Consolidated Financial Statements of

ARTIS REAL ESTATE INVESTMENT TRUST

Years ended December 31, 2013 and 2012

(In Canadian dollars)

Management's Responsibility for Financial Statements

The management of Artis Real Estate Investment Trust is responsible for the preparation and integrity of the consolidated financial statements contained in the annual report. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include some amounts that are based on management's best estimate and judgment. Management has determined such amounts on a reasonable basis and considers that the consolidated financial statements present fairly the financial position of the REIT, the results of its operations and its cash flows. Management has also prepared financial information presented elsewhere in this annual report and has ensured that it is consistent with that in the consolidated financial statements. To fulfill its responsibility, management maintains internal accounting controls and systems and establishes policies and procedures to ensure the reliability of financial information and to safeguard assets.

The Board of Trustees is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Trustees carries out this responsibility principally through its Audit Committee, composed entirely of outside and unrelated trustees. The Audit Committee meets regularly with management of the REIT and with the independent auditors. The consolidated financial statements have been reviewed and approved by the Board of Trustees on the recommendation of its Audit Committee.

The REIT's independent auditor, Deloitte, LLP, has been appointed by the unitholders to audit the consolidated financial statements and express an opinion thereon.

"Armin Martens"

Armin Martens, P.Eng., MBA
President and Chief Executive Officer
February 27, 2014

"Jim Green"

Jim Green, CA
Chief Financial Officer
February 27, 2014

Deloitte.

Deloitte LLP
360 Main Street
Suite 2300
Winnipeg MB R3C 3Z3
Canada

Tel: 204-942-0051
Fax: 204-947-9390
www.deloitte.ca

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Artis Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Artis Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012, and the consolidated statements of operations, consolidated statements of changes in unitholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Artis Real Estate Investment Trust as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants

February 27, 2014
Winnipeg, Manitoba

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets

(In thousands of Canadian dollars)

		December 31, 2013		December 31, 2012 (1)
ASSETS				
Non-current assets:				
Investment properties (note 4)	$	4,851,877	$	4,206,126
Investment properties under development (note 4)		47,281		4,234
Investments in joint ventures (note 22)		42,434		7,850
Property and equipment (note 5)		2,872		2,397
Notes receivable (note 6)		18,741		20,531
		4,963,205		4,241,138
Current assets:				
Investment properties held for sale (note 4)		-		58,963
Deposits on investment properties		103		2,397
Prepaid expenses and other assets (note 7)		10,694		5,576
Notes receivable (note 6)		1,723		3,344
Accounts receivable and other receivables (note 8)		12,537		11,329
Cash held in trust		5,553		2,819
Cash and cash equivalents		48,222		54,494
		78,832		138,922
	$	5,042,037	$	4,380,060
LIABILITIES AND UNITHOLDERS' EQUITY				
Non-current liabilities:				
Mortgages and loans payable (note 9)	$	2,006,614	$	1,860,606
Convertible debentures (note 10)		181,282		182,344
Preferred shares liability		81		76
		2,187,977		2,043,026
Current liabilities:				
Mortgages and loans payable (note 9)		280,983		213,001
Convertible debentures (note 10)		3,982		-
Security deposits and prepaid rent		25,787		23,463
Accounts payable and other liabilities (note 11)		59,061		50,714
		369,813		287,178
		2,557,790		2,330,204
Unitholders' equity (note 13)		2,484,247		2,049,856
Commitments and guarantees (note 24)				
Subsequent events (note 27)				
	$	5,042,037	$	4,380,060

(1) Comparative amounts have been restated pursuant to the adoption of IFRS 11. Refer to note 2 (t) and note 22.

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Operations
Years ended December 31, 2013 and 2012

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

	2013	2012
Revenue (note 15)	$ 463,418	$ 372,469
Property operating expenses	166,536	132,060
	296,882	240,409
Other income (expenses):		
Corporate expenses	(9,713)	(11,993)
Interest expense	(102,615)	(94,284)
Interest income	2,026	2,645
Income from investments in joint ventures (note 22)	7,456	-
Fair value gain on investment properties (note 4)	4,385	223,901
Foreign currency translation (loss) gain	(7,569)	2,396
Transaction costs (note 16)	(5,685)	(8,654)
Gain (loss) on financial instruments (note 17)	5,988	(14,081)
Income for the year	191,155	340,339
Other comprehensive income (loss) that may be reclassified to net income in subsequent periods:		
Unrealized foreign currency translation gain (loss)	27,100	(4,656)
Comprehensive income for the year	$ 218,255	$ 335,683
Basic income per unit attributable to common unitholders (note 13 (d))	$ 1.45	$ 3.21
Diluted income per unit attributable to common unitholders (note 13 (d))	$ 1.41	$ 3.14
Weighted-average number of common units outstanding (note 13 (d)):		
Basic	122,405,907	105,046,401
Diluted	133,070,507	115,641,044

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Changes in Unitholders' Equity
Years ended December 31, 2013 and 2012

(In thousands of Canadian dollars)

	Common units capital contributions	Equity component of convertible debentures	Equity	Accumulated other comprehensive income (loss)	Contributed surplus	Total common equity	Total preferred equity	Total
Unitholders' equity, December 31, 2011	$ 1,053,530	$ -	$ 213,412	$ 2,873	$ -	$1,269,815	$ -	$ 1,269,815
Changes for the year:								
Issuance of units, net of issue costs	381,829	-	-	-	(117)	381,712	151,867	533,579
Reclassification of unit-based payments liability to equity (note 19 (c)(i))	-	-	-	-	3,530	3,530	-	3,530
Reclassification of convertible debentures liability to equity (note 10)	-	11,587	-	-	-	11,587	-	11,587
Unit-based compensation	-	-	-	-	941	941	-	941
Redemption of convertible debentures	-	(328)	-	-	-	(328)	-	(328)
Conversion of convertible debentures	13,942	(6)	-	-	-	13,936	-	13,936
Income	-	-	340,339	-	-	340,339	-	340,339
Other comprehensive loss	-	-	-	(4,656)	-	(4,656)	-	(4,656)
Distributions	-	-	(118,887)	-	-	(118,887)	-	(118,887)
Unitholders' equity, December 31, 2012	1,449,301	11,253	434,864	(1,783)	4,354	1,897,989	151,867	2,049,856
Changes for the year:								
Issuance of units, net of issue costs	188,918	-	-	-	(619)	188,299	173,756	362,055
Unit-based compensation (note 19 (c)(i))	-	-	-	-	1,481	1,481	-	1,481
Redemption of convertible debentures	-	(99)	-	-	-	(99)	-	(99)
Income	-	-	191,155	-	-	191,155	-	191,155
Other comprehensive income	-	-	-	27,100	-	27,100	-	27,100
Distributions	-	-	(147,301)	-	-	(147,301)	-	(147,301)
Unitholders' equity, December 31, 2013	$ 1,638,219	$ 11,154	$ 478,718	$ 25,317	$ 5,216	$2,158,624	$ 325,623	$ 2,484,247

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows
Years ended December 31, 2013 and 2012

(In thousands of Canadian dollars)

	2013	2012 (1)
Cash provided by (used in):		
Operating activities:		
Income for the year	$ 191,155	$ 340,339
Adjustments for non-cash items:		
Fair value gain on investment properties (note 4)	(4,385)	(223,901)
Depreciation of property and equipment	511	353
Income from investments in joint ventures (note 22)	(7,456)	-
Amortization:		
Tenant inducements amortized to revenue	9,291	6,349
Above- and below-market mortgages, net	(1,801)	(1,537)
Accretion on liability component of convertible debentures	(327)	(118)
Straight-line rent adjustment	(5,543)	(5,473)
Unrealized foreign currency translation loss	9,951	665
Unrealized fair value (gain) loss on financial instruments	(5,988)	14,081
Unit-based compensation expense (note 19 (c))	1,827	3,971
Amortization of financing costs included in interest	3,143	2,777
Changes in non-cash operating items (note 18)	4,129	14,232
	194,507	151,738
Investing activities:		
Acquisition of investment properties, net of related debt (note 3)	(274,485)	(506,739)
Proceeds from disposition of investment properties, net of costs (note 3)	11,438	2,354
Additions to investment properties	(19,080)	(18,663)
Additions to investment properties under development	(40,549)	(8,737)
Additions to joint ventures	(26,787)	(7,850)
Additions to tenant inducements	(18,431)	(15,566)
Additions to leasing costs	(8,472)	(6,447)
Advance of notes receivable	-	(149)
Notes receivable principal repayments	3,411	1,711
Additions to property and equipment	(986)	(2,439)
Change in deposits on investment properties	2,297	3,153
	(371,644)	(559,372)
Financing activities:		
Issuance of common units, net of issue costs	188,299	381,089
Issuance of preferred units, net of issue costs	173,756	151,867
Repayment of convertible debentures	(3,000)	(40,172)
Change in bank indebtedness	-	(37,900)
Distributions paid on common units	(132,211)	(113,566)
Distributions paid on preferred units	(13,342)	(2,980)
Mortgages and loans principal repayments	(54,705)	(41,903)
Repayment of mortgages and loans payable	(70,004)	(40,445)
Advance of mortgages and loans payable, net of financing costs	80,984	112,764
	169,777	368,754
Foreign exchange gain (loss) on cash held in foreign currency	1,088	(720)
Decrease in cash and cash equivalents	(6,272)	(39,600)
Cash and cash equivalents at beginning of year	54,494	94,094
Cash and cash equivalents at end of year	$ 48,222	$ 54,494
Supplemental cash flow information:		
Interest paid	$ 101,403	$ 92,105
Interest received	2,026	2,647

(1) Comparative amounts have been restated pursuant to the adoption of IFRS 11. Refer to note 2 (t) and note 22.

See accompanying notes consolidated financial statements.

1. Organization:

Artis Real Estate Investment Trust (the "REIT") is an unincorporated closed-end real estate investment trust created under, and governed by, the laws of the Province of Manitoba. The REIT was created pursuant to the Declaration of Trust dated November 8, 2004, as most recently amended and restated on August 2, 2012 (the "Declaration of Trust"). The purpose of the REIT is to directly, or indirectly, own, manage, lease and (where appropriate) develop retail, industrial and office properties in Canada and the United States (the "U.S."). The registered office of the REIT is 360 Main Street, Suite 300, Winnipeg, Manitoba, R3C 3Z3.

The Declaration of Trust provides that the REIT may make cash distributions to unitholders of the REIT. The amount distributed annually (currently $1.08 per common unit, $1.3125 per Series A preferred unit, US$1.3125 per Series C preferred unit, $1.1875 per Series E preferred unit and $1.25 per Series G preferred unit) will be set by the Board of Trustees.

2. Significant accounting policies:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(b) Principles of consolidation:

The consolidated financial statements include the accounts of the REIT and entities (including joint arrangements) controlled by the REIT and its subsidiaries.

(c) Basis of presentation and measurement:

The consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars rounded to the nearest thousand unless otherwise indicated. The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements. Standards issued but not yet effective for the current accounting year are described in note 2 (u).

The consolidated financial statements are prepared on the historical cost basis with the exception of investment properties, derivative financial instruments and the cash-settled unit-based payments liability, which are measured at fair value.

(d) Translation of foreign currencies:

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the REIT.

Assets and liabilities of foreign operations are translated at the rate of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rate for the period. Gains or losses on translation are included in other comprehensive income as foreign currency translation gains or losses. When there is a reduction in the net investment as a result of dilution or sale, or reduction in the equity of the foreign operation as a result of a capital transaction, amounts previously recognized in accumulated other comprehensive income are reclassified into net income.

For assets, liabilities, revenues and expenses that do not form part of the net investment in foreign operations, foreign currency translation gains or losses are included in net income. Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expense items are translated at the rate in effect at the date of the transaction.

2. Significant accounting policies (continued):

(e) Financial instruments:

Initially, all financial assets and liabilities are recorded on the consolidated balance sheet at fair value. Subsequent measurement is determined by the classification of each financial asset and liability. All financial assets are classified as one of: (a) at fair value through profit or loss; (b) held-to-maturity; (c) loans and receivables; or (d) available-for-sale. Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. All financial liabilities are classified as either: (a) at fair value through profit or loss; or (b) other liabilities. Financial assets and liabilities classified as at fair value through profit or loss are measured at fair value, with gains and losses recognized in net income. Financial instruments classified as held-to-maturity, loans and receivables, and other liabilities are measured at amortized cost. Available-for-sale financial assets are measured at fair value, with unrealized gains and losses recognized in other comprehensive income.

The REIT designated its cash and cash equivalents, cash held in trust, notes receivable, and accounts receivable and other receivables as loans and receivables; the liability component of its convertible debentures, mortgages and loans payable, preferred share liability, accounts payable and other liabilities and bank indebtedness as other liabilities. The REIT does not hold any financial instruments classified as fair value through profit or loss, held-to-maturity or available-for-sale.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, with the exception of those classified as at fair value through profit or loss, are accounted for as part of the respective asset or liability's carrying value at inception and amortized over the expected life of the financial instrument using the effective interest rate method. Transaction costs directly attributable to the acquisition or issuance of financial assets or liabilities classified as at fair value through profit or loss are recognized immediately in net income.

All derivative instruments, including embedded derivatives, are classified as at fair value through profit or loss and are recorded on the consolidated balance sheet at fair value.

Financial assets, other than those classified as at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

(f) Investment properties:

Investment properties include properties held to earn rental income and properties that are being constructed or developed for future use as investment properties. Investment properties are measured at fair value with any changes therein recognized in profit or loss for the period.

Investment properties are classified as investment properties under development once construction at the property has commenced. Investment properties under development include initial acquisition costs and other direct costs during the period of development. Borrowing costs associated with direct expenditures on properties under development are capitalized from the commencement of the construction until the date of practical completion. The REIT considers practical completion to have occurred when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

2. Significant accounting policies (continued):

(f) Investment properties (continued):

A property acquisition is accounted for as a business combination using the acquisition method if the assets acquired and liabilities assumed constitute a business, and the REIT obtains control of the business. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities assumed at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition. The REIT recognizes assets or liabilities, if any, resulting from a contingent consideration arrangement at their acquisition date fair value and such amounts form part of the cost of the business combination. Subsequent changes in the fair value of contingent consideration arrangements are recognized in profit or loss for the period.

Leasing costs, such as commissions, and straight-line rent receivable are included in the carrying amount of investment properties.

Payments to tenants under lease obligations are included in the carrying amount of investment properties. Payments that are determined to primarily benefit the tenant are treated as tenant inducements that reduce revenue. Tenant inducements are amortized on a straight-line basis over the term of the lease.

Investment properties held under operating leases are recognized in the REIT's consolidated balance sheet at fair value.

Investment properties are reclassified to assets held for sale when the criteria set out in IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations* are met.

(g) Property and equipment:

Office furniture and fixtures and office equipment and software are carried at cost less accumulated depreciation, and are depreciated on a straight-line basis over their useful life which is estimated to be five years. The estimated useful life, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimates accounted for on a prospective basis.

(h) Assets held for sale:

Non-current assets, or disposal groups comprising assets and liabilities, are categorized as held for sale at the point in time when the asset or disposal group is available for immediate sale, management has committed to a plan to sell and is actively locating a buyer at a sales price that is reasonable in relation to the current fair value of the asset, and the sale is probable and expected to be completed within a one-year period. Investment properties measured under the fair value model and held for sale continue to be measured by the guidelines of IAS 40 - *Investment Property*. All other assets held for sale are stated at the lower of their carrying amount and fair value less selling costs. An asset that is subsequently reclassified as held and in use, with the exception of an investment property measured under the fair value model, is measured at the lower of its recoverable amount and the carrying amount that would have been recognized had the asset never been classified as held for sale.

The results of operations associated with disposal groups sold or classified as held for sale are reported separately as profit or loss from discontinued operations.

(i) Cash held in trust:

Cash held in trust consists of cash held by financial institutions with restrictions pursuant to several mortgage agreements.

(j) Cash and cash equivalents:

Cash and cash equivalents consist of cash with financial institutions and include short-term investments with maturities of three months or less.

2. Significant accounting policies (continued):

(k) Provisions:

A provision is recognized if, as a result of a past event, the REIT has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are remeasured at each balance sheet date using the current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the REIT has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

(l) Revenue recognition:

The REIT has retained substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases. Rental revenue from investment properties includes all amounts earned from tenants related to lease agreements, including base rent, percentage rent, realty tax and operating cost recoveries and other incidental income, and is recognized as revenue over the term of the underlying leases. All rent steps in lease agreements are accounted for on a straight-line basis over the term of the respective leases. Percentage rent is not recognized until a tenant is obligated to pay such rent.

(m) Joint arrangements:

The REIT accounts for its joint arrangements as either joint ventures or joint operations. A joint venture is an arrangement where the REIT jointly owns an investment property with another party and has rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method. The investment in the joint venture is initially measured at cost at the date of acquisition and adjusted thereafter for the REIT's share of changes in its net assets, less any identified impairment loss. The REIT's share of the profit or loss from its investments in joint ventures is recognized in profit or loss for the period.

A joint operation is an arrangement where the REIT jointly owns an investment property with another party and has rights to the assets, and obligations for the liabilities, relating to the arrangement. The REIT accounts for joint operations by recording its proportionate share of their assets, liabilities, revenues, expenses and cash flows in its consolidated financial statements.

(n) Earnings per unit:

Basic earnings per REIT unit is computed by dividing income for the year attributable to common unitholders by the weighted-average common units outstanding during the reporting period. Diluted earnings per unit is calculated based on the weighted-average number of common units outstanding during the period, plus the effect of dilutive unit equivalents. The diluted per unit amounts for unit-based compensation are calculated using the treasury stock method, as if all the unit equivalents where the average market price exceeds the issue price had been exercised at the beginning of the reporting period, or the date of issue, as the case may be, and that the funds obtained thereby were used to purchase units of the REIT at the average trading price of the common units during the period. The dilution impact of convertible debentures is calculated using the if-converted method, whereby conversion is not assumed for the purposes of computing diluted earnings per unit if the effect is antidilutive.

2. Significant accounting policies (continued):

(o) Income taxes:

Income tax expense comprises current tax and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive (loss) income.

Deferred taxes are accounted for using the asset and liability method. Under this method, deferred taxes are recognized for the expected deferred tax consequences of temporary differences between the carrying amount of balance sheet items and their corresponding tax values. Deferred taxes are computed using enacted or substantively enacted income tax rates or laws for the years in which the temporary differences are expected to reverse or settle.

(p) Discontinued operations:

A discontinued operation is a component of the REIT's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(q) Unit-based compensation:

The REIT may issue unit-based awards to trustees, officers, employees and consultants. For cash-settled unit-based payment transactions, a liability is recognized and measured initially at fair value by applying an option pricing model. The liability is remeasured to fair value at each reporting date and at settlement date. Any change in the fair value of the liability is recognized as compensation expense for the period.

For equity-settled unit-based payment transactions, the REIT measures compensation expense using the fair value at the grant date, recognized over the vesting period.

(r) Defined benefit liability:

The cost of the REIT's defined benefit pension plans are accrued based on estimates, using actuarial techniques, of the amount of benefits employees have earned in return for their services in the current and prior periods. The present value of the defined benefit liability and current service cost is determined by discounting the estimated benefits using the projected unit credit method to determine the fair value of the plan assets and total actuarial gains and losses and the proportion thereof which will be recognized. The fair value of the plan assets is based on current market values. The present value of the defined benefit liability is based on the discount rate determined by reference to the yield of high quality corporate bonds of similar currency, having terms of maturity which align closely with the period of maturity of the liability.

(s) Use of estimates and judgments:

The preparation of the consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. Significant accounting policies (continued):

(s) Use of estimates and judgments (continued):

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts reported in the consolidated financial statements are as follows:

- Accounting for business combinations - The REIT's accounting policy relating to business combinations is described in note 2 (f). Judgment is applied in determining whether property acquisitions constitute the purchase of a business or the purchase of assets.

- Accounting for tenant inducements - The REIT's accounting policy relating to tenant inducements is described in note 2 (f). The REIT makes judgments with respect to whether tenant inducements provided in connection with a lease enhance the value of the leased property which determines whether such amounts are treated as capital expenditures.

- Capitalized cost of investment properties under development - The REIT's accounting policy relating to investment properties under development is described in note 2 (f). Judgment is applied in identifying the point at which practical completion of the investment property under development occurs.

- Classification of leases - The REIT's accounting policy for revenue recognition is described in note 2 (l). The REIT makes judgments in determining whether certain leases are operating or finance leases. The REIT determined that all of its leases are operating leases.

- Classification of joint arrangements - The REIT's accounting policy relating to joint arrangements is described in note 2 (m). Judgment is applied in determining whether joint arrangements constitute a joint venture or a joint operation.

Information about assumptions and estimation uncertainties that are critical to the determination of the amounts reported in the consolidated financial statements are as follows:

- Valuation of investment properties - The fair value of investment properties represents an estimate of the price that would be agreed upon between knowledgeable, willing parties in an arm's length transaction. The critical estimates and assumptions underlying the valuation of investment properties are described in note 4.

- Valuation of deferred tax liabilities and assets - The critical estimates and assumptions underlying the valuation of deferred tax liabilities and assets are described in note 21.

- Allowance for doubtful accounts - The critical estimates and assumptions underlying the value of the allowance for doubtful accounts are described in note 26 (a)(ii).

- Fair value of financial instruments - The fair value of financial instruments is estimated as the amount for which an instrument could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. The critical estimates and assumptions underlying the fair value of financial instruments are described in note 26 (b).

- Allocation of convertible debentures - The critical estimates and assumptions underlying the allocation of convertible debentures are described in note 10.

2. Significant accounting policies (continued):

(t) Accounting policies adopted during the year:

IAS 1 - *Presentation of Financial Statements* ("IAS 1"), as amended by the IASB in June 2011 requires entities to provide separate presentation of the items of other comprehensive income that may be reclassified to net income in the future from those that will never be reclassified to net income. This amendment was effective for annual periods beginning on or after July 1, 2012. IAS 1 did not result in a material impact on the consolidated financial statements.

IAS 19 – *Employee Benefits* ("IAS 19") was amended by the IASB in June 2011. The amendments eliminate an option to defer the recognition of gains and losses, known as the 'corridor method'; streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhance the disclosure requirements for defined benefit plans. This amendment was effective for annual periods beginning on or after January 1, 2013. IAS 19 did not result in a material impact on the consolidated financial statements.

IFRS 7 - *Financial Instruments: Disclosures*, as amended by the IASB in December 2011 requires entities to provide disclosures related to offsetting financial assets and liabilities. The amendment was effective for annual periods beginning on or after January 1, 2013. This amendment did not result in a material impact on the consolidated financial statements.

IFRS 10 - *Consolidated Financial Statements* ("IFRS 10") was issued by the IASB in May 2011. IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 - *Consolidated and Separate Financial Statements* and SIC-12 - *Consolidation - Special Purpose Entities*. As a consequence of this new standard, the IASB also issued amended and retitled IAS 27 - *Separate Financial Statements*. IFRS 10 was effective for annual periods beginning on or after January 1, 2013. This new standard did not result in a material impact on the consolidated financial statements.

IFRS 11 - *Joint Arrangements* ("IFRS 11") was issued by the IASB in May 2011. IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 - *Interests in Joint Ventures* and SIC-13 - *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. As a consequence of this new standard, the IASB also issued amended and retitled IAS 28 - *Investments in Associates and Joint Ventures*. IFRS 11 was effective for annual periods beginning on or after January 1, 2013. As a result of this standard, the REIT reduced its assets and liabilities at December 31, 2012 by $9,704 and $1,854, respectively, and replaced them with an investment in joint venture of $7,850 (note 22). The REIT had no investments in joint ventures at January 1, 2012. Therefore, there was no impact on the REIT's consolidated balance sheet as at January 1, 2012 or the REIT's net income for the year ended December 31, 2012.

IFRS 12 - *Disclosure of Interests in Other Entities* ("IFRS 12") was issued by the IASB in May 2011. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The new standard was effective for annual periods beginning on or after January 1, 2013. IFRS 12 did not result in a material impact on the consolidated financial statements.

IFRS 13 - *Fair Value Measurement* ("IFRS 13") defines fair value, sets out in a single standard a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other standards require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value or address how to present changes in fair value. The new requirements were effective for annual periods beginning on or after January 1, 2013. IFRS 13 did not result in a material impact on the consolidated financial statements.

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

2. Significant accounting policies (continued):

(u) Future changes in accounting policies:

In December 2011, the IASB amended IAS 32 - *Offsetting Financial Assets and Liabilities*. The amendment clarifies certain aspects of offsetting and net and gross settlement, and is effective for annual periods beginning on or after January 1, 2014. The REIT does not expect that this standard will result in a material impact on the consolidated financial statements.

In May 2013, the IASB issued IFRIC interpretation 21 - *Levies*. The interpretation considers the guidance in IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets* for the recognition of a levy liability due to an obligating event described in the legislation that brings about payment of the levy. It is effective for annual periods beginning on or after January 1, 2014. The REIT is currently evaluating the impact of this new interpretation.

In November 2013, the IASB amended IAS 19 - *Employee Benefits*. The amendment clarifies the requirements that relate to how contributions should be attributed to periods of service, and is effective for annual periods beginning on or after July 1, 2014. The REIT does not expect that this standard will result in a material impact on the consolidated financial statements.

3. Acquisitions and dispositions of investment properties:

Acquisitions:

The REIT acquired the following properties during the year ended December 31, 2013:

Property	Property count	Location	Acquisition date	Type
1110 Pettigrew Avenue	1	Regina, SK	January 15, 2013	Industrial
Century Crossing III [(1)]	1	Edmonton Capital Region, AB	February 11, 2013	Retail
495 Richmond Road	1	Ottawa, ON	March 15, 2013	Office
220 Portage Avenue	1	Winnipeg, MB	April 30, 2013	Office
Quarry Park Portfolio	3	Calgary, AB	May 15, 2013	Office
1700 Broadway [(2)]	1	Denver, CO	May 22, 2013	Office
ASM America Headquarters Building	1	Phoenix, AZ	June 4, 2013	Office
Cara Foods Building [(3)]	-	Greater Toronto Area, ON	June 5, 2013	Office
Oakdale Village	1	Twin Cities Area, MN	June 10, 2013	Retail
PTI Building [(4)]	1	Edmonton Capital Region, AB	June 28, 2013	Industrial
DirecTV Building	1	Greater Denver Area, CO	July 31, 2013	Office
North Scottsdale Corporate Center II	1	Phoenix Metropolitan Area, AZ	September 10, 2013	Office

[(1)] The REIT closed the first part of this two-part acquisition on February 11, 2013 and the second part on June 28, 2013.
[(2)] The REIT acquired a 50% interest in this joint venture.
[(3)] The REIT acquired the remaining 50% interest in this property.
[(4)] The REIT acquired a parcel of land adjacent to the PTI Building on October 1, 2013.

The REIT also acquired development land located in Winnipeg, Manitoba and in the Twin Cities Area, Minnesota during the year ended December 31, 2013.

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

3. Acquisitions and dispositions of investment properties (continued):

Acquisitions (continued):

The REIT acquired the following properties during the year ended December 31, 2012:

Property	Property count	Location	Acquisition date	Type
North 48 Commercial Complex	1	Saskatoon, SK	January 31, 2012	Office
Aluma Systems Building	1	Edmonton, AB	February 24, 2012	Industrial
GSA Phoenix Professional Office Building	1	Phoenix, AZ	March 29, 2012	Office
Westbank Hub Centre North (1)	-	West Kelowna, BC	April 16, 2012	Retail
Linden Ridge Shopping Centre	1	Winnipeg, MB	April 23, 2012	Retail
Trimac House	1	Calgary, AB	April 30, 2012	Office
Crowfoot Corner	1	Calgary, AB	April 30, 2012	Retail
MAX at Kierland	1	Phoenix Metropolitan Area, AZ	May 25, 2012	Office
LaSalle Office Portfolio	4	Calgary, AB	June 11, 2012	Office
Whistler Hilton Retail Plaza (2)	1	Whistler, BC	June 14, 2012	Retail
RER Industrial Portfolio	4	Twin Cities Area, MN	July 6, 2012	Industrial
GTA Industrial Portfolio	17	Greater Toronto Area, ON	July 17, 2012	Industrial
Westbank Hub Shopping Centre (3)	1	West Kelowna, BC	August 16, 2012	Retail
201 Edson	1	Saskatoon, SK	August 27, 2012	Industrial
Meadowvale Gateway Portfolio	5	Greater Toronto Area, ON	September 20, 2012	Industrial
Minneapolis Industrial Portfolio II	11	Twin Cities Area, MN	October 26, 2012	Industrial
Namao South	1	Edmonton, AB	October 31, 2012	Retail
GTA West Portfolio	5	Greater Toronto Area, ON	November 22, 2012	Industrial
Circle West	1	Saskatoon, SK	November 30, 2012	Retail

(1) The REIT acquired an additional 25% interest in this property in a two-phased closing that occurred on April 16, 2012 and October 11, 2012.
(2) The REIT acquired an 85% interest in this property.
(3) The REIT acquired a 75% interest in this property.

On March 20, 2012, the REIT entered into a 50% joint venture agreement for the Centrepoint development project located in Winnipeg, Manitoba.

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

3. Acquisitions and dispositions of investment properties (continued):

Acquisitions (continued):

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

	Year ended December 31, 2013	Year ended December 31, 2012 (1)
Investment properties	$ 497,964	$ 987,979
Long-term debt, including acquired above- and below-market mortgages, net of financing costs	(223,479)	(481,040)
Contingent consideration	-	(200)
Cash consideration	$ 274,485	$ 506,739
Transaction costs expensed	$ 4,929	$ 8,152

(1) Comparative amounts have been restated pursuant to the adoption of IFRS 11. Refer to note 2 (t) and note 22.

Dispositions:

The REIT disposed of the following properties during the year ended December 31, 2013:

Property	Location	Disposition date	Type
1301 Industrial Boulevard	Twin Cities Area, MN	July 15, 2013	Industrial
Delta Centre	Edmonton, AB	September 30, 2013	Industrial

The proceeds from the sale of the above properties, net of costs, were $11,438. The assets and liabilities associated with these properties were derecognized.

The REIT disposed of the following property during the year ended December 31, 2012:

Property	Location	Disposition date	Type
112 Pennsylvania Avenue	Greater Toronto Area, ON	October 12, 2012	Industrial

The proceeds from the sale of 112 Pennsylvania Avenue, net of costs and related debt, were $1,604. The assets and liabilities associated with the property were derecognized.

The REIT also disposed of surplus land at an investment property during the year ended December 31, 2012. The proceeds from the sale, net of costs, were $750. The assets and liabilities associated with the land were derecognized.

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

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

						Year ended December 31, 2013
		Investment properties		Investment properties under development		Investment properties held for sale
Balance, beginning of year	$	4,206,126	$	4,234	$	58,963
Additions:						
Acquisitions (note 3)		497,964		-		-
Capital expenditures		19,015		40,549		65
Leasing costs		8,145		226		101
Dispositions		(5,358)		-		(6,080)
Reclassification of investment properties under development		3,079		(3,079)		-
Reclassification of investment properties held for sale		51,849		-		(51,849)
Foreign currency translation gain (loss)		56,073		201		(134)
Straight-line rent adjustment		5,496		-		47
Tenant inducements additions, net of amortization		8,953		(20)		207
Fair value gain (loss)		535		5,170		(1,320)
Balance, end of year	$	4,851,877	$	47,281	$	-

						Year ended December 31, 2012 (1)
		Investment properties		Investment properties under development		Investment properties held for sale
Balance, beginning of year	$	3,003,604	$	20,463	$	-
Additions:						
Acquisitions (note 3)		987,979		-		-
Capital expenditures		18,663		8,737		-
Leasing costs		6,447		-		-
Dispositions		(3,427)		-		-
Reclassification of investment properties under development		27,552		(27,552)		-
Reclassification of investment properties held for sale		(58,963)		-		58,963
Foreign currency translation loss		(11,678)		(56)		-
Straight-line rent adjustment		5,473		-		-
Tenant inducements additions, net of amortization		9,217		-		-
Fair value gain		221,259		2,642		-
Balance end of year	$	4,206,126	$	4,234	$	58,963

(1) Comparative amounts have been restated pursuant to the adoption of IFRS 11. Refer to note 2 (t) and note 22.

4. Investment properties, investment properties under development and investment properties held for sale (continued):

External valuations are performed quarterly on a rotational basis over a four year cycle. During the year ended December 31, 2013, 56 investment properties of the total portfolio of 232 properties at December 31, 2013 (24.14%) were appraised by qualified external valuation professionals. During the year ended December 31, 2012, 46 investment properties of the total portfolio of 220 properties at December 31, 2012 (20.91%) were appraised by qualified external valuation professionals. The REIT uses similar assumptions and valuation techniques in its internal valuations as used by the external valuation professionals.

The REIT determined the fair value of investment properties based upon either the discounted cash flow method or the overall capitalization method, which are generally accepted appraisal methodologies. There were no changes to the REIT's internal valuation methodology during the years ended December 31, 2013 and 2012.

Under the discounted cash flow method, expected future cash flows are discounted using an appropriate rate based on the risk of the property. Expected future cash flows for each investment property are based upon, but not limited to, rental income from current leases, budgeted and actual expenses, and assumptions about rental income from future leases. The REIT uses leasing history, market reports, tenant profiles and building assessments, among other things, in determining the most appropriate assumptions. Discount and capitalization rates are estimated using market surveys, available appraisals and market comparables. Under the overall capitalization method, year one income is stabilized and capitalized at a rate appropriate for each investment property. The stabilized income incorporates allowances for vacancy, management fees and structural repair reserves. The resulting capitalized value is further adjusted, where appropriate, for costs to stabilize the income and non-recoverable capital expenditures.

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

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

Under the fair value hierarchy, the fair value of the REIT's investment properties is considered a level three, as described in note 26 (b).

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

4. Investment properties, investment properties under development and investment properties held for sale (continued):

The REIT has used the following rates and investment horizons in estimating the fair value of investment properties, including investment properties held for sale:

	December 31, 2013			December 31, 2012		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Western Canada:						
Discount rate	9.25%	6.50%	7.43%	9.50%	6.50%	7.52%
Terminal capitalization rate	8.00%	5.50%	6.47%	8.25%	5.50%	6.54%
Capitalization rate	7.50%	5.25%	6.18%	7.50%	5.25%	6.19%
Investment horizon (years)	18.0	10.0	10.8	19.0	10.0	10.6
Central Canada:						
Discount rate	8.75%	7.50%	7.89%	9.00%	7.50%	8.00%
Terminal capitalization rate	8.00%	6.00%	6.75%	8.50%	6.50%	7.05%
Capitalization rate	7.75%	6.00%	6.58%	8.25%	6.25%	6.81%
Investment horizon (years)	15.0	10.0	10.3	15.0	10.0	10.3
Eastern Canada:						
Discount rate	8.00%	6.75%	7.27%	8.25%	7.00%	7.31%
Terminal capitalization rate	7.00%	5.75%	6.51%	7.25%	5.75%	6.51%
Capitalization rate	7.00%	5.50%	6.29%	7.50%	5.50%	6.39%
Investment horizon (years)	15.0	10.0	11.2	15.0	10.0	11.1
U.S.:						
Discount rate	9.50%	7.00%	8.16%	9.75%	7.00%	8.26%
Terminal capitalization rate	9.00%	6.00%	7.29%	9.00%	6.25%	7.31%
Capitalization rate	8.75%	6.00%	7.06%	9.00%	6.25%	7.13%
Investment horizon (years)	20.0	10.0	11.1	20.0	10.0	11.2
Overall:						
Discount rate	9.50%	6.50%	7.60%	9.75%	6.50%	7.68%
Terminal capitalization rate	9.00%	5.50%	6.66%	9.00%	5.50%	6.73%
Capitalization rate	8.75%	5.25%	6.41%	9.00%	5.25%	6.46%
Investment horizon (years)	20.0	10.0	10.8	20.0	10.0	10.7

The above information represents the REIT's entire portfolio of investment properties.

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

4. Investment properties, investment properties under development and investment properties held for sale (continued):

The following sensitivity table outlines the impact of a 0.25% change in the weighted-average capitalization rate on investment properties at December 31, 2013:

	Change to fair value if capitalization rate increases by 0.25%	Change to fair value if capitalization rate decreases by 0.25%
Western Canada	$ (104,178)	$ 113,077
Central Canada	(23,609)	25,491
Eastern Canada	(22,931)	24,843
U.S.	(32,907)	37,601
	$ (183,625)	$ 201,012

At December 31, 2012, the REIT had two investment properties with a fair value of $58,963 classified as held for sale. At December 31, 2013, these properties have been reclassified to investment properties.

At December 31, 2013, included in investment properties is $25,438 (December 31, 2012, $19,663) of net straight-line rent receivables arising from the recognition of rental income on a straight-line basis over the lease term in accordance with IAS 17 - *Leases*.

Investment properties include properties held under operating leases with an aggregate fair value of $90,606 at December 31, 2013 (December 31, 2012, $88,334).

At December 31, 2013, investment properties with a fair value of $4,671,490 (December 31, 2012, $4,137,932) are pledged as security under mortgage agreements and the credit facility.

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

5. Property and equipment:

	December 31, 2013	December 31, 2012
Office furniture and fixtures	$ 3,026	$ 2,072
Office equipment and software	1,063	1,031
Accumulated depreciation	(1,217)	(706)
	$ 2,872	$ 2,397

6. Notes receivable:

	December 31, 2013	December 31, 2012
Note receivable from tenant maturing in May 2023, bearing interest at 5.89% per annum, repayable in varying blended monthly installments of principal and interest. A default under the terms of the note constitutes a default of the lease of the tenant.	$ 20,385	$ 22,072
Note receivable matured in March 2013, bearing interest at 10.00% per annum, repayable in blended monthly installments of principal and interest of $17 from February 2011 to March 2012 and bearing interest at 12.00% per annum, repayable in blended monthly installments of principal and interest of $20 from April 2012 to March 2013. The note receivable was unsecured.	-	1,673
Other notes receivable	79	130
	20,464	23,875
Current portion	1,723	3,344
Non-current portion	$ 18,741	$ 20,531

7. Prepaid expenses and other assets:

	December 31, 2013	December 31, 2012
Prepaid insurance	$ 2,283	$ 1,733
Prepaid taxes	1,965	1,930
Derivative instrument swaps (note 26 (b))	4,279	78
Other	2,167	1,835
	$ 10,694	$ 5,576

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

8. Accounts receivable and other receivables:

	December 31, 2013	December 31, 2012 (1)
Rents receivable (note 26 (a)(ii))	$ 3,335	$ 3,837
Allowance for doubtful accounts (note 26 (a)(ii))	(139)	(162)
Accrued recovery income	4,114	2,561
Other amounts receivable	5,227	5,093
	$ 12,537	$ 11,329

(1) Comparative amounts have been restated pursuant to the adoption of IFRS 11. Refer to note 2 (t) and note 22.

Included in other amounts receivable at December 31, 2013 are $2,333 accrued as a result of a contingent consideration clause included in the GSA Phoenix Professional Office Building purchase and sale agreement and insurance proceeds of $1,097.

9. Mortgages and loans payable:

	December 31, 2013	December 31, 2012
Mortgages and loans payable	$ 2,291,636	$ 2,076,958
Net above- and below-market mortgage adjustments	4,972	6,145
Financing costs	(9,011)	(9,496)
	2,287,597	2,073,607
Current portion	280,983	213,001
Non-current portion	$ 2,006,614	$ 1,860,606

Substantially all of the REIT's assets have been pledged as security under mortgages and other security agreements. The majority of mortgages and loans payable bear interest at fixed rates. The weighted-average effective rate on all mortgages and loans payable is 4.27% and the weighted-average nominal rate is 4.10% at December 31, 2013 (December 31, 2012, 4.42% and 4.23%, respectively). Maturity dates range from January 1, 2014 to February 14, 2032.

10. Convertible debentures:

In conjunction with the purchase of the Fort McMurray portfolio effective November 30, 2007, the REIT issued a Series D convertible redeemable 5.00% debenture totaling $20,000. Interest is paid semi-annually on May 30 and November 30. The convertible debenture is convertible into units of the REIT by the holder after November 30, 2009 at a price of $17.75 per unit. The debenture is redeemable for cash at the option of the REIT at any time prior to maturity provided that the market price of the units exceeds 120% of the conversion price. If the debenture is not converted into units of the REIT, it is to be repaid in cash on maturity, being November 30, 2014. None of the Series D convertible debentures were converted into units of the REIT in fiscal 2013 or 2012. On September 21, 2012, the REIT redeemed $10,000 of the Series D convertible debentures for cash. On December 31, 2013, the REIT redeemed $3,000 of the Series D convertible debentures for cash.

10. Convertible debentures (continued):

In conjunction with the prospectus that closed on April 22, 2010, the REIT issued Series F convertible redeemable 6.00% debentures totaling $75,000. An additional $11,250 of the Series F convertible debentures were issued pursuant to the exercise of the underwriters' overallotment option. Interest is paid semi-annually on June 30 and December 31. The convertible debentures are convertible into units of the REIT by the holder at any time prior to maturity, being June 30, 2020, at a price of $15.50 per unit. The debentures will not be redeemable by Artis prior to March 31, 2014. On or after March 31, 2014, but prior to March 31, 2016, the Series F debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice, provided that the weighted-average trading price of the units is not less than 125% of the conversion price. On and after March 31, 2016, the Series F convertible debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice. The debentures rank pari passu with the convertible debentures issued on November 30, 2007. During the year ended December 31, 2012, Series F convertible debentures with a face value of $80 were converted and the REIT issued 5,159 units at the exercise price of $15.50 per unit. None of the Series F convertible debentures were converted into units of the REIT in fiscal 2013.

In conjunction with the prospectus that closed on April 21, 2011, the REIT issued Series G convertible redeemable 5.75% debentures totaling US$80,000. An additional US$8,000 of the Series G convertible debentures were issued pursuant to the exercise of the underwriters' overallotment option. Interest is paid semi-annually on June 30 and December 31. The convertible debentures are convertible into units of the REIT by the holder at any time prior to maturity, being June 30, 2018, at a price of US$18.96 per unit. The debentures will not be redeemable by Artis prior to June 30, 2014. On or after June 30, 2014, but prior to June 30, 2016, the Series G debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice, provided that the weighted-average trading price of the units is not less than 125% of the conversion price. On and after June 30, 2016, the Series G convertible debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice. The debentures rank pari passu with the convertible debentures issued on November 30, 2007 and April 22, 2010. None of the Series G convertible debentures were converted into units of the REIT in fiscal 2013 or 2012.

On August 2, 2012, the REIT amended its Declaration of Trust to become a closed-end trust thereby removing the redemption right attached to its common units. As a result of this amendment, the REIT's convertible debentures were reclassified from financial liabilities to compound financial instruments. As a part of this reclassification, the REIT estimated the fair values of the convertible debentures on August 2, 2012 in whole and separated the fair values into liability and equity components. The fair value of the convertible debentures was estimated using the market price of the debentures, or if no market price existed, an estimate based on the present value of future interest and principal payments due under the terms of the convertible debenture using a discount rate for similar debt instruments.

The Series D and Series F convertible debentures were separated into liability and equity components based on the estimated fair value of the liability components. The fair value of the liability components were estimated based on the present value of future interest and principal payments due under the terms of the convertible debenture using a discount rate for similar debt instruments without a conversion feature. The value assigned to the equity component is the residual of the fair value of the liability component and the fair value of the whole financial instrument. On August 2, 2012, $558 and $11,029 was reclassified from liabilities to equity for the Series D and Series F convertible debentures, respectively. Interest expense on the convertible debentures is determined by applying an effective interest rate to the outstanding liability component of 5.50% on the Series D convertible debentures and 6.25% on the Series F convertible debentures. The difference between actual cash interest payments and interest expense is accreted to the liability component.

On August 2, 2012, the fair value of the Series G convertible debentures were recorded as a liability with no value assigned to equity as these convertible debentures are denominated in US dollars with no fixed conversion rate to Canadian dollars. Interest expense on the Series G convertible debentures is determined by applying an effective rate of 5.04% to the outstanding liability balance. The difference between actual cash interest payments and interest expense is accreted to the liability.

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

10. Convertible debentures (continued):

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

Convertible redeemable debenture issue	Issue date	Maturity date	Interest rate
Series D	November 30, 2007	November 30, 2014	5.00%
Series F	April 22, 2010	June 30, 2020	6.00%
Series G	April 21, 2011	June 30, 2018	5.75%

Convertible redeemable debenture issue	Face value	Equity portion	Liability portion	Accretion	Carrying value	Current portion	Non-current portion
Series D	$ 4,000	$ 131	$ 3,957	$ 25	$ 3,982	$ 3,982	$ -
Series F	86,170	11,023	84,841	193	85,034	-	85,034
Series G	93,597	-	96,966	(718)	96,248	-	96,248
December 31, 2013	$ 183,767	$ 11,154	$ 185,764	$ (500)	$ 185,264	$ 3,982	$ 181,282
December 31, 2012	180,721	11,253	182,462	(118)	182,344	-	182,344

11. Accounts payable and other liabilities:

	December 31, 2013	December 31, 2012 (1)
Accounts payable and accrued liabilities	$ 33,352	$ 27,461
Distributions payable	12,088	10,340
Accrued interest	7,019	6,626
Accrued property taxes	2,899	864
Derivative instrument swaps (note 26 (b))	2,395	4,099
Cash-settled unit-based payments liability	355	30
Other	953	1,294
	$ 59,061	$ 50,714

(1) Comparative amounts have been restated pursuant to the adoption of IFRS 11. Refer to note 2 (t) and note 22.

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

12. Bank indebtedness:

On September 6, 2012, the REIT entered into a revolving term credit facility in the amount of $80,000, which can be utilized for general corporate operating purposes, including the acquisition of commercial properties and the issuance of letters of credit. The credit facility matures on September 6, 2014. Amounts drawn on the facility bear interest at prime plus 1.00% or at the bankers' acceptance rate plus 2.00%. The credit facility is secured by a first charge on certain investment properties with a carrying value of $138,171 at December 31, 2013 (December 31, 2012, $146,859). At December 31, 2013, the REIT had no balance drawn on the facility (December 31, 2012, $nil).

13. Unitholders' equity:

(a) Common units:

(i) Authorized:

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

(ii) Issued and outstanding:

	Number of units		Amount
Balance at December 31, 2011	88,872,905	$	1,053,530
Public offerings, net of issue costs of $16,754	23,735,000		361,702
Conversion of Series C convertible debentures	1,681		29
Conversion of Series E convertible debentures	973,311		13,824
Conversion of Series F convertible debentures	5,159		89
Options exercised	248,625		4,005
Distribution Reinvestment and Unit Purchase Plan	1,047,788		16,122
Balance at December 31, 2012	114,884,469		1,449,301
Public offerings, net of issue costs of $7,297	10,424,750		165,232
Options exercised	220,912		3,469
Distribution Reinvestment and Unit Purchase Plan	1,408,345		20,217
Balance at December 31, 2013	126,938,476	$	1,638,219

The REIT has a Distribution Reinvestment and Unit Purchase Plan which allows unitholders the option to elect to receive all or a portion of their regular monthly distributions in additional REIT units.

13. Unitholders' equity (continued):

(a) Common units (continued):

(iii) Normal course issuer bid:

On December 12, 2013, the REIT announced that the Toronto Stock Exchange (the "Exchange") had approved the renewal of its normal course issuer bid. Under the renewed bid, the REIT will have the ability to purchase for cancellation up to a maximum of 12,573,852 units, representing 10% of the REIT's float of 125,738,528 units on November 30, 2013. Purchases will be made at market prices through the facilities of the Exchange. This bid will remain in effect until the earlier of December 16, 2014, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the years ended December 31, 2013 and 2012, the REIT did not acquire units through the normal course issuer bid.

(iv) At-the-market equity financing:

The REIT has entered into an Equity Distribution Agreement dated September 17, 2010, as amended and restated on September 18, 2012, with an exclusive agent for the issuance and sale, from time to time, until July 15, 2014 of up to 5,300,000 units of the REIT by way of "at-the-market distributions". The timing of any sale of units and the number of units actually sold during such period are at the discretion of the REIT. Sales of units, if any, pursuant to the Equity Distribution Agreement will be made in transactions that are deemed to be "at-the-market distributions", including sales made directly on the Exchange. As at December 31, 2013, no units have been issued pursuant to this arrangement.

(b) Preferred units:

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

(i) Series A:

On August 2, 2012, the REIT issued 3,000,000 Cumulative Rate Reset Preferred Trust Units, Series A (the "Series A Units") for aggregate gross proceeds of $75,000. On August 10, 2012, the underwriting syndicate exercised in full its over-allotment option and a further 450,000 Series A Units were issued for gross proceeds of $11,250. The Series A Units pay a cumulative distribution yield of 5.25% per annum, payable quarterly, as and when declared by the Board of Trustees of the REIT, for the initial five-year period ending September 30, 2017. The distribution rate will be reset on September 30, 2017 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 4.06%.

The REIT may redeem the Series A Units on September 30, 2017 and on September 30 every five years thereafter. The holders of Series A Units have the right to reclassify their Series A Units to Preferred Units, Series B (the "Series B Units"), subject to certain conditions, on September 30, 2017 and on September 30 every five years thereafter. The Series B Units pay floating rate cumulative preferential distributions on a quarterly basis, at the discretion of the Board of Trustees. The holders of Series B Units have the right to reclassify their Series B Units to Series A Units on September 30, 2022 and on September 30 every five years thereafter.

(ii) Series C:

On September 18, 2012, the REIT issued 3,000,000 Cumulative Rate Reset Preferred Trust Units, Series C (the "Series C Units") for aggregate gross proceeds of US$75,000. The Series C Units pay a fixed cumulative distribution yield of 5.25% per annum, payable quarterly, as and when declared by the Board of Trustees of the REIT, for the initial approximately five and a half-year period ending March 31, 2018. The distribution rate will be reset on March 31, 2018 and every five years thereafter at a rate equal to the sum of the then five-year United States Government bond yield and 4.46%.

13. Unitholders' equity (continued):

(b) Preferred units (continued):

(iI) Series C (continued):

The REIT may redeem the Series C Units on March 31, 2018 and on March 31 every five years thereafter. The holders of Series C Units have the right to reclassify their Series C Units to Preferred Units, Series D ("the Series D Units"), subject to certain conditions, on March 31, 2018 and on March 31 every five years thereafter. The Series D Units pay floating rate cumulative preferential distributions on a quarterly basis, at the discretion of the Board of Trustees. The holders of Series D Units have the right to reclassify their Series D Units to Series C Units on March 31, 2023 and on March 31 every five years thereafter.

(iii) Series E:

On March 21, 2013, the REIT issued 4,000,000 Cumulative Rate Reset Preferred Trust Units, Series E (the "Series E Units") for aggregate gross proceeds of $100,000. The Series E Units pay a cumulative distribution yield of 4.75% per annum, payable quarterly, as and when declared by the Board of Trustees of the REIT, for the initial period ending September 30, 2018. The distribution rate will be reset on September 30, 2018 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 3.30%.

The REIT may redeem the Series E Units on September 30, 2018 and on September 30 every five years thereafter. The holders of Series E Units have the right to reclassify their Series E Units to Preferred Units, Series F (the "Series F Units"), subject to certain conditions, on September 30, 2018 and on September 30 every five years thereafter. The Series F Units pay floating rate cumulative preferential distributions on a quarterly basis, at the discretion of the Board of Trustees. The holders of Series F Units have the right to reclassify their Series F Units to Series E Units on September 30, 2023 and on September 30 every five years thereafter.

(iv) Series G:

On July 29, 2013, the REIT issued 3,200,000 Cumulative Rate Reset Preferred Trust Units, Series G (the "Series G Units") for aggregate gross proceeds of $80,000. This included 200,000 Series G Units issued pursuant to the partial exercise of the Underwriters' option. The Series G Units pay a cumulative distribution yield of 5.00% per annum, payable quarterly, as and when declared by the Board of Trustees of the REIT, for the initial period ending July 31, 2019. The distribution rate will be reset on July 31, 2019 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 3.13%.

The REIT may redeem the Series G Units on July 31, 2019 and on July 31 every five years thereafter. The holders of Series G Units have the right to reclassify their Series G Units to Preferred Units, Series H (the "Series H Units"), subject to certain conditions, on July 31, 2019 and on July 31 every five years thereafter. The Series H Units pay floating rate cumulative preferential distributions on a quarterly basis, at the discretion of the Board of Trustees. The holders of Series H Units have the right to reclassify their Series H Units to Series G Units on July 31, 2024 and on July 31 every five years thereafter.

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

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

13. Unitholders' equity (continued):

(c) Short form base shelf prospectus:

On June 15, 2012, the REIT issued a new short form base shelf prospectus. The REIT may from time to time during the 25-month period that this short form base shelf prospectus is valid, offer and issue the following securities up to a maximum of $2,000,000 of initial offering price: (i) trust units of the REIT; (ii) preferred trust units, which may be issuable in series; (iii) debt securities, which may consist of debentures, notes or other types of debt and may be issuable in series; (iv) unit purchase warrants; and (v) subscription receipts to purchase trust securities. As at December 31, 2013, the REIT has issued common units under two offerings in the amount of $241,610 and preferred units under four offerings in the amount of $266,250 and US$75,000 under this short form base shelf prospectus.

(d) Weighted-average common units:

	Year ended December 31, 2013	Year ended December 31, 2012
Income for the year	$ 191,155	$ 340,339
Adjustment for distributions to preferred unitholders	(14,005)	(2,980)
Income for the year attributable to common unitholders	177,150	337,359
Adjustment for convertible debentures	10,231	25,251
Adjustment for restricted units	(11)	-
Diluted income attributable to common unitholders for the year	$ 187,370	$ 362,610
The weighted-average number of common units outstanding was as follows:		
Basic common units	122,405,907	105,046,401
Effect of dilutive securities:		
Unit options	173,083	-
Convertible debentures	10,425,629	10,594,643
Restricted units	65,888	-
Diluted common units	133,070,507	115,641,044
Income per unit attributable to common unitholders:		
Basic	$ 1.45	$ 3.21
Diluted	$ 1.41	$ 3.14

The computation of diluted income per unit attributable to common unitholders only includes unit options when these instruments are dilutive.

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

14. Distributions to unitholders:

Total distributions declared to unitholders are as follows:

	Year ended December 31, 2013		Year ended December 31, 2012	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	$ 132,454	$ 1.08	$ 114,968	$ 1.08
Preferred unitholders - Series A	4,528	1.31	1,864	0.54
Preferred unitholders - Series C	4,094	1.36	1,116	0.37
Preferred unitholders - Series E	3,690	0.92	-	-
Preferred unitholders - Series G	1,693	0.53	-	-

15. Revenue:

The REIT leases industrial, retail and office properties to tenants under operating leases.

Minimum rental commitments on non-cancellable tenant operating leases over their remaining terms are as follows:

	December 31, 2013	December 31, 2012
Not later than one year	$ 301,393	$ 266,310
Later than one year and not later than five years	866,471	786,082
Later than five years	630,048	594,208
	$ 1,797,912	$ 1,646,600

16. Transaction costs:

The REIT incurred transaction costs in relation to the following:

	Year ended December 31, 2013	Year ended December 31, 2012
Acquisitions of investment properties	$ 4,929	$ 8,152
Acquisitions of joint ventures	756	160
Other transaction costs	-	342
	$ 5,685	$ 8,654

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

17. Gain (loss) on financial instruments:

The components of the fair value gain (loss) on financial instruments are as follows:

	Year ended December 31, 2013	Year ended December 31, 2012
Convertible debentures	$ 85	$ (13,915)
Interest rate swaps	5,981	(244)
Forward and swap contracts	(78)	78
	$ 5,988	$ (14,081)

18. Changes in non-cash operating items:

	Year ended December 31, 2013	Year ended December 31, 2012 (1)
Prepaid expenses	$ (1,079)	$ (540)
Accounts receivable and other receivables	(921)	532
Cash held in trust	(2,734)	(1,780)
Security deposits and prepaid rent	1,896	9,377
Accounts payable and other liabilities	6,967	6,643
	$ 4,129	$ 14,232

(1) Comparative amounts have been restated pursuant to the adoption of IFRS 11. Refer to note 2 (t) and note 22.

19. Employee benefits:

(a) Defined benefit pension plans:

The REIT has defined benefit plans providing pension benefits to certain employees. The ultimate retirement benefit is defined by a formula that provides a unit of benefit for each year of service. Employer contributions are not specified or defined within the plan text; they are based on the result of actuarial valuations which determine the level of funding required to meet the total obligation as estimated at the time of valuation. The REIT uses December 31 as a measurement date for accounting purposes for its defined benefit pension plans.

The fair value of the plan assets at December 31, 2013 is $2,937 (2012, $1,696). The recognized pension obligation, net of plan assets at December 31, 2013 is $nil (2012, $nil). The net expense for the defined benefit plans for the year ended December 31, 2013 is $1,081, (2012, $1,042) and is included in corporate expenses.

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

19. Employee benefits (continued):

(b) Short-term employee benefits:

	Year ended December 31, 2013	Year ended December 31, 2012
Trustees	$ 666	$ 689
Key management personnel	4,209	3,837
Other employees	10,415	9,188
	$ 15,290	$ 13,714

Short-term employee benefits include salaries, bonuses and other short-term benefits. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the REIT, directly or indirectly.

(c) Unit-based compensation:

	Year ended December 31, 2013	Year ended December 31, 2012
Trustees	$ 292	$ 1,040
Key management personnel	1,135	2,033
Other employees	400	898
	$ 1,827	$ 3,971

Under the REIT's equity incentive plan, there may be grants of unit options, restricted units, deferred units or installment units, which are subject to certain restrictions. Under this incentive plan, the total number of units reserved for issuance may not exceed 7.0% of the units outstanding.

(i) Unit options:

Unit-based compensation expense related to unit options outstanding under the equity incentive plan for the year ended December 31, 2013 amounted to $1,481 (2012, $3,941). These unit options vest equally over a four-year period from the grant date.

On August 2, 2012, the REIT amended its Declaration of Trust to become a closed-end trust thereby removing the redemption right attached to its common units. As a result of this amendment, the REIT's cash-settled unit-based payments related to its unit options became equity-settled and the liability of $3,530 was reclassified to equity at August 2, 2012.

The following weighted-average assumptions were used with the Black-Scholes option pricing model to calculate the cash-settled unit-based payments liability at August 2, 2012: expected option life of 3.6 years, risk-free interest rate of 1.20%, distribution yield of 6.46%, and expected volatility of 22.96%. Expected volatility is estimated by considering the REIT's historic average unit price volatility.

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

19. Employee benefits (continued):

(c) Unit-based compensation (continued):

(i) Unit options (continued):

A summary of the REIT's unit options outstanding are as follows:

	Year ended December 31, 2013		Year ended December 31, 2012	
	Units	Weighted-average exercise price	Units	Weighted-average exercise price
Balance, beginning of year	3,689,875	$ 14.92	2,164,250	$ 13.52
Granted	-	-	1,849,500	16.36
Exercised	(220,912)	12.95	(248,625)	13.49
Expired	(103,750)	15.42	(75,250)	14.90
Balance, end of year	3,365,213	$ 15.03	3,689,875	$ 14.92
Options exercisable at end of year	1,329,151		604,750	

The weighted-average unit price at the date of exercise for unit options exercised during the year ended December 31, 2013 was $15.05 (2012, $16.54).

Options outstanding at December 31, 2013 consist of the following:

Exercise price	Number outstanding	Weighted-average remaining contractual life	Options outstanding weighted-average exercise price	Number exercisable
$ 11.28	115,438	1.25 years	$ 11.28	53,626
$ 13.30	248,275	1.75 years	$ 13.30	158,525
$ 13.44	288,000	2.00 years	$ 13.44	198,000
$ 14.10	1,009,500	2.50 years	$ 14.10	493,000
$ 16.36	1,704,000	3.25 years	$ 16.36	426,000
	3,365,213		$ 15.03	1,329,151

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

19. Employee benefits (continued):

(c) Unit-based compensation (continued):

(ii) Restricted units:

Unit-based compensation expense related to restricted units granted under the equity incentive plan for the year ended December 31, 2013 amounted to $346 (2012, $30). Restricted units vest on and after the third anniversary of the date of grant. The restricted units accrue additional restricted units during the vesting period, and are credited when the restricted units vest. Each restricted unit is valued at the closing price of the REIT's common units on the balance sheet date.

A summary of the REIT's restricted units outstanding are as follows:

	Year ended December 31, 2013	Year ended December 31, 2012
	Units	Units
Balance, beginning of year	45,060	-
Granted	155,741	44,735
Accrued	4,322	325
Exercised	(457)	-
Expired	(709)	-
Balance, end of year	203,957	45,060
Restricted units vested at end of year	-	-

At December 31, 2013, no deferred units or installment units have been granted under the REIT's equity incentive plan.

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

20. Related party transactions:

The REIT may issue unit-based awards to trustees, officers, employees and consultants (note 19).

Other related party transactions are outlined as follows:

	Year ended December 31, 2013	Year ended December 31, 2012
Acquisition fees	$ -	$ 552
Property management fees	323	317
Capitalized office furniture and fixtures	513	1,554
Capitalized office equipment	-	343
Capitalized leasing commissions	49	1,351
Capitalized building improvements	29,492	11,059
Capitalized tenant inducements	1,109	1,451
Disposition of surplus land	-	(750)
Property tax assessment consulting fees	274	191
Rental revenues	(168)	(163)

The REIT incurred property management fees, leasing commission fees and tenant improvement fees under property management agreements with Marwest Management Canada Ltd. ("Marwest Management"), a company related to certain trustees and officers of the REIT, for three properties owned by the REIT. The amount payable at December 31, 2013 is $27 (December 31, 2012, $26).

On January 1, 2012, the REIT entered into a one-year leasing services agreement with Marwest Management, which expired on December 31, 2012. The amount payable at December 31, 2013 is $nil (December 31, 2012, $756).

The REIT incurred costs of $20 (2012, $54) for building improvements and tenant inducements paid to Nova 3 Engineering, a company related to a trustee of the REIT. The amount payable at December 31, 2013 is $nil (December 31, 2012, $nil).

The REIT incurred costs of $30,581 (2012, $12,456) for building improvements and tenant inducements paid to Marwest Construction Ltd. and Marwest Development Corporation, companies related to certain trustees and officers of the REIT. The amount payable at December 31, 2013 is $1,161 (December 31, 2012, $1,137).

The REIT incurred costs for office furniture and fixtures paid to Marwest Construction Ltd. The amount payable at December 31, 2013 is $nil (December 31, 2012, $42). During 2012, the REIT purchased $1,297 of office furniture and fixtures and $343 of office equipment from Marwest Management as a result of the internalization of the asset and property management functions.

The REIT sold surplus land at an investment property to a company controlled by a trustee of the REIT in 2012.

The REIT incurred costs for property tax assessment consulting paid to Fairtax Realty Advocates, a company under control of close family members of key management personnel. The amount payable at December 31, 2013 is $7 (December 31, 2012, $nil).

The REIT collects office rents from Marwest Management.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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

20. Related party transactions (continued):

Subsidiaries and joint arrangements of the REIT, excluding bare trustees, are outlined as follows:

		Ownership interest	
Name of entity	Country	December 31, 2013	December 31, 2012
Artis General Partner Ltd.	Canada	100%	100%
AX L.P.	Canada	100%	100%
Artis US Holdings, Inc.	U.S.	100%	100%
Winnipeg Square Leaseco, Inc.	Canada	100%	100%
AX Property Management L.P.	Canada	100%	100%
Artis Property Management General Partner Ltd.	Canada	100%	100%
AX Longboat G.P. Inc.	Canada	50%	50%
AX Longboat L.P.	Canada	50%	50%
Artis HRA 1700 Broadway, L.P.	U.S.	50%	-
Artis HRA 1700 Broadway GP, LLC	U.S.	50%	-

21. Income taxes:

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

The REIT's U.S. subsidiary is a REIT for U.S. income tax purposes. The subsidiary intends to distribute all of its U.S. taxable income to Canada and is entitled to deduct such distributions for U.S. income tax purposes. As a result, the REIT does not record a provision for current U.S. income taxes. The U.S. subsidiary is subject to a 30% to 35% withholding tax on distributions to Canada. Any withholding taxes paid are recorded with the related distributions.

The Income Tax Act (Canada) contains legislations affecting the tax treatment of a specified investment flow-through (“SIFT”) trust or partnership (the “SIFT Rules”). A SIFT includes a publicly-listed or traded partnership or trust, such as an income trust.

Under the SIFT Rules, certain distributions from a SIFT are not deductible in computing a SIFT’s taxable income, and a SIFT is subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as returns of capital should generally not be subject to tax.

The SIFT Rules do not apply to a REIT that meets prescribed conditions relating to the nature of its assets and revenue (the “REIT Conditions”). The REIT has reviewed the SIFT Rules and has assessed their interpretation and application to the REIT’s assets and revenues. While there are uncertainties in the interpretation and application of the SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the years ended December 31, 2013 and December 31, 2012. As a result, the REIT does not recognize any deferred income tax assets or liabilities for income tax purposes.

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

22. Joint arrangements:

The REIT had interests in the following joint arrangements at December 31, 2013:

Name of entity	Principal purpose	Type of arrangement	Ownership interest	Voting rights held
Centre 70 Building	Investment property	Joint operation	85%	50%
Kincaid Building	Investment property	Joint operation	50%	50%
Cliveden Building	Investment property	Joint operation	50%	50%
Westbank Hub Centre North	Investment property	Joint operation	75%	50%
Centrepoint	Investment property	Joint venture	50%	50%
Whistler Hilton Retail Plaza	Investment property	Joint operation	85%	50%
Westbank Hub Shopping Centre	Investment property	Joint operation	75%	50%
1700 Broadway	Investment property	Joint venture	50%	50%

During the year ended December 31, 2013, the REIT acquired a net interest in 1700 Broadway for $26,405, inclusive of transaction costs of $756.

The REIT had interests in the following joint arrangements at December 31, 2012:

Name of entity	Principal purpose	Type of arrangement	Ownership interest	Voting rights held
Centre 70 Building	Investment property	Joint operation	85%	50%
Kincaid Building	Investment property	Joint operation	50%	50%
Cliveden Building	Investment property	Joint operation	50%	50%
Westbank Hub Centre North	Investment property	Joint operation	75%	50%
Cara Foods Building	Investment property	Joint operation	50%	50%
Centrepoint	Investment property	Joint venture	50%	50%
Whistler Hilton Retail Plaza	Investment property	Joint operation	85%	50%
Westbank Hub Shopping Centre	Investment property	Joint operation	75%	50%

During the year ended December 31, 2012, the REIT acquired a net interest in Centrepoint for $5,910, inclusive of transaction costs of $160.

The REIT is contingently liable for the obligations of certain joint arrangements. As at December 31, 2013, the co-owners' share of mortgage liabilities is $57,485 (December 31, 2012 - $38,585). Management believes that the assets available from its joint arrangements are sufficient for the purpose of satisfying such obligations.

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

22. Joint arrangements (continued):

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

	December 31, 2013	December 31, 2012
Non-current assets:		
Investment property	$ 56,913	$ 3,012
Investment property under development	17,690	4,375
Current assets:		
Prepaid expenses	26	155
Accounts receivable and other receivables	305	1,951
Cash held in trust	736	-
Cash and cash equivalents	1,201	211
	76,871	9,704
Non-current liabilities:		
Mortgages and loans payable	30,706	-
Current liabilities:		
Mortgages and loans payable	520	-
Security deposits and prepaid rent	158	-
Accounts payable and other liabilities	3,053	1,854
	34,437	1,854
Investments in joint ventures	$ 42,434	$ 7,850

	Year ended December 31, 2013	Year ended December 31, 2012
Revenue	$ 3,617	$ -
Property operating expenses	1,560	-
	2,057	-
Other income (expenses):		
Interest expense	(494)	-
Fair value gain on investment properties	5,893	-
Income for the year from investments in joint ventures	$ 7,456	$ -

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

23. Segmented information:

The REIT owns and operates various properties located in Canada and the U.S. Information related to these geographical locations is presented below. Western Canada includes British Columbia, Alberta and Saskatchewan; Central Canada includes Manitoba; and Eastern Canada includes Ontario. REIT expenses, as well as interest relating to the convertible debentures, have not been allocated to the segments.

	Year ended December 31, 2013					
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Revenue	$ 238,417	$ 66,899	$ 62,945	$ 95,058	$ 99	$ 463,418
Property operating expenses	76,407	30,318	23,765	36,046	-	166,536
	162,010	36,581	39,180	59,012	99	296,882
Other income (expenses):						
Corporate expenses	-	-	-	-	(9,713)	(9,713)
Interest expense	(48,069)	(13,729)	(12,260)	(17,242)	(11,315)	(102,615)
Interest income	1,323	67	73	46	517	2,026
Income from investments in joint ventures	-	1,741	-	5,715	-	7,456
Fair value (loss) gain on investment properties	(5,380)	21,892	(14,601)	2,474	-	4,385
Foreign currency translation loss	-	-	-	-	(7,569)	(7,569)
Transaction costs	(1,126)	(1,445)	(1,524)	(1,590)	-	(5,685)
Gain on financial instruments	-	-	-	-	5,988	5,988
Income (loss) for the year	$ 108,758	$ 45,107	$ 10,868	$ 48,415	$ (21,993)	$ 191,155
Acquisitions of investment properties	$ 221,012	$ 48,158	$ 59,080	$ 169,714	$ -	$ 497,964
Additions to investment properties and investment properties under development	19,961	28,736	2,017	8,915	-	59,629
Additions to leasing costs	3,765	1,365	830	2,512	-	8,472
Additions to tenant inducements	5,875	4,321	2,916	5,319	-	18,431

	December 31, 2013					
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Total assets	$ 2,705,378	$ 672,699	$ 602,903	$ 1,035,970	$ 25,087	$ 5,042,037
Total liabilities	1,168,121	296,084	311,168	581,004	201,413	2,557,790

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

23. Segmented information (continued):

	Year ended December 31, 2012					
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Revenue	$ 195,932	$ 61,813	$ 47,715	$ 66,782	$ 227	$ 372,469
Property operating expenses	63,865	26,834	18,161	23,200	-	132,060
	132,067	34,979	29,554	43,582	227	240,409
Other income (expenses):						
Corporate expenses	-	-	-	-	(11,993)	(11,993)
Interest expense	(46,113)	(13,333)	(9,848)	(12,459)	(12,531)	(94,284)
Interest income	1,443	39	45	303	815	2,645
Fair value gain on investment properties	157,042	21,578	27,928	17,353	-	223,901
Foreign currency translation gain	-	-	-	-	2,396	2,396
Transaction costs	(2,331)	(336)	(4,463)	(1,182)	(342)	(8,654)
Loss on financial instruments	-	-	-	-	(14,081)	(14,081)
Income (loss) for the year	$ 242,108	$ 42,927	$ 43,216	$ 47,597	$ (35,509)	$ 340,339
Acquisitions of investment properties	$ 511,416	$ 32,200	$ 155,483	$ 288,880	$ -	$ 987,979
Additions to investment properties and investment properties under development	14,315	7,917	1,365	3,803	-	27,400
Additions to leasing costs	3,458	1,476	687	826	-	6,447
Additions to tenant inducements	8,180	3,905	800	2,681	-	15,566

	December 31, 2012					
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Total assets	$ 2,480,380	$ 566,339	$ 554,603	$ 756,065	$ 22,673	$ 4,380,060
Total liabilities	1,117,782	278,708	280,716	454,720	198,278	2,330,204

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

24. Commitments and guarantees:

(a) Letters of credit:

As of December 31, 2013, the REIT had issued letters of credit in the amount of $851 (December 31, 2012, $225).

(b) Guarantees:

AX L.P. has guaranteed certain debt assumed by a purchaser in connection with the disposition of a property. This guarantee will remain until the debt is modified, refinanced or extinguished. Credit risk arises in the event that the purchaser defaults on repayment of their debt since it is guaranteed by the REIT. This credit risk is mitigated as the REIT has recourse under this guarantee in the event of default by the purchaser, in which case the REIT would have a claim against the underlying property. The estimated amount of debt subject to the guarantee at December 31, 2013 is $5,427 (December 31, 2012, $5,584), with an estimated weighted-average remaining term of 3.9 years (December 31, 2012, 4.9 years). No liability in excess of the fair value of the guarantee has been recognized in these consolidated financial statements as the estimated fair value of the borrower's interests in the underlying property is greater than the mortgage payable for which the REIT provided the guarantee.

25. Capital management:

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

The REIT's Declaration of Trust permits the REIT to incur indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of such indebtedness of the REIT is not more than 70% of the gross book value of the REIT's total assets. Gross book value is defined in the Declaration of Trust as "the consolidated book value of the assets of the REIT, plus the amount of accumulated depreciation and amortization recorded in the books and records of the REIT, plus the amount of any deferred tax liability arising out of any indirect acquisitions, calculated in accordance with generally accepted accounting principles". As at December 31, 2013, the ratio of such indebtedness to gross book value was 45.4% (December 31, 2012, 47.3%), which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

In addition to the covenant outlined in the Declaration of Trust, the REIT must maintain a debt to gross book value ratio of less than 70%, a minimum debt service coverage ratio of 1.4, and a minimum adjusted unitholders' equity of $750,000 for the purposes of the credit facility (note 12). As at December 31, 2013, the REIT was in compliance with these requirements.

The REIT's mortgage providers also have various financial covenants. The REIT monitors these covenants, which are primarily debt service coverage ratios, and is in compliance with these requirements.

The total managed capital for the REIT is summarized below:

		December 31, 2013		December 31, 2012
Mortgages and loans payable	$	2,287,597	$	2,073,607
Convertible debentures		185,264		182,344
Bank indebtedness		-		-
Total debt		2,472,861		2,255,951
Unitholders' equity		2,484,247		2,049,856
	$	4,957,108	$	4,305,807

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

26. Risk management and fair values:

(a) Risk management:

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

(i) Market risk:

(a) Interest rate risk:

The REIT is exposed to interest rate risk on its borrowings. It minimizes the risk by restricting debt to 70% of the gross book value of the REIT's total assets and by monitoring the amount of variable rate debt. The REIT has the majority of its mortgage payable and debentures in fixed rate terms. In addition, management considers the weighted-average term to maturity of long-term debt relative to the remaining average lease terms. At December 31, 2013, the REIT is a party to $575,463 of variable rate debt (December 31, 2012, $529,660). At December 31, 2013, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with $323,489 of variable rate debt (December 31, 2012, $173,472).

The following table outlines the impact on interest expense of a 100 basis point increase or decrease in interest rates on the REIT's variable rate debt and fixed rate debt maturing within one year:

	Impact on interest expense
Variable rate debt	$ 2,618
Fixed rate debt due within one year	1,129
	$ 3,747

(b) Foreign currency risk:

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

A $0.10 weakening in the US dollar against the average Canadian dollar exchange rate of 1.0350 for the year ended December 31, 2013 and the year end exchange rate of 1.0636 at December 31, 2013 would have increased net income by approximately $3,738 for the year ended December 31, 2013. A $0.10 weakening in the US dollar against the Canadian dollar would also have decreased other comprehensive income by approximately $38,041 for the year ended December 31, 2013. Conversely, a $0.10 strengthening in the US dollar against the Canadian dollar would have had an equal but opposite effect. This analysis assumes that all variables, in particular interest rates, remain constant.

(c) Other price risk:

The REIT periodically enters into derivative transactions in regards to non-financial items, primarily natural gas and electrical contracts, to manage the price risk arising from fluctuations in these commodities.

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

26. Risk management and fair values (continued):

(a) Risk management (continued):

(ii) Credit risk:

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

The REIT is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. The REIT's properties are diversified across the industrial, retail and office asset classes, and geographically diversified with properties owned across five Canadian provinces and five U.S. states. Included in property operating expenses is an impairment loss on accounts receivable and other receivables of $213 during the year ended December 31, 2013 (2012, $249). The credit quality of the accounts receivable and other receivables amount is considered adequate.

	December 31, 2013	December 31, 2012
Past due 0 - 30 days	$ 2,315	$ 2,767
Past due 31 - 90 days	456	342
Past due more than 91 days	564	728
	3,335	3,837
Allowance for doubtful accounts	(139)	(162)
	$ 3,196	$ 3,675

The REIT is also exposed to credit risk as a holder of notes receivable. Management mitigates this risk by carrying out credit checks and related due diligence on the borrowers.

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

26. Risk management and fair values (continued):

(a) Risk management (continued):

(iii) Liquidity risk:

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

The following are the estimated maturities of the REIT's non-derivative financial liabilities at December 31, 2013 including bank indebtedness, accounts payable and other liabilities, convertible debentures, and mortgages and loans payable. Convertible debentures are disclosed at their face value.

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Bank indebtedness	$ -	$ -	$ -	$ -	$ -
Accounts payable and other liabilities	59,061	59,061	-	-	-
Convertible debentures	183,767	4,000	-	93,597	86,170
Mortgages and loans payable (1)	2,323,072	282,284	768,691	713,176	558,921
	$ 2,565,900	$ 345,345	$ 768,691	$ 806,773	$ 645,091

(1) This includes mortgage and loans payable included in the REIT's investments in joint ventures.

(b) Fair values:

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

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

26. Risk management and fair values (continued):

(b) Fair values (continued):

		December 31, 2013		December 31, 2012	
	Fair value hierarchy	Carrying value	Fair value	Carrying value	Fair value
Assets:					
Investment properties	Level 3	$ 4,851,877	$ 4,851,877	$ 4,206,126	$ 4,206,126
Investment properties under development	Level 3	47,281	47,281	4,234	4,234
Notes receivable	Level 2	20,464	21,181	23,875	25,506
Investment properties held for sale	Level 3	-	-	58,963	58,963
Mortgage interest rate swaps	Level 2	4,279	4,279	-	-
Foreign exchange swap contracts	Level 2	-	-	78	78
		4,923,901	4,924,618	4,293,276	4,294,907
Liabilities:					
Mortgages and loans payable	Level 2	2,287,597	2,307,518	2,073,607	2,137,855
Convertible debentures	Level 1, 2 (1)	185,264	190,206	182,344	187,055
Mortgage interest rate swaps	Level 2	2,395	2,395	4,099	4,099
		2,475,256	2,500,119	2,260,050	2,329,009
		$ 2,448,645	$ 2,424,499	$ 2,033,226	$ 1,965,898

(1) Convertible debentures excluding Series D are measured using a Level 1 methodology and Series D convertible debentures are valued using a Level 2 methodology.

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

The fair value of notes receivable has been determined by discounting the cash flows of these financial assets using year end market rates for assets of similar terms and credit risks.

The fair value of mortgages and loans payable has been determined by discounting the cash flows of these financial obligations using year end market rates for debt of similar terms and credit risks.

The fair value of the convertible debentures is based on the market price of the debentures, or if no market price exists, fair value is determined by discounting the cash flows of these financial obligations using year end market rates for debt of similar terms and credit risks.

The REIT entered into interest rate swaps on seventeen mortgages. The swaps are not designated in a hedge relationship. An unrealized gain of $5,981 was recorded for the year ended December 31, 2013 (2012, loss of $244), in relation to the fair value of these interest rate swaps.

27. Subsequent events:

On January 3, 2014, the REIT repaid a maturing mortgage on a retail property in the amount of $1,634.

On January 15, 2014, the REIT redeemed $2,500 of the Series D convertible debentures for cash.

On January 16, 2014, the REIT entered into two interest rate swaps in the total amount of US$37,228, effectively locking the interest rate at a weighted-average rate of 3.91%, for a weighted-average term of 6.3 years.

On January 16, 2014, the REIT declared a monthly distribution of $0.09 per unit for January 2014.

On January 16, 2014, the REIT declared a quarterly cash distribution of $0.3125 per Series G Unit for the quarter ending January 31, 2014.

On January 23, 2014, the REIT entered into a forward contract to sell $10,000 for US$8,959 on March 4, 2014.

On January 31, 2014, the REIT issued 320,000 units under its Equity Distribution Agreement for gross proceeds of $4,830.

On February 13, 2014, the REIT entered into a forward contract to sell $10,999 for US$10,000 on April 1, 2014.

On February 14, 2014, the REIT declared a monthly distribution of $0.09 per unit for February 2014.

28. Approval of financial statements:

The consolidated financial statements were approved by the Board of Trustees and authorized for issue on February 27, 2014.