Interim Condensed Consolidated Financial Statements of

ARTIS REAL ESTATE INVESTMENT TRUST

Three months ended March 31, 2017 and 2016
(Unaudited)

(In Canadian dollars)

Interim Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands of Canadian dollars)

	Note	March 31, 2017	December 31, 2016
ASSETS			
Non-current assets:			
Investment properties	4	$ 4,985,706	$ 4,991,825
Investment properties under development	4	60,384	65,199
Investments in joint ventures	5	219,398	213,565
Property and equipment		3,887	3,351
Notes receivable		12,446	12,972
		5,281,821	5,286,912
Current assets:			
Investment properties held for sale	4	6,865	119,178
Deposits on investment properties		366	369
Prepaid expenses and other assets		11,397	11,728
Notes receivable		2,838	2,815
Accounts receivable and other receivables		15,669	13,173
Cash held in trust		8,817	7,851
Cash		77,487	50,729
		123,439	205,843
		$ 5,405,260	$ 5,492,755
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities:			
Mortgages and loans payable	6	$ 1,525,873	$ 1,520,124
Senior unsecured debentures	7	199,768	199,740
Convertible debentures	8	—	119,358
Other long-term liabilities		5,492	4,997
		1,731,133	1,844,219
Current liabilities:			
Mortgages and loans payable	6	555,743	627,838
Security deposits and prepaid rent		36,687	35,213
Accounts payable and other liabilities		75,121	88,439
Bank indebtedness	9	358,067	269,680
		1,025,618	1,021,170
		2,756,751	2,865,389
Unitholders' equity		2,648,509	2,627,366
Commitments, contingencies and guarantees	16		
Subsequent events	20		
		$ 5,405,260	$ 5,492,755

See accompanying notes to interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Operations

(Unaudited)

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

	Note		Three months ended March 31, 2017		2016
Revenue		$	133,557	$	132,994
Expenses:					
Property operating			31,831		28,764
Realty taxes			21,448		22,244
			53,279		51,008
Net operating income			80,278		81,986
Other income (expenses):					
Corporate expenses			(3,782)		(3,638)
Interest expense			(25,082)		(27,276)
Interest income			279		298
Net income from investments in joint ventures	5		6,114		243
Fair value gain (loss) on investment properties	4		13,471		(13,151)
Foreign currency translation gain			4,867		6,154
Transaction costs			—		(39)
Gain (loss) on financial instruments			479		(5,803)
Income before income taxes			76,624		38,774
Income tax recovery			392		—
Net income			77,016		38,774
Other comprehensive (loss) income that may be reclassified to net income in subsequent periods:					
Unrealized foreign currency translation loss			(9,018)		(53,610)
Unrealized foreign currency translation loss on investments in joint ventures			(1,072)		(6,914)
Other comprehensive (loss) income that will not be reclassified to net income in subsequent periods:					
Unrealized (loss) gain from remeasurements of net pension obligation			(46)		9
			(10,136)		(60,515)
Total comprehensive income (loss)		$	66,880	$	(21,741)
Basic income per unit attributable to common unitholders	10 (d)	$	0.48	$	0.25
Diluted income per unit attributable to common unitholders	10 (d)		0.48		0.24
Weighted-average number of common units outstanding:					
Basic	10 (d)		150,545,114		139,214,692
Diluted	10 (d)		150,895,289		145,144,293

See accompanying notes to interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Changes in Unitholders' Equity

(Unaudited)

(In thousands of Canadian dollars)

	Common units capital contributions (note 10 (a) (ii))	Equity component of convertible debentures	Retained earnings	Accumulated other comprehensive income (loss)	Contributed surplus	Total common equity	Total preferred equity	Total
Unitholders' equity, December 31, 2015	$ 1,815,071	$ 11,023	$ 186,901	$ 224,137	$ 5,006	$ 2,242,138	$ 325,623	$ 2,567,761
Changes for the period:								
Issuance of units, net of issue costs	7,660	—	—	—	—	7,660	—	7,660
Unit-based compensation expense	—	—	—	—	79	79	—	79
Net income	—	—	38,774	—	—	38,774	—	38,774
Other comprehensive loss	—	—	—	(60,515)	—	(60,515)	—	(60,515)
Distributions	—	—	(43,202)	—	—	(43,202)	—	(43,202)
Unitholders' equity, March 31, 2016	1,822,731	11,023	182,473	163,622	5,085	2,184,934	325,623	2,510,557
Changes for the period:								
Issuance of units, net of issue costs	135,613	(1)	—	—	—	135,612	—	135,612
Redemption of convertible debentures	—	(11,022)	—	—	11,022	—	—	—
Unit-based compensation expense	—	—	—	—	49	49	—	49
Net income	—	—	77,161	—	—	77,161	—	77,161
Other comprehensive income	—	—	—	39,836	—	39,836	—	39,836
Distributions	—	—	(135,849)	—	—	(135,849)	—	(135,849)
Unitholders' equity, December 31, 2016	1,958,344	—	123,785	203,458	16,156	2,301,743	325,623	2,627,366
Changes for the period:								
Issuance of units, net of issue costs	3,029	—	—	—	—	3,029	—	3,029
Net income	—	—	77,016	—	—	77,016	—	77,016
Other comprehensive loss	—	—	—	(10,136)	—	(10,136)	—	(10,136)
Distributions	—	—	(48,766)	—	—	(48,766)	—	(48,766)
Unitholders' equity, March 31, 2017	$ 1,961,373	$ —	$ 152,035	$ 193,322	$ 16,156	$ 2,322,886	$ 325,623	$ 2,648,509

See accompanying notes to interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)

(In thousands of Canadian dollars)

	Note		Three months ended March 31, 2017		2016
Cash provided by (used in):					
Operating activities:					
Net income		$	77,016	$	38,774
Distributions from joint ventures			966		1,304
Adjustments for non-cash items:					
Fair value (gain) loss on investment properties	4		(13,471)		13,151
Depreciation of property and equipment			241		213
Net income from investments in joint ventures	5		(6,114)		(243)
Amortization of tenant inducements			4,212		3,875
Amortization of above- and below-market mortgages, net			(323)		(550)
Accretion on liability component of debentures			(175)		(199)
Straight-line rent adjustments	4		(1,467)		(980)
Unrealized foreign currency translation gain			(3,039)		(6,200)
(Gain) loss on financial instruments			(479)		5,803
Unit-based compensation			506		654
Amortization of financing costs included in interest expense			851		770
Other long-term employee benefits			411		476
Changes in non-cash operating items			(13,784)		(622)
			45,351		56,226
Investing activities:					
Proceeds from dispositions of investment properties, net of costs and related debt	3		142,627		—
Additions to investment properties	4		(7,348)		(6,624)
Additions to investment properties under development	4		(10,380)		(4,370)
Additions to joint ventures	5		(2,216)		(6,506)
Additions to tenant inducements			(9,428)		(7,740)
Additions to leasing commissions	4		(3,468)		(4,597)
Notes receivable principal repayments			496		475
Additions to property and equipment			(779)		(145)
Change in deposits on investment properties			—		(2,575)
Change in cash held in trust			(810)		505
			108,694		(31,577)
Financing activities:					
Issuance of common units, net of issue costs			2,972		7,660
Repayment of convertible debentures			(116,549)		—
Change in bank indebtedness			90,000		14,000
Distributions paid on common units			(44,114)		(38,546)
Distributions paid on preferred units			(4,630)		(4,596)
Mortgages and loans principal repayments			(15,186)		(14,808)
Repayment of mortgages and loans payable			(37,909)		—
Advance of mortgages and loans payable, net of financing costs			(189)		37,350
			(125,605)		1,060
Foreign exchange loss on cash held in foreign currency			(1,682)		(3,556)
Increase in cash			26,758		22,153
Cash, beginning of period			50,729		66,449
Cash, end of period		$	77,487	$	88,602
Supplemental cash flow information:					
Interest paid		$	31,223	$	27,185
Interest received			280		298

See accompanying notes to interim condensed consolidated financial statements.

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

Note 1. Organization

Artis Real Estate Investment Trust (the "REIT") is an unincorporated closed-end real estate investment trust created under, and governed by, the laws of the Province of Manitoba. The REIT was created pursuant to the Declaration of Trust dated November 8, 2004, as most recently amended and restated on July 20, 2016 (the "Declaration of Trust"). The purpose of the REIT is to directly, or indirectly, own, manage, lease and (where appropriate) develop primarily office, retail and industrial 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) is set by the Board of Trustees.

Note 2. Significant accounting policies

(a) Basis of presentation and measurement:

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting*. Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed.

The interim condensed consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2016. 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.

These interim condensed consolidated financial statements should be read in conjunction with the REIT's consolidated financial statements for the year ended December 31, 2016.

(b) Use of estimates and judgments:

The preparation of the interim condensed consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. The critical accounting estimates and judgments have been set out in note 2 to the REIT's consolidated financial statements for the year ended December 31, 2016. There have been no changes to the critical accounting estimates and judgments during the three months ended March 31, 2017.

(c) Future changes in accounting standards:

The IASB issued IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15") in May 2014. IFRS 15 provides a single, principles based five-step model to be applied to the recognition of revenue from contracts with customers. IFRS 15 replaces IAS 11 – *Construction Contracts*, IAS 18 – *Revenue*, IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate* and SIC 31 – *Revenue - Barter Transactions Involving Advertising Services*. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The REIT does not expect a material impact to its consolidated financial statements from the adoption of this new standard.

A revised version of IFRS 9 – *Financial Instruments* ("IFRS 9") was issued by the IASB in July 2014 and will replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 establishes principles for the recognition, classification and measurement of financial assets and liabilities. IFRS 9 sets out a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. This approach is based on how an entity manages its financial instruments and the contractual cash flow characteristics of its financial assets. IFRS 9 retains most of the IAS 39 requirements for financial liabilities. The most significant change is when an entity elects to measure a financial liability at fair value, gains or losses due to changes in the credit risk of the instrument must be recognized in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The REIT does not expect a material impact to its consolidated financial statements from the adoption of this new standard.

The IASB issued IFRS 16 – *Leases* ("IFRS 16") in January 2016 which replaces IAS 17 - *Leases* and IFRIC 4 - *Determining whether an Arrangement contains a Lease*. The most significant change introduced by IFRS 16 is a single lessee accounting model, bringing leases on-balance sheet for lessees. The changes do not materially impact the lessor accounting model. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The REIT is currently evaluating the impact of this new standard.

In June 2016, the IASB amended IFRS 2 – *Share-based Payment*. The amendment clarifies the classification and measurement of share-based payment transactions, and is effective for annual periods beginning on or after January 1, 2018. The REIT is currently evaluating the impact of this amendment.

Note 3. Acquisitions and dispositions of investment properties

Acquisitions:

The REIT did not acquire any properties during the three months ended March 31, 2017.

The REIT did not acquire any properties during the three months ended March 31, 2016.

Dispositions:

The REIT disposed of the following properties during the three months ended March 31, 2017:

Property	Property count	Location	Disposition date	Asset class
Airdrie Flex Industrial	1	Airdrie, AB	February 6, 2017	Industrial
Southview Centre	1	Medicine Hat, AB	March 10, 2017	Retail
Westbank Hub Shopping Centre and Westbank Hub Centre North (1)	2	Westbank, BC	March 15, 2017	Retail
Ford Tower and Alpine Building	2	Calgary, AB	March 30, 2017	Office

(1) The REIT disposed of its 75% interest in these properties.

The proceeds from the sale of the above properties, net of costs and related debt, were $142,627. The assets and liabilities associated with the properties were derecognized.

The REIT did not dispose of any properties during the three months ended March 31, 2016.

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

	Three months ended March 31, 2017		
	Investment properties	Investment properties under development	Investment properties held for sale
Balance, beginning of period	$ 4,991,825	$ 65,199	$ 119,178
Additions:			
Capital expenditures	7,348	10,380	—
Leasing commissions	3,468	—	—
Dispositions	(36,743)	—	(111,480)
Reclassification of investment properties under development	14,718	(14,718)	—
Foreign currency translation loss	(16,042)	(332)	—
Straight-line rent adjustments	1,484	1	(18)
Tenant inducement additions, net of amortization	5,239	(5)	(18)
Fair value gain (loss)	14,409	(141)	(797)
Balance, end of period	$ 4,985,706	$ 60,384	$ 6,865

			Year ended December 31, 2016
	Investment properties	Investment properties under development	Investment properties held for sale
Balance, beginning of year	$ 5,078,021	$ 26,892	$ 115,504
Additions:			
Acquisitions	340,115	—	—
Capital expenditures	57,373	23,864	40
Leasing commissions	16,139	141	53
Dispositions	(35,134)	—	(326,196)
Reclassification of investment properties under development	(18,631)	18,631	—
Reclassification of investment properties held for sale	(337,836)	—	337,836
Foreign currency translation (loss) gain	(35,484)	(338)	28
Straight-line rent adjustments	5,472	4	(30)
Tenant inducement additions, net of amortization	24,548	341	(394)
Fair value loss	(102,758)	(4,336)	(7,663)
Balance, end of year	$ 4,991,825	$ 65,199	$ 119,178

During the three months ended March 31, 2017, the REIT reclassified one industrial property from investment properties under development to investment properties.

At March 31, 2017, investment properties with a fair value of $4,167,236 (December 31, 2016, $4,218,827) were pledged as security under mortgage agreements.

The REIT obtains external valuations for a selection of properties representing various geographical regions and asset classes across its portfolio. For the three months ended March 31, 2017, properties with an appraised value of $250,480 (2016, $58,800) 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 three months ended March 31, 2017 and the year ended December 31, 2016.

Under the fair value hierarchy, the fair value of the REIT's investment properties is considered a Level 3, as described in note 19.

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

	March 31, 2017			December 31, 2016		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Western Canada:						
Discount rate	9.50%	6.25%	7.65%	9.50%	6.25%	7.60%
Terminal capitalization rate	9.00%	4.50%	6.85%	9.00%	4.50%	6.81%
Capitalization rate	8.75%	4.50%	6.79%	8.75%	4.50%	6.75%
Investment horizon (years)	12.0	10.0	10.2	12.0	9.0	10.2
Central Canada:						
Discount rate	9.00%	6.25%	7.70%	9.00%	6.25%	7.70%
Terminal capitalization rate	8.50%	5.75%	6.46%	8.50%	5.75%	6.46%
Capitalization rate	8.25%	5.50%	6.27%	8.25%	5.50%	6.27%
Investment horizon (years)	12.0	10.0	10.4	12.0	9.0	10.3
Eastern Canada:						
Discount rate	7.75%	6.50%	7.16%	7.75%	6.50%	7.17%
Terminal capitalization rate	7.00%	5.00%	6.23%	7.00%	5.25%	6.35%
Capitalization rate	7.00%	5.00%	6.17%	7.00%	5.00%	6.25%
Investment horizon (years)	12.0	10.0	10.3	12.0	10.0	10.1
U.S.:						
Discount rate	9.00%	7.00%	8.10%	9.00%	7.00%	8.10%
Terminal capitalization rate	8.75%	5.75%	7.11%	8.75%	5.75%	7.16%
Capitalization rate	8.50%	5.50%	6.86%	8.50%	5.50%	6.89%
Investment horizon (years)	20.0	10.0	11.1	20.0	10.0	11.1
Overall:						
Discount rate	9.50%	6.25%	7.73%	9.50%	6.25%	7.71%
Terminal capitalization rate	9.00%	4.50%	6.75%	9.00%	4.50%	6.77%
Capitalization rate	8.75%	4.50%	6.60%	8.75%	4.50%	6.62%
Investment horizon (years)	20.0	10.0	10.6	20.0	9.0	10.5

The above information represents the REIT’s entire portfolio of investment properties, excluding properties held in the REIT's investments in joint ventures.

Note 5. Joint arrangements

The REIT had interests in the following joint arrangements:

Property	Principal purpose	Type of arrangement	Ownership interest March 31, 2017	Ownership interest December 31, 2016
Park 8Ninety I	Investment property	Joint venture	95%	95%
Corridor Park	Investment property	Joint venture	90%	90%
Park Lucero I	Investment property	Joint venture	90%	90%
Park Lucero II	Investment property	Joint venture	90%	90%
Park Lucero III	Investment property	Joint venture	90%	90%
Park Lucero IV	Investment property	Joint venture	90%	90%
Millwright Building	Investment property	Joint venture	80%	80%
Graham Portfolio	Investment property	Joint venture	75%	75%
1700 Broadway	Investment property	Joint venture	50%	50%
Centrepoint	Investment property	Joint venture	50%	50%
Hudson's Bay Centre	Investment property	Joint venture	50%	50%
The Point at Inverness	Investment property	Joint venture	50%	50%
Centre 70 Building	Investment property	Joint operation	85%	85%
Westbank Hub Centre North	Investment property	Joint operation	-	75%
Westbank Hub Shopping Centre	Investment property	Joint operation	-	75%
Cliveden Building	Investment property	Joint operation	50%	50%
Kincaid Building	Investment property	Joint operation	50%	50%

The REIT has assessed the above investment properties as joint arrangements as decisions about the relevant activities require unanimous consent of the parties sharing control. The REIT has determined the type of arrangement based upon the ownership structure of each individual investment property.

The REIT contributed $2,216 during the three months ended March 31, 2017, to the Park Lucero, Hudson's Bay Centre and Park 8Ninety I joint venture arrangements.

The REIT is contingently liable for the obligations of certain joint arrangements. As at March 31, 2017, the co-owners' share of mortgage liabilities was $102,958 (December 31, 2016, $114,575). 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 arrangements is as follows:

	March 31, 2017	December 31, 2016
Non-current assets:		
Investment properties	$ 339,240	$ 284,249
Investment properties under development	60,559	92,305
Current assets:		
Prepaid expenses and other assets	239	292
Accounts receivable and other receivables	578	559
Cash	10,565	8,312
	411,181	385,717
Non-current liabilities:		
Mortgages and loans payable	134,707	117,804
Current liabilities:		
Mortgages and loans payable	37,696	34,709
Security deposits and prepaid rent	2,488	2,094
Accounts payable and other liabilities	16,892	17,545
	191,783	172,152
Investments in joint ventures	$ 219,398	$ 213,565

	Three months ended March 31, 2017	2016
Revenue	$ 5,981	$ 6,059
Expenses:		
Property operating	1,813	1,673
Realty taxes	1,044	1,076
	2,857	2,749
Net operating income	3,124	3,310
Other income (expenses):		
Interest expense	(1,301)	(1,097)
Interest income	1	—
Fair value gain (loss) on investment properties	4,290	(1,970)
Net income from investments in joint ventures	$ 6,114	$ 243

Note 6. Mortgages and loans payable

	March 31, 2017	December 31, 2016
Mortgages and loans payable	$ 2,084,231	$ 2,150,621
Net above- and below-market mortgage adjustments	6,129	6,540
Financing costs	(8,744)	(9,199)
	2,081,616	2,147,962
Current portion	555,743	627,838
Non-current portion	$ 1,525,873	$ 1,520,124

The majority of the REIT's investment properties have been pledged as security under mortgages and other security agreements. 54.0% of the REIT's mortgages and loans payable bear interest at fixed rates (December 31, 2016, 54.4%), and a further 26.0% of the REIT's mortgages and loans payable bear interest at variable rates with interest rate swaps in place (December 31, 2016, 22.8%). The weighted-average effective rate on all mortgages and loans payable was 3.86% and the weighted-average nominal rate was 3.74% at March 31, 2017 (December 31, 2016, 3.75% and 3.71%, respectively). Maturity dates range from May 1, 2017 to February 14, 2032.

The REIT's mortgage providers have various financial covenants. The REIT monitors these covenants, which are primarily debt service coverage ratios, and was in compliance with these requirements at March 31, 2017.

Note 7. Senior unsecured debentures

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

Senior unsecured debenture issue	Issue date	Maturity date	Interest rate
Series A	March 27, 2014, September 10, 2014	March 27, 2019	3.753%

	Face value	Unamortized accretion	Unamortized financing costs	Carrying value	Current portion	Non-current portion
March 31, 2017	$ 200,000	$ 425	$ (657)	$ 199,768	$ —	$ 199,768
December 31, 2016	200,000	476	(736)	199,740	—	199,740

During the three months ended March 31, 2017, accretion to the liability of $51 and financing cost amortization of $79 were recorded (2016, $49 and $76, respectively).

In accordance with the Series A senior unsecured debenture supplemental indenture, the REIT must maintain various financial covenants. At March 31, 2017, the REIT was in compliance with these requirements.

Note 8. Convertible debentures

During the three months ended March 31, 2017, Series G convertible debentures with a face value of US$25 were converted and the REIT issued 1,318 units at the conversion price of US$18.96 per unit. On February 28, 2017, the REIT exercised its early redemption option and repaid the outstanding face value of the Series G convertible debentures in the amount of US$87,975.

	Face value	Equity portion	Liability portion	Accretion	Carrying value	Current portion	Non-current portion
March 31, 2017	$ —	$ —	$ —	$ —	$ —	$ —	$ —
December 31, 2016	118,158	—	122,411	(3,053)	119,358	—	119,358

During the three months ended March 31, 2017, accretion of $124 reduced the carrying value of the liability component (2016, $150).

Note 9. Bank indebtedness

The REIT has unsecured revolving term credit facilities in the aggregate amount of $500,000, which can be utilized for general corporate and working capital purposes, short-term financing of investment property acquisitions and the issuance of letters of credit. The REIT can draw on the facilities in Canadian or US dollars. The first tranche of the credit facilities in the amount of $300,000 matures on December 15, 2018. The second tranche of the credit facilities matures on April 29, 2021. Amounts drawn on the facilities bear interest at prime plus 0.70% or at the bankers' acceptance rate plus 1.70%. At March 31, 2017, the REIT had $358,067 drawn on the facilities (December 31, 2016, $269,680).

For purposes of the credit facilities, the REIT must maintain various financial covenants. As at March 31, 2017, the REIT was in compliance with these requirements.

Note 10. 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, 2015	138,864,486	$	1,815,071
Public offerings, net of issue costs of $5,106	8,712,400		109,898
Restricted units redeemed	62,338		774
Conversion of Series F convertible debentures	645		11
Distribution Reinvestment and Unit Purchase Plan	2,693,208		32,590
Balance at December 31, 2016	150,333,077		1,958,344
Restricted units redeemed	1,682		21
Conversion of Series G convertible debentures	1,318		36
Distribution Reinvestment and Unit Purchase Plan	242,312		2,972
Balance at March 31, 2017	150,578,389	$	1,961,373

The REIT has a Distribution Reinvestment and Unit Purchase Plan ("DRIP") which allows unitholders the option to elect to receive all or a portion of their regular monthly distributions in additional REIT units. On January 13, 2017, the REIT announced the suspension of its DRIP until further notice.

(b) Preferred units:

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

Particulars of the REIT's outstanding preferred units are as follows:

Preferred unit series	Issue date	Number of units outstanding		Gross proceeds	Annual distribution rate	Distribution rate reset date
Series A	August 2, 2012	3,450,000	$	86,250	5.25%	September 30, 2017
Series C (1)	September 18, 2012	3,000,000		US 75,000	5.25%	March 31, 2018
Series E	March 21, 2013	4,000,000		100,000	4.75%	September 30, 2018
Series G	July 29, 2013	3,200,000		80,000	5.00%	July 31, 2019

(1) The Series C preferred units are denominated in US dollars.

The REIT may redeem the Series A, Series C, Series E or Series G Units on the respective distribution rate reset date and every five years thereafter. The holders of the Series A, Series C, Series E and Series G Units have the right to reclassify their Units into Series B, Series D, Series F and Series H Units, respectively, on the distribution rate reset date and every five years thereafter.

The Series A Units, Series C Units, Series E Units and Series G Units 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 August 8, 2016, the REIT issued 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 March 31, 2017, the REIT had not issued any securities under this short form base shelf prospectus.

(d) Weighted-average common units:

		Three months ended March 31, 2017		2016
Net income	$	77,016	$	38,774
Adjustment for distributions to preferred unitholders (note 11)		(4,630)		(4,596)
Net income attributable to common unitholders		72,386		34,178
Adjustment for convertible debentures		—		1,327
Adjustment for restricted units		91		40
Diluted net income attributable to common unitholders	$	72,477	$	35,545
The weighted-average number of common units outstanding was as follows:				
Basic common units		150,545,114		139,214,692
Effect of dilutive securities:				
Convertible debentures		—		5,559,355
Restricted units		350,175		370,246
Diluted common units		150,895,289		145,144,293
Net income per unit attributable to common unitholders:				
Basic	$	0.48	$	0.25
Diluted		0.48		0.24

The computation of diluted net income per unit attributable to common unitholders includes unit options, convertible debentures, restricted units and deferred units when these instruments are dilutive. For the three months ended March 31, 2017, unit options and deferred units were anti-dilutive, with an aggregate total of 1,461,274 units. For the three months ended March 31, 2016, unit options, the Series G convertible debentures and deferred units were anti-dilutive, with an aggregate total of 6,976,357 units.

Note 11. Distributions to unitholders

Total distributions declared to unitholders were as follows:

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	$ 40,656	$ 0.27	$ 37,614	$ 0.27
Preferred unitholders - Series A	1,132	0.33	1,132	0.33
Preferred unitholders - Series C	1,310	0.44	1,276	0.43
Preferred unitholders - Series E	1,188	0.30	1,188	0.30
Preferred unitholders - Series G	1,000	0.31	1,000	0.31

Note 12. Interest expense

	Three months ended March 31, 2017	2016
Interest on mortgages and loans payable	$ 19,566	$ 21,081
Interest on senior unsecured debentures	1,865	1,875
Interest on convertible debentures	1,075	3,032
Interest on bank indebtedness	2,223	1,267
Net amortization of above- and below-market mortgages fair value adjustments	(323)	(550)
Amortization of financing costs	851	770
Accretion on liability component of debentures	(175)	(199)
	$ 25,082	$ 27,276

In the REIT's investments in joint ventures, interest of $101 was capitalized related to projects under development during the three months ended March 31, 2017 (2016, $nil).

Note 13. 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 is subject to taxation in the U.S. on the taxable income earned by its U.S. management subsidiary. The REIT has recorded an income tax recovery of $392 in relation to this subsidiary for the three months ended March 31, 2017 (2016, $nil).

The REIT's U.S. properties are owned by subsidiaries that are REITs for U.S. income tax purposes. These subsidiaries intend to distribute all of their U.S. taxable income to Canada and are entitled to deduct such distributions for U.S. income tax purposes. As a result, the REIT does not record a provision for current U.S. income taxes on the taxable income earned by these subsidiaries. These U.S. subsidiaries are subject to a 30% to 35% withholding tax on distributions to Canada. Any withholding taxes paid are recorded with the related distributions.

Note 14. Related party transactions

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

Other related party transactions are outlined as follows:

	Three months ended March 31, 2017	2016
Property management fees	$ 82	$ 82
Capitalized leasing commissions	7	9
Capitalized project management fees	24	37
Capitalized building improvements	4,318	3,676
Capitalized development projects	2,506	471
Capitalized tenant inducements	1,767	318
Capitalized office furniture and fixtures	—	79
Realty tax assessment consulting fees	31	490
Rental revenues	(89)	(72)

The REIT incurred property management fees, leasing commissions and project management 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 March 31, 2017, was $30 (December 31, 2016, $28).

The REIT incurred costs for building improvements, development projects and tenant inducements paid to Marwest Construction Ltd. (''Marwest Construction'') and Marwest Development Corporation, companies related to certain trustees and officers of the REIT. The amount payable at March 31, 2017, was $6,194 (December 31, 2016, $8,680).

The REIT incurred costs for office furniture and fixtures paid to Marwest Construction. The amount payable at March 31, 2017, was $nil (December 31, 2016, $nil).

The REIT incurred costs for realty tax assessment consulting paid to Fairtax Realty Advocates, a company under control of close family members of key management personnel. The amount payable at March 31, 2017, was $nil (December 31, 2016, $68).

The REIT collected office rents and other related service fees from Marwest Management and Fairtax Realty Advocates.

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

Note 15. Segmented information

The REIT owns and operates various properties located in Canada and the U.S. These properties are managed by and reported internally on the basis of geographical regions. Western Canada includes British Columbia and Alberta; Central Canada includes Saskatchewan and Manitoba; and Eastern Canada includes Ontario. Segmented information includes the REIT's joint ventures as presented using the proportionate share method. REIT expenses, including interest relating to debentures and bank indebtedness, have not been allocated to the segments.

Three months ended March 31, 2017	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	$ 43,698	$ 26,846	$ 15,204	$ 53,717	$ 73	$ (5,981)	$ 133,557
Expenses:							
Property operating	9,572	6,850	3,823	13,399	—	(1,813)	31,831
Realty taxes	6,740	4,043	2,640	9,069	—	(1,044)	21,448
	16,312	10,893	6,463	22,468	—	(2,857)	53,279
Net operating income	27,386	15,953	8,741	31,249	73	(3,124)	80,278
Other income (expenses):							
Corporate expenses	—	—	—	—	(3,782)	—	(3,782)
Interest expense	(6,624)	(3,468)	(2,496)	(8,574)	(5,221)	1,301	(25,082)
Interest income	226	15	5	3	31	(1)	279
Net income from investments in joint ventures	—	—	—	—	—	6,114	6,114
Fair value (loss) gain on investment properties	(1,714)	1,101	8,891	9,483	—	(4,290)	13,471
Foreign currency translation gain	—	—	—	—	4,867	—	4,867
Gain on financial instruments	—	—	—	—	479	—	479
Income (loss) before income taxes	19,274	13,601	15,141	32,161	(3,553)	—	76,624
Income tax recovery	—	—	—	392	—	—	392
Net income (loss)	$ 19,274	$ 13,601	$ 15,141	$ 32,553	$ (3,553)	$ —	$ 77,016
Acquisition of investment properties	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Additions to investment properties and investment properties under development	1,709	6,935	1,174	26,997	—	(19,087)	17,728
Additions to tenant inducements	4,442	1,778	644	4,405	—	(1,841)	9,428
Additions to leasing commissions	1,809	258	405	1,436	—	(440)	3,468

March 31, 2017	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Total assets	$ 1,554,722	$ 1,126,611	$ 639,483	$ 2,224,525	$ 51,702	$ (191,783)	$ 5,405,260
Total liabilities	712,370	336,990	265,268	1,042,131	591,775	(191,783)	2,756,751

Three months ended March 31, 2016

	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	$ 52,652	$ 27,197	$ 15,360	$ 43,792	$ 52	$ (6,059)	$ 132,994
Expenses:							
Property operating	10,734	6,459	3,685	9,559	—	(1,673)	28,764
Realty taxes	8,045	4,398	2,644	8,233	—	(1,076)	22,244
	18,779	10,857	6,329	17,792	—	(2,749)	51,008
Net operating income	33,873	16,340	9,031	26,000	52	(3,310)	81,986
Other income (expenses):							
Corporate expenses	—	—	—	—	(3,638)	—	(3,638)
Interest expense	(8,834)	(3,862)	(2,598)	(6,910)	(6,169)	1,097	(27,276)
Interest income	254	7	6	3	28	—	298
Net income from investments in joint ventures	—	—	—	—	—	243	243
Fair value (loss) gain on investment properties	(6,837)	(1,992)	321	(6,613)	—	1,970	(13,151)
Foreign currency translation gain	—	—	—	—	6,154	—	6,154
Transaction costs	—	—	—	(39)	—	—	(39)
Loss on financial instruments	—	—	—	—	(5,803)	—	(5,803)
Income (loss) before income taxes	18,456	10,493	6,760	12,441	(9,376)	—	38,774
Income tax expense	—	—	—	—	—	—	—
Net income (loss)	$ 18,456	$ 10,493	$ 6,760	$ 12,441	$ (9,376)	$ —	$ 38,774
Acquisitions of investment properties	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Additions to investment properties and investment properties under development	4,062	2,502	615	15,885	—	(12,070)	10,994
Additions to tenant inducements	3,663	2,646	544	1,744	—	(857)	7,740
Additions to leasing commissions	1,194	714	221	2,563	—	(95)	4,597

December 31, 2016

	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Total assets	$ 1,697,992	$ 1,115,532	$ 626,732	$ 2,194,824	$ 29,827	$ (172,152)	$ 5,492,755
Total liabilities	763,599	343,232	269,031	1,035,065	626,614	(172,152)	2,865,389

Note 16. Commitments, contingencies and guarantees

(a) Letters of credit:

As of March 31, 2017, the REIT had issued letters of credit in the amount of $3,841 (December 31, 2016, $3,841).

(b) Contingencies:

The REIT performs an assessment of legal and tax proceedings and claims which have occurred or could occur as a result of ongoing operations of the trust. Based on the information available, the outcomes of these contingent liabilities are uncertain and do not satisfy the requirements to be recognized in the consolidated financial statements as liabilities.

(c) Guarantees:

AX L.P. has guaranteed certain debt assumed by purchasers in connection with the dispositions of two properties at March 31, 2017 (December 31, 2016, two properties). These guarantees will remain until the debt is modified, refinanced or extinguished. Credit risk arises in the event that the purchasers default on repayment of their debt since it is guaranteed by the REIT. This credit risk is mitigated as the REIT has recourse under these guarantees in the event of default by the purchasers, in which case the REIT would have a claim against the underlying properties. The estimated amount of debt subject to the guarantees at March 31, 2017 was $14,670 (December 31, 2016, $14,810), with an estimated weighted-average remaining term of 3.2 years (December 31, 2016, 3.4 years). No liabilities in excess of the fair values of the guarantees has been recognized in these consolidated financial statements as the estimated fair values of the borrowers' interests in the underlying properties are greater than the mortgages payable for which the REIT provided the guarantees.

Note 17. Capital management

The REIT's objectives when managing capital are to safeguard the ability to continue as a going concern and to generate sufficient returns to provide unitholders with stable cash distributions. The REIT defines capital as mortgages and loans payable, senior unsecured debentures, 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 as defined in the Declaration of Trust includes the consolidated book value of the assets of the REIT, plus the amount of accumulated depreciation and amortization recorded in the books and records of the REIT, plus the amount of any deferred tax liability arising out of any indirect acquisitions, calculated in accordance with generally accepted accounting principles. As at March 31, 2017, the ratio of such indebtedness to gross book value was 48.8% (December 31, 2016, 47.6%), which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

The total managed capital for the REIT is summarized below:

	Note	March 31, 2017	December 31, 2016
Mortgages and loans payable	6	$ 2,081,616	$ 2,147,962
Senior unsecured debentures	7	199,768	199,740
Convertible debentures	8	—	119,358
Bank indebtedness	9	358,067	269,680
Total debt		2,639,451	2,736,740
Unitholders' equity		2,648,509	2,627,366
		$ 5,287,960	$ 5,364,106

Note 18. Risk management

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

(a) Interest rate risk:

The REIT is exposed to interest rate risk on its borrowings. The Declaration of Trust restricts the REIT's indebtedness to 70% of the gross book value of the REIT's total assets. The REIT also monitors the amount of variable rate debt. The REIT has the majority of its mortgages 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 March 31, 2017, the REIT was a party to $1,317,702 of variable rate debt, including bank indebtedness (December 31, 2016, $1,250,599). At March 31, 2017, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with $542,531 of variable rate debt (December 31, 2016, $489,310).

(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 is 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 1.3271 for the three months ended March 31, 2017, and the period end exchange rate of 1.3310 at March 31, 2017, would have decreased net income by approximately $995 for the three months ended March 31, 2017. A $0.10 weakening in the US dollar against the Canadian dollar would have increased other comprehensive loss by approximately $88,019 for the three months ended March 31, 2017. 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.

Note 19. Fair value measurements

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

There were no transfers of assets or liabilities between hierarchy levels during the three months ended March 31, 2017.

		March 31, 2017		December 31, 2016	
	Fair value hierarchy	Carrying value	Fair value	Carrying value	Fair value
Assets:					
Investment properties	Level 3	$ 4,985,706	$ 4,985,706	$ 4,991,825	$ 4,991,825
Investment properties under development	Level 3	60,384	60,384	65,199	65,199
Notes receivable	Level 2	15,284	16,433	15,787	16,973
Investment properties held for sale	Level 3	6,865	6,865	119,178	119,178
Derivative instruments	Level 2	3,213	3,213	3,567	3,567
		5,071,452	5,072,601	5,195,556	5,196,742
Liabilities:					
Mortgages and loans payable	Level 2	2,081,616	2,112,063	2,147,962	2,178,696
Senior unsecured debentures	Level 2	199,768	202,414	199,740	202,795
Convertible debentures	Level 1	—	—	119,358	118,158
Derivative instruments	Level 2	8,173	8,173	7,957	7,957
		2,289,557	2,322,650	2,475,017	2,507,606
		$ 2,781,895	$ 2,749,951	$ 2,720,539	$ 2,689,136

The fair value of the REIT's accounts receivable and other receivables, cash held in trust, cash, 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 values of notes receivable, derivative instruments, mortgages and loans payable and senior unsecured debentures have been determined by discounting the cash flows of these financial instruments using period end market rates for instruments of similar terms and credit risks.

The REIT entered into interest rate swaps on a number of mortgages. The swaps are not designated in a hedge relationship. An unrealized gain of $1,080 was recorded for the three months ended March 31, 2017 (2016, loss of $3,843), in relation to the fair value of these interest rate swaps.

The REIT recorded an unrealized loss of $1,646 for the three months ended March 31, 2017, on the fair value of outstanding foreign currency contracts (2016, loss of $1,960).

Note 20. Subsequent events

The following events occurred subsequent to March 31, 2017:

- The REIT disposed of Edson Shoppers, a retail property located in Edson, Alberta. The property was sold for $7,025.
- The REIT repaid five maturing mortgages in the aggregate amount of $66,457.
- The REIT drew a net balance on its revolving term credit facilities in the amount of $42,500.
- The REIT declared a monthly cash distribution of $0.09 per unit for the month of April 2017.
- The REIT declared a quarterly cash distribution of $0.3125 per Series G preferred unit for the quarter ending April 30, 2017.

Note 21. Approval of financial statements

The interim condensed consolidated financial statements were approved by the Board of Trustees and authorized for issue on May 8, 2017.