PROPERTIES OF SUCCESS

ANNUAL REPORT 2013

ARTIS REAL ESTATE INVESTMENT TRUST

ARTIS REIT

MANAGEMENT’S DISCUSSON & ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Artis Real Estate Investment Trust ("Artis" or the "REIT") should be read in conjunction with the REIT's audited annual consolidated financial statements for the years ended December 31, 2013 and 2012, and the notes thereto. This MD&A has been prepared taking into account material transactions and events up to and including February 27, 2014. Additional information about Artis, including the REIT's most recent Annual Information Form, has been filed with applicable Canadian securities regulatory authorities and is available at www.sedar.com or on our web site at www.artisreit.com.

FORWARD-LOOKING DISCLAIMER

This MD&A contains forward-looking statements. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Particularly, statements regarding the REIT's future operating results, performance and achievements are forward-looking statements. Without limiting the foregoing, the words "expects", "anticipates", "intends", "estimates", "projects", and similar expressions are intended to identify forward-looking statements.

Artis is subject to significant risks and uncertainties which may cause the actual results, performance or achievements of the REIT to be materially different from any future results, performance or achievements expressed or implied in these forward-looking statements. Such risk factors include, but are not limited to, risks associated with real property ownership, availability of cash flow, general uninsured losses, future property acquisitions and dispositions, environmental matters, tax related matters, debt financing, unitholder liability, potential conflicts of interest, potential dilution, reliance on key personnel, changes in legislation and changes in the tax treatment of trusts. Artis cannot assure investors that actual results will be consistent with any forward-looking statements and Artis assumes no obligation to update or revise such forward-looking statements to reflect actual events or new circumstances. All forward-looking statements contained in this MD&A are qualified by this cautionary statement.

NOTICE RESPECTING NON-GAAP MEASURES

Property Net Operating Income ("Property NOI"), Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO") are non-GAAP measures commonly used by Canadian real estate investment trusts as an indicator of financial performance. "GAAP" means the generally accepted accounting principles described by the Canadian Institute of Chartered Accountants ("CICA") Handbook - Accounting, which are applicable as at the date on which any calculation using GAAP is to be made. As a publicly accountable enterprise, Artis applies the International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

Artis calculates Property NOI as revenues, measured in accordance with IFRS, less property operating expenses such as taxes, utilities, repairs and maintenance. Property NOI does not include charges for interest and amortization. Management considers Property NOI to be a valuable measure for evaluating the operating performance of the REIT's properties.

Artis calculates FFO substantially in accordance with the guidelines set out by the Real Property Association of Canada ("REALpac"), as issued in November 2012. Management considers FFO to be a valuable measure for evaluating the REIT's operating performance in achieving its objectives.

Artis calculates AFFO based on FFO for the period, net of allowances for normalized capital expenditures and leasing costs and excluding straight-line rent adjustments and unit-based compensation expense.

Property NOI, FFO and AFFO are not measures defined under IFRS. Property NOI, FFO and AFFO are not intended to represent operating profits for the period, or from a property, nor should any of these measures be viewed as an alternative to net income, cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. Readers should be further cautioned that Property NOI, FFO and AFFO as calculated by Artis may not be comparable to similar measures presented by other issuers.

OVERVIEW

Artis 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").

Certain of the REIT's securities are listed on the Toronto Stock Exchange (the "TSX"). The REIT's trust units ("units") trade under the symbol AX.UN, the REIT's preferred units trade under the symbols AX.PR.A, AX.PR.U, AX.PR.E, AX.PR.G and the REIT's Series F and Series G convertible debentures trade under the symbols AX.DB.F and AX.DB.U, respectively. As at February 27, 2014, there were 127,534,107 units, 3,345,875 options, 13,650,000 preferred units and 204,929 restricted units of Artis outstanding (refer to the *Outstanding Unit Data* section for further details).

PRIMARY OBJECTIVES

Artis' primary objective is to maximize total returns to our unitholders. Returns include a stable, reliable and tax efficient monthly cash distribution as well as long-term appreciation in the value of Artis' units.

Artis' management employs several key strategies to meet our primary objective:

- **Portfolio Diversification.** We build stability into our cash flows through a strategy of diversification. Our commercial properties are well diversified across the industrial, retail and office asset classes. We are also geographically diversified with properties owned across western Canada, as well as Ontario and in select markets in the United States ("U.S.").

- **Portfolio Expansion.** We build growth into our cash flows through the efficient sourcing and deployment of capital into high-quality and accretive acquisition opportunities in our target markets, or into high-yield intensification or (re)development opportunities that exist within our property portfolio.

- **Managing for Value Creation.** We build value through the active management of our portfolio, leveraging off the experience and expertise of our management team. We focus on maximizing property value and cash flows over the long-term, creating additional value through the selective disposition of assets at premium prices, and reinvesting and repositioning the portfolio on an on-going basis in higher growth markets.

The Declaration of Trust provides that Artis may make monthly cash distributions to its unitholders. The amount distributed annually (currently $1.08 per unit on an annualized basis) will be set by the Trustees.

U.S. INVESTMENT STRATEGY

The U.S. is the largest economy and real estate market in the world, and Canada's primary trading partner. The U.S. economy is projected to lead the G7 group of country economies in GDP growth over the years ahead, which in turn, will have a positive impact on real estate fundamentals.

At December 31, 2013, approximately 22.5% of Artis' portfolio weighting by pro-forma Property NOI is in the United States. Historically, commercial real estate in the U.S. has been more expensive and offered lower unlevered yields than similar property in Canada. This has now changed, and Canadian investors are able to acquire quality U.S. properties at relatively higher yields than in Canada.

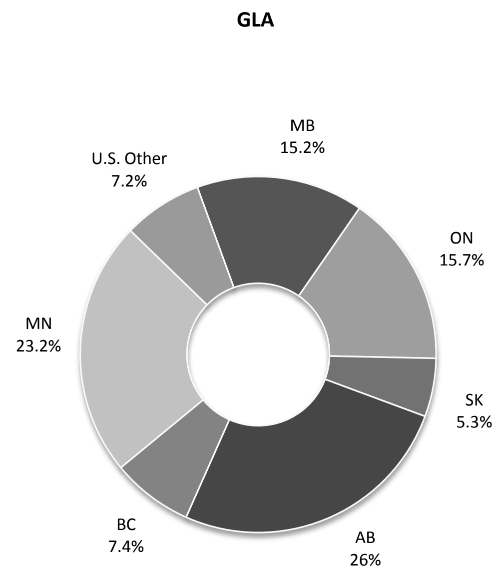
Artis' management believes that this window of opportunity will not be open for long and has adopted a disciplined approach in pursuing U.S. acquisitions while the opportunity exists, as follows:

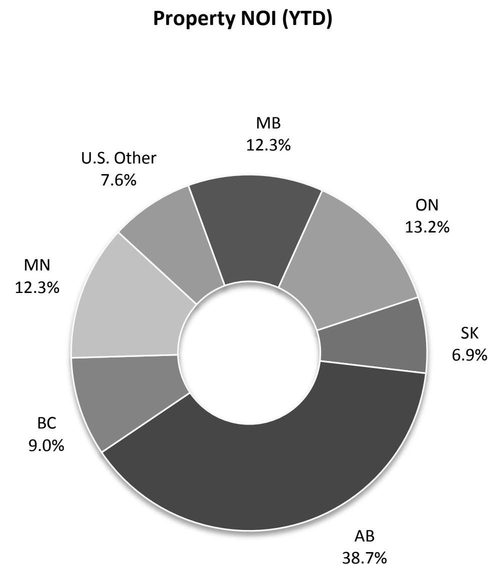
- total weighting of U.S. properties in Artis' portfolio will not exceed 30% by pro-forma Property NOI.
- unlevered yield will be accretive, and higher than that available for a comparable property in Canada.
- low interest, conventional mortgage financing will be available.
- quality local third party property management will be available.
- property will be "new generation", thus reducing the average age of Artis' overall portfolio.
- the tenant credit and lease expiry profile for the property will be more conservative than that of a comparable property in Canada, thus improving the credit profile of Artis' overall portfolio.

PORTFOLIO SUMMARY

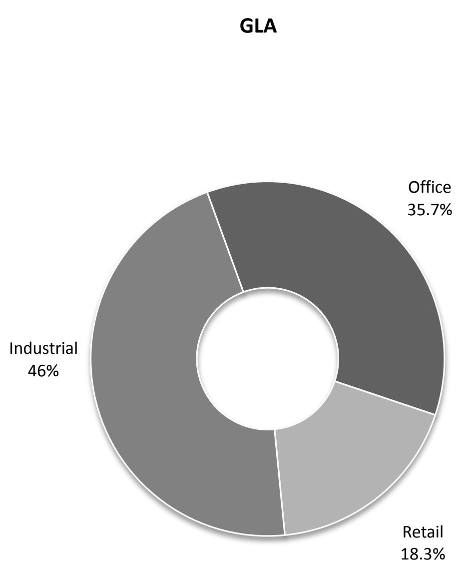
At December 31, 2013, the REIT's portfolio was comprised of 232 commercial properties totaling approximately 24.8 million square feet (S.F.) of gross leasable area ("GLA").

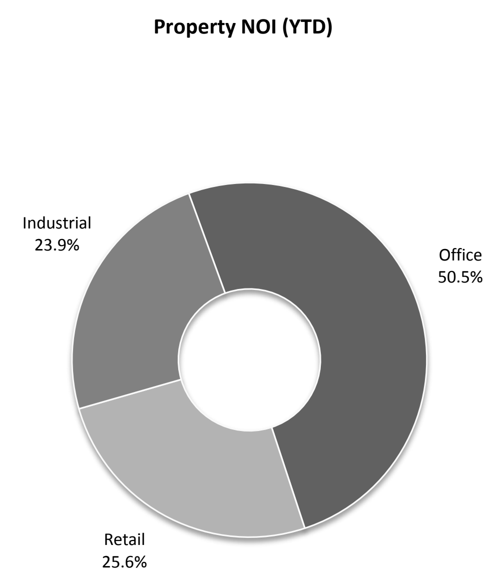
Diversification by Geographical Region





Diversification by Asset Class





(In thousands of Canadian dollars, unless otherwise noted)

Portfolio by Asset Class as at December 31, 2013 (in 000's of S.F.) (1)

Asset Class	City	Province / State	Number of Properties	Owned Share of Leasable Area	% of Portfolio GLA	Occupancy %	Committed % (2)
Industrial	Airdrie	AB	1	27	0.1%	100.0%	100.0%
	Calgary	AB	7	597	2.4%	100.0%	100.0%
	Edmonton Capital Region	AB	10	1,185	4.8%	95.4%	95.4%
	Greater Toronto Area	ON	29	2,531	10.2%	98.4%	98.5%
	Red Deer	AB	1	126	0.5%	100.0%	100.0%
	Regina	SK	1	119	0.5%	100.0%	100.0%
	Saskatoon	SK	2	269	1.1%	100.0%	100.0%
	Winnipeg	MB	26	1,454	5.9%	96.2%	96.5%
Industrial total			77	6,308	25.5%	97.6%	97.7%
Office	Calgary	AB	20	2,528	10.1%	92.2%	94.4%
	Edmonton Capital Region	AB	1	48	0.2%	86.8%	88.9%
	Greater Toronto Area	ON	5	1,081	4.4%	92.3%	93.3%
	Greater Vancouver Regional District	BC	5	611	2.5%	96.8%	96.8%
	Nanaimo	BC	2	68	0.3%	100.0%	100.0%
	Ottawa	ON	2	287	1.2%	100.0%	100.0%
	Red Deer	AB	1	148	0.6%	96.8%	96.8%
	Saskatoon	SK	1	64	0.3%	100.0%	100.0%
	Winnipeg	MB	8	1,469	5.9%	94.5%	95.5%
Office total			45	6,304	25.5%	93.8%	95.1%
Retail	Calgary	AB	6	467	1.9%	97.7%	98.3%
	Cranbrook	BC	1	288	1.2%	95.3%	97.8%
	Edmonton Capital Region	AB	6	504	2.0%	98.3%	98.9%
	Edson	AB	1	20	0.1%	100.0%	100.0%
	Estevan	SK	1	38	0.2%	100.0%	100.0%
	Fort McMurray	AB	8	194	0.8%	98.2%	100.0%
	Grande Prairie	AB	4	378	1.5%	93.2%	93.2%
	Greater Vancouver Regional District	BC	2	247	1.0%	94.1%	96.9%
	Lethbridge	AB	1	53	0.2%	95.2%	95.2%
	Medicine Hat	AB	1	162	0.7%	97.2%	100.0%
	Moose Jaw	SK	1	38	0.2%	100.0%	100.0%
	Nanaimo	BC	3	93	0.4%	65.7%	65.7%
	Regina	SK	7	257	1.0%	96.0%	97.4%
	Saskatoon	SK	3	218	0.9%	100.0%	100.0%
	Westbank / West Kelowna	BC	3	433	1.7%	99.8%	99.8%
	Whistler	BC	1	32	0.1%	94.5%	94.5%
	Winnipeg	MB	5	534	2.1%	96.6%	96.8%
Retail total			54	3,956	16.0%	96.3%	97.1%
Total Canadian portfolio			176	16,568	67.0%	95.8%	96.6%
Industrial	Phoenix Metropolitan Area	AZ	1	99	0.4%	100.0%	100.0%
	Twin Cities Area	MN	30	4,617	18.6%	95.4%	96.2%
Industrial total			31	4,716	19.0%	95.5%	96.3%
Office	Greater Denver Area	CO	2	454	1.8%	96.8%	96.8%
	New Hartford	NY	1	123	0.5%	100.0%	100.0%
	Phoenix Metropolitan Area	AZ	6	1,001	4.0%	94.9%	94.9%
	Tampa	FL	1	107	0.4%	100.0%	100.0%
	Twin Cities Area	MN	4	863	3.5%	87.4%	88.4%
Office total			14	2,548	10.2%	93.2%	93.5%
Retail	Twin Cities Area	MN	6	275	1.1%	97.1%	97.1%
Total U.S. portfolio			51	7,539	30.3%	94.8%	95.4%
Total Canadian and U.S.			227	24,107	97.3%	95.5%	96.2%

(1) Excluding properties held for re-development.
(2) Percentage committed is based on occupancy plus commitments on vacant space as at December 31, 2013.

Properties Held for Re-development (in 000's of S.F.)

Asset Class	City	Province / State	Number of Properties	Owned Share of Leasable Area	% of Portfolio GLA	Property	Committed % (1)
Industrial	Greater Vancouver Regional District	BC	1	70	0.3%	Cliveden Building	0.0%
Industrial	Winnipeg	MB	1	73	0.3%	1595 Buffalo Place	42.8%
Industrial	Winnipeg	MB	1	37	0.1%	8-30 Plymouth Street	43.8%
Industrial	Winnipeg	MB	1	197	0.8%	1750 Inkster Boulevard	31.1%
Retail	Regina	SK	1	297	1.2%	Victoria Square Shopping Centre	71.0%
Total properties held for re-development			5	674	2.7%		47.5%

(1) Percentage committed is based on occupancy plus commitments on vacant space as at December 31, 2013.

Artis has completed demolition of approximately 38,000 square feet of leasable area at 1595 Buffalo Place, and has commenced construction of new generation warehouse space with higher ceilings, new front office space and improved loading in its place. Completion of this project is anticipated for Q3-14. The remainder of the building, which is newer generation construction, remains leased to a national tenant.

(In thousands of Canadian dollars, unless otherwise noted)

Artis has secured a new tenant at 1750 Inkster Boulevard, who will be leasing approximately 60,000 square feet under a seven year lease agreement. This property, previously leased to a single tenant until 2012, is undergoing extensive re-development into a multi-tenant building.

Victoria Square Shopping Centre has been classified as a re-development opportunity upon the successful negotiation of an early termination agreement and fee with Zellers Inc. Artis has secured a new tenant for 30% of the space formerly leased by Zellers Inc. and there is considerable interest in the remainder of the space from a number of well-known national tenants.

New Developments In Process

Artis is nearing completion of a 185,407 square foot industrial building on a parcel of land located in the Twin Cities Area, Minnesota. This building is fully leased under a ten-year agreement with annual rent escalations. Artis purchased this land in 2013 and was able to secure a tenant for the entire building shortly after construction began in Q3-13.

Artis is nearing completion of construction of an approximately 87,000 square foot retail development on excess lands at Linden Ridge Shopping Centre, located in Winnipeg, Manitoba. This new development has been fully leased to Marshalls, PetSmart, SportChek and Dollar Tree. The property is expected to be 100.0% occupied by Q1-14.
Artis purchased Fourell Business Park located in Edmonton, Alberta in 2010 with an existing 400,000 square foot fully leased building and land potential for future development. Phase I, a 63,757 square foot development on the property has been completed and fully leased while Phase II, an approximately 35,000 square foot development is underway; completion is anticipated in Q3-14.

Artis has a 50% ownership interest in the Centrepoint development project located in Winnipeg, Manitoba. The construction project, which is currently underway, is expected to comprise 96,165 square feet of leasable area; completion is anticipated in Q4-14.

Development Initiatives

Artis has been awarded a six month extension to the original one year development exclusivity agreement as a result of their successful Expression of Interest (EOI) in a joint development/ownership venture for the development of an approximately 160,000 square foot Class A office building, with an additional 25,000 square feet of hospitality/retail space, a 15 storey full service hotel with 220 rooms (air rights to be sold to a hotel operator), 325 stall parkade and street level public plaza space. The project is located in downtown Winnipeg, Manitoba in the Sports, Hospitality, and Entertainment District ("SHED").

In 2013, Artis purchased an 11.93 acre parcel of land adjacent to Linden Ridge Shopping Centre, a retail property in Winnipeg, Manitoba also owned by Artis. Pre-leasing for this development opportunity is underway with the potential to develop approximately 135,000 square feet on this site.

2013 – ANNUAL HIGHLIGHTS

PORTFOLIO GROWTH

Artis acquired 13 commercial properties, completed one property under construction and disposed of two industrial properties during the course of 2013.

	Office		Retail		Industrial		Total	
	Number of Properties	S.F. (000's) [(1)]	Number of Properties	S.F. (000's) [(1)]	Number of Properties	S.F. (000's) [(1)]	Number of Properties	S.F. (000's) [(1)]
Portfolio properties at December 31, 2012	51	7,637	58	4,269	111	11,465	220	23,371
Acquisitions	8	1,215	2	94	3	321	13	1,630
New construction	-	-	1	165	-	-	1	165
Dispositions	-	-	-	-	(2)	(385)	(2)	(385)
Portfolio properties at December 31, 2013	59	8,852	61	4,528	112	11,401	232	24,781

(1) Based on owned share of total leasable area.

Property Acquisitions

Property	Property Count	Acquisition Date	Location	Property Type	Owned Share of GLA	Purchase Price
1110 Pettigrew Avenue	1	January 15, 2013	Regina, SK	Industrial	118,800	$ 12,200
Century Crossing III [(1)]	1	February 11, 2013	Edmonton Capital Region, AB	Retail	90,736	27,112
495 Richmond Road	1	March 15, 2013	Ottawa, ON	Office	106,193	38,080
220 Portage Avenue	1	April 30, 2013	Winnipeg, MB	Office	170,158	41,000
Quarry Park Portfolio	3	May 15, 2013	Calgary, AB	Office	282,327	154,840
1700 Broadway [(2)]	1	May 22, 2013	Denver, CO	Office	197,076	US49,000
ASM America Headquarters Building	1	June 4, 2013	Phoenix, AZ	Office	130,282	US19,750
Cara Foods Building [(3)]	-	June 5, 2013	Greater Toronto Area, ON	Office	50,199	21,000
Oakdale Village	1	June 10, 2013	Twin Cities Area, MN	Retail	164,860	US34,000
PTI Building [(4)]	1	June 28, 2013	Edmonton Capital Region, AB	Industrial	71,654	26,860
DirecTV Building	1	July 31, 2013	Greater Denver Area, CO	Office	256,767	US71,000
North Scottsdale Corporate Center II	1	September 10, 2013	Phoenix Metropolitan Area, AZ	Office	152,629	US38,600

(1) Artis closed the first part of this two-part acquisition on February 11, 2013 and the second part on June 28, 2013.
(2) Artis acquired a 50% interest in this joint venture.
(3) Artis acquired the remaining 50% interest in this property for a total of 100,398 square feet,
(4) Artis acquired a parcel of land adjacent to the PTI Building on October 1, 2013.

These properties were acquired for aggregate purchase prices of $321,092 and US$212,350 respectively. This represented a weighted-average capitalization rate of 6.4%.

(In thousands of Canadian dollars, unless otherwise noted)

Property Dispositions

During 2013, Artis sold two industrial properties: one in the Twin Cities Area, Minnesota and the other in the Edmonton Capital Region, Alberta. The proceeds from the sale of these properties, net of costs, were US$5,912 and $5,358, respectively.

Completed Property Under Construction

During 2013, Artis completed the construction of a 2,650 square foot retail building located in Nanaimo, British Columbia. This property is 100.0% leased to a national tenant on a ten-year lease.

FINANCING ACTIVITIES

Short Form Base Shelf Prospectus

On June 15, 2012, the REIT filed a short form base shelf prospectus. The REIT may from time to time during the 25-month period that this short form base shelf prospectus is valid, offer and issue the following securities up to a maximum of $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 of $241,610 and preferred units under four offerings for a total of $266,250 and US$75,000 under this short form base shelf prospectus.

Common Unit Equity Offering

On May 9, 2013, under the short form base shelf prospectus, Artis issued 10,424,750 trust units at a price of $16.55 per unit for aggregate gross proceeds to Artis of $172,530. This includes 1,359,750 units issued pursuant to the exercise of the underwriters' over-allotment option.

Preferred Unit Equity Offerings

Issue Date	Unit Series	Number of Units Issued	Price per Unit	Gross Proceeds
March 21, 2013	Series E Units	4,000,000	$ 25.00	$ 100,000
July 29, 2013 (1)	Series G Units	3,200,000	$ 25.00	$ 80,000

(1) Includes 200,000 units issued pursuant to the exercise of the underwriters' over-allotment option.

Convertible Debenture Redemption

On December 31, 2013, $3,000 of the 5.00% Series D convertible debentures were redeemed for cash.

Debt Financing and Repayments

In 2013, Artis repaid nine maturing mortgages in the amount of $70,004. Artis refinanced four of the properties with new mortgages, net of financing costs, of $47,054**.** Artis obtained new mortgage financing on two previously unencumbered properties and received upward financing on one mortgage, net of financing costs, for a total of $34,273.

DISTRIBUTIONS

Artis distributed a total of $146,459 to unitholders in 2013, of which $20,526 was paid by way of distribution reinvestment, pursuant to Artis' Distribution Reinvestment and Unit Purchase Plan ("DRIP").

SELECTED FINANCIAL INFORMATION

			Year ended December 31,
000's, except per unit amounts	2013	2012	2011
Revenue	$ 463,418	$ 372,469	$ 290,512
Property NOI	296,882	240,409	182,813
Income for the year	191,155	340,339	321,289
Basic income per common unit	1.45	3.21	4.02
Diluted income per common unit	1.41	3.14	3.60
Distributions to common unitholders	$ 132,454	$ 114,968	$ 87,183
Distributions per common unit	1.08	1.08	1.08
FFO	$ 183,467	$ 139,804	$ 92,065
FFO per unit	1.46	1.30	1.13
FFO after adjustments (1)	183,467	140,146	99,955
FFO per unit after adjustments (1)	1.46	1.30	1.21
FFO payout ratio after adjustments (1)	74.0%	83.1%	89.3%
AFFO (2)	$ 156,761	$ 122,702	$ -
AFFO per unit (2)	1.26	1.15	-
AFFO payout ratio (2)	85.7%	93.9%	-
Total assets	$ 5,042,037	$ 4,380,060	$ 3,167,588
Total non-current financial liabilities	2,187,977	2,043,026	1,664,158

(1) Calculated after adjustments for transaction costs.
(2) AFFO figures are not available for 2011.

Artis has been actively acquiring properties during 2012 and 2013. Due primarily to this acquisition activity, same property revenue growth and lease termination income, 2013 revenues increased $90,949, or 24.4%, compared to 2012. Property NOI increased by $56,473, or 23.5% year-over-year.

FFO increased $43,663, or 31.2% compared to 2012. This increase is primarily attributed to the acquisition activity and same property revenue growth in 2012 and 2013 as well as lease termination income in 2013. Diluted FFO per unit increased $0.16 or 12.3% year-over-year. Adjusted FFO has increased $43,321, or 30.9% year-over-year. Diluted FFO per unit after adjustments has increased $0.16, or 12.3% compared to 2012.

AFFO increased $34,059 or 27.8% compared to 2012. AFFO per unit has increased $0.11 or 9.6% compared to 2012.

(In thousands of Canadian dollars, unless otherwise noted)

As a result of units issued from public offerings and units issued under the DRIP, basic units outstanding for the calculation of FFO and AFFO have substantially increased. This increase has diluted the impact of strong growth in revenues, Property NOI, FFO and AFFO on per unit results. Management anticipates there will be further growth in revenues, Property NOI, FFO and AFFO as acquisitions completed in 2013 contribute to operating results.

ANALYSIS OF OPERATING RESULTS

REVENUE AND PROPERTY NOI

Revenue includes amounts earned from tenants related to lease agreements, including basic rent, parking, operating cost and realty tax recoveries, as well as adjustments for the straight-lining of rents.

Artis accounts for rent step-ups by straight-lining the incremental increases over the entire non-cancelable lease term. In 2013, straight-line rent adjustments of $5,543 (Q4-13 - $1,172) were recorded compared to $5,473 in 2012 (Q4-12 - $1,560).

In 2013, the REIT recorded amortization of $9,291 (Q4-13 - $2,919) as a reduction in revenue from tenant incentives compared to $6,349 (Q4-12 - $1,954) in 2012.

Property operating expenses include realty taxes as well as other costs related to interior and exterior maintenance, HVAC, insurance, utilities and property management expenses.

Lease Termination Income

Lease termination income relates to payments received from tenants where the REIT and the tenant agreed to terminate a lease prior to the contractual expiry date. Lease termination income is common in the real estate industry, however, it is unpredictable and period-over-period changes are not indicative of trends. In 2013, lease termination income totaled $6,484 (Q4-13 - $219), compared to $443 (Q4-12 - $56) in 2012.

SAME PROPERTY NOI ANALYSIS

Same property comparison includes only stabilized investment properties owned on January 1, 2012, and excludes properties disposed subsequent to January 1, 2012 and those held for re-development.

	Three month period ended December 31,		Year ended December 31,	
	2013	2012	2013	2012
Revenue	$ 84,587	$ 81,085	$ 326,423	$ 317,194
Property operating expenses	35,176	32,125	126,216	119,398
Property NOI	49,411	48,960	200,207	197,796
Add (deduct) non-cash adjustments:				
Amortization of tenant inducements	2,780	1,900	8,752	6,082
Straight-line rent adjustment	(600)	(1,086)	(3,308)	(4,719)
Property NOI less revenue adjustments	$ 51,591	$ 49,774	$ 205,651	$ 199,159

In 2013, Artis achieved an increase of $6,492, or 3.3% of Property NOI less non-cash revenue adjustments over 2012. For Q4-13, Property NOI less non-cash revenue adjustments increased $1,817 or 3.7% quarter-over-quarter.

Lease termination income related to significant tenants of $3,239 (Q4-13 - $111) in 2013, compared to $85 (Q4-12 - $nil) in 2012, has been excluded from revenue for purposes of the same property income calculation. The portion that covers lost revenue due to vacancy has been added back to income for the purposes of the same property income calculation.

Same Property NOI growth is primarily attributable to increased rental rates and decreased vacancy in the Alberta, Manitoba and Minnesota regions. Also contributing to the positive growth in the Alberta and Manitoba regions is increased income from two properties that have been re-developed.

Same Property NOI Less Revenue Adjustments by Asset Class

	Three month period ended December 31,				Year ended December 31,			
	2013	2012	Change	% Change	2013	2012	Change	% Change
Retail	$ 13,281	$ 13,009	$ 272	2.1%	$ 54,758	$ 52,437	$ 2,321	4.4%
Office	26,256	25,661	595	2.3%	104,542	103,664	878	0.8%
Industrial	12,054	11,104	950	8.6%	46,351	43,058	3,293	7.6%
Total	$ 51,591	$ 49,774	$ 1,817	3.7%	$ 205,651	$ 199,159	$ 6,492	3.3%

Same Property NOI Less Revenue Adjustments by Geographical Region

	Three month period ended December 31,				Year ended December 31,			
	2013	2012	Change	% Change	2013	2012	Change	% Change
Alberta	$ 20,183	$ 19,568	$ 615	3.1%	$ 79,080	$ 75,547	$ 3,533	4.7%
British Columbia	5,672	5,589	83	1.5%	22,329	21,688	641	3.0%
Manitoba	8,746	8,460	286	3.4%	35,024	33,817	1,207	3.6%
Ontario	5,991	5,857	134	2.3%	23,761	24,462	(701)	(2.9)%
Saskatchewan	2,575	2,474	101	4.1%	12,086	11,798	288	2.4%
Minnesota	6,448	5,897	551	9.3%	25,221	23,975	1,246	5.2%
U.S. - Other	1,976	1,929	47	2.4%	8,150	7,872	278	3.5%
Total	$ 51,591	$ 49,774	$ 1,817	3.7%	$ 205,651	$ 199,159	$ 6,492	3.3%

(In thousands of Canadian dollars, unless otherwise noted)

Same Property NOI Less Revenue Adjustments by Country

	Three month period ended December 31,				Year ended December 31,			
	2013	2012	Change	% Change	2013	2012	Change	% Change
Canada	$ 43,167	$ 41,948	$ 1,219	2.9%	$ 172,280	$ 167,312	$ 4,968	3.0%
U.S.	8,424	7,826	598	7.6%	33,371	31,847	1,524	4.8%
Total	$ 51,591	$ 49,774	$ 1,817	3.7%	$ 205,651	$ 199,159	$ 6,492	3.3%

Same Property Occupancy Comparisons

	As at December 31,	
Geographical Region	2013	2012
Alberta	95.5%	96.5%
British Columbia	94.8%	92.9%
Manitoba	95.6%	95.0%
Ontario	95.7%	96.8%
Saskatchewan	98.4%	97.6%
Minnesota	92.4%	92.0%
U.S. - Other	93.7%	98.9%
Total	94.9%	95.1%

	As at December 31,	
Asset Class	2013	2012
Retail	96.1%	96.0%
Office	93.0%	94.9%
Industrial	96.1%	94.9%
Total	94.9%	95.1%

PROPERTY NOI BY ASSET CLASS

In 2013, revenues and Property NOI increased for all asset class segments of the portfolio in comparison to 2012. The growth is primarily attributable to acquisition activity, same property revenue growth and lease termination income.

	Three month period ended December 31,					
	2013			2012		
	Retail	Office	Industrial	Retail	Office	Industrial
Revenue	$ 27,638	$ 67,775	$ 27,441	$ 24,896	$ 55,439	$ 24,649
Property operating expenses	9,370	28,995	9,485	8,242	21,881	8,256
Property NOI	$ 18,268	$ 38,780	$ 17,956	$ 16,654	$ 33,558	$ 16,393
Share of Property NOI	*24.4%*	*51.7%*	*23.9%*	*25.0%*	*50.4%*	*24.6%*

	Year ended December 31,					
	2013			2012		
	Retail	Office	Industrial	Retail	Office	Industrial
Revenue	$ 108,420	$ 247,392	$ 107,507	$ 89,369	$ 203,708	$ 79,165
Property operating expenses	32,506	97,568	36,462	27,909	78,154	25,997
Property NOI	$ 75,914	$ 149,824	$ 71,045	$ 61,460	$ 125,554	$ 53,168
Share of Property NOI	*25.6%*	*50.5%*	*23.9%*	*25.6%*	*52.3%*	*22.1%*

PROPERTY NOI BY GEOGRAPHICAL REGION

For the year ended December 31, 2013, revenues and Property NOI increased in all regions of the portfolio in comparison to 2012. This growth is primarily attributable to acquisition activity, same property revenue growth and lease termination income.

	Three month period ended December 31, 2013						
	Canada					U.S.	
	AB	BC	MB	ON	SK	MN	Other
Revenue	$ 45,113	$ 10,284	$ 18,373	$ 16,402	$ 6,353	$ 16,531	$ 9,798
Property operating expenses	15,845	3,913	9,191	6,656	2,149	7,059	3,037
Property NOI	$ 29,268	$ 6,371	$ 9,182	$ 9,746	$ 4,204	$ 9,472	$ 6,761
Share of Property NOI	*39.0%*	*8.5%*	*12.3%*	*13.0%*	*5.6%*	*12.6%*	*9.0%*

	Three month period ended December 31, 2012						
	Canada					U.S.	
	AB	BC	MB	ON	SK	MN	Other
Revenue	$ 38,160	$ 10,351	$ 16,307	$ 14,015	$ 6,105	$ 13,465	$ 6,581
Property operating expenses	12,561	3,797	7,643	5,591	2,098	5,274	1,415
Property NOI	$ 25,599	$ 6,554	$ 8,664	$ 8,424	$ 4,007	$ 8,191	$ 5,166

(In thousands of Canadian dollars, unless otherwise noted)

	Year ended December 31, 2013						
	Canada					U.S.	
	AB	BC	MB	ON	SK	MN	Other
Revenue	$ 168,842	$ 41,243	$ 66,899	$ 62,945	$ 28,332	$ 62,959	$ 32,099
Property operating expenses	53,870	14,650	30,318	23,765	7,887	26,515	9,531
Property NOI	$ 114,972	$ 26,593	$ 36,581	$ 39,180	$ 20,445	$ 36,444	$ 22,568
Share of Property NOI	*38.7%*	*9.0%*	*12.3%*	*13.2%*	*6.9%*	*12.3%*	*7.6%*

	Year ended December 31, 2012						
	Canada					U.S.	
	AB	BC	MB	ON	SK	MN	Other
Revenue	$ 135,587	$ 37,767	$ 61,813	$ 47,715	$ 22,578	$ 45,403	$ 21,379
Property operating expenses	43,330	13,380	26,834	18,161	7,155	17,670	5,530
Property NOI	$ 92,257	$ 24,387	$ 34,979	$ 29,554	$ 15,423	$ 27,733	$ 15,849
Share of Property NOI	*38.4%*	*10.2%*	*14.6%*	*12.3%*	*6.4%*	*11.5%*	*6.6%*

PORTFOLIO OCCUPANCY

Occupancy levels impact the REIT's revenues and Property NOI. Occupancy and commitments at December 31, 2013 (excluding properties currently held for redevelopment and new developments in process), and the previous four periods, are as follows:

Occupancy Report by Asset Class

	Q4-13 % Committed (1)	Q4-13	Q3-13	Q2-13	Q1-13	Q4-12
Retail	97.1%	96.3%	96.8%	95.7%	96.3%	96.4%
Office	94.6%	93.6%	94.3%	92.5%	95.2%	95.2%
Industrial	97.1%	96.7%	96.7%	96.9%	96.0%	95.5%
Total portfolio	96.2%	95.5%	95.8%	95.1%	95.8%	95.6%

Occupancy Report by Geographical Region

	Q4-13 % Committed (1)	Q4-13	Q3-13	Q2-13	Q1-13	Q4-12
Canada:						
Alberta	96.1%	95.0%	96.5%	94.4%	95.9%	96.9%
British Columbia	96.2%	95.3%	95.4%	95.4%	96.4%	95.3%
Manitoba	96.1%	95.5%	95.2%	95.9%	96.4%	96.6%
Ontario	97.2%	96.8%	97.2%	95.7%	96.7%	96.4%
Saskatchewan	99.3%	99.0%	98.7%	98.5%	98.8%	99.0%
U.S.:						
Minnesota	95.1%	94.3%	94.1%	94.1%	93.6%	92.3%
U.S. - Other	96.3%	96.3%	96.2%	95.8%	97.1%	97.0%
Total portfolio	96.2%	95.5%	95.8%	95.1%	95.8%	95.6%

(1) Percentage committed is based on occupancy plus commitments on vacant space as at December 31, 2013.

PORTFOLIO LEASING ACTIVITY AND LEASE EXPIRIES

Renewal Summary

	Three month period ended December 31,		Year ended December 31,	
	2013	2012	2013	2012
Leasable area renewed	530,550	362,049	2,562,521	1,578,867
% Increase in rent rate	7.5%	4.5%	7.2%	2.6%

The percentage change on renewal activity is calculated by comparing the rental rate in place at the end of the expiring term to the rental rate in place at the commencement of the new term. In many cases, leases are negotiated or renewed such that there are contractual rent escalations over the course of the new lease term. In these cases, the average rent over the new term will be higher than the rate at commencement, which is not reflected in the above table results.

(In thousands of Canadian dollars, unless otherwise noted)

Lease Expiries by Asset Class (in S.F.) (1)

	Current Vacancy	Monthly Tenants (2)	2014	2015	2016	2017	2018 & later	Total
Office - uncommitted	474,942	51,054	441,519	872,952	808,233	956,639	4,735,429	8,340,768
Office - committed	92,232	-	295,129	99,719	3,978	-	20,087	511,145
Total office	567,174	51,054	736,648	972,671	812,211	956,639	4,755,516	8,851,913
Retail - uncommitted	208,110	46,182	217,644	421,167	512,251	320,339	2,376,755	4,102,448
Retail - committed	67,359	-	224,170	2,490	25,484	102,848	3,589	425,940
Total retail	275,469	46,182	441,814	423,657	537,735	423,187	2,380,344	4,528,388
Industrial - uncommitted	586,481	65,072	1,137,793	1,613,787	2,104,436	1,545,363	3,386,219	10,439,151
Industrial - committed	104,127	-	506,467	227,275	123,300	-	-	961,169
Total industrial	690,608	65,072	1,644,260	1,841,062	2,227,736	1,545,363	3,386,219	11,400,320
Total - uncommitted	1,269,533	162,308	1,796,956	2,907,906	3,424,920	2,822,341	10,498,403	22,882,367
Total - committed	263,718	-	1,025,766	329,484	152,762	102,848	23,676	1,898,254
Total	1,533,251	162,308	2,822,722	3,237,390	3,577,682	2,925,189	10,522,079	24,780,621

(1) Based on owned share of total leasable area.
(2) Includes holdovers and renewals where term has not been negotiated.

In-Place Rents

In-place rents reflect the actual rental rate in effect for the leasable area as at December 31, 2013. In-place rents do not reflect either the average rate over the term of the lease or the rate in place in the year of expiry.

Market Rents

Artis reviews market rents across the portfolio on an on-going basis. Market rent estimates are based on management's best estimate for each leasable space and may take into consideration the property manager's revenue budget, recent leasing activity, current prospects, future commitments or publicly available market information. Rates applied in future expiry years do not allow for the impact of inflation, nor do they attempt to factor in anticipated higher (or lower) than normal periods of demand or market rent inflation due to specific market conditions.

Market Rents by Asset Class (1)

	2014	2015	2016	2017	2018 & later	Total
Office						
In-place rents	$ 18.23	$ 18.68	$ 19.19	$ 20.07	$ 18.32	$ 18.65
Market rents	19.67	20.39	20.69	20.82	19.81	20.07
Change	7.8%	9.1%	7.8%	3.7%	8.1%	7.6%
Revenue impact (2)	$ 1,054	$ 1,660	$ 1,220	$ 716	$ 7,073	$ 11,723
Retail						
In-place rents	$ 18.29	$ 14.78	$ 20.17	$ 15.13	$ 19.19	$ 18.37
Market rents	20.73	16.23	23.17	16.02	20.43	19.94
Change	13.3%	9.8%	14.9%	5.9%	6.5%	8.6%
Revenue impact (2)	$ 1,077	$ 613	$ 1,611	$ 374	$ 2,950	$ 6,625
Industrial						
In-place rents	$ 6.74	$ 5.81	$ 6.76	$ 5.81	$ 7.71	$ 6.76
Market rents	6.84	6.08	7.24	6.25	7.81	7.02
Change	1.5%	4.7%	7.2%	7.7%	1.3%	3.9%
Revenue impact (2)	$ 168	$ 505	$ 1,091	$ 688	$ 337	$ 2,789
Total portfolio						
In-place rents	$ 11.55	$ 10.85	$ 11.59	$ 11.82	$ 15.10	$ 13.11
Market rents	12.36	11.71	12.69	12.43	16.09	14.03
Change	7.1%	7.9%	9.5%	5.1%	6.5%	7.0%
Revenue impact (2)	$ 2,299	$ 2,778	$ 3,922	$ 1,778	$ 10,360	$ 21,137

(1) Based on owned share of total leasable area.
(2) This impact is based on the difference between the in-place rents and the market rents for the period. This excludes the impact of any straight-line rent adjustments on revenues.

Market rents at December 31, 2013 are estimated to be 7.0% above in-place rents across the portfolio, compared to 6.8% at September 30, 2013 and 8.8% at December 31, 2012. Today's market rents for the 2014 and 2015 lease expiries are estimated to be 7.1% and 7.9% respectively, above in-place rents. The office portfolio is still expected to be the strongest contributor to incremental rental revenue over the long term.

(In thousands of Canadian dollars, unless otherwise noted)

Lease Expiries by Geographical Region (in S.F.) (1)

	Current Vacancy	Monthly Tenants (2)	2014	2015	2016	2017	2018 & later	Total
AB - uncommitted	248,313	25,801	490,105	711,494	987,146	468,033	3,153,407	6,084,299
AB - committed	70,967	-	182,347	90,695	9,299	-	-	353,308
Total Alberta	319,280	25,801	672,452	802,189	996,445	468,033	3,153,407	6,437,607
BC - uncommitted	137,760	17,074	148,366	213,722	245,332	100,017	771,741	1,634,012
BC - committed	14,251	-	91,576	-	806	100,046	-	206,679
Total British Columbia	152,011	17,074	239,942	213,722	246,138	200,063	771,741	1,840,691
MB - uncommitted	331,179	32,905	316,318	546,786	467,473	386,312	1,298,600	3,379,573
MB - committed	81,838	-	291,172	2,490	-	-	8,522	384,022
Total Manitoba	413,017	32,905	607,490	549,276	467,473	386,312	1,307,122	3,763,595
ON - uncommitted	109,002	25,685	433,102	459,066	725,071	598,008	1,486,622	3,836,556
ON - committed	15,491	-	25,966	1,851	7,300	-	12,633	63,241
Total Ontario	124,493	25,685	459,068	460,917	732,371	598,008	1,499,255	3,899,797
SK - uncommitted	93,071	31,361	24,066	66,886	54,851	203,311	588,488	1,062,034
SK - committed	37,752	-	70,020	105,600	19,357	2,802	2,521	238,052
Total Saskatchewan	130,823	31,361	94,086	172,486	74,208	206,113	591,009	1,300,086
MN - uncommitted	284,867	26,584	377,800	859,590	924,929	725,260	1,924,264	5,123,294
MN - committed	43,419	-	350,840	121,675	116,000	-	-	631,934
Total Minnesota	328,286	26,584	728,640	981,265	1,040,929	725,260	1,924,264	5,755,228
U.S. - Other - uncommitted	65,341	2,898	7,199	50,362	20,118	341,400	1,275,281	1,762,599
U.S. - Other - committed	-	-	13,845	7,173	-	-	-	21,018
Total U.S. - Other	65,341	2,898	21,044	57,535	20,118	341,400	1,275,281	1,783,617
Total - uncommitted	1,269,533	162,308	1,796,956	2,907,906	3,424,920	2,822,341	10,498,403	22,882,367
Total - committed	263,718	-	1,025,766	329,484	152,762	102,848	23,676	1,898,254
Total	1,533,251	162,308	2,822,722	3,237,390	3,577,682	2,925,189	10,522,079	24,780,621

(1) Based on owned share of total leasable area.
(2) Includes holdovers and renewals where term has not been negotiated.

(In thousands of Canadian dollars, unless otherwise noted)

Market Rents by Geographical Region (1)

	2014	2015	2016	2017	2018 & later	Total
Alberta						
In-place rents	$ 15.61	$ 16.47	$ 17.63	$ 19.38	$ 18.80	$ 18.00
Market rents	17.29	18.01	20.02	20.53	20.63	19.81
Change	10.8%	9.3%	13.5%	5.9%	9.7%	10.1%
Revenue impact (2)	$ 1,133	$ 1,230	$ 2,374	$ 539	$ 5,769	$ 11, 045
British Columbia						
In-place rents	$ 20.31	$ 18.33	$ 19.91	$ 11.47	$ 13.93	$ 15.99
Market rents	20.25	18.97	20.40	11.64	14.55	16.45
Change	(0.3)%	3.5%	2.5%	1.5%	4.5%	2.8%
Revenue impact (2)	$ (14)	$ 137	$ 122	$ 35	$ 481	$ 761
Manitoba						
In-place rents	$ 10.91	$ 10.14	$ 12.18	$ 14.90	$ 12.02	$ 11.86
Market rents	11.96	11.41	14.10	15.79	12.78	12.94
Change	9.7%	12.6%	15.8%	5.9%	6.3%	9.1%
Revenue impact (2)	$ 644	$ 702	$ 896	$ 341	$ 997	$ 3,580
Ontario						
In-place rents	$ 9.79	$ 8.11	$ 7.76	$ 6.77	$ 11.65	$ 9.45
Market rents	9.92	8.28	7.94	6.84	12.11	9.72
Change	1.4%	2.1%	2.3%	1.0%	3.9%	2.8%
Revenue impact (2)	$ 61	$ 79	$ 133	$ 39	$ 683	$ 995
Saskatchewan						
In-place rents	$ 17.59	$ 11.31	$ 20.28	$ 9.96	$ 17.21	$ 15.24
Market rents	21.25	12.43	21.14	10.86	18.07	16.37
Change	20.8%	9.9%	4.2%	9.0%	5.0%	7.5%
Revenue impact (2)	$ 344	$ 193	$ 63	$ 185	$ 507	$ 1,292
Minnesota						
In-place rents	$ 5.43	$ 5.52	$ 5.42	$ 6.02	$ 9.49	$ 6.97
Market rents	5.52	5.69	5.70	6.90	9.68	7.25
Change	1.5%	3.1%	5.2%	14.6%	2.0%	4.1%
Revenue impact (2)	$ 59	$ 170	$ 295	$ 636	$ 366	$ 1,526
U.S. - Other						
In-place rents	$ 23.49	$ 22.84	$ 24.09	$ 20.46	$ 21.39	$ 21.31
Market rents	26.93	27.49	26.00	20.47	22.61	22.44
Change	14.6%	20.4%	7.9%	0.0%	5.7%	5.3%
Revenue impact (2)	$ 72	$ 267	$ 39	$ 3	$ 1,557	$ 1,938
Total portfolio						
In-place rents	$ 11.55	$ 10.85	$ 11.59	$ 11.82	$ 15.10	$ 13.11
Market rents	12.36	11.71	12.69	12.43	16.09	14.03
Change	7.1%	7.9%	9.5%	5.1%	6.5%	7.0%
Revenue impact (2)	$ 2,299	$ 2,778	$ 3,922	$ 1,778	$ 10,360	$ 21,137

(1) Based on owned share of total leasable area.
(2) This impact is based on the difference between the in-place rents and the market rents for the period. This excludes the impact of any straight-line rent adjustments on revenues.

Artis' real estate is diversified across five Canadian provinces and five U.S. states, and across the office, retail and industrial asset classes. At December 31, 2013, the three largest segments of the REIT's portfolio (by Property NOI) are Calgary office properties, Winnipeg office properties and the Twin Cities Area industrial properties.
Calgary office properties represent 18.3% of the Q4-13 Property NOI and and 10.1% of the overall portfolio by GLA. Artis' office properties are Class A, B and C buildings, in downtown, beltline and suburban locations. Overall vacancy in the Calgary office market, as reported by Avison Young, was 7.8% at December 31, 2013, an increase from 6.6% at September 30, 2013. At December 31, 2013, the Calgary office segment of Artis' portfolio was 92.2% occupied (94.8% occupied at September 30, 2013). Artis has commitments in place for 28.2% of the unoccupied space. In 2014, 225,910 square feet comes up for renewal, which represents 0.9% of the portfolio's GLA; 28.5% has been renewed or committed to new leases. Approximately 46.7% of the Calgary office GLA expires in 2018 or later.

Lease Expiries for Calgary Office Segment (in S.F.) (1)

	Current Vacancy	Monthly Tenants (2)	2014	2015	2016	2017	2018 & later	Total
Calgary - uncommitted	142,469	6,561	161,628	328,098	275,190	217,794	1,181,442	2,313,182
Calgary - committed	55,918	-	64,282	90,695	3,978	-	-	214,873
Total Calgary office	198,387	6,561	225,910	418,793	279,168	217,794	1,181,442	2,528,055
Other - uncommitted	332,473	44,493	279,891	544,854	533,043	738,845	3,553,987	6,027,586
Other - committed	36,314	-	230,847	9,024	-	-	20,087	296,272
Total other office	368,787	44,493	510,738	553,878	533,043	738,845	3,574,074	6,323,858

(1) Based on owned share of total leasable area.
(2) Includes holdovers and renewals where term has not been negotiated.

(In thousands of Canadian dollars, unless otherwise noted)

The market rents reported in the below table are reflective of management's estimates for today's market rent rates and they do not allow for the impact of inflation, nor do they attempt to factor in anticipated higher (or lower) than normal periods of demand or market rent inflation due to specific market conditions.

Market Rents for Calgary Office Segment [1]

	2014	2015	2016	2017	2018 & later	Total
Calgary office						
In-place rents	$ 19.05	$ 20.50	$ 23.46	$ 23.90	$ 21.24	$ 21.41
Market rents	22.38	22.64	24.52	25.03	25.10	24.31
Change	17.5%	10.4%	4.5%	4.7%	18.1%	13.6%
Revenue impact [2]	$ 752	$ 896	$ 296	$ 246	$ 4,555	$ 6,745
Other office						
In-place rents	$ 17.88	$ 17.30	$ 16.95	$ 18.94	$ 17.36	$ 17.56
Market rents	18.47	18.68	18.68	19.58	18.06	18.40
Change	3.3%	8.0%	10.2%	3.4%	4.1%	4.8%
Revenue impact [2]	$ 302	$ 764	$ 924	$ 470	$ 2,518	$ 4,978

[1] Based on owned share of total leasable area.
[2] This impact is based on the difference between the in-place rents and the market rents for the period. This excludes the impact of any straight-line rent adjustments on revenues.

Winnipeg office properties represent 7.4% of the Q4-13 Property NOI and 5.9% of the overall portfolio by GLA. Artis' office properties are located in the downtown Winnipeg area, with several buildings on or adjacent to the intersection of Portage and Main. Overall vacancy in the Winnipeg office market, as reported by Cushman and Wakefield, was 8.4% at December 31, 2013, slightly down from 8.5% at September 30, 2013. At December 31, 2013, the Winnipeg office segment of Artis' portfolio was 94.5% occupied, unchanged from September 30, 2013. In 2014, 267,656 square feet comes up for renewal, which represents 1.1% of the portfolio's GLA; 55.0% has been renewed or committed to new leases. Approximately 35.8% of the Winnipeg office GLA expires in 2018 or later.

The Twin Cities Area industrial properties represent 7.5% of the Q4-13 Property NOI and 18.6% of the overall portfolio by GLA. Direct vacancy in this industrial market, as reported by CBRE, was 5.2% at December 31, 2013, a decrease from 5.6% at September 30, 2013, with 1,397,090 square feet of positive absorption reported for the quarter. As per CBRE, this was the fourteenth consecutive quarter of positive absorption for this market. Average asking market lease rates increased to $4.73 per square foot, up from $4.55 per square foot at September 30, 2013. Occupancy in this segment of the portfolio was 95.4% at December 31, 2013 slightly up from 95.3% at September 30, 2013. Artis has commitments in place for 16.6% of the unoccupied space. In 2014, 693,610 square feet comes up for renewal, which represents 2.8% of the portfolio's GLA; commitments are in place for 50.0% of the expiring space.

CORPORATE EXPENSES

	Three month period ended December 31,		Year ended December 31,	
	2013	2012	2013	2012
Accounting, legal and consulting	$ 456	$ 468	$ 1,410	$ 1,525
Public company costs	293	264	1,234	1,101
Unit-based compensation	489	586	1,827	3,971
Salaries and benefits	764	981	2,482	2,817
Depreciation	154	89	511	353
General and administrative	548	496	2,249	2,226
Total corporate expenses	$ 2,704	$ 2,884	$ 9,713	$ 11,993

Corporate expenses in 2013 were $9,713 (Q4-13 - $2,704), or 2.1% (Q4-13 - 2.2%) of gross revenues compared to $11,993 (Q4-12 - $2,884), or 3.2% (Q4-12 - 2.7%) of gross revenues in 2012.

The unit-based compensation expense recorded in 2013 was $1,827 (Q4-13 - $489) compared to $3,971 (Q4-12 - $586) in 2012. Prior to August 2, 2012, a liability for unit-based compensation was recognized and recorded at fair value at each reporting date and settlement date. Any fair value change of the liability was recognized as an expense for the period. On August 2, 2012, due to the amendment to the REIT's Declaration of Trust, the REIT's cash-settled unit-based payments for its unit options became equity-settled and the cash-settled unit-based compensation liability was reclassified to equity. The fair value of unvested options as at August 2, 2012 will be recognized as an expense over their remaining vesting period. An increase in the value of the REIT's units as well as additional options granted during 2011 and 2012 had caused an increase in the unit-based compensation expense for the period.

INTEREST EXPENSE

The current year's interest expense is attributable to mortgages and other loans secured against the investment properties, as well as convertible debentures outstanding. Interest expense in 2013 has increased over 2012 due to additional mortgage financing obtained in connection with acquisitions completed in 2013 and 2012. Financing costs on mortgages and other loans are netted against the related debt, and amortized on an effective interest basis over the expected life of the debt.

The REIT's weighted-average effective rate at December 31, 2013 on mortgages and other loans secured by properties was 4.27%, decreased from 4.42% at December 31, 2012. The weighted-average nominal interest rate at December 31, 2013 was 4.10% decreased from 4.23% at December 31, 2012.

Artis recorded interest expense on debentures outstanding in 2013 of $10,406 (Q4-13 - $2,624), compared to $11,443 (Q4-12 - $2,564) in 2012.

The REIT's interest coverage ratio, defined as total revenues less property operating expenses and corporate expenses divided by interest expense, is 2.82 times for the year ended December 31, 2013 (Q4-13 - 2.75 times) compared to 2.45 times for the year ended December 31, 2012 (Q4-12 - 2.60 times) .

INCOME FROM INVESTMENTS IN JOINT VENTURES

Artis recorded income from investments in joint ventures of $7,456 (Q4-13 - $5,581) in 2013 compared to $nil (Q4-12 - $nil) in 2012. The increase over the prior year is primarily due to the acquisition of 1700 Broadway in Q2-13. This income includes revenue earned from the REIT's joint ventures, net of property operating expenses, interest expense and the fair value gains on investment properties.

(In thousands of Canadian dollars, unless otherwise noted)

FAIR VALUE GAIN ON INVESTMENT PROPERTIES

The changes in fair value of investment properties, year-over-year, are recognized as fair value gains and losses in the statement of operations. Fair values of the investment properties are determined through either the discounted cash flow method or the overall capitalization method which are generally accepted appraisal methodologies. External valuations are performed quarterly on a rotational basis over a four year cycle. In 2013, the fair value gain on investment properties is $4,385 (Q4-13 - loss of $56,588) compared to a gain of $223,901 (Q4-12 - gain of $61,037) in 2012. Fair value changes in individual properties result from changes in the projected income and cash flow projections of those properties, as well as from changes in capitalization rates and discount rates applied. The size and mix of the 2013 portfolio is significantly different than the size and mix of the portfolio in 2012. Capitalization rate expansion in class B buildings in the Calgary downtown office market, as well as adjustments to expected market rents and increases to forecasted capital expenditures and tenant inducements across the Canadian portfolio have contributed to the fair value loss in Q4-13.

FOREIGN CURRENCY TRANSLATION (LOSS) GAIN

In 2013, the REIT held cash, deposits and the Series G debentures in US dollars. These assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. This resulted in a foreign currency translation loss of $7,569 (Q4-13 - loss of $2,915) in 2013, compared to a gain of $2,396 (Q4-12 - loss of $240) in 2012.

TRANSACTION COSTS

During 2013, $5,685 (Q4-13 - $314) of transaction costs were expensed compared to $8,654 (Q4-12 - $1,511) in 2012. Transaction costs are primarily attributable to the acquisition of investment properties and joint ventures.

GAIN (LOSS) ON FINANCIAL INSTRUMENTS

The REIT holds a number of interest rate swaps to effectively lock the interest rate on a portion of floating rate debt. The REIT recorded an unrealized gain on the fair value adjustment of the interest rate swaps outstanding of $5,981 (Q4-13 - gain of $1,164) in 2013, compared to an unrealized loss of $244 (Q4-12 - loss of $167) in 2012. The REIT anticipates holding the mortgages and interest rate swap contracts until maturity.

OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income includes the unrealized foreign currency translation gain in 2013 of $27,100 (Q4-13 - gain of $14,563) compared to a loss of $4,656 (Q4-12 - gain of $2,712) in 2012. Foreign currency translation gains and losses relate to the REIT's net investment in operations in the U.S.

INCOME TAX

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 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 year ended December 31, 2012 and the year ended December 31, 2013. As a result, the REIT does not recognize any deferred income tax assets or liabilities for income tax purposes.

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.

DISTRIBUTIONS

The Trustees determine the level of cash distributions based on the level of cash flow from operations before working capital changes, less actual and planned capital expenditures. During the year, distributions are based on estimates of full year cash flow and capital spending; thus distributions may be adjusted as these estimates change. It is expected that normal seasonal fluctuations in working capital will be funded from cash resources. In addition, the distributions declared include a component funded by the DRIP.

	Three month period ended December 31, 2013	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Cash flow from operations	$ 43,466	$ 194,507	$ 151,738	$ 76,494
Net income	(6,702)	191,155	340,339	321,289
Distributions declared	38,599	146,459	117,948	87,183
Excess (shortfall) of cash flow from operations over distributions declared	4,867	48,048	33,790	(10,689)
(Shortfall) excess of net income over distributions declared	(45,301)	44,696	222,391	234,106

For the year ended December 31, 2013, cash flow from operations exceeded distributions declared by $48,048 (Q4-13 - $4,867) and net income exceeded distributions declared by $44,696 (Q4-13 - shortfall of $45,301). The shortfall in Q4-13 is due to the impact of the fair value loss on investment properties of $56,588.

Artis distributed a total of $146,459 (Q4-13 - $38,599) to unitholders in 2013, of which $20,526 (Q4-13 - $5,600) was paid through the DRIP.

(In thousands of Canadian dollars, unless otherwise noted)

FUNDS FROM OPERATIONS ("FFO")

Consistent with the application of National Policy 41-201 *Income Trusts and Other Indirect Offerings*, Artis reconciles FFO to cash flows from operating activities, in addition to the net income for the period.

Reconciliation of Cash Flows from Operations to FFO

000's, except per unit amounts	Three month period ended December 31, 2013	2012	Year ended December 31, 2013	2012
Cash flow from operations	$ 43,466	$ 37,779	$ 194,507	$ 151,738
Add (deduct):				
Depreciation of property and equipment	(154)	(89)	(511)	(353)
Amortization of above- and below-market mortgages, net	459	465	1,801	1,537
Straight-line rent adjustment	1,172	1,560	5,543	5,473
Adjustment for investments in joint ventures	566	-	1,601	-
Realized foreign currency translation (gain) loss	(148)	341	1,634	(1,258)
Unrealized foreign currency gain (loss) from U.S. operations	73	167	(4,016)	(1,803)
Unit-based compensation expense	(489)	(586)	(1,827)	(3,971)
Accretion on liability component of convertible debentures	85	75	327	118
Accretion of financing costs included in interest	(761)	(798)	(3,143)	(2,777)
Defined benefit funding	-	647	-	-
Transaction costs on acquisitions	314	1,511	5,685	8,312
Changes in non-cash operating items	5,187	410	(4,129)	(14,232)
Preferred unit distributions	(4,366)	(2,113)	(14,005)	(2,980)
FFO for the period	$ 45,404	$ 39,369	$ 183,467	$ 139,804
Add:				
Transaction costs [(1)]	-	-	-	342
FFO for the period after adjustments	$ 45,404	$ 39,369	$ 183,467	$ 140,146
FFO per unit				
Basic	$ 0.36	$ 0.35	$ 1.50	$ 1.33
Diluted	$ 0.35	$ 0.34	$ 1.46	$ 1.30
FFO per unit after adjustments				
Basic	$ 0.36	$ 0.35	$ 1.50	$ 1.33
Diluted	$ 0.35	$ 0.34	$ 1.46	$ 1.30
Weighted-average number of common units outstanding:				
Basic [(2)]	126,728	110,947	122,406	105,046
Diluted [(2)]	137,322	121,810	133,071	115,641

(1) Transaction costs added back are one time professional fees related to internalization and corporate matters.
(2) Options and convertible debentures are factored into the diluted weighted-average calculation used for FFO, to the extent that their impact is dilutive.

The following is a reconciliation of the weighted-average number of basic common units to diluted common units and FFO to diluted FFO:

Diluted Common Units Reconciliation

	Three month period ended December 31, 2013	2012
Basic units	126,728	110,947
Add:		
Options [(1)]	76	268
Restricted units [(1)]	92	-
Debentures [(1)]	10,426	10,595
Diluted units	137,322	121,810

Diluted FFO Reconciliation

	Three month period ended December 31, 2013	2012
FFO	$ 45,404	$ 39,369
Add:		
Options [(1)]	-	-
Restricted units [(1)]	11	-
Debentures [(1)]	2,601	2,579
Diluted FFO	$ 48,016	$ 41,948

(1) All debenture series, options and restricted units are dilutive in Q4-13. All debenture series and options are dilutive in Q4-12.

Diluted Common Units Reconciliation

	Year ended December 31, 2013	2012
Basic units	122,406	105,046
Add:		
Options [(1)]	173	-
Restricted units [(1)]	66	-
Debentures [(1)]	10,426	10,595
Diluted units	133,071	115,641

Diluted FFO Reconciliation

	Year ended December 31, 2013	2012
FFO	$ 183,467	$ 139,804
Add:		
Options [(1)]	-	-
Restricted units [(1)]	(11)	-
Debentures [(1)]	10,231	10,449
Diluted FFO	$ 193,687	$ 150,253

(1) All debenture series, options and restricted units are dilutive in 2013. All debenture series are dilutive in 2012.

(In thousands of Canadian dollars, unless otherwise noted)

Reconciliation of GAAP Income to FFO

	Three month period ended December 31, 2013	Three month period ended December 31, 2012	Year ended December 31, 2013	Year ended December 31, 2012
(Loss) income for the period	$ (6,702)	$ 98,725	$ 191,155	$ 340,339
Add amortization on:				
Tenant inducements amortized to revenue	2,919	1,954	9,291	6,349
Add (deduct):				
Fair value loss (gain) on investment properties	56,588	(61,037)	(4,385)	(223,901)
Foreign currency translation loss (gain)	2,915	240	7,569	(2,396)
Transaction costs on acquisitions	314	1,511	5,685	8,312
Adjustment for investments in joint ventures	(5,015)	-	(5,855)	-
Unrealized (gain) loss on financial instruments	(1,249)	89	(5,988)	14,081
Preferred unit distributions	(4,366)	(2,113)	(14,005)	(2,980)
FFO for the period	$ 45,404	$ 39,369	$ 183,467	$ 139,804
Add:				
Transaction costs [(1)]	-	-	-	342
FFO for the period after adjustments	$ 45,404	$ 39,369	$ 183,467	$ 140,146

(1) Transaction costs added back are one time professional fees related to internalization and corporate matters.

In 2013, FFO has increased $43,663 (Q4-13 - $6,035), or 31.2% (Q4-13 - 15.3%) over 2012. This increase is primarily attributed to acquisitions completed in 2012 and 2013, same property growth and lease termination income received from tenants during 2013. Basic FFO per unit has increased by $0.17 (Q4-13 - $0.01) or 12.8% (Q4-13 - 2.9%) over 2012. On a diluted basis, FFO per unit has increased $0.16 (Q4-13 - $0.01), or 12.3% (Q4-12 - 2.9%) over 2012.

In 2013, adjusted FFO has increased $43,321 (Q4-13 - $6,035), or 30.9% (Q4-13 - 15.3%) over 2012. Adjusted basic FFO per unit has increased by $0.17 (Q4-13 - $0.01) or 12.8% (Q4-13 - 2.9%). Adjusted diluted FFO per unit has increased by $0.16 (Q4-13 - $0.01) or 12.3% (Q4-13 - 2.9%).

As a result of units issued under the DRIP and units issued from public offerings, basic units outstanding for the calculation of FFO has substantially increased. This increase has diluted the impact of strong growth in FFO on per unit results. Management anticipates there will be further growth in FFO as acquisitions completed in 2013 contribute to operating results.

ADJUSTED FUNDS FROM OPERATIONS ("AFFO")

Artis calculates AFFO based on FFO for the period, net of allowances for normalized capital expenditures and leasing costs and excluding straight-line rent adjustments and unit-based compensation expense.

Actual capital expenditures, which are neither revenue enhancing nor recoverable from tenants in future periods, are by nature variable and unpredictable. The allowance applied in the calculation of AFFO reflects management's best estimate of a reasonable annual capital expenditure on a long-term basis, based on the asset class mix and age and quality of the Artis portfolio properties.

Actual leasing costs, which include tenant improvements that are not capital in nature, tenant allowances and commissions, are also variable in nature. Leasing costs will fluctuate depending on the square footage of leases rolling over, in-place rates at expiry, tenant retention and local market conditions in a given year. The allowance applied in the calculation of AFFO reflects management's estimate of normalized leasing costs over the long-term, based on the asset class mix, tenant mix and conditions in Artis' target markets.

Reconciliation of FFO to AFFO

000's, except per unit amounts	Three month period ended December 31, 2013	Three month period ended December 31, 2012	Year ended December 31, 2013	Year ended December 31, 2012
FFO for the period after adjustments	$ 45,404	$ 39,369	$ 183,467	$ 140,146
Add (deduct):				
Capital expenditures reserve	(1,247)	(792)	(4,417)	(2,813)
Leasing costs reserve	(4,987)	(3,694)	(18,489)	(13,129)
Straight-line rent adjustments [(1)]	(1,200)	(1,560)	(5,627)	(5,473)
Unit-based compensation	489	586	1,827	3,971
AFFO for the period	$ 38,459	$ 33,909	$ 156,761	$ 122,702
AFFO per unit				
Basic	$ 0.30	$ 0.31	$ 1.28	$ 1.17
Diluted	$ 0.30	$ 0.30	$ 1.26	$ 1.15

(1) This includes straight-line rent adjustments included in the REIT's investments in joint ventures.

In 2013, AFFO has increased $34,059 (Q4-13 - $4,550) or 27.8% (Q4-13 - 13.4%) over 2012. AFFO per unit has increased by $0.11 (Q4-13 - decrease of $0.01) or 9.4% (Q4-13 - decrease of 3.2%). Diluted AFFO per unit has increased by $0.11 or 9.6% over 2012 while diluted AFFO per unit remained constant from Q4-13 compared to Q4-12.

(In thousands of Canadian dollars, unless otherwise noted)

ANALYSIS OF FINANCIAL POSITION

ASSETS

	December 31, 2013	December 31, 2012	Increase (decrease)
Non-current assets:			
Investment properties and investment properties under development	$ 4,899,158	$ 4,210,360	$ 688,798
Investments in joint ventures	42,434	7,850	34,584
Other non-current assets	21,613	22,928	(1,315)
Current assets:			
Cash, cash equivalents and cash held in trust	53,775	57,313	(3,538)
Investment properties held for sale	-	58,963	(58,963)
Other current assets	25,057	22,646	2,411
	$ 5,042,037	$ 4,380,060	$ 661,977

Investment Properties, Investment Properties Under Development and Investment Properties Held for Sale

The increase in investment properties, investment properties under development and investment properties held for sale is a result of the following:

	Investment properties	Investment properties under development	Investment properties held for sale	Total
Balance, December 31, 2012	$ 4,206,126	$ 4,234	$ 58,963	$ 4,269,323
Additions:				
Acquisitions	497,964	-	-	497,964
Capital expenditures	19,015	40,549	65	59,629
Leasing costs	8,145	226	101	8,472
Dispositions	(5,358)	-	(6,080)	(11,438)
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)	56,140
Straight-line rent adjustment	5,496	-	47	5,543
Tenant inducements, net of amortization	8,953	(20)	207	9,140
Fair value gain (loss)	535	5,170	(1,320)	4,385
Balance, December 31, 2013	$ 4,851,877	$ 47,281	$ -	$ 4,899,158

Acquisitions:

The results of operations for the acquired properties are included in the REIT's accounts from the dates of acquisition. Artis funded these acquisitions from cash on hand and from the proceeds of new or assumed mortgage financing. The acquisitions have been accounted for using the acquisition method.

	Three month period ended December 31,		Year ended December 31,	
	2013	2012	2013	2012
Cash consideration	$ 3,496	$ 96,608	$ 274,485	$ 506,739
Contingent consideration	-	-	-	200
Long-term debt, including acquired above- and below-market mortgages, net of financing costs	13	97,060	223,479	481,040
Total	$ 3,509	$ 193,668	$ 497,964	$ 987,979

Capital expenditures:

Investment properties include certain capital expenditures related to sustaining building improvements not related to a specific lease or tenancy. Capital expenditures in 2013 totaled $59,629 (Q4-13 - $21,570) compared to $27,400 (Q4-12 - $8,771) in 2012. In 2013, revenue enhancing capital expenditures were $41,887 (Q4-13 - $16,747). Included in this amount is $6,760 of revenue enhancing improvements for a storage area that is 100.0% leased. The remaining $17,742 (Q4-13 - $4,823) of capital expenditure primarily relate to elevator modernizations, exterior renovations, HVAC unit upgrades, roof replacements and parking lot and parkade repairs. Approximately $8,092 (Q4-13 - $2,644) of these capital expenditures are recoverable from tenants in future periods.

Leasing costs and tenant inducements:

In 2013, Artis incurred $26,903 (Q4-13 - $9,477) of tenant inducements and leasing costs compared to $22,013 (Q4-12 - $6,777) in 2012. Tenant inducements include costs incurred to improve the space that primarily benefit the tenant, as well as allowances paid to tenants. Leasing costs are primarily brokers' commissions.

	Three month period ended December 31,		Year ended December 31,	
	2013	2012	2013	2012
Tenant inducements	$ 6,961	$ 4,408	$ 18,431	$ 15,566
Leasing costs	2,516	2,369	8,472	6,447
Total	$ 9,477	$ 6,777	$ 26,903	$ 22,013

Dispositions:

In 2013, Artis sold two industrial properties: one in the Twin Cities Area, Minnesota and the other in the Edmonton Capital Region, Alberta. The proceeds from the sales of these properties, net of costs, were US$5,912 and $5,358, respectively. These properties were sold as a result of unsolicited offers.

(In thousands of Canadian dollars, unless otherwise noted)

Foreign currency translation gain:

In 2013, the foreign currency translation gain on investment properties was $56,140 (Q4-13 - gain of $32,262) due to the change in the year end US dollar to Canadian dollar exchange rate from 0.9949 at December 31, 2012 to 1.0636 at December 31, 2013.

Fair value gain (loss) on investment properties:

In 2013, the REIT recorded a gain on the fair value of investment properties of $4,385 (Q4-13 - loss of $56,588). In 2012, the REIT recorded a gain of $223,901 (Q4-12 - gain of $61,037). From December 31, 2012 to December 31, 2013, the REIT reflected approximately 5 basis points of compression in the weighted-average capitalization rates across the portfolio. In comparison, from December 31, 2011 to December 31, 2012, the REIT reflected approximately 43 basis points of compression in the weighted-average capitalization rates across the portfolio.

Capitalization rates for class B buildings in the Calgary downtown office market compressed throughout 2012, remained stable through the early part of 2013 and expanded through the latter part of 2013.

The fair value loss for Q4-13 primarily reflects capitalization rate expansion in the Calgary Class B downtown office market and changes in expected future cash flows over the holding period of properties across the Canadian portfolio. In comparison, the REIT reflected a fair value gain in Q4-12 largely due to capitalization rate compression and increases to expected market rents in several portfolio segments.

Artis determines the fair value of investment properties, including investment properties held for sale, based upon either the discounted cash flow method or the overall capitalization method, which are generally accepted appraisal methodologies. 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 deemed appropriate for each investment property. Individual properties were valued using capitalization rates in the range of 5.25% to 8.75%. Additional information on the average capitalization rates and ranges used for the portfolio properties, assuming all properties were valued using an overall capitalization method, broken out by asset class and country are set out in the table below.

	December 31, 2013			December 31, 2012		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Office:						
U.S.	8.50%	6.00%	7.00%	8.50%	6.50%	7.14%
Canada	7.75%	5.25%	6.15%	8.25%	5.25%	6.15%
Office total	8.50%	5.25%	6.32%	8.50%	5.25%	6.34%
Industrial:						
U.S.	8.00%	6.50%	7.12%	8.00%	6.50%	7.10%
Canada	7.50%	5.75%	6.48%	8.00%	5.75%	6.59%
Industrial total	8.00%	5.75%	6.68%	8.00%	5.75%	6.74%
Retail:						
U.S.	8.75%	6.00%	7.28%	9.00%	6.25%	7.37%
Canada	7.50%	5.50%	6.31%	7.25%	5.50%	6.42%
Retail total	8.75%	5.50%	6.36%	9.00%	5.50%	6.44%
Total:						
U.S. portfolio	8.75%	6.00%	7.06%	9.00%	6.25%	7.13%
Canadian portfolio	7.75%	5.25%	6.26%	8.25%	5.25%	6.32%
Total portfolio	8.75%	5.25%	6.41%	9.00%	5.25%	6.46%

Investments in Joint Ventures

At December 31, 2013, the REIT had $42,434 invested in joint ventures, compared to $7,850 at December 31, 2012. The increase is primarily due to the REIT acquiring a 50% interest in the 1700 Broadway joint venture in Q2-13.

Notes Receivable

In conjunction with the 2007 acquisition of TransAlta Place, the REIT acquired a note receivable in the amount of $31,000. The note bears interest at 5.89% per annum and is repayable in varying blended monthly installments of principal and interest. The note is transferable at the option of the REIT and matures in May 2023. The balance outstanding on all notes receivable at December 31, 2013 is $20,464 compared to $23,875 at December 31, 2012.

Cash and Cash Equivalents

At December 31, 2013, the REIT had $48,222 of cash and cash equivalents on hand, compared to $54,494 at December 31, 2012. The balance is anticipated to be invested in investment properties in subsequent periods, used for working capital purposes or for debt repayment. All of the REIT's cash and cash equivalents are held in current accounts and/or bank guaranteed investment certificates.

LIABILITIES

	December 31, 2013	December 31, 2012	Increase (decrease)
Non-current liabilities:			
Mortgages and loans payable	$ 2,006,614	$ 1,860,606	$ 146,008
Convertible debentures	181,282	182,344	(1,062)
Other non-current liabilities	81	76	5
Current liabilities:			
Current portion of mortgages and loans payable	280,983	213,001	67,982
Current portion convertible debentures	3,982	-	3,982
Other current liabilities	84,848	74,177	10,671
	$ 2,557,790	$ 2,330,204	$ 227,586

Long-term debt is comprised of mortgages and other loans related to properties as well as the carrying value of convertible debentures issued by the REIT.

(In thousands of Canadian dollars, unless otherwise noted)

Under the terms of the REIT's Declaration of Trust, the total indebtedness of the REIT (excluding indebtedness related to the convertible debentures) is limited to 70% of gross book value ("GBV"). GBV is calculated as the consolidated net book value of the consolidated assets of the REIT, adding back the amount of accumulated depreciation of property and equipment as disclosed in the balance sheet and notes thereto.

Artis' mortgages, loans and bank indebtedness to GBV ratio at December 31, 2013 was 45.4%, compared to 47.3% at December 31, 2012.

	December 31, 2013	December 31, 2012
GBV	$ 5,043,254	$ 4,380,766
Mortgages, loans and bank indebtedness	2,287,597	2,073,607
Mortgages, loans and bank indebtedness to GBV	45.4%	47.3%
Preferred shares liability	$ 81	$ 76
Carrying value of convertible debentures	185,264	182,344
Total long-term debt and bank indebtedness	2,472,942	2,256,027
Total long-term debt and bank indebtedness to GBV	49.0%	51.5%

Artis REIT has an internal policy of maintaining a total debt to GBV ratio of 70% or lower. The Trustees have approved a guideline stipulating that for purposes of compliance with this policy, preferred units would be added to the debt component of the calculation. At December 31, 2013, the ratio of total long-term debt, bank indebtedness and preferred units to GBV was 55.5%.

Mortgages and Loans Payable

Mortgage financing:

Artis finances acquisitions in part through the arrangement or assumption of mortgage financing and consequently, substantially all of the REIT's investment properties are pledged as security under mortgages and other loans. In 2013, $54,705 (Q4-13 - $14,411) of principal repayments were made compared to $41,903 (Q4-12 - $12,414) in 2012.

During 2013, long-term debt including acquired above-and below-market mortgages, net of financing costs, added on acquisition of investment properties was $223,479 (Q4-13 - $13). The weighted-average interest rate on these mortgages was 3.67% and the weighted-average term to maturity was 7.6 years.

In 2013, Artis repaid nine maturing mortgages in the amount of $70,004. Artis refinanced four of the properties with new mortgages, net of financing costs, of $47,054. Artis obtained new mortgage financing on two previously unencumbered properties and received upward financing on one mortgage, net of financing costs, for a total of $34,273. The weighted-average interest rate on new mortgage financing obtained during the year was 3.72% and the weighted-average term to maturity was 7.8 years.

The weighted-average term to maturity on all mortgages and loans payable at December 31, 2013 is 4.3 years, compared to 4.4 years at December 31, 2012.

Variable rate mortgage debt:

Management believes that a percentage of variable rate debt is prudent in managing a portfolio of debt. At various times, management feels that 5% to 15% of the portfolio could be held in variable rate instruments and provide the benefit of lower interest rates, while keeping the overall risk at a moderate level. With the exception of the line of credit, all the REIT's variable rate debt is term debt and cannot be called on demand. The REIT has the ability to refinance, or use interest rate swaps, at any given point without incurring penalties.

At December 31, 2013, the REIT is a party to $575,463 of variable rate mortgage debt compared to $529,660 at December 31, 2012. The change is primarily due new mortgage financing of $75,494, the effect of foreign exchange of $26,762, offset by $45,212 arising from the refinancing of a mortgage on a U.S. property from a variable rate to a fixed rate in Q2-13 and by principal repayments during the year of $11,241.

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 mortgage debt (December 31, 2012, $173,472). The variable rate mortgage debt less the portion protected by interest rate swaps is $251,974 or 10.2% of total debt.

The amount of variable rate mortgage debt on properties in the U.S. is $404,214, of which $169,259 is protected by interest rate swaps. Management believes that holding variable rate mortgage debt in the U.S. is particularly appropriate as it can be repaid at any time without penalty.

Subsequent to December 31, 2013, the REIT entered into interest rate swaps on a portion of two U.S. mortgages. At December 31, 2013, the pro-forma variable rate mortgage debt is $575,463, of which $363,084 is protected by interest rate swaps. The pro-forma variable rate mortgage debt less the portion projected by interest rate swaps is $212,379 or 8.6% of total debt.

Convertible Debentures

Artis has three series of convertible debentures outstanding, as follows:

				December 31, 2013		December 31, 2012	
	Issued	Maturity	Face rate	Carrying value	Face value	Carrying value	Face value
Series D	30-Nov-07	30-Nov-14	5.00%	$ 3,982	$ 4,000	$ 6,937	$ 7,000
Series F	22-Apr-10	30-June-20	6.00%	85,034	86,170	84,896	86,170
Series G	21-Apr-11	30-June-18	5.75%	96,248	93,597	90,511	87,551
				$ 185,264	$ 183,767	$ 182,344	$ 180,721

The carrying value of convertible debentures has increased by $2,920 from December 31, 2012. This increase is due to the change in the year end US dollar to Canadian dollar exchange rate, partially offset by the $3,000 redemption of Series D debentures.

Other Current Liabilities

Included in other current liabilities are accounts payable and accrued liabilities, security deposits and prepaid rent, as well as the December 31, 2013 distributions payable to unitholders of $12,088, subsequently paid on January 15, 2014 and January 31, 2014. At December 31, 2013, there is no balance drawn on the REIT's revolving term credit facility. 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.

UNITHOLDERS' EQUITY

Unitholders' equity increased overall by $434,391 between December 31, 2012 and December 31, 2013. The increase was primarily due to the issuance of units for $362,055 and income for the year of $191,155. This increase was partially offset by distributions made to unitholders of $147,301.

LIQUIDITY AND CAPITAL RESOURCES

In 2013, Artis generated $194,507 of cash flows from operating activities. Cash flows from operations funded distributions to unitholders of $145,553. Cash of $54,705 was used for principal repayments on mortgages and loans.

Cash of $86,532 was used for capital building improvements, for tenant inducements and leasing costs in 2013.

At December 31, 2013, Artis had $48,222 of cash and cash equivalents on hand. Management anticipates that the cash on hand will be invested in investment properties in subsequent periods, used for working capital purposes or for debt repayment.

The REIT has a revolving term credit facility in the amount of $80,000 which may be utilized for general corporate operating purposes, including the acquisition of commercial properties and the issuance of letters of credit. As at December 31, 2013, the REIT had no balance drawn on the credit facility.

To its knowledge, Artis is not in default or arrears on any of its obligations, including distributions to unitholders, interest or principal payments on debt or any debt covenants for the year ended December 31, 2013.

The REIT's management expects to meet all of its short-term obligations and capital commitments with respect to properties through funds generated from operations, from the proceeds of mortgage refinancing, from the issuance of new debentures or units, and from the available credit facility and cash on hand.

CONTRACTUAL OBLIGATIONS

	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 [(1)]	183,767	4,000	-	93,597	86,170
Mortgages and loans payable [(2)]	2,323,072	282,284	768,691	713,176	558,921
Total	$ 2,565,900	$ 345,345	$ 768,691	$ 806,773	$ 645,091

(1) It is assumed that none of the convertible debentures are converted or redeemed prior to maturity and that they are paid out in cash on maturity.
(2) This includes mortgages and loans payable included in the REIT's investments in joint ventures.

At December 31, 2013, obligations due within one year include $59,061 of accounts payable and other liabilities**,** $225,067 of mortgages, principal repayments on mortgages of $57,217 and convertible debentures of $4,000.

SUMMARIZED QUARTERLY INFORMATION

$000's, except per unit amounts	Q4-13	Q3-13	Q2-13	Q1-13	Q4-12	Q3-12	Q2-12	Q1-12
Revenue	$ 122,870	$ 121,032	$ 110,737	$ 108,779	$ 105,036	$ 98,466	$ 86,835	$ 82,132
Property operating expenses	47,850	42,425	38,998	37,263	38,379	34,937	29,454	29,290
	75,020	78,607	71,739	71,516	66,657	63,529	57,381	52,842
Other income (expenses):								
Corporate expenses	(2,704)	(2,322)	(2,354)	(2,333)	(2,884)	(2,604)	(3,057)	(3,448)
Interest expense	(26,443)	(26,223)	(25,308)	(24,641)	(24,764)	(24,711)	(23,104)	(21,705)
Interest income	412	507	624	483	519	566	684	876
Income from investments joint ventures	5,581	769	1,106	-	-	-	-	-
Fair value (loss) gain on investment properties	(56,588)	(2,886)	29,035	34,824	61,037	54,003	51,990	56,871
Foreign currency translation (loss) gain	(2,915)	1,353	(4,622)	(1,385)	(240)	4,759	(2,777)	654
Transaction costs	(314)	(299)	(3,589)	(1,483)	(1,511)	(4,130)	(1,698)	(1,315)
Gain (loss) on financial instruments	1,249	(528)	4,671	596	(89)	(3,874)	(1,099)	(9,019)
(Loss) income for the period	(6,702)	48,978	71,302	77,577	98,725	87,538	78,320	75,756
Other comprehensive income (loss):								
Unrealized foreign currency translation gain (loss)	14,563	(8,515)	14,783	6,269	2,712	(9,538)	5,270	(3,100)
Comprehensive income for the period	$ 7,861	$ 40,463	$ 86,085	$ 83,846	$ 101,437	$ 78,000	$ 83,590	$ 72,656
(Loss) income per unit attributable to common unitholders:								
Basic	$ (0.09)	$ 0.36	$ 0.56	$ 0.65	$ 0.87	$ 0.79	$ 0.74	$ 0.81
Diluted	$ (0.09)	$ 0.35	$ 0.53	$ 0.62	$ 0.81	$ 0.77	$ 0.70	$ 0.80

The quarterly trend for revenues and property NOI has been impacted by acquisition and disposition activity and lease termination income. Management anticipates there will be further growth in revenues and Property NOI as acquisitions completed in 2012 and 2013 contribute to operating results. Income and per unit amounts are also impacted by the fair value gains and losses on investment properties.

(In thousands of Canadian dollars, unless otherwise noted)

Reconciliation of GAAP Income to FFO and AFFO

000's, except per unit amounts	Q4-13	Q3-13	Q2-13	Q1-13	Q4-12	Q3-12	Q2-12	Q1-12
(Loss) income for the period	$ (6,702)	$ 48,978	$ 71,302	$ 77,577	$ 98,725	$ 87,538	$ 78,320	$ 75,756
Add amortization on:								
Tenant inducements amortized into revenue	2,919	2,202	2,159	2,011	1,954	1,645	1,425	1,325
Fair value loss (gain) on investment properties	56,588	2,886	(29,035)	(34,824)	(61,037)	(54,003)	(51,990)	(56,871)
Foreign currency translation loss (gain)	2,915	(1,353)	4,622	1,385	240	(4,759)	2,777	(654)
Transaction costs on acquisitions	314	299	3,589	1,483	1,511	4,130	1,698	973
Adjustment for investments in joint ventures	(5,015)	(155)	(685)	-	-	-	-	-
Unrealized (gain) loss on financial instruments	(1,249)	528	(4,671)	(596)	89	3,874	1,099	9,019
Preferred unit distributions	(4,366)	(4,026)	(3,354)	(2,259)	(2,113)	(867)	-	-
FFO for the period	$ 45,404	$ 49,359	$ 43,927	$ 44,777	$ 39,369	$ 37,558	$ 33,329	$ 29,548
Add:								
Transaction costs (1)	-	-	-	-	-	-	-	342
FFO for the period after adjustments	$ 45,404	$ 49,359	$ 43,927	$ 44,777	$ 39,369	$ 37,558	$ 33,329	$ 29,890
FFO per unit								
Basic	$ 0.36	$ 0.39	$ 0.36	$ 0.39	$ 0.35	$ 0.34	$ 0.32	$ 0.32
Diluted	$ 0.35	$ 0.38	$ 0.35	$ 0.38	$ 0.34	$ 0.33	$ 0.31	$ 0.31
FFO per unit after adjustments								
Basic	$ 0.36	$ 0.39	$ 0.36	$ 0.39	$ 0.35	$ 0.34	$ 0.32	$ 0.32
Diluted	$ 0.35	$ 0.38	$ 0.35	$ 0.38	$ 0.34	$ 0.33	$ 0.31	$ 0.31
Weighted-average number of common units outstanding:								
Basic (2)	126,728	126,207	121,467	115,050	110,947	109,993	105,468	93,657
Diluted (2)	137,322	136,880	132,338	125,903	121,810	120,588	116,631	105,632
FFO for the period after adjustments	$ 45,404	$ 49,359	$ 43,927	$ 44,777	$ 39,369	$ 37,558	$ 33,329	$ 29,890
Add (deduct):								
Capital expenditures reserve	(1,247)	(1,230)	(1,121)	(819)	(792)	(742)	(656)	(623)
Leasing costs reserve	(4,987)	(4,923)	(4,482)	(4,097)	(3,694)	(3,467)	(3,063)	(2,905)
Straight-line rent adjustments(3)	(1,200)	(1,643)	(1,344)	(1,440)	(1,560)	(1,089)	(1,550)	(1,274)
Unit-based compensation	489	455	440	443	586	942	931	1,512
AFFO for the period	$ 38,459	$ 42,018	$ 37,420	$ 38,864	$ 33,909	$ 33,202	$ 28,991	$ 26,600
AFFO per unit								
Basic	$ 0.30	$ 0.33	$ 0.31	$ 0.34	$ 0.31	$ 0.30	$ 0.27	$ 0.28
Diluted	$ 0.30	$ 0.33	$ 0.30	$ 0.33	$ 0.30	$ 0.30	$ 0.27	$ 0.28
Weighted-average number of common units outstanding:								
Basic (2)	126,728	126,207	121,467	115,050	110,947	109,993	105,468	93,657
Diluted (2)	137,154	136,802	132,062	125,645	121,542	120,588	111,990	105,632

(1) Transaction costs added back in Q1-12 are one time professional fees related to internalization and corporate matters.
(2) Options, convertible debentures and restricted units are factored into the diluted weighted-average calculation, to the extent that their impact is dilutive.
(3) This includes straight-line rent adjustments included in the REIT's investments in joint ventures.

FFO, AFFO and per unit results are impacted by acquisition and disposition activity and by lease termination income received from tenants during the period.

RELATED PARTY TRANSACTIONS

	Three month period ended December 31,		Year ended December 31,	
	2013	2012	2013	2012
Acquisition fees	$ -	$ -	$ -	$ 552
Property management fees	81	79	323	317
Capitalized office furniture and fixtures	47	163	513	1,554
Capitalized office equipment	-	-	-	343
Capitalized leasing commissions	15	492	49	1,351
Capitalized building improvements	5,466	2,366	29,492	11,059
Capitalized tenant inducements	346	628	1,109	1,451
Disposition of surplus land	-	-	-	(750)
Property tax assessment consulting fees	183	3	274	191
Rental revenues	(42)	(40)	(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).

(In thousands of Canadian dollars, unless otherwise noted)

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 increase in these costs is primarily due to the Linden Ridge Shopping Centre development project. 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.

OUTSTANDING UNIT DATA

The balance of units outstanding as of February 27, 2014 is as follows:

Units outstanding at December 31, 2013	126,938,476
Units issued (DRIP)	261,293
Units issued on exercise of options	14,338
Units issued under Equity Distribution Agreement	320,000
Units outstanding at February 27, 2014	127,534,107

The balance of options outstanding as of February 27, 2014 is as follows:

	Options outstanding	**Options exercisable**
$11.28 options, issued February 25, 2010	105,375	105,375
$13.30 options, issued September 10, 2010	247,500	158,000
$13.44 options, issued October 15, 2010	286,250	196,750
$14.10 options, issued June 17, 2011	1,005,500	489,500
$16.36 options, issued April 13, 2012	1,701,250	426,250
	3,345,875	1,375,875

The balance of restricted units outstanding as of February 27, 2014 is 204,929. None of these restricted units are vested at this time.

As of February 27, 2014, the balance of Series A preferred units outstanding is 3,450,000, the balance of Series C preferred units outstanding is 3,000,000, the balance of Series E preferred units outstanding is 4,000,000 and the balance of Series G preferred units outstanding is 3,200,000.

OUTLOOK

Artis continues to target high quality retail, office and industrial assets primarily in western Canada, as well as in the Greater Toronto Area (Ontario) and select markets in the U.S.

According to the Scotiabank Global Forecast Update report of January 6, 2014, real GDP in Canada is forecast to grow 2.4% in 2014. Forecast GDP growth for the Canadian provinces where Artis owns properties is also positive, as follows: Manitoba, 2.3%; Saskatchewan, 2.6% Alberta, 3.7% British Columbia, 2.2% and Ontario, 2.1%. Of note, GDP growth expectations for Alberta, which represents 38.2% of Artis' Q4-13 Property NOI, remains above the Canadian average.

Real GDP in the U.S. is forecast to grow 2.7% in 2014; national year-over-year unemployment for December 2013 decreased to 6.7% from 7.9%. Year-over-year unemployment statistics at December 31, 2013, for Artis' key U.S. markets are as follows: Twin Cities Area, 4.4% (from 5.3%); the Greater Phoenix Area, 6.5% (from 6.8%); and Denver, 6.0% (from 7.5%). GDP growth expectations for these markets for 2014, which represent 20.9% of Artis' Q4-13 Property NOI are as follows: Minnesota, 3.5%, Arizona, 3.2%, and Colorado 3.0%. These compare favourably to the national average of 2.7%.

Artis is one of only a few REITs in Canada that has an Investment Grade Rating and the ability to issue both new trust units, preferred equity and unsecured debentures, which provides flexibility in accessing the capital markets depending on current investor sentiment and preference. DBRS has assigned an Issuer Rating of BBB (low) with a Stable trend to Artis REIT. DBRS has also assigned a rating of Pfd-3 (low) with a Stable trend to Artis' preferred units. Management anticipates that having the DBRS credit rating will be beneficial for accessing the debt and equity capital markets.

Many real estate investment trusts are trading at discounts to their consensus net asset values (NAV) and consequently there have been few new equity issues by REITs in recent months. However, investors continue to favour yield products like real estate investment trusts, and management anticipates unit prices will normalize in the short- to medium term at values closer to NAV.

Access to debt capital remains strong. Management anticipates interest rates will continue to moderately fluctuate in a low trading range, with long-term interest rate increases being slow, well-managed and well-communicated by the central banks. Rates today in both Canada and the U.S. are still low and it is still an opportune time to term out debt, or to fix existing floating debt with interest rate swaps, at very attractive low long-term financing rates. Management expects to maintain between 5% and 15% unhedged floating rate debt as a percentage of total debt.

Commercial property capitalization rates have not moved substantially in recent months and management does not expect there will be significant capitalization rate expansion or compression in its target markets. Artis will selectively pursue accretive acquisition opportunities in its target markets in Canada and the U.S. in 2014, and when prudent, to invest in high-yield development opportunities in those markets.

Management anticipates that real estate fundamentals in Canada and the U.S. will remain stable in 2014 and that Artis' properties will perform in line with the moderate growth expectations within its target markets. We will continue to focus on internal growth opportunities, by capitalizing on below-market rent opportunities, through selective re-development and repositioning of well-located assets in primary markets, and from new construction or expansions of existing portfolio properties.

SUBSEQUENT EVENTS

As at December 31, 2013, Artis had $48,222 of cash and cash equivalents on hand and $80,000 available on the line of credit. Subsequent to December 31, 2013, the following transactions took place:

- 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.

RISKS AND UNCERTAINTIES

REAL ESTATE OWNERSHIP

All real property investments are subject to elements of risk. General economic conditions, local real estate markets, supply and demand for leased premises, competition from other available premises and various other factors affect such investments. The REIT's properties are located in five Canadian provinces and five U.S. states, with a significant majority of its properties, measured by GLA, located in the province of Alberta and in the state of Minnesota. As a result, our properties are impacted by factors specifically affecting their respective real estate markets. These factors may differ from those affecting the real estate markets in other regions of Canada and the U.S.

INTEREST RATE AND DEBT FINANCING

Artis will be subject to the risks associated with debt financing. There can be no assurance that Artis will be able to refinance its existing indebtedness on terms that are as or more favourable to Artis as the terms of existing indebtedness. The inability to replace financing of debt on maturity would have an adverse impact on the financial condition and results of Artis.

Management seeks to mitigate this risk in a variety of ways. First, management considers structuring the timing of the renewal of significant tenant leases on properties in relation to the time at which mortgage indebtedness on such property becomes due for refinancing. Second, management seeks to secure financing from a variety of lenders on a property by property basis. Third, mortgage terms are, where practical, structured such that the exposure in any one year to financing risks is balanced.

Artis is also subject to interest rate risk associated with the REIT's revolving term credit facility, mortgages and unsecured debentures payable due to the expected requirement to refinance such debts in the year of maturity. The REIT minimizes the risk by restricting debt to 70% of gross book value and by carefully monitoring the amount of variable rate debt. The REIT has the majority of its mortgage payable and debentures in fixed rate 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 REIT has the ability to place interest rate swaps on top of variable rate debt at any time in order to effectively fix the interest rate.

The REIT's ratio of mortgages, loans and bank indebtedness to GBV is 45.4%, down from 47.3% at December 31, 2012. Approximately 11.3% of Artis' maturing mortgage debt comes up for renewal in 2014, and 18.0% in 2015. Management is in discussion with various lenders with respect to the renewal or refinancing of the 2014 and 2015 mortgage maturities.

(In thousands of Canadian dollars, unless otherwise noted)

CREDIT RISK AND TENANT CONCENTRATION

Artis is exposed to risk as tenants may be unable to pay their contracted rents. Management mitigates this risk by seeking to acquire properties across several asset classes. As well, management seeks to acquire properties with strong tenant covenants in place. Artis' portfolio includes 2,013 tenant leases with a weighted-average term to maturity of 4.7 years. Approximately 64.1% of the REIT's gross revenue is derived from national or government tenants. As indicated below, the largest tenant by gross revenue is Manitoba Telecom Services Inc., one of Canada's leading national communication companies providing voice services, internet and data services, and television. Manitoba Telecom Services Inc. is a TSX listed entity with 2013 annual revenues in excess of $1.6 billion. The second largest tenant by gross revenue is AMEC Americas Ltd, a global supplier of consultancy, engineering and project management services to energy, power and process industries with a market capitalization of over £3.0 billion.

Top Twenty Tenants by Gross Revenue

Tenant	% of Total Gross Revenue	Owned Share of GLA (in 000's of S.F.)	% of Total GLA	Weighted-Average Remaining Lease Term
Manitoba Telecom Services Inc.	2.0%	322	1.3%	9.2
AMEC Americas Ltd.	1.9%	200	0.8%	1.7
TransAlta Corporation	1.1%	336	1.4%	9.4
Shoppers Drug Mart	1.0%	155	0.6%	7.4
CB Richard Ellis, Inc.	0.9%	121	0.5%	4.7
Telvent Canada Ltd.	0.9%	98	0.4%	9.7
TD Canada Trust	0.9%	128	0.5%	0.6
Stantec Consulting, Ltd.	0.9%	98	0.4%	9.0
DirecTV, LLC	0.9%	257	1.1%	11.5
IHS Global Canada Ltd.	0.9%	78	0.3%	3.8
Home Depot	0.9%	158	0.7%	8.6
Sobeys	0.9%	191	0.8%	7.2
Canada Institute for Health Info	0.8%	92	0.4%	11.7
Fairview Health Services	0.8%	179	0.7%	9.7
PMC Sierra, Inc.	0.8%	134	0.6%	2.8
Cara Operations Limited	0.8%	100	0.4%	15.0
CGI Sys & Mgmt Consultants, Inc.	0.8%	64	0.3%	1.9
Bell Canada	0.8%	80	0.3%	2.6
3M Canada Company	0.7%	319	1.3%	6.3
Q9 Networks, Inc.	0.7%	35	0.1%	2.7
Total	19.4%	3,145	12.9%	7.4

Government Tenants by Gross Revenue

Tenant	% of Total Gross Revenue	Owned Share of GLA (in 000's of S.F.)	% of Total GLA	Weighted-Average Remaining Lease Term
Federal Government	3.6%	542	2.3%	8.9
Provincial Government	3.2%	462	1.9%	3.8
Civic or Municipal Government	0.6%	132	0.5%	13.1
Total	7.4%	1,136	4.7%	7.3
Weighted-average term to maturity (entire portfolio)				4.7

LEASE ROLLOVER RISK

The value of investment properties and the stability of cash flows derived from those properties is dependent upon the level of occupancy and lease rates in those properties. Upon expiry of any lease, there is no assurance that a lease will be renewed on favourable terms, or at all; nor is there any assurance that a tenant can be replaced. A contraction in the Canadian or U.S. economy would negatively impact demand for space in retail, office and industrial properties, consequently increasing the risk that leases expiring in the near term will not be renewed.

Details of the portfolio's expiry schedule is as follows:

	Canada						U.S.		
Expiry Year	AB	BC	MB	SK	ON	*Calgary Office Only*	MN	Other	Total
2014	2.7%	1.0%	2.5%	0.3%	1.9%	*0.9%*	2.9%	0.1%	11.4%
2015	3.2%	0.9%	2.2%	0.7%	1.9%	*1.7%*	4.0%	0.2%	13.1%
2016	4.1%	0.9%	1.9%	0.3%	2.9%	*1.1%*	4.2%	0.1%	14.4%
2017	1.9%	0.8%	1.6%	0.8%	2.4%	*0.9%*	2.9%	1.4%	11.8%
2018	2.6%	0.4%	2.1%	0.5%	0.6%	*0.9%*	1.6%	0.9%	8.7%
2019	1.9%	0.6%	0.2%	0.0%	1.6%	*0.4%*	1.6%	0.4%	6.3%
2020 & later	8.2%	2.1%	3.0%	1.8%	3.8%	*3.5%*	4.6%	3.8%	27.3%
Month-to-month	0.1%	0.1%	0.1%	0.1%	0.1%	*0.0%*	0.1%	0.0%	0.6%
Vacant	1.3%	0.3%	0.6%	0.2%	0.5%	*0.8%*	1.3%	0.3%	4.5%
Properties in re-development	0.0%	0.3%	1.0%	0.6%	0.0%	*0.0%*	0.0%	0.0%	1.9%
Total	26.0%	7.4%	15.2%	5.3%	15.7%	*10.2%*	23.2%	7.2%	100.0%

Artis' real estate is diversified across five Canadian provinces and five U.S. states, and across the office, retail and industrial asset classes. By city and asset class, the three largest segments of the REIT's portfolio (by Property NOI) are Calgary office properties, Winnipeg office properties and the Twin Cities Area industrial properties.

TAX RISK

On June 22, 2007, the SIFT Rules (discussed in more detail above under the heading "Income Tax") were enacted. Under the SIFT Rules, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be 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 the tax.

The SIFT Rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). In order to meet the REIT Conditions, a trust must meet a number of technical tests that do not fully accommodate common real estate and business structures. Prior to the end of 2008, the REIT undertook various restructuring activities in order to attempt to meet the requirements of the REIT Conditions, and the REIT intends to comply with the REIT Conditions so that the SIFT Rules will not apply to the REIT in 2009 and subsequent years. The REIT believes that it has met the REIT Conditions throughout the year ended December 31, 2012 and the year ended December 31, 2013. There can be no assurances, however, that the REIT will continue to be able to satisfy the REIT Conditions in the future such that the REIT will not be subject to the tax imposed by the SIFT Rules.

The REIT operates in the United States through a U.S. REIT (Artis US Holdings, Inc.) which is primarily capitalized by the REIT by way of equity, debt in the form of notes owed to the REIT and preferred shares. As at December 31, 2013, Artis US Holdings, Inc. owes notes payable of US$150,339 to the REIT which is eliminated on consolidation of the financial statements.

The notes have been recorded as a liability for U.S. federal income tax purposes. If the Internal Revenue Service ("IRS") or a court were to determine that the notes should be treated as equity rather than debt for tax purposes, the interest on the notes would become taxable as a dividend, and therefore would not be deductible for U.S. federal income tax purposes. In addition, if the IRS were to determine that the interest rate on the notes did not represent an arm's length rate, any excess amount over arm's length would not be deductible and would be taxed as a dividend payment instead of an interest payment. This would increase the U.S. federal income tax liability of the REIT. In addition, the REIT could be subject to penalties. The increase in the tax liability could adversely affect Artis US Holdings, Inc.'s ability to make payments on the notes or the REIT's ability to make distribution on its units.

FOREIGN CURRENCY RISK

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

OTHER RISKS

In addition to the specific risks identified above, Artis REIT is subject to a variety of other risks, including, but not limited to, risks posed by the illiquidity of real property investments, risk of general uninsured losses as well as potential risks arising from environmental matters.

The REIT may also be subject to risks arising from land leases for properties in which the REIT has an interest, public market risks, unitholder liability risks, risks pertaining to the availability of cash flow, risks related to fluctuations in cash distributions, changes in legislation, and risks relating to the REIT's reliance on key personnel.

CRITICAL ACCOUNTING ESTIMATES

Artis REIT's management believes that the policies below are those most subject to estimation and judgment by management.

VALUATION OF 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 income or loss for the period. Artis determines the fair value of investment properties based upon either the discounted cash flow method or the overall capitalization method. Under the discounted cash flow method, expected future cash flows for each investment property were discounted, generally over a term of 10 years, using weighted-average rates of approximately 7.68% at December 31, 2012 and 7.60% at December 31, 2013. Expected future cash flows for each investment property have been based upon, but not limited to, rental income from current leases, budgeted and actual expenses, and assumptions about rental income from future leases. Under the overall capitalization method, year one income was stabilized and capped at weighted-average capitalization rates of approximately 6.46% at December 31, 2012 and 6.41% at December 31, 2013.

Investment properties under construction include initial acquisition costs, other direct costs and borrowing costs during the period of development. 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.

VALUATION OF DEFERRED TAX ASSETS AND LIABILITIES

The REIT currently qualifies as a mutual fund trust for Canadian income tax purposes. On June 22, 2007, new legislation relating to, among other things, the federal income taxation of a specified investment flow-through trust or partnership (a "SIFT") was enacted (the "SIFT Rules"). 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 year ended December 31, 2012 and the year ended December 31, 2013.

ALLOCATION OF CONVERTIBLE DEBENTURES

Artis REIT has issued convertible debentures, which are a compound financial instrument. The proceeds of these issues are allocated between their liability and equity components. The discount rate applied in the allocation is determined by management.

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.

CONTROLS AND PROCEDURES

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and Chief Financial Officer evaluated, or caused to be evaluated, the design of the REIT's internal controls over financial reporting (as defined in NI 52-109) for the year ended December 31, 2013.

All control systems have inherent limitations, and evaluation of a control system cannot provide absolute assurance that all control issues have been detected, including risks of misstatement due to error or fraud. As a growing enterprise, management anticipates that the REIT will be continually evolving and enhancing its systems of controls and procedures.

During the year ended December 31, 2013, the control framework used to design the REIT's internal controls over financial reporting is the Committee of Sponsoring Organization of the Treadway Commission ("COSO") *Internal Control - Integrated Framework (1992).* The REIT is working towards adopting COSO *Internal Control - Integrated Framework (2013)* framework during fiscal 2014.

DISCLOSURE CONTROLS AND PROCEDURES

The REIT's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the REIT is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2013, an evaluation was carried out, under the supervision of and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the REIT's disclosure controls and procedures (as defined in NI 52-109). Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the REIT's disclosure controls and procedures were effective for the year ended December 31, 2013.

ARTIS
REIT

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, P.Eng., MBA	Jim Green, CA
President and Chief Executive Officer	Chief Financial Officer
February 27, 2014	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

(In thousands of Canadian dollars, unless otherwise noted)

CONSOLIDATED BALANCE SHEETS

	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.

(In thousands of Canadian dollars, unless otherwise noted)

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2013 and 2012

	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.

(In thousands of Canadian dollars, unless otherwise noted)

CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY
Years ended December 31, 2013 and 2012

	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.

(In thousands of Canadian dollars, unless otherwise noted)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2013 and 2012

	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.

NOTES TO 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.

(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.

(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.

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.

(In thousands of Canadian dollars, unless otherwise noted)

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.

(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, unless otherwise noted)

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.

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, unless otherwise noted)

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

	Investment properties	Investment properties under development	Investment properties held for sale
			Year ended December 31, 2013
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	$ -

	Investment properties	Investment properties under development	Investment properties held for sale
			Year ended December 31, 2012 (1)
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.

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, unless otherwise noted)

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.

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, unless otherwise noted)

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

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

(In thousands of Canadian dollars, unless otherwise noted)

9. Mortgages and loans payable (continued):

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.

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.

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

(In thousands of Canadian dollars, unless otherwise noted)

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.

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.

(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%.

13. Unitholders' equity (continued):

(b) Preferred units (continued):

(i) Series A (continued):

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%.

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.

(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.

(In thousands of Canadian dollars, unless otherwise noted)

13. Unitholders' equity (continued):

(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.

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, unless otherwise noted)

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.

(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.

(In thousands of Canadian dollars, unless otherwise noted)

19. Employee benefits (continued):

(c) Unit-based compensation (continued):

(i) Unit options (continued):

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.

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

(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, unless otherwise noted)

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.

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.

(In thousands of Canadian dollars, unless otherwise noted)

21. Income taxes (continued):

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.

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.

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

(In thousands of Canadian dollars, unless otherwise noted)

22. Joint arrangements (continued):

	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	$ -

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, unless otherwise noted)

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

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, unless otherwise noted)

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.

(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, unless otherwise noted)

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.

		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.

WINNIPEG HEAD OFFICE

300 - 360 Main Street
Winnipeg, Manitoba R3C 3Z3
T 204.947.1250
F 204.947.0453

www.artisreit.com
AX.UN - TSX

CALGARY

Suite 660,
1509 Centre Street SW
Calgary, Alberta T2G 2E6
T 403.705.3535
F 403.444.5053

EDMONTON

Suite 101,
13245-140th Avenue NW
Edmonton, Alberta T6V 0E4
T 780.702.3066
F 780.702.3070

TORONTO

Suite 100,
415 Yonge Street
Toronto, Ontario M5B 2E7
T 647.955.3755
F 647.977.9072

PHOENIX

Suite 280,
16220 N. Scottsdale Road
Scottsdale, Arizona 85254
T 480.483.4111
F 480.556.9987