentres' Laurentian Place shopping centre in Ottawa, Ontario. The development will consist of a 13-storey apartment building with 180 units and a 14-storey independent supportive living tower with 230 units. The two buildings will rise above a two-level podium structure that will contain some shared common facilities as well as some independent retail shops and services. Three levels of underground parking will also be provided. Construction is expected to begin in the spring of 2020.

On August 8, 2019, the Board of Trustees approved an increase of $0.05 per Unit (2.8%) in annual distributions to $1.85 per Unit effective October 2019.

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 last revised in February 2019. 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 Debt to Adjusted Aggregate Assets	Calculated as debt divided by aggregate assets including equity accounted investments. The ratio is used by the Trust to manage an acceptable level of leverage and is not considered a measure in accordance with IFRS, as adjusted for the repayment of certain secured debt within 30 days of the balance sheet date.
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 computed by annualizing the current quarter NOI and making adjustments for management's estimate of 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 retail or office property with gross leasable area greater than 30,000 square feet.
CAM	Defined as common area maintenance expenses.
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. 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 Units classified as liabilities 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 2019. 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 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 and other less property operating costs and other. 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 Walmart, for $1,116.0 million.

Glossary of Terms (continued)

Term	Definition
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.
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, 2019**	December 31, 2018
Assets			
Non-current assets			
Investment properties	4	**8,961,552**	8,905,057
Mortgages, loans and notes receivable	5	**249,253**	131,916
Equity accounted investments	6	**143,616**	146,306
Other assets	7	**89,120**	87,211
Intangible assets	8	**48,467**	49,133
		9,492,008	9,319,623
Current assets			
Residential development inventory	9	**23,911**	23,429
Current portion of mortgages, loans and notes receivable	5	**14,965**	25,233
Amounts receivable, prepaid expenses and deposits, deferred financing costs and other	10	**111,262**	61,903
Cash and cash equivalents		**33,944**	29,444
		184,082	140,009
Total assets		**9,676,090**	9,459,632
Liabilities			
Non-current liabilities			
Debt	11	**3,838,509**	3,529,954
Other payables	12	**30,621**	29,216
Other financial liabilities	13	**100,047**	94,984
		3,969,177	3,654,154
Current liabilities			
Current portion of debt	11	**189,175**	580,530
Accounts payable and current portion of other payables	12	**230,873**	216,617
		420,048	797,147
Total liabilities		**4,389,225**	4,451,301
Equity			
Trust Unit equity		**4,420,856**	4,148,181
Non-controlling interests		**866,009**	860,150
		5,286,865	5,008,331
Total liabilities and equity		**9,676,090**	9,459,632

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.

Michael Young
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	**2019**	2018	**2019**	2018
Net rental income and other					
Rentals from investment properties and other	17	**196,746**	197,561	**403,179**	395,994
Property operating costs and other	18	**(70,964)**	(72,906)	**(153,386)**	(150,415)
Net rental income and other		**125,782**	124,655	**249,793**	245,579
Other income and expenses					
General and administrative expense, net	19	**(4,867)**	(6,348)	**(11,229)**	(11,653)
Earnings from equity accounted investments	6	**1,229**	6,726	**1,958**	8,602
Fair value adjustment on revaluation of investment properties	25	**4,015**	14,599	**12,912**	25,470
(Loss) gain on sale of investment properties	4	**(103)**	317	**637**	(140)
Interest expense	11(d)	**(38,704)**	(35,332)	**(76,790)**	(70,757)
Interest income		**2,952**	2,732	**5,411**	5,247
Fair value adjustment on financial instruments	25	**5,209**	(4,209)	**(7,206)**	1,028
Acquisition related gain, net		**—**	608	**—**	838
Net income and comprehensive income		**95,513**	103,748	**175,486**	204,214
Net income and comprehensive income attributable to:					
Trust Units		**80,112**	86,111	**147,012**	169,460
Non-controlling interests		**15,401**	17,637	**28,474**	34,754
		95,513	103,748	**175,486**	204,214

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	**2019**	2018	**2019**	2018
Cash provided by (used in)					
Operating activities					
Net income and comprehensive income for the period		**95,513**	103,748	**175,486**	204,214
Add (deduct): Other items					
Fair value adjustments	25	**(9,225)**	(10,390)	**(5,706)**	(26,498)
Loss (gain) on sale of investment properties	4	**103**	(317)	**(637)**	140
Gain from equity accounted investments, net of distributions	6	**4,886**	9,617	**4,591**	7,989
Acquisition related gain, net		**—**	(608)	**—**	(838)
Interest expense	11(d)	**38,704**	35,332	**76,790**	70,757
Cash interest paid	11(d)	**(35,340)**	(28,384)	**(77,893)**	(67,760)
Financing costs		**(532)**	(66)	**(1,437)**	(329)
Interest income		**(2,952)**	(2,732)	**(5,411)**	(5,247)
Interest received		**1,247**	1,052	**1,759**	1,883
Amortization of other assets		**1,658**	1,425	**3,268**	3,002
Amortization of intangible assets	8	**333**	333	**666**	666
Lease obligation interest		**135**	132	**268**	263
Deferred unit compensation expense, net of redemptions	13(c)	**(998)**	1,143	**(5,457)**	1,376
Long Term Incentive Plan accrual adjustment	12(b)	**(171)**	164	**360**	(408)
Payment of vested Long Term Incentive Plan performance units	12(b)	**—**	(2,013)	**—**	(2,013)
Expenditures on direct leasing costs and tenant incentives		**(1,397)**	(1,756)	**(2,510)**	(4,732)
Expenditures on tenant incentives for properties under development		**(89)**	—	**(1,592)**	—
Changes in other non-cash operating items	20	**(11,108)**	(5,686)	**(29,196)**	(37,671)
Cash flows provided by operating activities		**80,767**	100,994	**133,349**	144,794
Financing activities					
Proceeds from issuance of unsecured debentures, net of issuance costs	11(b)	**—**	—	**349,300**	—
Repayment of unsecured debentures	11(b)	**(150,000)**	—	**(300,000)**	—
Proceeds from revolving operating facility	11(c)	**23,000**	107,000	**23,000**	191,000
Repayments of revolving operating facility	11(c)	**—**	—	**(121,000)**	—
Proceeds from issuance of secured debt		**—**	13,620	**500**	13,620
Repayments of secured debt and other debt		**(22,022)**	(105,643)	**(270,964)**	(187,714)
Proceeds from issuance of other unsecured debt and credit facility	11(b)	**170,000**	1,906	**320,000**	4,120
Repayments of other unsecured debt and credit facility	11(b)	**(827)**	—	**(81,552)**	—
Proceeds from issuance of Trust Units, net of issuance costs	15	**—**	—	**220,366**	—
Distributions paid on Trust Units		**(47,660)**	(44,877)	**(95,134)**	(90,030)
Distributions paid on non-controlling interests and Units classified as liabilities		**(12,248)**	(11,861)	**(24,496)**	(23,722)
Payment of lease liability		**(48)**	—	**(96)**	—
Cash flows (used in) provided by financing activities		**(39,805)**	(39,855)	**19,924**	(92,726)
Investing activities					
Acquisitions and Earnouts of investment properties	3	**(1,605)**	(15,466)	**(6,100)**	(17,064)
Additions to investment properties		**(19,190)**	(29,723)	**(43,316)**	(46,460)
Additions to equity accounted investments	6	**(1,284)**	(5,604)	**(1,901)**	(15,347)
Additions to equipment	7	**(842)**	(18)	**(995)**	(38)
Advances of mortgages and loans receivable	5	**(90,900)**	—	**(104,260)**	(111,916)
Repayments of mortgages and loans receivable	5	**843**	—	**843**	—
Net proceeds from sale of investment properties		**1,385**	717	**6,956**	717
Cash flows used in investing activities		**(111,593)**	(50,094)	**(148,773)**	(190,108)
(Decrease) increase in cash and cash equivalents during the period		**(70,631)**	11,045	**4,500**	(138,040)
Cash and cash equivalents – beginning of period		**104,575**	13,615	**29,444**	162,700
Cash and cash equivalents – end of period		**33,944**	24,660	**33,944**	24,660
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, 2019 and June 30, 2018
(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, 2019		**2,781,069**	**1,367,112**	**4,148,181**	**632,737**	**224,302**	**857,039**	**3,111**	**5,008,331**
Issuance of Units	15	**254,868**	**—**	**254,868**	**—**	**—**	**—**	**—**	**254,868**
Net income and comprehensive income		**—**	**147,012**	**147,012**	**—**	**28,283**	**28,283**	**191**	**175,486**
Distributions	16	**—**	**(129,205)**	**(129,205)**	**—**	**(22,615)**	**(22,615)**	**—**	**(151,820)**
Equity – June 30, 2019		**3,035,937**	**1,384,919**	**4,420,856**	**632,737**	**229,970**	**862,707**	**3,302**	**5,286,865**
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

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, 2019 and 2018
(in thousands of Canadian dollars, except Unit, square foot and per Unit amounts)

1. Organization
SmartCentres Real Estate Investment Trust and its subsidiaries, 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 condominium and rental residences, senior housing and self-storage rental facilities 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, 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 3200 Highway 7, Vaughan, Ontario, L4K 5Z5. 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 8, 2019. The Board of Trustees has the power to amend the unaudited interim condensed consolidated financial statements after issue.

At June 30, 2019, the Penguin Group of Companies ("Penguin"), owned by Mitchell Goldhar, owned approximately 20.8% (December 31, 2018 – 21.8%) 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 six months ended June 30, 2019, are consistent with those set out in Note 2 to the Trust's audited consolidated financial statements for the year ended December 31, 2018 (except where discussed below in section 2.3, "Accounting policies"). Estimates and judgments are continually evaluated. They are based on historical actual results and other factors, including expectations of future events that may have a financial impact and are reasonable. However, the actual results may differ from this estimate.

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, 2018, except as noted below.

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, International Financial Reporting Interpretations Committee ("IFRIC") 4 "Determining whether an Arrangement contains a Lease", Standard Interpretations Committee ("SIC") 15 "Operating Leases – Incentives", and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

Effective January 1, 2019, the Trust has adopted IFRS 16 applying the modified retrospective approach and accordingly the prior period comparatives have not been restated. On initial application, the Trust has elected to record the right-of-use assets at the amount equal to the lease liabilities as of January 1, 2019, with no net impact on retained earnings. When lease liabilities are initially measured, the Trust used its incremental borrowing rate at January 1, 2019 to discount lease payments. Lease liabilities are subsequently measured at amortized cost using the effective interest method. However, as and when rent changes as a result of lease payments being linked to a rate or index, leased assets and liabilities have to be remeasured. A lease modification is accounted for as a separate lease if:

- The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- The consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope.

In addition, the Trust has also elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for lease terms less than 12 months and leases of low-value assets.

The Trust has made the following changes in presentation:

- In the unaudited interim condensed consolidated financial statements of income and comprehensive income, amortization of the right-of-use assets is recognized, except in respect of leases of investment property;
- In the unaudited interim condensed consolidated balance sheets, the right-of-use assets, the non-current and the current lease liabilities; and
- In the unaudited interim condensed consolidated statements of cash flows, amortization of the right-of-use assets, interest paid and repayment of lease liabilities are presented separately.

The table below shows the reconciliation from the operating lease commitments as at December 31, 2018 to the opening balance for the lease liabilities as at January 1, 2019:

(in thousands of dollars)	**Total**
Operating lease commitments as at December 31, 2018	746
Discounted using the weighted average incremental borrowing rate at January 1, 2019	(45)
Short-term leases	(70)
Lease liabilities as at January 1, 2019	**631**

The table below shows the changes in the book value of right-of-use assets and lease liabilities for the period ended June 30, 2019:

(in thousands of dollars)	**Right-of-use assets**	**Lease liabilities**
Net book value as at January 1, 2019	**631**	**631**
Depreciation and amortization/repayment	(90)	(84)
Net book value as at June 30, 2019	**541**	**547**

2.4 *Future changes in accounting policies*

Amendments to IFRS 3, Business Combinations

The IASB published amendments to IFRS 3 in relation to whether a transaction meets the definition of a business combination. The amendments clarify the definition of a business, as well as provide additional illustrative examples, including those relevant to the real estate industry. A significant change in the amendment is the option for an entity to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. This will be relevant where the value of the acquired entity is concentrated in one property, or a group of similar properties. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, and to asset acquisitions that occur on or after the beginning of that period. Early application is permitted. The Trust intends to adopt the amendments to IFRS 3 on the required effective date of January 1, 2020.

3. Acquisitions and Earnouts

Earnouts completed during the six months ended June 30, 2019

During the six months ended June 30, 2019, 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 20,662 square feet of development space for a purchase price of $7,540, of which $1,065 was satisfied through the issuance of 53,002 Trust Units at an exercise price of $20.10 and $98 was satisfied through the issuance of 4,886 Class F Series 3 Smart LP Units at an exercise price of $20.10 (see also Note 13 (b)) and the balance paid in cash, adjusted for other working capital amounts.

The following summarizes the consideration for Earnouts completed during the six months ended June 30, 2019:

	Note	Acquisitions	Earnouts	Total
Cash		852	5,248	6,100
Trust Units issued	4(d)(i)	—	1,065	1,065
LP Units issued	4(d)(i)	—	98	98
Amounts previously funded and other adjustments		—	1,129	1,129
		852	7,540	8,392

The Earnouts in the above table do not include the cost of previously acquired freehold land of $364.

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.

4. Investment properties

The following summarizes the activities in investment properties for the six months ended June 30, 2019 and year ended December 31, 2018:

		June 30, 2019			December 31, 2018		
	Note	**Income Properties**	**Properties Under Development**	**Total**	Income Properties	Properties Under Development	Total
Balance – beginning of period		**8,404,513**	**500,544**	**8,905,057**	8,220,153	513,156	8,733,309
Additions:							
Acquisition, and related adjustments, of investment properties		**—**	**852**	**852**	15,761	645	16,406
Transfer to income properties from properties under development		**28,009**	**(28,009)**	**—**	146,966	(146,966)	—
Transfer from income properties to properties under development		**(30,100)**	**30,100**	**—**	(16,199)	16,199	—
Earnout Fees on properties subject to development management agreements	4(d)(i)	**3,685**	**—**	**3,685**	2,850	2,865	5,715
Capital expenditures		**3,817**	**—**	**3,817**	11,106	—	11,106
Leasing costs		**549**	**—**	**549**	1,916	—	1,916
Development expenditures		**—**	**31,612**	**31,612**	—	83,971	83,971
Capitalized interest		**—**	**9,026**	**9,026**	—	20,858	20,858
Dispositions	4(b)	**(95)**	**(5,863)**	**(5,958)**	(43)	(18,946)	(18,989)
Fair value adjustments	25	**15,778**	**(2,866)**	**12,912**	22,003	28,762	50,765
Balance – end of period		**8,426,156**	**535,396**	**8,961,552**	8,404,513	500,544	8,905,057

The historical costs of both income properties and properties under development as at June 30, 2019 totalled $6,545,800 and $668,981, respectively (December 31, 2018 – $6,961,845 and $617,895, respectively).

Secured debt with a carrying value of $1,829,717 (December 31, 2018 – $2,103,379) is secured by investment properties with a fair value of $4,461,851 (December 31, 2018 – $4,654,257).

Presented separately from investment properties is $86,252 (December 31, 2018 – $85,479) 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.

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, 2019 and year ended December 31, 2018:

		June 30, 2019			
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	**7,385,410**	**428,354**	**4.50%–8.72%**	**5.80%**
	Direct income capitalization less present value of purchase option	**833,315**	**52,915**	**5.88%–6.75%**	**6.35%**
	Discounted cash flow	**207,431**	**12,879**	**6.00%–6.50%**	**6.21%**
		8,426,156			
Properties under development	Direct income capitalization	**452,879**	**29,981**	**6.10%–7.60%**	**6.62%**
	Sales comparison	**82,517**	**N/A**	**N/A**	**N/A**
		535,396			
Balance – end of period		**8,961,552**			

		December 31, 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	7,396,323	430,466	5.00%–8.40%	5.82%
	Direct income capitalization less present value of purchase option	804,320	51,074	5.88%–6.75%	6.35%
	Discounted cash flow	203,870	12,660	6.00%–6.50%	6.21%
		8,404,513			
Properties under development	Direct income capitalization	420,234	28,030	6.10%–7.96%	6.67%
	Sales comparison	80,310	N/A	N/A	N/A
		500,544			
Balance – end of year		8,905,057			

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 or discount rates, assuming no changes in NOI, for valuations using the direct income capitalization approach:

Change in capitalization rate of:	**-0.50%**	**-0.25%**	**+0.25%**	**+0.50%**
Increase (decrease) in fair value				
Income properties	775,351	370,213	(339,617)	(652,280)
Properties under development	37,000	17,774	(16,480)	(31,803)

b) Dispositions

Disposition of investment properties during the six months ended June 30, 2019

In January 2019, the Trust sold a parcel of land located in Jonquiere, Quebec, to an unrelated party for gross proceeds of $5,250 which was satisfied by cash, adjusted for other working capital amounts.

In May 2019, the Trust sold a parcel of land located in Woodstock, Ontario, to an unrelated party for gross proceeds of $1,365 which was satisfied by cash, adjusted for other working capital amounts.

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").

c) Leasehold property interests

At June 30, 2019, 16 (December 31, 2018 – 16) investment properties with a fair value of $1,040,746 (December 31, 2018 – $1,008,190) are leasehold property interests accounted for as 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 $889,931 (December 31, 2018 – $888,397), including prepaid land rent of $229,846 (December 31, 2018 – $229,846).

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, 2018 – $57,997). As the Trust intends to exercise the purchase option in 2038, the purchase option price has been included in accounts payable, net of imputed interest at 9.18% of $8,294 (December 31, 2018 – $8,370), in the amount of $1,706 (December 31, 2018 – $1,630) (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 $1,601 (December 31, 2018 – $1,793), in the amount of $6,304 (December 31, 2018 – $6,311) (see also Note 12, "Accounts and other payables").

d) Properties under development

Properties under development consist of the following:

	June 30, 2019	December 31, 2018
Properties under development subject to development management agreements (i)	**48,459**	50,636
Properties under development not subject to development management agreements (ii)	**486,937**	449,908
	535,396	500,544

For the three months ended June 30, 2019, the Trust capitalized a total of $4,577 (three months ended June 30, 2018 - $5,253) of borrowing costs related to properties under development. For the six months ended June 30, 2019, the Trust capitalized a total of $9,026 (six months ended June 30, 2018 – $10,609) 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 and Walmart.

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 $13,096 (December 31, 2018 – $15,208), 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 $35,363 (December 31, 2018 – $35,428), 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, D and F 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 elected to exercise during the six months ended June 30, 2019 resulted in proceeds of $1,065 of Trust Units and $98 of Class F Smart LP Units (six months ended June 30, 2018 – $1,865 of Class B Series 2 Smart LP Units).

The development costs incurred (exclusive of the cost of land previously acquired) and Earnout Fees paid to vendors relating to the completed retail spaces (see also Note 3) that have been reclassified to income properties during the three and six months ended June 30, 2019 and June 30, 2018 are as follows:

	Three Months Ended June 30		**Six Months Ended June 30**	
	2019	2018	**2019**	2018
Development costs incurred	**734**	—	**3,855**	555
Earnout Fees paid	**478**	1,906	**3,685**	3,051
	1,212	1,906	**7,540**	3,606

ii) Properties under development not subject to development management agreements

During the six months ended June 30, 2019, 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, 2019, the Trust incurred land and development costs of $2,504 (three months ended June 30, 2018 - $2). For the six months ended June 30, 2019, the Trust incurred land and development costs of $23,907 (six months ended June 30, 2018 – $11,484).

5. Mortgages, loans and notes receivable

Mortgages, loans and notes receivable consist of the following:

	Note	**June 30, 2019**	December 31, 2018
Mortgages receivable (a)	21	**136,194**	134,221
Loans receivable (b)		**125,045**	19,949
Notes receivable (c)	21	**2,979**	2,979
		264,218	157,149
Current		**14,965**	25,233
Non-current		**249,253**	131,916
		264,218	157,149

a) Mortgages receivable of $136,194 (December 31, 2018 – $134,221) have been provided pursuant to agreements with Penguin (see also Note 21, "Related party transactions"). These amounts were provided to fund costs associated with both the original acquisition and development of these properties. Additionally, the Trust is committed to lend up to $282,093 (December 31, 2018 – $282,093) to further develop these nine (December 31, 2018 – 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 at Period End**	**Purchase Option % of Property[1]**	**June 30, 2019**	December 31, 2018
Salmon Arm, BC[2][3]	20,907	April 2020	4.99%	—	**14,965**	15,429
Innisfil, ON[2][4]	27,077	December 2020	6.75%	—	**21,036**	20,346
Aurora (South), ON	30,543	March 2022	4.87%	50%	**16,594**	16,192
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	68,664	November 2023	5.29%	50%	**28,615**	27,864
Vaughan (7 & 427), ON	53,127	December 2023	6.08%	50%	**17,350**	17,714
Caledon (Mayfield), ON	14,033	April 2024	5.14%	50%	**9,690**	9,442
Toronto (StudioCentre), ON[2]	43,759	June 2024	5.11%	25%	**27,944**	27,234
	282,093		5.48%[7]		**136,194**	134,221

(1) The Trust has a purchase option from the borrower in these properties upon a certain level of development and leasing being achieved. As at June 30, 2019, 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 the banker's acceptance rate plus 1.75% on any additional loans above $7,237. In July 2019, the maturity date of the loan was extended to April 2020.
(4) In August 2018, the interest rate on this mortgage reset 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%. Prior to August 2018, the interest rate was based on the banker's acceptance rate plus 2.0%.
(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) Represents the weighted average 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 $107,922 (December 31, 2018 – $106,640); and (ii) at fixed rates of 6.35% to 7.50% on mortgages receivable of $28,272 (December 31, 2018 – $27,581), 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 $67,345 (December 31, 2018 – $71,011) 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, $122,869 (December 31, 2018 – $114,542) of the outstanding balance is guaranteed by Penguin. 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.

The following table illustrates the interest accrued and repayments for the three and six months ended June 30:

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands of dollars)	**2019**	2018	**2019**	2018
Balance - beginning of period	**136,071**	129,159	**134,221**	127,704
Interest accrued	**1,816**	1,537	**3,666**	2,992
Repayment of interest	**(850)**	—	**(850)**	—
Repayment of principal	**(843)**	—	**(843)**	—
Balance - end of period	**136,194**	130,696	**136,194**	130,696

b) Loans receivable as at June 30, 2019 of $125,045 (December 31, 2018 – $19,949) comprise the following (by maturity date):

Issued to	Maturity Date	Interest Rate	Note	June 30, 2019	December 31, 2018
Unrelated party[1]	November 2020	6.25%		**9,804**	9,804
Penguin[2]	November 2020	Variable	21	**10,464**	10,145
Penguin[3]	June 2021	2.76%		**13,624**	—
PCVP[4]	June 2021	2.76%		**91,153**	—
				125,045	19,949

(1) 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 will mature in November 2020, and bears interest at 6.25% per annum. In addition, the loan is secured by a first charge on the 50% interest of the development lands held by the unrelated party.

(2) This loan receivable 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.

(3) This loan receivable was provided pursuant to a loan agreement with Penguin for a total loan facility of $26,226. See further details below.

(4) This loan receivable was provided to the Penguin-Calloway Vaughan Partnership (in which the Trust has a 50% interest) for a total loan facility of $90,600. See further details below.

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	
(in thousands of dollars)	**2019**	2018	**2019**	2018
Balance - beginning of period	**33,407**	143,499	**19,949**	31,503
Loans issued	**90,600**	—	**103,826**	—
Advances	**300**	—	**434**	111,916
Interest accrued	**738**	82	**836**	162
Balance - end of period	**125,045**	143,581	**125,045**	143,581

In April 2019, the Trust entered into a loan agreement with Penguin-Calloway Vaughan Partnership ("PCVP") (in which the Trust has a 50% interest) for a total loan facility of $90,600, bearing interest at 2.76% per annum. The facility was advanced in full in April 2019. Unless prepaid in accordance with the terms of the loan agreement, principal and any accrued and unpaid interest in respect of the loan receivable shall be repaid in full in June 2021. 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 for the six months ended June 30, 2019.

In March 2019, the Trust entered into a loan agreement with Penguin for a non-revolving principal advance facility of $13,226 and a non-revolving construction facility of $13,000, which combine for a total loan facility of $26,226, bearing interest at a fixed rate of 2.76% and a variable rate based on banker's acceptance rate plus 150 basis points, respectively. The principal advance facility was advanced in full in March 2019. Unless prepaid in accordance with the terms of the loan agreement, principal and any accrued and unpaid interest in respect of the loan receivable shall be repaid in full in June 2021.

In February 2018, the Trust advanced a loan receivable in the amount of $111,820 to the PCVP that was interest bearing at 2.31% per annum from the advance date to March 20, 2018, and thereafter was equal to 76 basis points plus the 90-day Canadian Dealer Offer Rate (CDOR) and was payable on March 21, June 21, September 21 and December 21. In September 2018, the loan receivable was fully repaid and closed.

c) Notes receivable of $2,979 (December 31, 2018 – $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 as reflected in the Trust's unaudited interim condensed consolidated financial statements:

Equity Accounted Investment	Principal Intended Activity	June 30, 2019	December 31, 2018	June 30, 2018
Investment in associates:				
PCVP	Own, develop and operate investment properties	**50%**	50%	50%
Residences LP	Own, develop and sell two residential condominium towers (Transit City I and II)	**25%**	25%	25%
Residences III LP	Own, develop and sell a residential condominium tower (Transit City III)	**25%**	25%	25%
East Block Residences LP	Own, develop and sell two residential condominium towers (Transit City IV and V)	**25%**	25%	N/A
Investment in joint ventures:				
1500 Dundas East LP	Own and operate a retail investment property	**30%**	30%	30%
Laval C Apartments LP	Own, develop and operate residential apartments	**50%**	50%	50%
Leaside SAM LP	Own, develop and operate a self-storage facility	**50%**	50%	50%
Oshawa South Self Storage LP	Own, develop and operate a self-storage facility	**50%**	50%	N/A

The following summarizes key components relating to the Trust's equity accounted investments for the six months ended June 30, 2019 and year ended December 31, 2018:

	June 30, 2019			December 31, 2018		
	Investment in Associates	Investment in Joint Ventures	Total	Investment in Associates	Investment in Joint Ventures	Total
Investment – beginning of period	**116,284**	**30,022**	**146,306**	109,316	16,046	125,362
Contributions	**1,793**	**108**	**1,901**	18,808	12,976	31,784
Earnings	**1,210**	**748**	**1,958**	8,963	1,576	10,539
Distributions received	**(6,261)**	**(288)**	**(6,549)**	(20,803)	(576)	(21,379)
Investment – end of period	**113,026**	**30,590**	**143,616**	116,284	30,022	146,306

a) Investment in associates

In 2012, the Trust entered into the 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.

In 2018, the Trust entered into the VMC East Block Residences Limited Partnership ("East Block Residences LP") with Penguin and a third party, CentreCourt Developments, to develop additional residential condominium towers, located on the VMC site.

Note that limited partnerships involving residential developments, as discussed above, are hereinafter collectively referred to as "VMC Residences".

i) Summary of balance sheets

The following represents the summary of balance sheets as at June 30, 2019 and December 31, 2018:

	June 30, 2019			December 31, 2018		
	PCVP	**VMC Residences**	**Total**	PCVP	VMC Residences	Total
Non-current assets	**437,913**	**—**	**437,913**	416,756	—	416,756
Current assets	**28,338**	**339,472**	**367,810**	41,583	269,697	311,280
Total assets	**466,251**	**339,472**	**805,723**	458,339	269,697	728,036
Non-current liabilities [1]	**211,451**	**59,836**	**271,287**	198,597	23,237	221,834
Current liabilities	**48,182**	**240,769**	**288,951**	57,917	184,970	242,887
Total liabilities	**259,633**	**300,605**	**560,238**	256,514	208,207	464,721
Net assets	**206,619**	**38,867**	**245,486**	201,824	61,490	263,314
Trust's share of net assets	**103,309**	**9,717**	**113,026**	100,911	15,373	116,284

[1] Balance as at June 30, 2019 includes loan payable to the Trust of $91,153, see Note 5(b).

The following summarizes existing commitments with various development construction contracts as at June 30, 2019:

	Commitments	**Trust's share**
PCVP	**16,515**	**8,258**
Residences LP	**126,240**	**31,560**
Residences LP III	**85,656**	**21,414**
East Block Residences LP	**7,039**	**1,760**
	235,450	**62,992**

ii) Summary of earnings (loss)

The following represents the summary of earnings (loss) for the three months ended June 30, 2019 and 2018:

	Three Months Ended June 30, 2019			Three Months Ended June 30, 2018		
	PCVP	**VMC Residences**	**Total**	PCVP	VMC Residences	Total
Revenue[1]	**6,072**	**—**	**6,072**	5,047	—	5,047
Operating expense	**(2,292)**	**—**	**(2,292)**	(2,024)	—	(2,024)
Other sales and related costs	**—**	**(614)**	**(614)**	—	(323)	(323)
Fair value adjustment on revaluation of investment properties	**53**	**—**	**53**	10,240	—	10,240
Interest expense	**(1,265)**	**—**	**(1,265)**	(618)	—	(618)
Earnings (loss)	**2,568**	**(614)**	**1,954**	12,645	(323)	12,322
Trust's share of earnings (loss) before supplemental cost	**1,284**	**(153)**	**1,131**	6,323	(81)	6,242
Supplemental cost	**(474)**	**—**	**(474)**	(52)	—	(52)
Trust's share of earnings (loss)	**810**	**(153)**	**657**	6,271	(81)	6,190

[1] Includes office rental revenue from the Trust in amount of $650 for the three months ended June 30, 2019 (three months ended June 30, 2018 - nil).

In accordance with the Supplemental Development Fee Agreement, the Trust invoiced PCVP a net amount of $948 related to associated development fees for the three months ended June 30, 2019 (three months ended June 30, 2018 – $103).

The following represents the summary of earnings (loss) for the six months ended June 30, 2019 and 2018:

	Six Months Ended June 30, 2019			Six Months Ended June 30, 2018		
	PCVP	**VMC Residences**	**Total**	PCVP	VMC Residences	Total
Revenue[1]	**10,943**	**—**	**10,943**	9,563	—	9,563
Operating expense	**(4,415)**	**—**	**(4,415)**	(3,770)	—	(3,770)
Other sales and related costs	**—**	**(654)**	**(654)**	—	(447)	(447)
Fair value adjustment on revaluation of investment properties	**129**	**—**	**129**	12,035	—	12,035
Interest expense	**(2,388)**	**—**	**(2,388)**	(1,211)	—	(1,211)
Earnings (loss)	**4,269**	**(654)**	**3,615**	16,617	(447)	16,170
Trust's share of earnings (loss) before supplemental cost	**2,135**	**(163)**	**1,972**	8,309	(112)	8,197
Supplemental cost	**(762)**	**—**	**(762)**	(463)	—	(463)
Trust's share of earnings (loss)	**1,373**	**(163)**	**1,210**	7,846	(112)	7,734

[1] Includes office rental revenue from the Trust in the amount of $650 for the six months ended June 30, 2019 (six months ended June 30, 2018 - nil)

In accordance with the Supplemental Development Fee Agreement, the Trust invoiced PCVP a net amount of $1,524 related to associated development fees for the six months ended June 30, 2019 (six months ended June 30, 2018 – $924).

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; however, by virtue of an indemnity agreement between the PCVP limited partners, the obligations are effectively several. 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, 2019	December 31, 2018
Development facilities – beginning of period	**555,826**	499,656
Reduction	**(86,800)**	(25,976)
Repayment	**—**	(129,400)
Letters of credit released	**—**	(12,504)
Additional development facilities obtained	**20,000**	224,050
Development facilities – end of period	**489,026**	555,826
Amount drawn on development facility	**(60,736)**	(100,738)
Letters of credit – outstanding	**(70,153)**	(68,150)
Remaining unused development facilities	**358,137**	386,938
Trust's share of remaining unused development facilities	**107,805**	113,056

PCVP

As at June 30, 2019 the PCVP had the following credit facilities:

- two development facilities totalling $64,376 with interest rates ranging from the banker's acceptance rate plus 135 basis points to 145 basis points, that have maturity dates between 2020 and 2021; and
- a letter of credit facility totalling $35,000; and
- one development facility was settled in February 2018 before maturity.

Residences LP and Residences III LP

As at June 30, 2019, the Residences LP and Residences III LP had the following credit facilities:

- one development facility totalling $247,500 bearing interest at the banker's acceptance rate plus 175 basis points, which matures in 2021; and
- one development facility totalling $142,150 bearing interest at the banker's acceptance rates plus 175 basis points, which matures in 2022.

b) Investment in joint ventures

In October 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 a retail 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).

In September 2018, the Trust and an unrelated party formed a 50:50 joint venture known as Oshawa South Self Storage Limited Partnership ("Oshawa South Self Storage LP"), into which the Trust contributed development lands located in Oshawa, 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 Oshawa.

i) Summary of balance sheets

	June 30, 2019	December 31, 2018
Non-current assets	**165,612**	151,186
Current assets	**4,342**	4,294
Total assets	**169,954**	155,480
Non-current liabilities	**76,167**	69,247
Current liabilities	**9,268**	3,452
Total liabilities	**85,435**	72,699
Net assets	**84,519**	82,781
Trust's share of net assets	**30,590**	30,022

The Laval C Apartments LP has entered into various development construction contracts with existing commitments totalling $8,285, of which the Trust's share is $4,142.

ii) Summary of earnings

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018
Revenue	**2,586**	2,534
Operating expense	**(770)**	(731)
Fair value adjustments on revaluations of investment properties	**684**	440
Interest expense	**(599)**	(614)
Earnings	**1,901**	1,629
Trust's share of earnings	**571**	536

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Revenue	**5,180**	5,053
Operating expense	**(1,533)**	(1,482)
Fair value adjustments on revaluations of investment properties	**38**	394
Interest expense	**(1,202)**	(1,231)
Earnings	**2,483**	2,734
Trust's share of earnings	**748**	868

iii) Summary of credit facility

The development financing relating to Laval C Apartments comprises a pre-development and construction facility. From time to time, the facility amounts may be reduced through repayments and through amended agreements with the financial institutions from which the facility was obtained. The development facility totals $35,417, bears interest at the banker's acceptance rate plus 160 basis points and matures in 2022.

	June 30, 2019	December 31, 2018
Development facility – beginning of period	**35,417**	—
Additional development facility obtained	**—**	35,417
Development facility – end of period	**35,417**	35,417
Amount drawn on development facility	**(8,112)**	—
Remaining unused development facility	**27,305**	35,417
Trust's share of remaining unused development facility	**13,653**	17,709

7. Other assets

The components of other assets are as follows:

	June 30, 2019	December 31, 2018
Straight-line rent receivables	**47,680**	46,911
Tenant incentives	**38,572**	38,568
	86,252	85,479
Equipment	**2,327**	1,732
Right-of-use assets	**541**	—
	89,120	87,211

The following table summarizes the activity in other assets for the six months ended June 30, 2019:

	December 31, 2018	**Additions**	**Amortization**	**June 30, 2019**
Straight-line rent receivables	46,911	**4,781**	**(4,012)**	**47,680**
Tenant incentives	38,568	**3,553**	**(3,549)**	**38,572**
	85,479	**8,334**	**(7,561)**	**86,252**
Equipment	1,732	**995**	**(400)**	**2,327**
Right-of-use assets	—	**631**	**(90)**	**541**
	87,211	**9,960**	**(8,051)**	**89,120**

8. Intangible assets

The components of intangible assets are as follows:

	June 30, 2019			December 31, 2018		
	Cost	**Accumulated Amortization**	**Net**	Cost	Accumulated Amortization	Net
Intangible assets with finite lives:						
Key joint venture relationships	**36,944**	**5,042**	**31,902**	36,944	4,426	32,518
Trademarks	**2,995**	**409**	**2,586**	2,995	359	2,636
Total intangible assets with finite lives	**39,939**	**5,451**	**34,488**	39,939	4,785	35,154
Goodwill	**13,979**	**—**	**13,979**	13,979	—	13,979
	53,918	**5,451**	**48,467**	53,918	4,785	49,133

The total amortization expense recognized for the three months ended June 30, 2019 amounted to $333 (three months ended June 30, 2018 - $333). The total amortization expense recognized for the six months ended June 30, 2019 amounted to $666 (six months ended June 30, 2018 – $666).

9. Residential development inventory

Residential development inventory consists of development lands, co-owned with Fieldgate, located at Vaughan North West, Ontario, for the purpose of developing and selling residential townhouse units.

The following summarizes the activity in residential development inventory for the six months ended June 30, 2019 and year ended December 31, 2018:

	June 30, 2019	December 31, 2018
Balance – beginning of period	**23,429**	20,267
Development costs	**22**	2,345
Capitalized interest	**460**	817
Balance – end of period	**23,911**	23,429

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, 2019	December 31, 2018
Amounts receivable		
Tenant receivables (a)	**27,891**	17,329
Unbilled other tenant receivables (b)	**12,341**	7,574
Receivables from related party - excluding equity accounted investments (c)	**19,865**	16,741
Receivables from related party - equity accounted investments (c)	**12,125**	10,967
Other non-tenant receivables	**2,761**	3,030
	74,983	55,641
Allowance for expected credit loss (d)	**(3,295)**	(3,114)
Prepaid expenses and deposits (e)	**33,519**	4,953
Deferred financing costs	**2,292**	1,638
Other	**3,763**	2,785
	36,279	6,262
	111,262	61,903

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 $17,365 (December 31, 2018 – $7,048).

b) Unbilled other tenant receivables

Unbilled other tenant receivables are contract assets that pertain to unbilled CAM and property tax recoveries and chargebacks. These amounts are considered current and collectible and are at various stages of the billing process.

c) Receivables from related party

Receivables from related party consist of amounts receivable with Penguin of $19,865 and amounts receivable with the Trust's equity accounted investments of $12,125 (December 31, 2018 – amounts receivable with Penguin of $16,741 and amounts receivable with the Trust's equity accounted investments of $10,967), see also Note 21. These amounts are unsecured and non-interest bearing.

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 expected credit loss allowance is measured at initial recognition and throughout the life of the receivable at an amount equal to lifetime expected credit loss ("ECL").

Amounts receivable net of allowance for ECL are as follows:

	June 30, 2019	December 31, 2018
Amounts receivable	**74,983**	55,641
Allowance for ECL	**(3,295)**	(3,114)
Amounts receivable – net of allowance for ECL	**71,688**	52,527

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

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Balance – beginning of period	**3,114**	3,237
Additional allowance recognized as expense	**345**	527
Reversal of previous allowances	**(41)**	(67)
Net	**304**	460
Tenant receivables written off during the period	**(123)**	(394)
Balance – end of period	**3,295**	3,303

e) ***Prepaid expenses and deposits***

Prepaid expenses and deposits totalling $33,519 (December 31, 2018 – $4,953) primarily consist of prepaid realty tax associated with the Trust's investment properties, and other deposits.

11. Debt

Debt consists of the following:

	June 30, 2019	December 31, 2018
Secured debt (a)	**1,829,717**	2,103,379
Unsecured debt (b)	**2,174,967**	1,886,105
Revolving operating facility (c)	**23,000**	121,000
	4,027,684	4,110,484
Current	**189,175**	580,530
Non-current	**3,838,509**	3,529,954
	4,027,684	4,110,484

a) ***Secured debt***

Secured debt bears interest at a weighted average interest rate of 4.06% at June 30, 2019 (December 31, 2018 – 3.93%). Total secured debt of $1,829,717 includes $1,772,717 (December 31, 2018 – $1,812,110) at fixed interest rates and $57,000 (December 31, 2018 – $291,269) at variable interest rates based on banker's acceptance rates plus a margin. Secured debt matures at various dates between 2019 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**
2019 (remainder of year)	33,024	73,862	106,886
2020	61,250	140,242	201,492
2021	55,798	202,736	258,534
2022	51,189	275,260	326,449
2023	42,914	180,249	223,163
Thereafter	89,289	624,433	713,722
	333,464	1,496,782	1,830,246
Unamortized acquisition date fair value adjustments			4,456
Unamortized financing costs			(4,985)
			1,829,717

b) ***Unsecured debt***

The following table summarizes the components of unsecured debt:

	June 30, 2019	December 31, 2018
Unsecured debentures (i)	**1,852,753**	1,802,339
Credit facilities (ii)	**320,000**	80,000
Other unsecured debt (iii)	**2,214**	3,766
	2,174,967	1,886,105

i) Unsecured debentures

Series	Maturity Date	Annual Interest Rate	Interest Payment Dates	June 30, 2019	December 31, 2018
Series H	July 27, 2020	4.050%	January 27 and July 27	**—**	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
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
Series T	June 23, 2021	2.757%	June 23 and December 23	**350,000**	—
		3.28%[2]		**1,860,000**	1,810,000
			Less: Unamortized financing costs	**(7,247)**	(7,661)
				1,852,753	1,802,339

(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, 2019

Issuance

In March 2019, the Trust issued $350,000 of 2.757% Series T senior unsecured debentures (net proceeds including issuance costs – $349,300), which are due on June 23, 2021 with semi-annual payments due on June 23 and December 23 of each year. The proceeds were used to repay existing indebtedness and for general Trust purposes.

Redemptions

In June 2019, the Trust redeemed $150,000 aggregate principal of 3.749% Series L senior unsecured debentures. In addition to paying accrued interest of $2,065, the Trust paid a yield maintenance fee of $4,035 in connection with the redemption. The redemption was funded by advances from the non-revolving credit facility (see Note 11(b)(iii)).

In March 2019, the Trust redeemed $150,000 aggregate principal of 4.050% Series H senior unsecured debentures. In addition to paying accrued interest of $666, the Trust paid a yield maintenance fee of $3,281 in connection with the redemption. The redemption was funded by advances from the non-revolving credit facility (see Note 11(b)(iii)).

Unsecured debenture activity for the six months ended June 30, 2018

There was no activity during the six months ended June 30, 2018.

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 as at June 30, 2019.

ii) Credit facilities

In May 2019, the Trust entered into an unsecured non-revolving credit facility totalling $170,000 bearing interest at a fixed interest rate of 3.26% and matures on June 24, 2026. As at June 30, 2019, $170,000 was drawn to fund the redemption of 3.749% Series L unsecured debentures (see Note 11(b)(i)) and for general Trust purposes.

In March 2019, the Trust entered into an unsecured non-revolving credit facility totalling $150,000 bearing interest at a fixed interest rate of 3.59% and matures on March 7, 2024. As at June 30, 2019, $150,000 was drawn to fund the redemption of 4.050% Series H senior unsecured debentures (see Note 11(b)(i)).

In August 2018, the Trust entered into an unsecured non-revolving credit facility totalling $80,000, bearing interest at a variable interest rate based on either bank prime rate plus 20 basis points or the banker's acceptance rate plus 120 basis points, and matures on July 31, 2023. In January 2019, an amendment was made to permit the Trust to have a one time repayment on all outstanding drawdowns and, following the repayment, the Trust may draw up to $80,000 on the facility until September 30, 2019. The balance of the credit facility of $80,000 was repaid in February 2019.

iii) Other unsecured debt

Other unsecured debt totalling $2,214 (December 31, 2018 – $3,766) pertains to loans received from equity accounted investments (see Note 6(b)(i), "Equity accounted investments") in connection with contribution agreements relating to 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) Revolving operating facility

As at June 30, 2019, 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 the banker's acceptance rate plus 145 basis points, which matures on July 31, 2023. 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, 2019	December 31, 2018
Revolving operating facility	**500,000**	500,000
Lines of credit – outstanding	**(23,000)**	(121,000)
Letters of credit – outstanding	**(9,049)**	(9,940)
Remaining unused operating facility	**467,951**	369,060

d) Interest expense

Interest expense consists of the following:

	Three Months Ended June 30		**Six Months Ended June 30**	
	2019	2018	**2019**	2018
Interest at stated rates	**37,357**	39,246	**74,901**	78,788
Amortization of acquisition date fair value adjustments on assumed debt	**(525)**	(581)	**(1,058)**	(1,241)
Amortization of deferred financing costs	**1,005**	852	**1,875**	1,720
	37,837	39,517	**75,718**	79,267
Less:				
Interest capitalized to properties under development	**(4,577)**	(5,253)	**(9,026)**	(10,609)
Interest capitalized to residential development inventory	**(231)**	(198)	**(460)**	(399)
	33,029	34,066	**66,232**	68,259
Yield maintenance on redemption of unsecured debentures and related write-off of unamortized financing costs (Note 11(b))	**4,340**	—	**7,865**	—
	37,369	34,066	**74,097**	68,259
Distributions on vested deferred units and Units classified as liabilities	**1,335**	1,266	**2,693**	2,498
	38,704	35,332	**76,790**	70,757

Cash interest paid consists of the following:

	Three Months Ended June 30		**Six Months Ended June 30**	
	2019	2018	**2019**	2018
Interest expense	**38,704**	35,332	**76,790**	70,757
Amortization of acquisition date fair value adjustments on assumed debt	**525**	581	**1,059**	1,241
Amortization of deferred financing costs	**(1,005)**	(852)	**(1,875)**	(1,720)
Distributions on vested deferred units and Units classified as liabilities	**(1,335)**	(1,266)	**(2,693)**	(2,498)
Change in accrued interest payable	**(1,549)**	(5,411)	**4,612**	(20)
Cash interest paid	**35,340**	28,384	**77,893**	67,760

e) Other letters of credit

In addition to the letters of credit outstanding on the Trust's revolving operating facility (see Note 11(c) above), the Trust also has $28,979 of letters of credit outstanding with other financial institutions as at June 30, 2019 (December 31, 2018 – $28,888).

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, 2019	December 31, 2018
Accounts payable	**87,997**	93,826
Tenant prepaid rent, deposits and other payables	**76,911**	65,553
Accrued interest payable	**17,326**	21,939
Distributions payable	**25,518**	24,258
Realty taxes payable	**16,465**	4,508
Current portion of other payables	**6,656**	6,533
	230,873	216,617

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

	Note	**June 30, 2019**	December 31, 2018
Future land development obligations (a)		**27,119**	26,567
Lease liability – investment properties[1]	4(c)(ii)	**8,010**	7,941
Lease liability – other		**547**	—
Long Term Incentive Plan ("LTIP") liability (b)		**1,601**	1,241
Total other payables		**37,277**	35,749
Less: Current portion of other payables		**(6,656)**	(6,533)
Total non-current portion of other payables		**30,621**	29,216

[1] Leasehold properties with bargain purchase options are accounted for as leases.

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 2019 to 2025. The accrued future land development obligations are measured at their amortized values using imputed interest rates ranging from 4.50% to 5.50%. For the three months ended June 30, 2019, imputed interest of $294 (three months ended June 30, 2018 - $300) was capitalized to properties under development. For the six months ended June 30, 2019, imputed interest of $576 (six months ended June 30, 2018 – $585) was capitalized to properties under development.

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

The following summarizes the activity in the LTIP for the three and six months ended June 30, 2019:

	Three Months Ended June 30		**Six Months Ended June 30**	
	2019	2018	**2019**	2018
Balance – beginning of period	**1,772**	2,355	**1,241**	2,927
Accrual adjustment	**(171)**	164	**360**	(408)
LTIP vested and paid out	**—**	(2,013)	**—**	(2,013)
Balance – end of period	**1,601**	506	**1,601**	506

c) Payable balances with Penguin

Accounts and other payables consist of the following payable balances with Penguin for the six months ended June 30, 2019 and year ended December 31, 2018:

	June 30, 2019	December 31, 2018
Accounts payable	**19,816**	13,834
Future land development obligations	**27,119**	26,567
	46,935	40,401

13. Other financial liabilities

The components of other financial liabilities are as follows:

	June 30, 2019	December 31, 2018
Units classified as liabilities (a)	**69,493**	64,420
Earnout options (b)	**99**	881
Deferred unit plan (c)	**30,455**	29,683
	100,047	94,984

a) Units classified as liabilities

Total number of Units classified as liabilities

The following represents the number of Units classified as liabilities that are issued and outstanding:

	Class D Series 1 Smart LP Units	Class F Series 3 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, 2019	**311,022**	**—**	**260,417**	**1,248,140**	**132,881**	**137,109**	**2,089,569**
Options exercised	**—**	**4,886**	**—**	**—**	**—**	**—**	**4,886**
Balance – June 30, 2019	**311,022**	**4,886**	**260,417**	**1,248,140**	**132,881**	**137,109**	**2,094,455**
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

Carrying value of Units classified as liabilities

The following represents the carrying value of Units classified as liabilities. The fair value measurement of the Units classified as liabilities is described in Note 14 "Fair value of financial instruments".

	Class D Series 1 Smart LP Units	Class F Series 3 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, 2019	**9,589**	**—**	**8,028**	**38,480**	**4,096**	**4,227**	**64,420**
Options exercised	**—**	98	**—**	**—**	**—**	**—**	98
Change in carrying value	740	—	620	2,972	317	326	4,975
Balance – June 30, 2019	**10,329**	**98**	**8,648**	**41,452**	**4,413**	**4,553**	**69,493**
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

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(d)). 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 F 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, 2019:

	Strike Price	Options Outstanding at January 1, 2019	Options Cancelled	Options Exercised	Options Outstanding at June 30, 2019	Amounts From Options Exercised
	($)	(#)	(#)	(#)	(#)	($)
Options to acquire Trust Units						
July 2005	20.10	**108,606**	—	**(53,002)**	**55,604**	**1,065**
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	—	**(53,002)**	**1,457,285**	**1,065**
Options to acquire Class B Smart LP Units, Class D Smart LP Units and Class F Smart LP Units[1]						
July 2005 (Earnout)	20.10	**1,354,153**	—	—	**1,354,153**	—
December 2006	29.55 to 30.55	**2,226,949**	—	—	**2,226,949**	—
July 2007	29.55 to 33.00	**1,600,000**	—	—	**1,600,000**	—
June 2008[2]	20.10	**685,113**	—	**(4,886)**	**680,227**	**98**
		5,866,215	—	**(4,886)**	**5,861,329**	**98**
Options to acquire Class B Smart LP III Units[3]						
September 2010	Market price	**617,932**	—	—	**617,932**	—
August 2011	Market price	**596,219**	—	—	**596,219**	—
August 2013	Market price	**560,071**	—	—	**560,071**	—
September 2014	Market price	**286,054**	**(26,350)**	—	**259,704**	—
		2,060,276	**(26,350)**	—	**2,033,926**	—
Options to acquire Class B Smart LP IV Units[4]						
May 2015	Market price	**439,149**	—	—	**439,149**	—
		439,149	—	—	**439,149**	—
Options to acquire Class B Smart Oshawa South LP Units and Class D Smart Oshawa South LP Units[5]						
May 2015	Market price	**26,585**	—	—	**26,585**	—
		26,585	—	—	**26,585**	—
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**	**(40,223)**	—	**499,777**	—
		540,000	**(40,223)**	—	**499,777**	—
Total Earnout options		**10,877,934**	**(66,573)**	**(57,888)**	**10,753,473**	**1,163**

(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, 2018:

	Strike Price	Options Outstanding at January 1, 2018	Options Cancelled	Options Exercised	Options Outstanding at June 30, 2018	Amounts From Options Exercised
	($)	(#)	(#)	(#)	(#)	($)
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 the fair value of Earnout options:

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	**2019**	2018
Fair value – beginning of period	**162**	615	**881**	751
Trust options exercised	**—**	—	**(566)**	—
Fair value adjustment	**(63)**	145	**(215)**	9
Fair value – end of period	**99**	760	**99**	760

c) Deferred unit plan ("DUP")

The Trust has a deferred unit plan that entitles: i) Trustees or senior officers; ii) senior officer holding the title of vice president, senior vice president or executive vice president; and iii) employees holding the title of senior director or director; 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, 2019 and June 30, 2018 are summarized as follows:

	Outstanding	Vested	Non-vested
Balance – January 1, 2019	**1,007,929**	**876,870**	**131,059**
Granted	**192,860**	**125,404**	**67,456**
Reinvested units from distributions	**28,839**	**24,732**	**4,107**
Vested	**—**	**15,672**	**(15,672)**
Exchanged for Trust Units	**(1,838)**	**(1,838)**	**—**
Redeemed for cash	**(190,309)**	**(190,309)**	**—**
Forfeited	**(29,345)**	**—**	**(29,345)**
Balance – June 30, 2019	**1,008,136**	**850,531**	**157,605**
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	(15,941)	(15,941)	—
Forfeited	(1,605)	—	(1,605)
Balance – June 30, 2018	986,268	853,889	132,379

The following summarizes the change in the carrying value of the deferred unit plan for the three and six months ended June 30:

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	**2019**	2018
Carrying value – beginning of period	**31,229**	23,815	**29,683**	23,351
Deferred units granted for trustee fees and bonuses	**1,255**	1,124	**3,034**	2,381
Reinvested distributions on vested deferred units	**393**	353	**811**	672
Compensation expense – reinvested distributions, amortization and fair value change on unvested deferred units	**192**	1,390	**965**	1,848
Exchanged for Trust Units	**(37)**	—	**(61)**	—
Redeemed for cash	**(1,191)**	(247)	**(6,423)**	(472)
Fair value adjustment – vested deferred units	**(1,386)**	1,101	**2,446**	(244)
Carrying value – end of period	**30,455**	27,536	**30,455**	27,536

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, 2019			December 31, 2018		
	Fair Value Through Profit or Loss ("FVTPL")	**Amortized cost**	**Total**	Fair Value Through Profit or Loss ("FVTPL")	Amortized cost	Total
Financial assets						
Mortgages and loans receivable	**—**	**258,556**	**258,556**	—	151,531	151,531
Tenant receivables	**—**	**27,891**	**27,891**	—	17,329	17,329
Financial liabilities						
Secured debt	**—**	**1,893,887**	**1,893,887**	—	2,134,891	2,134,891
Revolving operating facility	**—**	**23,000**	**23,000**	—	121,000	121,000
Unsecured debt	**—**	**2,224,873**	**2,224,873**	—	1,858,621	1,858,621
Long Term Incentive Plan	**—**	**1,601**	**1,601**	—	1,241	1,241
Units classified as liabilities	**69,493**	**—**	**69,493**	64,420	—	64,420
Earnout options	**99**	**—**	**99**	881	—	881
Deferred unit plan	**30,455**	**—**	**30,455**	29,683	—	29,683

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 assessment has not indicated that any material difference would arise due to a change in input variables.

	June 30, 2019			December 31, 2018		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Recurring measurements:						
Financial liabilities						
Units classified as liabilities	**—**	**69,493**	**—**	—	64,420	—
Earnout options	**—**	**—**	**99**	—	—	881
Deferred unit plan	**—**	**30,455**	**—**	—	29,683	—

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, 2019 and June 30, 2018. 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, 2019		**134,498,397**	**25,128,877**	**159,627,274**	**2,781,069**	**632,737**	**3,413,806**
Options exercised[1]	4(d), 13(b)	**53,002**	**—**	**53,002**	**1,631**	**—**	**1,631**
Deferred Units exchanged for Trust Units	13(c)	**1,838**	**—**	**1,838**	**61**	**—**	**61**
Distribution reinvestment plan	15(b), 16	**981,806**	**—**	**981,806**	**32,810**	**—**	**32,810**
Units issuance cost	15(c)	**—**	**—**	**—**	**(9,634)**	**—**	**(9,634)**
Units issued for cash	15(c)	**7,360,000**	**—**	**7,360,000**	**230,000**	**—**	**230,000**
Balance – June 30, 2019		**142,895,043**	**25,128,877**	**168,023,920**	**3,035,937**	**632,737**	**3,668,674**
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), 16	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

[1] For the six months ended June 30, 2019, the carrying value of Trust Units issued includes the fair value of options on exercise of $566 (six months ended June 30, 2018 – $nil).

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, 2019 and June 30, 2018.

Unit Type	Class and Series	Balance – January 1, 2019	Options Exercised (Note 13(b))	Balance – June 30, 2019
Smart Limited Partnership	**Class B Series 1**	**14,746,176**	**—**	**14,746,176**
Smart Limited Partnership	**Class B Series 2**	**950,059**	**—**	**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**	**664,214**	**—**	**664,214**
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**	**3,052,504**	**—**	**3,052,504**
Smart Oshawa South Limited Partnership	**Class B Series 1**	**710,416**	**—**	**710,416**
Smart Oshawa Taunton Limited Partnership	**Class B Series 1**	**374,223**	**—**	**374,223**
		25,128,877	**—**	**25,128,877**

Unit Type	Class and Series	Balance – January 1, 2018	Options Exercised	Balance – June 30, 2018
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

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, 2019 and June 30, 2018.

Unit Type	**Class and Series**	**Balance – January 1, 2019**	**Amounts From Options Exercised**	**Balance – June 30, 2019**
			(Note 13(b))	
Smart Limited Partnership	**Class B Series 1**	**347,675**	**—**	**347,675**
Smart Limited Partnership	**Class B Series 2**	**27,587**	**—**	**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**	**16,334**		**16,334**
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**	**87,675**		**87,675**
Smart Oshawa South Limited Partnership	**Class B Series 1**	**20,441**		**20,441**
Smart Oshawa Taunton Limited Partnership	**Class B Series 1**	**11,033**	**—**	**11,033**
		632,737	**—**	**632,737**

Unit Type	Class and Series	Balance – January 1, 2018	Amounts From Options Exercised	Balance – June 30, 2018
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

a) Authorized Units

i) Trust Units

At June 30, 2019, there were 27,218,446 (December 31, 2018 – 27,218,446) 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, 2019, there were 75,062,169 (December 31, 2018 – 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, 2019	December 31, 2018
Class C Series 1 Smart LP Units	**3,445,341**	3,445,341
Class C Series 2 Smart LP Units	**3,026,949**	3,026,949
Class C Series 3 Smart LP Units	**680,227**	685,113
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, 2019, there were 4,886 Class F Series 3 Smart LP Units outstanding (December 31, 2018 – 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, 2019, there were 263,303 (December 31, 2018 – 263,303) 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, 2019, there were 12,556,688 (December 31, 2018 – 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, 2019, there were 2,033,926 (December 31, 2018 – 2,060,276) 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, 2019, there were 2,402,569 (December 31, 2018 – 2,402,569) 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, 2019, there were 439,149 (December 31, 2018 – 439,149) 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, 2019, there were 418,190 (December 31, 2018 – 418,190) 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, 2019**	December 31, 2018
Class C Series 1 Smart Oshawa South LP Units	**21,082**	21,082
Class E Series 1 Smart Oshawa South LP Units	**5,503**	5,503
	26,585	26,585

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, 2019, there were 637,895 (December 31, 2018 – 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 Units 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, 2019**	December 31, 2018
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, 2019, there were 397,438 (December 31, 2018 – 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, 2019, there were nil (December 31, 2018 – 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, 2019, there were 170,000 (December 31, 2018 – 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, 2019, there were 3,912,943,532 (December 31, 2018 – 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 Class B ONR LP 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, 2019, there were 38,000,010 (December 31, 2018 – 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 Units (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, 2019, there were 499,777 (December 31, 2018 – 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.

c) Units issued for cash

In January 2019, the Trust issued 7,360,000 Trust Units for cash at an issue price of $31.25, totalling $230,000, before issuance costs of $9,634 (six months ended June 30, 2018 - no Units issued).

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, 2019 and June 30, 2018 are as follows:

Unit Type Subject to Distributions	Class and Series	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Distributions on Units classified as equity:			
Trust Units	N/A	**129,205**	117,312
Distributions on Limited Partnership Units			
Smart Limited Partnership	Class B Series 1	**13,272**	12,903
Smart Limited Partnership	Class B Series 2	**855**	789
Smart Limited Partnership	Class B Series 3	**648**	630
Smart Limited Partnership II	Class B	**681**	662
Smart Limited Partnership III	Class B Series 4	**598**	567
Smart Limited Partnership III	Class B Series 5	**515**	501
Smart Limited Partnership III	Class B Series 6	**404**	393
Smart Limited Partnership III	Class B Series 7	**391**	380
Smart Limited Partnership III	Class B Series 8	**1,528**	1,486
Smart Limited Partnership IV	Class B Series 1	**2,747**	2,665
Smart Oshawa South Limited Partnership	Class B Series 1	**639**	602
Smart Oshawa Taunton Limited Partnership	Class B Series 1	**337**	327
Total distributions on Limited Partnership Units		**22,615**	21,905
Total distributions on Units classified as equity		**151,820**	139,217
Distributions on Units classified as liabilities:			
Smart Limited Partnership	Class D Series 1	**280**	272
Smart Limited Partnership	Class F Series 3	**1**	—
Smart Oshawa South Limited Partnership	Class D Series 1	**234**	220
ONR Limited Partnership	Class B	**1,123**	1,097
ONR Limited Partnership I	Class B Series 1	**120**	116
ONR Limited Partnership I	Class B Series 2	**123**	120
Total distributions on Units classified as liabilities		**1,881**	1,825
Distributions paid through DRIP	N/A	**32,810**	27,144

On July 18, 2019, the Trust declared a distribution for the month of July 2019 of $0.15 per Unit, representing $1.80 per Unit on an annualized basis, to Unitholders of record on July 31, 2019.

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	
	2019	2018	**2019**	2018
Gross base rent	**127,811**	126,414	**255,156**	252,112
Less: Amortization of tenant incentives	**(1,752)**	(1,705)	**(3,548)**	(3,383)
Net base rent	**126,059**	124,709	**251,608**	248,729
Property tax and insurance recoveries	**47,673**	46,746	**96,130**	94,024
Property operating cost recoveries	**16,710**	18,325	**42,596**	40,278
Miscellaneous revenue	**3,920**	4,028	**8,042**	6,159
Rentals from investment properties	**194,362**	193,808	**398,376**	389,190
Service and other revenues[1]	**2,384**	3,753	**4,803**	6,804
Rentals from investment properties and other	**196,746**	197,561	**403,179**	395,994

(1) For the three months ended June 30, 2019, service and other revenues included $2,219 relating to the fees associated with the Development and Services Agreement with Penguin (three months ended June 30, 2018 - $2,861). For the six months ended June 30, 2019, service and other revenues included $4,421 relating to the fees associated with the Development and Services Agreement with Penguin (six months ended June 30, 2018 – $5,483). 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, 2019	June 30, 2018
2018[1]	**—**	248,690
2019[1]	**251,730**	470,142
2020	**478,949**	424,502
2021	**426,991**	370,573
2022	**373,941**	316,082
2023	**297,905**	243,041
Thereafter	**919,511**	779,174

(1) Amounts relate to remainder of year.

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	
	2019	2018	**2019**	2018
Recoverable property operating costs[1]	**66,482**	66,487	**143,898**	138,202
Property management fees and costs	**966**	1,359	**2,165**	3,084
Non-recoverable costs	**1,092**	1,270	**2,457**	2,289
Property operating costs	**68,540**	69,116	**148,520**	143,575
Other expenses[2]	**2,424**	3,790	**4,866**	6,840
Property operating costs and other	**70,964**	72,906	**153,386**	150,415

(1) Includes recoverable property tax and insurance costs.
(2) Other expenses relate to service and other revenues as disclosed in Note 17.

19. General and administrative expense, net

The general and administrative expense, net, consists of the following:

		Three Months Ended June 30		Six Months Ended June 30	
	Note	**2019**	2018	**2019**	2018
Salaries and benefits		**12,016**	13,203	**25,595**	24,656
Master planning services fee - by Penguin	21	**1,750**	875	**5,600**	1,750
Professional fees		**863**	1,156	**1,970**	2,072
Public company costs		**607**	680	**1,230**	1,389
Rent and occupancy		**463**	564	**1,075**	1,197
Amortization of intangible assets	8	**333**	333	**666**	666
Other costs including information technology, marketing, communications and other employee expenses		**1,527**	1,682	**2,824**	3,465
Total general and administrative expense before allocation		**17,559**	18,493	**38,960**	35,195
Less:					
Capitalized to properties under development and other assets		**(5,439)**	(4,860)	**(13,767)**	(9,299)
Allocated to property operating costs		**(3,542)**	(3,532)	**(7,370)**	(7,440)
Amounts charged to Penguin and third parties		**(3,711)**	(3,753)	**(6,594)**	(6,803)
Total amounts charged, allocated and capitalized		**(12,692)**	(12,145)	**(27,731)**	(23,542)
General and administrative expense, net		**4,867**	6,348	**11,229**	11,653

20. Supplemental cash flow information

The following represents changes in other non-cash operating items:

		Three Months Ended June 30		Six Months Ended June 30	
	Note	**2019**	2018	**2019**	2018
Amounts receivable	10	**(5,385)**	(4,386)	**(19,342)**	(26,191)
Prepaid expenses and other	10	**(20,203)**	(21,571)	**(30,017)**	(30,045)
Accounts payable	12	**(2,190)**	4,083	**(5,829)**	(6,851)
Realty taxes payable	12	**(3,294)**	(2,970)	**11,957**	8,261
Tenant prepaid rent, deposits and other payables	12	**18,828**	18,486	**11,358**	16,505
Other working capital changes		**1,136**	672	**2,677**	650
		(11,108)	(5,686)	**(29,196)**	(37,671)

As at June 30, 2019, the Trust's liabilities relating to additions to investment properties was $28,750 (June 30, 2018 – $32,207).

21. Related party transactions

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

At June 30, 2019, Penguin (the Trust's largest Unitholder) owned the following Units, which in total represent approximately 20.8% of the issued and outstanding Units (December 31, 2018 – 21.8%):

Type	Class and Series	June 30, 2019	December 31, 2018
Trust Units	N/A	**13,835,863**	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**	367,550
Smart Limited Partnership	Class B Series 3	**720,432**	720,432
Smart Limited Partnership	Class F Series 3	**4,886**	—
Smart Limited Partnership III	Class B Series 4	**664,214**	664,214
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	**2,825,794**	2,825,794
Smart Oshawa South Limited Partnership	Class B Series 1	**630,880**	630,880
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
		35,336,976	35,279,088

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, 2019, there were 9,427,088 additional Special Voting Units outstanding (December 31, 2018 – 6,486,636). 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 30, 2019 and filed on the System for Electronic Document Analysis and Retrieval (SEDAR).

During the six months ended June 30, 2019, Earnout Fees totalling $3,685 were paid to Penguin (six months ended June 30, 2018 – $3,051), of which $1,065 was exercised for Trust Units and $98 was exercised for LP Units (six months ended June 30, 2018 – $1,865 for LP Units) (see also Note 4(d)(i), "Investment properties").

Penguin has Earnout options, upon completion of Earnout events, to acquire certain Units as follows:

Type	Class and Series	June 30, 2019	December 31, 2018
Trust Units	N/A	**1,286,833**	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**	3,026,949
Smart Limited Partnership	Class B Series 3	**680,227**	685,113
Smart Limited Partnership III	Class B Series 4	**617,932**	617,932
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	**259,704**	286,054
Smart Limited Partnership IV	Class B Series 1	**402,636**	402,636
Smart Oshawa South Limited Partnership	Class B Series 1	**16,082**	16,082
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	**499,777**	540,000
		9,586,590	9,711,051

At June 30, 2019, Penguin's ownership would increase to 24.9% (December 31, 2018 – 26.1%) if Penguin were to exercise all remaining Earnout options. Pursuant to its rights under the Declaration of Trust, at June 30, 2019, 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 development services agreement entered in May 2015 (the "2015 Agreement"), Penguin provides specified services to the Trust in connection with the development of four of its projects, namely the VMC, the StudioCentre property, Westside Mall and the Vaughan 400 & 7 Shopping Centre, until May 2020. In return for those services Penguin is entitled to annual master planning fees of $3,500 for the term of the 2015 Agreement and has earned this amount in each year to date.

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(c) 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	**2019**	2018	**2019**	2018
Related party transactions with Penguin					
Revenues:					
Service and other revenues:					
Transition services fee revenue		**667**	917	**1,417**	1,917
Management fee and other services revenue pursuant to the Development and Services Agreement		**1,370**	1,709	**2,621**	3,053
Support services		**182**	235	**383**	513
	17	**2,219**	2,861	**4,421**	5,483
Interest income from mortgages and loans receivable		**2,067**	1,687	**4,081**	3,287
Head lease rents and operating cost recoveries included in head lease rentals from income properties		**235**	371	**470**	604
Expenses and other payments:					
Master planning services:					
Capitalized to properties under development	19	**1,750**	875	**5,600**	1,750
Development fees and costs (capitalized to investment properties)		**—**	8	**—**	8
Interest expense (capitalized to properties under development)		**—**	3	**11**	6
Opportunity fees (capitalized to properties under development)[1]		**701**	661	**1,385**	1,306
Rent and operating costs (included in general and administrative expense and property operating costs)		**(67)**	503	**397**	1,076
Time billings and other administrative costs (included in general and administrative expense and property operating costs)		**31**	16	**51**	33
Marketing costs (included in property operating costs)		**11**	11	**22**	32
Related party transactions with PCVP					
Revenues:					
Interest income from mortgages and loans receivable		**553**	692	**553**	1,087
Rent and operating costs (included in general and administrative expense and property operating costs)		**650**	—	**650**	—

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

	Note	**June 30, 2019**	December 31, 2018
Related party balances with Penguin disclosed elsewhere in the financial statements			
Receivables:			
Amounts receivable[1]	10(c)	**19,865**	16,741
Mortgages receivable	5(a)	**136,194**	134,221
Loans receivable	5(b)	**24,088**	10,145
Notes receivable	5(c)	**2,979**	2,979
Total receivables		**183,126**	164,086
Payables and other accruals:			
Accounts payable	12(c)	**19,816**	13,834
Future land development obligation	12(c)	**27,119**	26,567
Secured debt		**318**	2,635
Total payables and other accruals		**47,253**	43,036

(1) Excludes amounts 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:

	Note	**June 30, 2019**	December 31, 2018
Related party balances disclosed elsewhere in the financial statements			
Amounts receivable[1]	10(c)	**12,125**	10,967
Loans receivable[2]	5(b)	**91,153**	—
Other unsecured debt	11(b)(ii)	**2,214**	3,766

(1) Amounts receivable includes Penguin's portion, which represents $5,843 (December 31, 2018 – $5,293) relating to Penguin's 50% investment in the PCVP and 25% investment in Residences LP.

(2) Loans receivable includes Penguin's portion, which represents $45,577 (December 31, 2018 – $nil) relating to Penguin's 50% investment in the PCVP.

Mortgages receivable

As at June 30, 2019, the weighted average interest rate associated with mortgages receivable from Penguin was 5.48% (December 31, 2018 – 5.59%) (see also Note 5, "Mortgages, loans and notes receivable").

Future land development obligations

The future land development obligations represent payments required to be made to Penguin for certain undeveloped lands acquired by the Trust from Penguin 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 2019 to 2025. The accrued future land development obligations are measured at their amortized values using imputed interest rates ranging from 4.50% to 5.50% (see also Note 4, "Investment properties").

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**	
	2019	2018	**2019**	2018
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	**49**	129	**1,366**	345
Included in general and administrative expense	**86**	102	**382**	177
	135	231	**1,748**	543
Accounts payable to a legal firm in which a partner is a trustee of the Trust:	**—**	—	**341**	—

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, President and Chief Executive Officer, Chief Financial Officer, Chief Development Officer, and 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**	
	2019	2018	**2019**	2018
Salaries and other short-term employee benefits	**531**	962	**1,062**	1,516
Deferred unit plan	**521**	1,244	**1,029**	1,736
Long Term Incentive Plan	**(171)**	164	**360**	(408)
	881	2,370	**2,451**	2,844

The compensation relating to Trustees is shown below:

	Three Months Ended June 30		**Six Months Ended June 30**	
	2019	2018	**2019**	2018
Trustee fees	**183**	191	**394**	424
Deferred unit plan	**183**	360	**394**	488
	366	551	**788**	912

23. Co-owned property interests

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

	June 30, 2019		December 31, 2018	
	Number of Co-owned Properties[1]	**Ownership Interest**	Number of Co-owned Properties[1]	Ownership Interest
Income properties	**17**	**40%–50%**	17	40%–50%
Properties under development	**5**	**25%–60%**	5	25%–60%
Residential development	**1**	**50%**	1	50%
Total	**23**		23	

(1) Penguin is a co-owner of seven investment properties, consisting of five properties under development and two income properties (December 31, 2018 – seven investment properties, consisting of five properties under development and two income properties) (see also Note 21, "Related party transactions").

The following amounts, included in these 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, 2019 (23 co-ownership property interests at December 31, 2018).

	June 30, 2019	December 31, 2018
Assets[1]	**1,339,981**	1,260,118
Liabilities	**371,765**	403,216

(1) Includes cash and cash equivalents of $16,932 (December 31, 2018 – $21,695).

The following summarizes the results of operations and cash flows for the three and six months ended June 30, 2019 and June 30, 2018 for the Trust's co-owned property interests:

	Three Months Ended June 30		**Six Months Ended June 30**	
	2019	2018	**2019**	2018
Revenues	**24,621**	22,898	**48,433**	44,039
Expenses	**11,955**	11,571	**24,610**	23,064
Net income before fair value adjustment	**12,666**	11,327	**23,823**	20,975
Fair value adjustment on revaluation of investment properties	**9,156**	7,648	**73,713**	15,786
Net income and comprehensive income	**21,822**	18,975	**97,536**	36,761
Cash flows provided by operating activities	**4,186**	7,895	**11,705**	16,081
Cash flows used in financing activities	**(6,766)**	7,722	**(14,238)**	4,106
Cash flows used in investing activities	**(865)**	(11,533)	**(2,232)**	(18,387)

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 the Executive Chairman and the President and CEO to make resource allocation decisions and to assess performance.

As at June 30, 2019, 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 25.5% of the Trust's annualized rentals from investment properties for the six months ended June 30, 2019 (six months ended June 30, 2018 – 25.8%).

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	**2019**	2018	**2019**	2018
Investment properties					
Income properties	4	**4,261**	11,277	**15,778**	22,989
Properties under development	4	**(246)**	3,322	**(2,866)**	2,481
Fair value adjustment on revaluation of investment properties		**4,015**	14,599	**12,912**	25,470
Financial instruments					
Units classified as liabilities	13(a)	**3,760**	(2,963)	**(4,975)**	793
Earnout options	13(b)	**63**	(145)	**215**	(9)
Deferred unit plan – vested portion	13(c)	**1,386**	(1,101)	**(2,446)**	244
Fair value adjustment on financial instruments		**5,209**	(4,209)	**(7,206)**	1,028
Total adjustments to fair value		**9,224**	10,390	**5,706**	26,498

The above table does not reflect the adjustments to fair value recorded in equity accounted investments (see Note 6).

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, 2019, approximately 8.19% (December 31, 2018 – 18.06%) 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 recognizes any 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 and performs a sensitivity analysis to identify 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 performs the simulation only for secured debt, unsecured 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, 2019 – 10.99% of total interest costs; year ended December 31, 2018 – 13.31% of total interest costs). The sensitivity analysis below reflects the maximum impact (net of estimated interest capitalized to properties under development) on annual net income of possible changes in interest rates on variable rate debt.

Change in interest rate of:	**-0.50%**	**-0.25%**	**+0.25%**	**+0.50%**
Net income increase (decrease)	1,650	825	(825)	(1,650)

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 fulfill 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.

The ECL model requires an entity to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition or at an amount equal to 12-month expected credit losses if the credit risk on that financial instrument has not increased significantly since initial recognition. The Trust uses a provision matrix based on historical credit loss experiences to estimate 12-month expected credit losses as the Trust has deemed the risk of credit loss has not increased significantly for both mortgages and loans receivable (Note 5) and tenant receivable (Note 10). Credit risks for both have been mitigated by various measures including ensuring adequate security has been provided in support of mortgages and loans receivable and reviewing tenant's covenants, ensuring its tenant mix is diversified and by limiting its exposure to any one tenant except Walmart for tenant receivables. The provision matrix and ECL models applied did not have a material impact on receivables of the Trust.

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, $420,048 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 by management on a regular basis. 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 flows 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 1.65X 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, 2019, 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 302,000 square feet (December 31, 2018 – 302,000 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, 2019, the carrying value of these obligations and commitments included in properties under development was $48,459 (December 31, 2018 – $50,636). 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 $28,140 (December 31, 2018 – $20,624), and commitments relating to equity accounted investments that total $243,734, of which the Trust's share is $67,133 – 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 $136,194 has been provided at June 30, 2019 (December 31, 2018 – $134,221).

As at June 30, 2019, letters of credit totalling $38,028 (December 31, 2018 – $38,828) – including letters of credit drawn down under the revolving operating facility described in Note 11(c) – 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.

CORPORATE INFORMATION

TRUSTEES

Mitchell Goldhar[2]
Executive Chairman of the Board
SmartCentres Real Estate Investment Trust,
Owner
The Penguin Group of Companies

Peter Forde
President & CEO
SmartCentres Real Estate Investment Trust

Garry Foster[1, 2]
Chief Executive Officer
Cortleigh Capital Inc.

Gregory Howard[2, 3]
Partner
Davies Ward Phillips & Vineberg LLP

Jamie McVicar[1, 3]
Trustee

Sharm Powell[2]
Trustee

Kevin Pshebniski[1, 2]
President
Hopewell Development Corporation

Michael Young[2, 3]
Principal
Quadrant Capital Partners Inc.

[1] Audit Committee
[2] Investment Committee
[3] Corporate Governance and Compensation Committee

EXECUTIVE OFFICERS

Mitchell Goldhar
Executive Chairman of the Board

Peter Forde
President & CEO

Peter Sweeney
Chief Financial Officer

Mauro Pambianchi
Chief Development Officer

Rudy Gobin
Executive Vice President
Portfolio Management & Investments

BANKERS

BMO Capital Markets
Canaccord Genuity Corp.
CIBC World Markets
Desjardins Securities Inc.
HSBC Bank Canada
National Bank of Canada
Raymond James Ltd.
RBC Capital Markets
Scotia Capital
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