Consolidated Financial Statements of

ARTIS REAL ESTATE INVESTMENT TRUST

Years ended December 31, 2017 and 2016

(In Canadian dollars)

Management’s Responsibility for Financial Statements

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

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

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

“Armin Martens”

Armin Martens, P.Eng., MBA
President and Chief Executive Officer
March 1, 2018

“Jim Green”

Jim Green, CPA, CA
Chief Financial Officer
March 1, 2018

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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, 2017 and December 31, 2016, and the consolidated statements of operations, changes in unitholders' equity and cash flows for the years then ended, and a summary of the 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 as issued by the International Accounting Standards Board, 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, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Deloitte LLP

Chartered Professional Accountants
March 1, 2018

Consolidated Balance Sheets

(In thousands of Canadian dollars)

	Note	December 31, 2017	December 31, 2016
ASSETS			
Non-current assets:			
Investment properties	4	$ 4,720,362	$ 4,991,825
Investment properties under development	4	79,701	65,199
Investments in joint ventures	5	200,383	213,565
Property and equipment	6	7,005	3,351
Notes receivable	7	12,982	12,972
		5,020,433	5,286,912
Current assets:			
Investment properties held for sale	4	110,188	119,178
Deposits on investment properties		5,081	369
Prepaid expenses and other assets	8	17,134	11,728
Notes receivable	7	2,322	2,815
Accounts receivable and other receivables	9	16,816	13,173
Cash held in trust		8,090	7,851
Cash		35,832	50,729
		195,463	205,843
		$ 5,215,896	$ 5,492,755
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities:			
Mortgages and loans payable	10	$ 1,190,525	$ 1,520,124
Senior unsecured debentures	11	199,854	199,740
Convertible debentures	12	—	119,358
Credit facilities	13	298,922	—
Other long-term liabilities		6,404	4,997
		1,695,705	1,844,219
Current liabilities:			
Mortgages and loans payable	10	370,508	627,838
Security deposits and prepaid rent		30,521	35,213
Accounts payable and other liabilities	14	75,570	88,439
Credit facilities	13	438,383	269,680
		914,982	1,021,170
		2,610,687	2,865,389
Unitholders' equity		2,605,209	2,627,366
Commitments, contingencies and guarantees	27		
Subsequent events	31		
		$ 5,215,896	$ 5,492,755

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

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

	Note	2017	Year ended December 31, 2016
Revenue		$ 516,328	$ 549,151
Expenses:			
Property operating		123,855	126,098
Realty taxes		81,249	86,937
		205,104	213,035
Net operating income		311,224	336,116
Other income (expenses):			
Corporate expenses		(13,778)	(13,322)
Interest expense	19	(96,496)	(108,138)
Interest income		1,148	1,210
Net income from investments in joint ventures	5	21,280	13,367
Fair value gain (loss) on investment properties	4	4,694	(114,757)
Foreign currency translation loss		(267)	(2,345)
Transaction costs	3	(1,110)	(1,105)
Gain on financial instruments	20	7,421	5,592
Income before income taxes		234,116	116,618
Income tax recovery (expense)	21	319	(683)
Net income		234,435	115,935
Other comprehensive loss that may be reclassified to net income in subsequent periods:			
Unrealized foreign currency translation loss		(60,530)	(25,508)
Unrealized foreign currency translation (loss) gain on investments in joint ventures		(11,853)	4,863
Other comprehensive loss that will not be reclassified to net income in subsequent periods:			
Unrealized loss from remeasurements of net pension obligation		(111)	(34)
		(72,494)	(20,679)
Total comprehensive income		$ 161,941	$ 95,256
Basic income per unit attributable to common unitholders	15 (d)	$ 1.43	$ 0.67
Diluted income per unit attributable to common unitholders	15 (d)	1.43	0.67
Weighted-average number of common units outstanding:			
Basic	15 (d)	150,578,462	144,917,941
Diluted	15 (d)	150,887,813	145,207,598

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Unitholders' Equity

(In thousands of Canadian dollars)

	Common units capital contributions (note 15 (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 year:								
Issuance of units, net of issue costs	143,273	(1)	—	—	—	143,272	—	143,272
Redemption of convertible debentures	—	(11,022)	—	—	11,022	—	—	—
Unit-based compensation expense (note 16 (a))	—	—	—	—	128	128	—	128
Net income	—	—	115,935	—	—	115,935	—	115,935
Other comprehensive loss	—	—	—	(20,679)	—	(20,679)	—	(20,679)
Distributions	—	—	(179,051)	—	—	(179,051)	—	(179,051)
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 year:								
Issuance of units, net of issue costs	3,315	—	—	—	—	3,315	—	3,315
Net income	—	—	234,435	—	—	234,435	—	234,435
Other comprehensive loss	—	—	—	(72,494)	—	(72,494)	—	(72,494)
Distributions	—	—	(187,413)	—	—	(187,413)	—	(187,413)
Unitholders' equity, December 31, 2017	$ 1,961,659	$ —	$ 170,807	$ 130,964	$ 16,156	$ 2,279,586	$ 325,623	$ 2,605,209

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

	Note		2017		Year ended December 31, 2016
Cash provided by (used in):					
Operating activities:					
Net income		$	234,435	$	115,935
Distributions from joint ventures			4,481		4,612
Adjustments for non-cash items:					
Fair value (gain) loss on investment properties	4		(4,694)		114,757
Depreciation of property and equipment			911		859
Net income from investments in joint ventures	5		(21,280)		(13,367)
Tenant inducements amortized to revenue			17,026		16,196
Amortization of above- and below-market mortgages, net	19		(1,132)		(2,194)
Accretion on liability component of debentures	19		(333)		(851)
Straight-line rent adjustments	4		(6,383)		(5,446)
Unrealized foreign currency translation loss			12,507		5,974
Gain on financial instruments	20		(7,421)		(5,592)
Unit-based compensation			1,819		955
Amortization of financing costs included in interest expense	19		3,362		3,465
Other long-term employee benefits			1,293		1,819
Changes in non-cash operating items	22		(20,586)		14,698
			214,005		251,820
Investing activities:					
Acquisitions of investment properties, net of related debt	3		(101,706)		(150,714)
Proceeds from dispositions of investment properties, net of costs and related debt	3		264,800		290,412
Additions to investment properties	4		(42,581)		(57,413)
Additions to investment properties under development	4		(36,972)		(23,864)
Additions to joint ventures	5		(8,129)		(34,916)
Additions to tenant inducements			(50,545)		(40,691)
Additions to leasing commissions	4		(12,912)		(16,333)
Additions to property and equipment			(4,578)		(569)
Notes receivable principal repayments			1,864		2,497
Change in deposits on investment properties			(3,775)		(225)
Change in cash held in trust			(441)		(299)
			5,025		(32,115)
Financing activities:					
Issuance of common units, net of issue costs			2,972		142,488
Repayment of convertible debentures			(116,549)		(86,160)
Advance of revolving credit facilities			511,000		580,000
Repayment of revolving credit facilities			(348,500)		(536,000)
Change in non-revolving credit facilities, net of financing costs			298,822		—
Distributions paid on common units			(166,196)		(159,587)
Distributions paid on preferred units			(18,418)		(18,432)
Mortgages and loans principal repayments			(53,951)		(59,770)
Repayment of mortgages and loans payable			(391,811)		(218,227)
Advance of mortgages and loans payable, net of financing costs			52,680		125,853
Issuance of preferred shares, net of issue costs			—		245
			(229,951)		(229,590)
Foreign exchange loss on cash held in foreign currency			(3,976)		(5,835)
Decrease in cash			(14,897)		(15,720)
Cash, beginning of year			50,729		66,449
Cash, end of year		$	35,832	$	50,729
Supplemental cash flow information:					
Interest paid		$	104,411	$	109,073
Interest received			1,155		1,215

See accompanying notes to consolidated financial statements.

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 600 - 220 Portage Avenue, Winnipeg, Manitoba, R3C 0A5.

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, $1.4155 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) 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) Basis of presentation and measurement:

The consolidated financial statements have been 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 (q).

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

(c) Principles of consolidation:

The consolidated financial statements include the accounts of the REIT and entities controlled by the REIT and its subsidiaries (including joint arrangements). Control is achieved when the REIT has power over the entity, is exposed, or has rights, to variable returns from its involvement with the entity, and has the ability to use its power to affect those returns. The REIT reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control.

All intercompany assets and liabilities, equity, revenue, expenses and cash flows relating to transactions between entities within the REIT are eliminated in full on consolidation.

(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 notes receivables, accounts receivable and other receivables, cash held in trust and cash as loans and receivables; its mortgages and loans payable, senior unsecured debentures, preferred shares liability, preferred units liabilities, accounts payable and other liabilities and credit facilities as other liabilities. 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. The REIT does not hold any financial instruments classified as 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 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.

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 year.

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.

The REIT occupies a portion of space in several of its investment properties. In the case of mixed use investment property and property held for use in the production of goods or services, the REIT classifies the property as investment property when only an insignificant portion is owner-occupied. The REIT considers the owner-occupied portion as insignificant when the property is primarily held to earn rental income.

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 up, 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. Changes in the fair value of contingent consideration arrangements that qualify as measurement period adjustments, adjustments arising from additional information obtained about an acquisition within one year of its date, are adjusted retrospectively. All other changes in fair value are recognized in profit or loss for the period.

Leasing commissions and straight-line rent receivables 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.

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

(g) Joint arrangements:

Joint arrangements are arrangements where the parties sharing ownership have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. 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 distributions received and 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 year.

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.

(h) 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 between five to ten 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.

(i) Assets held for sale and discontinued operations:

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 highly 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.

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.

(j) Cash held in trust:

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

(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, property operating and realty tax cost recoveries, lease termination income and other incidental income.

The total amount of contractual base rent in lease agreements is accounted for on a straight-line basis over the term of the respective leases. A straight-line rent receivable, which is included in the carrying amount of investment properties, is recorded for the difference between the rental revenue recorded and the contractual rent received.

Property operating and realty tax cost recoveries are accrued and recognized as revenue in the period that the recoverable costs are incurred and become chargeable to tenants.

Tenant inducements are recognized as a reduction to revenue and are amortized on a straight-line basis over the term of the lease.

(m) Long-term benefits:

The costs 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.

Liabilities recognized in respect of other long-term benefits are measured at the present value of the estimated future cash outflows expected to be made by the REIT in respect of services provided by employees up to the reporting date.

(n) Unit-based compensation:

The REIT may issue unit-based awards to trustees, officers, employees and consultants. For cash-settled unit-based payment transactions in the form of restricted and deferred units, a liability is recognized and remeasured to fair value at each reporting date and at the 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 in the form of unit options, the REIT measures compensation expense using the fair value at the grant date, recognized over the vesting period.

(o) Earnings per unit:

Basic earnings per REIT unit is computed by dividing net income for the period attributable to common unitholders by the weighted-average number of 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 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 anti-dilutive. The dilution impact also considers unit options, restricted units and deferred units.

(p) 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) and note 2 (l). 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 or as tenant inducements that reduce revenue.

- 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 the classification of its leases 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 property as investment property or owner-occupied property - The REIT's accounting policy for the classification of properties that comprise a portion that is held to earn rental income and another portion that is held for use in the production or supply of goods or services or for administrative purposes is described in note 2 (f). Judgment is applied in determining whether the portion of the property held for use in the production or supply of goods or services or for administrative purposes is insignificant in comparison to the portion held to earn rental income.

- Classification of joint arrangements - The REIT's accounting policy relating to joint arrangements is described in note 2 (g) and note 5. 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 29 (b).

- 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 estimates and assumptions underlying the fair value of financial instruments are described in note 30.

(q) 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. IFRS 15 excludes contracts that are within the scope of IAS 17 - *Leases*, IFRS 4 - *Insurance Contracts* and IFRS 9 - *Financial Instruments*. The REIT has elected to apply the standard on a modified retrospective basis. Under this approach, the 2017 comparative period will not be restated and a cumulative transitional adjustment to the opening retained earnings balance will be recognized at the date of initial application, as applicable.

The REIT is in the final stages of its evaluation of the impact of IFRS 15 on its consolidated financial statements. The REIT's most material revenue stream of base rental revenue is outside the scope of this standard. The only significant revenue stream falling under IFRS 15 relates to property operating and realty tax cost recoveries. The REIT has determined that its current practices of revenue recognition will remain unchanged upon adoption of this standard. The adoption of IFRS 15 is not expected to have a material impact to the consolidated statements of operations or the consolidated statements of cash flows. The impact will be limited to additional note disclosure on the disaggregation of its revenue streams, specifically as it relates to property operating and realty tax cost recoveries.

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, any gains or losses for the financial liability due to changes in an entity's credit risk must be recognized in other comprehensive income. The REIT will adopt this new standard on the required effective date of January 1, 2018 and will apply the standard on a retrospective basis using the available transitional provisions. Under this approach, the 2017 comparative period will not be restated and a cumulative transitional adjustment to the opening retained earnings will be recognized at the date of initial application, as applicable. The REIT has completed a scoping and quantitative review of its financial instruments and does not anticipate any changes to the measurement of its financial instruments. Therefore, the REIT does not expect a material impact to its consolidated financial statements from the adoption 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 does not expect a material impact to its consolidated financial statements from the adoption of this amendment.

In December 2016, the IASB issued IFRIC 22 - *Foreign Currency Transactions and Advance Consideration* ("IFRIC 22"). IFRIC 22 clarifies the date of transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency. IFRIC 22 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 interpretation.

In December 2016, the IASB amended IAS 40 - *Investment Property* ("IAS 40"). The amendments clarify that an asset be transferred to, or from, investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of the property does not provide evidence of a change in use. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction. These amendments are 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 these amendments.

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.

Note 3. Acquisitions and dispositions of investment properties

Acquisitions:

The REIT acquired the following properties during the year ended December 31, 2017:

Property	Property count	Location	Acquisition date	Asset class
U.S. Industrial Portfolio	3	Various cities in the U.S. (1)	December 11, 2017	Industrial
Clearwater Creek Distribution Center	1	Twin Cities Area, MN	December 20, 2017	Industrial

(1) Two of the properties are located in the Greater Phoenix Area, Arizona and the third property is located in the Greater Denver Area, Colorado.

On September 7, 2017, the REIT acquired an additional 10% interest in each of Park Lucero I, Park Lucero III and Park Lucero IV, industrial properties located in the Greater Phoenix Area, Arizona, for total consideration of $2,857. Prior to the acquisition date, the REIT owned 90% of these investment properties and the properties were classified as joint ventures and accounted for using the equity method. As a result of these acquisitions, the REIT now owns 100% of the properties and accounts for them on a consolidated basis. The REIT accounted for these acquisitions as step acquisitions and remeasured its existing 90% interests to fair value at the acquisition date.

On September 29, 2017, the REIT also acquired a parkade that is ancillary to an existing office property in Winnipeg, Manitoba.

The REIT acquired the following properties during the year ended December 31, 2016:

Property	Property count	Location	Acquisition date	Asset class
Madison Lifestyle Office Portfolio	16	Madison, WI	June 13, 2016, August 1, 2016	Office

The REIT acquired the following development project during the year ended December 31, 2016:

Property	Location	Acquisition date	Asset class
Millwright Building (1)	Twin Cities Area, MN	August 11, 2016	Office

(1) The REIT acquired an 80% interest in this joint venture.

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 the acquisitions of joint ventures, were as follows:

		2017		Year ended December 31, 2016
Investment properties (note 4)	$	103,234	$	340,115
Long-term debt, including acquired above- and below-market mortgages, net of financing costs		(2,962)		(189,401)
Other net assets		1,434		—
Cash consideration	$	101,706	$	150,714
Transaction costs expensed	$	1,110	$	1,105

Dispositions:

The REIT disposed of the following properties during the year ended December 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
Edson Shoppers	1	Edson, AB	April 7, 2017	Retail
Horizon Heights	1	Calgary, AB	July 5, 2017	Retail
Sherwood Centre	1	Edmonton, AB	August 15, 2017	Industrial
6075 Kestrel Road	1	Greater Toronto Area, ON	September 1, 2017	Industrial
Quarry Park Portfolio	3	Calgary, AB	September 15, 2017	Office
488 Albert Street	1	Nanaimo, BC	October 10, 2017	Office
Twin Cities Industrial Portfolio	7	Twin Cities Area, MN	November 17, 2017	Industrial
Millennium Centre	1	Red Deer, AB	December 7, 2017	Office
12 Indell Lane	1	Greater Toronto Area, ON	December 21, 2017	Industrial

(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 $264,800. The assets and liabilities associated with the properties were derecognized.

The REIT disposed of the following properties during the year ended December 31, 2016:

Property	Property count	Location	Disposition date	Asset class
Tamarack Centre	1	Cranbrook, BC	April 28, 2016	Retail
Whistler Hilton Retail Plaza (1)	1	Whistler, BC	May 2, 2016	Retail
Crosstown North	1	Twin Cities Area, MN	May 19, 2016	Industrial
Lunar Pointe	1	Twin Cities Area, MN	August 5, 2016	Industrial
Uplands Common	1	Lethbridge, AB	August 16, 2016	Retail
Clareview Town Centre	1	Edmonton, AB	August 17, 2016	Retail
Southwood Corner	1	Calgary, AB	October 28, 2016	Retail
Mayfield Industrial Plaza	1	Edmonton, AB	October 31, 2016	Industrial
Alberta Industrial Portfolio	8	Various cities in AB	November 1, 2016	Industrial
3571 Old Okanagan Road	1	Westbank, BC	November 17, 2016	Retail
Northwest Centre I & II	1	Calgary, AB	December 6, 2016	Office

(1) The REIT disposed of its 85% interest in this property.

The proceeds from the sale of the above properties, net of costs and related debt, were $290,412. The assets and liabilities associated with the properties were derecognized.

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

	Year ended December 31, 2017		
	Investment properties	Investment properties under development	Investment properties held for sale
Balance, beginning of year	$ 4,991,825	$ 65,199	$ 119,178
Additions:			
Acquisitions (note 3)	102,820	414	—
Reclassification from investments in joint ventures	47,441	3,800	—
Capital expenditures	42,019	36,972	562
Capitalized interest	—	283	—
Leasing commissions	12,623	44	245
Dispositions	(168,602)	—	(264,529)
Reclassification of investment properties under development	21,752	(21,752)	—
Reclassification of investment properties held for sale	(257,214)	—	257,214
Foreign currency translation loss	(119,309)	(3,658)	(1,672)
Straight-line rent adjustments	6,398	2	(17)
Tenant inducement additions, net of amortization	32,921	150	448
Fair value gain (loss)	7,688	(1,753)	(1,241)
Balance, end of year	$ 4,720,362	$ 79,701	$ 110,188

	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 (note 3)	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 year ended December 31, 2017, the REIT reclassified two industrial properties from investment properties under development to investment properties.

The REIT reclassified one office property and seven retail properties to investment properties held for sale that were listed with an external broker or under unconditional sale agreements at December 31, 2017. These properties had an aggregate mortgage payable balance of $61,463 at December 31, 2017, which is not accounted for as held for sale and is included in current liabilities.

At December 31, 2017, included in investment properties was $38,260 (December 31, 2016, $36,211) 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 $10,904 at December 31, 2017 (December 31, 2016, $89,183).

At December 31, 2017, investment properties with a fair value of $3,261,174 (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 year ended December 31, 2017, properties with an appraised value of $865,928 (2016, $522,603) 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. Internal valuations are performed by the REIT's valuations team who report directly to the Chief Financial Officer. The valuations processes and results are reviewed by management on a quarterly basis.

The REIT determined 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 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 net income is stabilized and capitalized at a rate appropriate for each investment property. The stabilized net 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 net income and non-recoverable capital expenditures. There were no changes to the REIT's internal valuation methodology during the years ended December 31, 2017 and 2016.

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 3, as described in note 30.

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

	December 31, 2017			December 31, 2016		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Western Canada:						
Discount rate	9.50%	6.25%	7.61%	9.50%	6.25%	7.60%
Terminal capitalization rate	9.00%	4.25%	6.72%	9.00%	4.50%	6.81%
Capitalization rate	8.50%	4.25%	6.54%	8.75%	4.50%	6.75%
Investment horizon (years)	11.0	10.0	10.2	12.0	9.0	10.2
Central Canada:						
Discount rate	9.00%	6.25%	7.66%	9.00%	6.25%	7.70%
Terminal capitalization rate	8.50%	5.50%	6.42%	8.50%	5.75%	6.46%
Capitalization rate	8.25%	5.50%	6.28%	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%	6.25%	7.11%	7.75%	6.50%	7.17%
Terminal capitalization rate	6.75%	4.75%	6.01%	7.00%	5.25%	6.35%
Capitalization rate	7.00%	4.75%	6.03%	7.00%	5.00%	6.25%
Investment horizon (years)	12.0	10.0	10.4	12.0	10.0	10.1
U.S.:						
Discount rate	9.00%	6.75%	8.06%	9.00%	7.00%	8.10%
Terminal capitalization rate	8.75%	5.75%	7.00%	8.75%	5.75%	7.16%
Capitalization rate	8.50%	5.50%	6.81%	8.50%	5.50%	6.89%
Investment horizon (years)	20.0	10.0	11.0	20.0	10.0	11.1
Overall:						
Discount rate	9.50%	6.25%	7.69%	9.50%	6.25%	7.71%
Terminal capitalization rate	9.00%	4.25%	6.63%	9.00%	4.50%	6.77%
Capitalization rate	8.50%	4.25%	6.48%	8.75%	4.50%	6.62%
Investment horizon (years)	20.0	10.0	10.5	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.

The following sensitivity table outlines the impact of a 0.25% change in the weighted-average capitalization rate on investment properties at December 31, 2017:

	Change to fair value if capitalization rate increased by 0.25%	Change to fair value if capitalization rate decreased by 0.25%
Western Canada	$ (48,929)	$ 53,067
Central Canada	(41,570)	45,069
Eastern Canada	(26,743)	29,114
U.S.	(63,657)	68,631
	$ (180,899)	$ 195,881

Note 5. Joint arrangements

The REIT had interests in the following joint arrangements:

Property	Principal purpose	Type of arrangement	Ownership interest December 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 (1)	Investment property	Joint venture	-	90%
Park Lucero II	Investment property	Joint venture	90%	90%
Park Lucero III (1)	Investment property	Joint venture	-	90%
Park Lucero IV (1)	Investment property	Joint venture	-	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%

(1) On September 7, 2017, the REIT increased its ownership interest in these properties to 100%. Subsequent to these transactions, the REIT consolidates the financial results of Park Lucero I, Park Lucero III and Park Lucero IV. See note 3 for further information.

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 $8,129 during the year ended December 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 December 31, 2017, the co-owners' share of mortgage liabilities was $96,494 (December 31, 2016, $114,575). Management believes that the assets available from its joint arrangements are sufficient for the purpose of satisfying such obligations.

At December 31, 2017, one of the REIT's joint ventures has an office property classified as held for sale.

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

	December 31, 2017	December 31, 2016
Non-current assets:		
Investment properties	$ 332,359	$ 284,249
Investment properties under development	—	92,305
Current assets:		
Investment property held for sale	26,187	—
Prepaid expenses and other assets	282	292
Accounts receivable and other receivables	655	559
Cash	7,012	8,312
	366,495	385,717
Non-current liabilities:		
Mortgages and loans payable	112,148	117,804
Current liabilities:		
Mortgages and loans payable	46,484	34,709
Security deposits and prepaid rent	2,190	2,094
Accounts payable and other liabilities	5,290	17,545
	166,112	172,152
Investments in joint ventures	$ 200,383	$ 213,565

	2017	Year ended December 31, 2016
Revenue	$ 26,601	$ 23,364
Expenses:		
Property operating	7,921	7,026
Realty taxes	4,259	3,740
	12,180	10,766
Net operating income	14,421	12,598
Other income (expenses):		
Interest expense	(6,210)	(4,579)
Interest income	8	5
Fair value gain on investment properties	13,061	5,343
Net income from investments in joint ventures	$ 21,280	$ 13,367

Note 6. Property and equipment

	December 31, 2017	December 31, 2016
Office furniture and fixtures	$ 9,990	$ 5,516
Office equipment and software	1,336	1,265
Accumulated depreciation	(4,321)	(3,430)
	$ 7,005	$ 3,351

Note 7. Notes receivable

	December 31, 2017	December 31, 2016
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.	$ 12,950	$ 14,968
Other notes receivable	2,354	819
	15,304	15,787
Current portion	2,322	2,815
Non-current portion	$ 12,982	$ 12,972

Note 8. Prepaid expenses and other assets

	December 31, 2017	December 31, 2016
Prepaid insurance	$ 3,144	$ 3,295
Prepaid realty taxes	1,866	1,156
Prepaid acquisition, disposition and development costs	952	1,304
Derivative instruments (note 30)	8,425	3,567
Other prepaid expenses	2,747	2,406
	$ 17,134	$ 11,728

Note 9. Accounts receivable and other receivables

	December 31, 2017	December 31, 2016
Rents receivable (note 29 (b))	$ 8,121	$ 7,275
Allowance for doubtful accounts (note 29 (b))	(331)	(1,166)
Accrued recovery income	2,521	2,880
Other amounts receivable	6,505	4,184
	$ 16,816	$ 13,173

Note 10. Mortgages and loans payable

	December 31, 2017	December 31, 2016
Mortgages and loans payable	$ 1,562,699	$ 2,150,621
Net above- and below-market mortgage adjustments	4,991	6,540
Financing costs	(6,657)	(9,199)
	1,561,033	2,147,962
Current portion	370,508	627,838
Non-current portion	$ 1,190,525	$ 1,520,124

The majority of the REIT's investment properties have been pledged as security under mortgages and other security agreements. 46.1% of the REIT's mortgages and loans payable bear interest at fixed rates (December 31, 2016, 54.4%), and a further 29.2% 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 3.96% and the weighted-average nominal rate was 3.80% at December 31, 2017 (December 31, 2016, 3.75% and 3.71%, respectively). Maturity dates range from January 1, 2018 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 December 31, 2017.

Note 11. Senior unsecured debentures

On March 27, 2014, the REIT issued 3.753% Series A senior unsecured debentures at par for gross proceeds of $125,000. On September 10, 2014, the REIT issued additional 3.753% Series A senior unsecured debentures at a price of $101.24 with a face value of $75,000, for gross proceeds of $75,932. Interest is payable semi-annually on March 27 and September 27. The REIT may redeem the debentures at any time on a minimum of 30 days' notice, in whole or in part, at a price equal to the greater of (i) the price of the debentures calculated to provide a yield to maturity equal to the then Government of Canada bond yield plus 0.50% and (ii) par, together in each case with accrued and unpaid interest to the date fixed for redemption.

In accordance with the Series A senior unsecured debenture supplemental indenture, the REIT must maintain a consolidated EBITDA to consolidated interest expense ratio of not less than 1.65, consolidated indebtedness to aggregate assets of not more than 65% and minimum adjusted unitholders' equity of $300,000. As at December 31, 2017, the REIT was in compliance with these requirements.

Interest expense on the senior unsecured debentures is determined by applying an effective rate of 3.82% to the outstanding liability balance. The difference between actual cash interest payments and interest expense recorded on the senior unsecured debentures is accreted to the liability.

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
December 31, 2017	$ 200,000	$ 267	$ (413)	$ 199,854	$ —	$ 199,854
December 31, 2016	200,000	476	(736)	199,740	—	199,740

During the year ended December 31, 2017, accretion to the liability of $209 and financing cost amortization of $323 were recorded (2016, $202 and $311, respectively).

Note 12. Convertible debentures

In conjunction with the prospectus that closed on April 21, 2011, the REIT issued Series G convertible redeemable 5.75% debentures totalling US$88,000. 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. During the year ended December 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. None of the Series G convertible debentures were converted into units of the REIT in fiscal 2016. 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.

The fair value of the Series G convertible debentures in whole was 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 recorded on the convertible debentures was accreted to the liability.

In conjunction with the prospectus that closed on April 22, 2010, the REIT issued Series F convertible redeemable 6.00% debentures totalling $86,250. During the year ended December 31, 2016, Series F convertible debentures with a face value of $10 were converted and the REIT issued 645 units at the conversion price of $15.50 per unit. On July 25, 2016, the REIT exercised its early redemption option and repaid the outstanding face value of the Series F convertible debentures in the amount of $86,160.

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

During the year ended December 31, 2017, accretion of $124 reduced the carrying value of the liability component (2016, $649).

Note 13. Credit facilities

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.

In 2017, the REIT entered into two five-year unsecured non-revolving term credit facilities in the aggregate amount of $300,000, which can be utilized for general corporate and working capital purposes, property acquisitions and development financing.

The REIT's unsecured operating credit facilities are summarized as follows:

	December 31, 2017			December 31, 2016		
	Borrowing capacity	Amounts drawn	Available to be drawn	Amounts drawn	Available to be drawn	Applicable interest rates [1]
Revolving facilities maturing December 15, 2018	$ 300,000	$ 267,748	$ 32,252	$ 189,680	$ 110,320	BA rate plus 1.70% or prime plus 0.70% or LIBOR plus 1.70% or U.S. base rate plus 0.70%
Revolving facility maturing April 29, 2021	200,000	170,635	29,365	80,000	120,000	BA rate plus 1.70% or prime plus 0.70% or LIBOR plus 1.70% or U.S. base rate plus 0.70%
Non-revolving facility maturing July 6, 2022	150,000	150,000	—	—	—	3.57%
Non-revolving facility maturing July 18, 2022	150,000	150,000	—	—	—	3.50%
Financing costs		(1,078)		—		
Total credit facilities	800,000	737,305	61,617	269,680	230,320	
Current portion		438,383		269,680		
Non-current portion		$ 298,922		$ —		

(1) The REIT has entered into interest rate swaps on both of its non-revolving credit facilities.

For purposes of the credit facilities, the REIT must maintain a consolidated indebtedness to consolidated gross book value ratio of not more than 65%, a consolidated secured indebtedness to consolidated gross book value ratio of not more than 50%, a minimum consolidated EBITDA to debt service ratio of 1.4, a minimum unitholders' equity of not less than the sum of $1,700,000 and 75% of net proceeds received in connection with any equity offerings made after the date of the credit facilities agreement, a minimum unencumbered property assets value to consolidated unsecured indebtedness ratio of 1.4, and a minimum consolidated EBITDA to consolidated interest expense ratio of 1.65. As at December 31, 2017, the REIT was in compliance with these requirements.

Note 14. Accounts payable and other liabilities

	December 31, 2017	December 31, 2016
Accounts payable and accrued liabilities	$ 25,391	$ 37,907
Distributions payable	14,217	14,193
Accrued interest	7,297	11,591
Accrued realty taxes	8,286	8,580
Tenant installments payable	6,776	4,886
Derivative instruments (note 30)	6,185	7,957
Cash-settled unit-based payments liability	3,659	2,178
Other amounts payable	3,759	1,147
	$ 75,570	$ 88,439

Note 15. 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 offering, 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	22,959	307
Conversion of Series G convertible debentures	1,318	36
Distribution Reinvestment and Unit Purchase Plan	242,312	2,972
Balance at December 31, 2017	150,599,666	$ 1,961,659

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.

On June 17, 2016, the REIT issued 8,712,400 trust units at a price of $13.20 per unit for gross proceeds of $115,004. This included 1,136,400 units issued pursuant to the exercise of the underwriters' over-allotment option.

(iii) Normal course issuer bid:

On December 14, 2017, the REIT announced that the Toronto Stock Exchange ("TSX") 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 13,314,337 units, representing 10% of the REIT's public float of 133,143,374 units as at December 7, 2017. Purchases will be made at market prices through the facilities of the TSX. This bid will remain in effect until the earlier of December 16, 2018, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the years ended December 31, 2017 and 2016, the REIT did not acquire units through the normal course issuer bid.

(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	Number of units outstanding	Face value	Carrying value	Annual distribution rate
Series A	3,450,000	$ 86,250	$ 82,143	5.662%
Series C [1]	3,000,000	US 75,000	69,753	5.250%
Series E	4,000,000	100,000	96,537	4.750%
Series G	3,200,000	80,000	77,190	5.000%
	13,650,000		$ 325,623	

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

(i) Series A:

On August 2 and 10, 2012, the REIT issued a total of 3,450,000 Cumulative Rate Reset Preferred Trust Units, Series A (the "Series A Units") for aggregate gross proceeds of $86,250. 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 was reset on September 30, 2017 at 5.662% and will be reset on September 30, 2022 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 4.06%.

The REIT may redeem the Series A Units on September 30, 2022 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, 2022 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, 2027 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 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 December 31, 2017, the REIT had not issued any securities under this short form base shelf prospectus.

(d) Weighted-average common units:

	Year ended December 31, 2017	2016
Net income	$ 234,435	$ 115,935
Adjustment for distributions to preferred unitholders (note 17)	(18,418)	(18,432)
Net income attributable to common unitholders	216,017	97,503
Adjustment for restricted units	371	(220)
Adjustment for deferred units	—	(3)
Diluted net income attributable to common unitholders	$ 216,388	$ 97,280
The weighted-average number of common units outstanding was as follows:		
Basic common units	150,578,462	144,917,941
Effect of dilutive securities:		
Restricted units	309,351	257,476
Deferred units	—	32,181
Diluted common units	150,887,813	145,207,598
Net income per unit attributable to common unitholders:		
Basic	$ 1.43	$ 0.67
Diluted	1.43	0.67

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 year ended December 31, 2017, deferred units were anti-dilutive for a total of 67,427 units. For the year ended December 31, 2016, unit options and convertible debentures were anti-dilutive, for an aggregate total of 6,112,922 units.

Note 16. Equity incentive plan

Under the REIT's equity incentive plan, there may be grants of unit options, restricted units, deferred units and installment units, which are subject to certain restrictions. Under this incentive plan, the total number of units reserved for issuance may not exceed 8,500,000 units, of which a maximum of 4,000,000 units are reserved for the issuance of unit options.

(a) Unit options:

Unit-based compensation expense related to unit options outstanding under the equity incentive plan for the year ended December 31, 2017 amounted to $nil (2016, $128). These unit options vest equally over a four-year period from the grant date.

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

		2017		Year ended December 31, 2016
	Units	Weighted-average exercise price	Units	Weighted-average exercise price
Balance, beginning of year	1,472,000	$ 16.36	2,316,000	$ 15.57
Expired	(1,472,000)	16.36	(844,000)	14.19
Balance, end of year	—	$ —	1,472,000	$ 16.36
Options exercisable at end of year	—		1,472,000	

(b) Restricted units:

Unit-based compensation expense related to restricted units outstanding under the equity incentive plan for the year ended December 31, 2017 amounted to $2,006 (2016, $1,898). 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:

	2017	Year ended December 31, 2016
	Units	Units
Balance, beginning of year	359,819	368,607
Granted	125,075	141,350
Accrued	29,397	34,147
Redeemed	(83,617)	(179,593)
Expired	(36,634)	(4,692)
Balance, end of year	394,040	359,819
Restricted units vested at end of year	19,131	7,961

(c) Deferred units:

Unit-based compensation expense related to deferred units outstanding under the equity incentive plan for the year ended December 31, 2017 amounted to $631 (2016, $395). Deferred units can only be granted to trustees of the REIT and vest immediately. Deferred units are redeemable within a specified time frame after a trustee ceases to be a trustee. The deferred units accrue additional deferred units after the grant date. Each deferred unit is valued at the closing price of the REIT's common units on the balance sheet date.

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

	2017	Year ended December 31, 2016
	Units	Units
Balance, beginning of year	43,250	12,531
Granted	33,335	28,237
Accrued	5,050	2,482
Balance, end of year	81,635	43,250
Deferred units vested at end of year	81,635	43,250

(d) Installment units:

At December 31, 2017 and 2016, no installment units had been granted under the REIT's equity incentive plan.

Note 17. Distributions to unitholders

Total distributions declared to unitholders were as follows:

	Year ended December 31, 2017		Year ended December 31, 2016	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	$ 162,634	$ 1.08	$ 157,018	$ 1.08
Preferred unitholders - Series A	4,617	1.34	4,528	1.31
Preferred unitholders - Series C	5,051	1.68	5,154	1.72
Preferred unitholders - Series E	4,750	1.19	4,750	1.19
Preferred unitholders - Series G	4,000	1.25	4,000	1.25

Note 18. Revenue

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

Minimum rental commitments on non-cancellable tenant operating leases (including leases held in the REIT's investments in joint ventures) over their remaining terms were as follows:

	December 31, 2017	December 31, 2016
Not later than one year	$ 321,566	$ 349,311
Later than one year and not later than five years	908,727	1,015,516
Later than five years	676,587	707,161
	$ 1,906,880	$ 2,071,988

Note 19. Interest expense

		2017		Year ended December 31, 2016
Interest on mortgages and loans payable	$	70,642	$	83,598
Interest on senior unsecured debentures		7,506		7,516
Interest on convertible debentures		1,075		9,646
Interest on credit facilities		15,376		6,958
Net amortization of above- and below-market mortgages fair value adjustments		(1,132)		(2,194)
Amortization of financing costs		3,362		3,465
Accretion on liability component of debentures		(333)		(851)
	$	96,496	$	108,138

Note 20. Gain on financial instruments

		2017		Year ended December 31, 2016
Realized gain (loss) on convertible debentures	$	1,045	$	(741)
Unrealized (loss) gain on foreign currency contracts		(2,867)		709
Unrealized gain on interest rate swaps		11,926		5,624
Unrealized loss on other derivatives		(2,683)		—
	$	7,421	$	5,592

Note 21. Income taxes

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

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

The SIFT Rules do not apply to a REIT that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the SIFT Rules and has assessed their interpretation and application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the years ended December 31, 2017 and December 31, 2016. As a result, the REIT does not recognize any deferred income tax assets or liabilities for Canadian income tax purposes.

(b) U.S. taxes:

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 federal U.S. income taxes on the taxable income earned by these subsidiaries. These U.S. subsidiaries are subject to certain state taxes and a 30% to 35% withholding tax on distributions to Canada. Any withholding taxes paid are recorded with the related distributions.

The REIT is subject to federal and state taxation in the U.S. on the taxable income earned by its U.S. management subsidiary.

The REIT has assessed the impact of the new U.S. legislation enacted on December 22, 2017 (the "U.S. Tax Reform"). As the REIT is not subject to federal taxation on the taxable income earned by its U.S. properties, the U.S. Tax Reform did not have a material impact on these consolidated financial statements.

Note 22. Changes in non-cash operating items

				Year ended December 31,
		2017		2016
Prepaid expenses and other assets	$	(1,210)	$	(1,314)
Accounts receivable and other receivables		(2,570)		(1,244)
Security deposits and prepaid rent		(3,315)		2,063
Accounts payable and other liabilities		(13,491)		15,193
	$	(20,586)	$	14,698

Note 23. Subsidiaries

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

		Ownership interest	
Name of entity	Country	December 31, 2017	December 31, 2016
Artis General Partner Ltd.	Canada	100%	100%
AX L.P.	Canada	100%	100%
Artis Property Management General Partner Ltd.	Canada	100%	100%
AX Property Management L.P.	Canada	100%	100%
Winnipeg Square Leaseco, Inc.	Canada	100%	100%
AR GL General Partner Ltd.	Canada	75%	75%
AR GL Limited Partnership	Canada	75%	75%
AX Longboat G.P. Inc.	Canada	50%	50%
AX Longboat L.P.	Canada	50%	50%
Artis US Holdings, Inc.	U.S.	100%	100%
Artis US Holdings II GP, Inc.	U.S.	100%	100%
Artis US Holdings II, LLC	U.S.	100%	100%
Artis US Holdings II L.P.	U.S.	100%	100%
Artis US Holdings III GP, Inc.	U.S.	100%	100%
Artis US Holdings III, LLC	U.S.	100%	100%
Artis US Holdings III L.P.	U.S.	100%	100%
AX US Management, Inc.	U.S.	100%	100%
Park 8Ninety Phase I, LP	U.S.	95%	95%
Artis/Core Park West Land, Ltd.	U.S.	90%	90%
Park Lucero I, LP (1)	U.S.	100%	90%
Park Lucero II, LP	U.S.	90%	90%
Park Lucero III, LP (1)	U.S.	100%	90%
Park Lucero IV, LP (1)	U.S.	100%	90%
Artis/Ryan Millwright, LP	U.S.	80%	80%
Artis HRA 1700 Broadway GP, LLC	U.S.	50%	50%
Artis HRA 1700 Broadway, LP	U.S.	50%	50%
Artis HRA Hudsons Bay GP, LLC	U.S.	50%	50%
Artis HRA Hudsons Bay, LP	U.S.	50%	50%
ARTIS HRA Inverness Point GP, LLC	U.S.	50%	50%
ARTIS HRA Inverness Point, LP	U.S.	50%	50%

(1) On September 7, 2017, the REIT increased its ownership interest in these properties to 100%. Effective as of September 7, 2017, the REIT will no longer disclose its interests in these properties as joint ventures. See note 3 for further information.

Note 24. Related party transactions

The REIT may issue unit-based awards to trustees, officers, employees and consultants (note 16 and note 25).

In 2017, the REIT had no related party transactions. In 2015, Marwest Management Canada Ltd., Marwest Construction Ltd., Marwest Development Corporation and Fairtax Realty Advocates were impacted by ownership restructuring. As a result of the changes in ownership, these entities are no longer controlled or jointly controlled by key management personnel of the REIT. As such, they are not required to be disclosed as related party entities under IFRS. Effective for the year ended December 31, 2017, the REIT no longer discloses transactions with these entities as related party transactions.

Note 25. Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the REIT, directly or indirectly.

The remuneration of Trustees and key management personnel was as follows:

		Year ended December 31, 2017		Year ended December 31, 2016
Short-term benefits	$	8,436	$	4,844
Post-employment benefits		1,243		1,243
Other long-term benefits		1,405		1,852
Unit-based compensation		1,239		1,560
	$	12,323	$	9,499

(a) Short-term benefits:

Short-term employee benefits include salaries, bonuses and other short-term benefits.

(b) Post-employment benefits:

The REIT has defined benefit plans providing pension benefits to certain key management personnel. 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 amounts included in the consolidated balance sheets in respect of the employee benefit plans were as follows:

		December 31, 2017		December 31, 2016
Accrued defined benefit obligation	$	8,339	$	6,874
Fair value of plan assets		9,229		7,167
Funded status		(890)		(293)
Assets not recognized due to asset ceiling		890		293
Net liability arising from defined benefit obligation	$	—	$	—

(c) Other long-term benefits:

The REIT has an obligation for future retirement payments to certain key management personnel upon completion of a defined service period.

(d) Unit-based compensation:

Refer to note 16 for more information on the REIT's equity incentive plan.

Note 26. 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 credit facilities, have not been allocated to the segments.

	Year ended December 31, 2017						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	$ 155,484	$ 109,636	$ 62,127	$ 215,344	$ 338	$ (26,601)	$ 516,328
Expenses:							
Property operating	35,519	27,734	15,196	53,327	—	(7,921)	123,855
Realty taxes	22,996	16,712	10,325	35,475	—	(4,259)	81,249
	58,515	44,446	25,521	88,802	—	(12,180)	205,104
Net operating income	96,969	65,190	36,606	126,542	338	(14,421)	311,224
Other income (expenses):							
Corporate expenses	—	—	—	(5)	(13,773)	—	(13,778)
Interest expense	(20,737)	(12,017)	(9,294)	(35,884)	(24,774)	6,210	(96,496)
Interest income	878	70	26	43	139	(8)	1,148
Net income from investments in joint ventures	—	—	—	—	—	21,280	21,280
Fair value (loss) gain on investment properties	(663)	(16,915)	42,804	(7,471)	—	(13,061)	4,694
Foreign currency translation loss	—	—	—	—	(267)	—	(267)
Transaction costs	—	(431)	—	(679)	—	—	(1,110)
Gain on financial instruments	—	—	—	—	7,421	—	7,421
Income (loss) before income taxes	76,447	35,897	70,142	82,546	(30,916)	—	234,116
Income tax recovery	—	—	—	319	—	—	319
Net income (loss)	$ 76,447	$ 35,897	$ 70,142	$ 82,865	$ (30,916)	$ —	$ 234,435
Acquisitions of investment properties	$ —	$ 13,850	$ —	$ 89,384	$ —	$ —	$ 103,234
Additions to investment properties and investment properties under development	8,913	28,711	7,034	67,206	—	(32,311)	79,553
Additions to tenant inducements	19,115	9,910	3,429	25,778	—	(7,687)	50,545
Additions to leasing commissions	4,473	1,816	1,195	7,942	—	(2,514)	12,912

	December 31, 2017						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Total assets	$ 1,383,098	$ 1,152,199	$ 672,959	$ 2,143,984	$ 29,768	$ (166,112)	$ 5,215,896
Total liabilities	415,255	227,382	217,011	940,840	976,311	(166,112)	2,610,687

	Year ended December 31, 2016						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	$ 206,922	$ 108,708	$ 61,750	$ 194,900	$ 235	$ (23,364)	$ 549,151
Expenses:							
Property operating	42,442	28,004	15,051	47,627	—	(7,026)	126,098
Realty taxes	30,488	16,044	10,511	33,634	—	(3,740)	86,937
	72,930	44,048	25,562	81,261	—	(10,766)	213,035
Net operating income	133,992	64,660	36,188	113,639	235	(12,598)	336,116
Other income (expenses):							
Corporate expenses	—	—	—	—	(13,322)	—	(13,322)
Interest expense	(32,714)	(15,991)	(10,197)	(29,537)	(24,278)	4,579	(108,138)
Interest income	991	29	18	15	162	(5)	1,210
Net income from investments in joint ventures	—	—	—	—	—	13,367	13,367
Fair value (loss) gain on investment properties	(108,323)	(6,539)	(6,265)	11,713	—	(5,343)	(114,757)
Foreign currency translation loss	—	—	—	—	(2,345)	—	(2,345)
Transaction costs	(17)	(10)	—	(1,078)	—	—	(1,105)
Gain on financial instruments	—	—	—	—	5,592	—	5,592
(Loss) income before income taxes	(6,071)	42,149	19,744	94,752	(33,956)	—	116,618
Income tax expense	—	—	—	(683)	—	—	(683)
Net (loss) income	$ (6,071)	$ 42,149	$ 19,744	$ 94,069	$ (33,956)	$ —	$ 115,935
Acquisitions of investment properties	$ —	$ 1,168	$ —	$ 349,548	$ —	$ (10,601)	$ 340,115
Additions to investment properties and investment properties under development	11,288	36,465	13,197	71,750	—	(51,423)	81,277
Additions to tenant inducements	14,699	7,870	10,632	12,499	—	(5,009)	40,691
Additions to leasing commissions	4,373	1,712	2,571	9,402	—	(1,725)	16,333

	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 27. Commitments, contingencies and guarantees

(a) Letters of credit:

As of December 31, 2017, the REIT had issued letters of credit in the amount of $4,904 (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 four properties at December 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 December 31, 2017 was $61,927 (December 31, 2016, $14,810), with an estimated weighted-average remaining term of 5.0 years (December 31, 2016, 3.4 years). No liabilities in excess of the fair values of the guarantees have been recognized in the 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 28. 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, credit facilities 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 December 31, 2017, the ratio of such indebtedness to gross book value was 47.9% (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	December 31, 2017	December 31, 2016
Mortgages and loans payable	10	$ 1,561,033	$ 2,147,962
Senior unsecured debentures	11	199,854	199,740
Convertible debentures	12	—	119,358
Credit facilities	13	737,305	269,680
Total debt		2,498,192	2,736,740
Unitholders' equity		2,605,209	2,627,366
		$ 5,103,401	$ 5,364,106

Note 29. 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:

(a) Market risk:

(i) 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 December 31, 2017, the REIT was a party to $1,580,397 of variable rate debt, including credit facilities (December 31, 2016, $1,250,599). At December 31, 2017, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with $756,956 of variable rate debt, including swaps on credit facilities (December 31, 2016, $489,310).

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	$	8,234
Fixed rate debt due within one year		2,257
	$	10,491

(ii) 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 1.2952 for the year ended December 31, 2017, and the year end exchange rate of 1.2545 at December 31, 2017, would have decreased net income by approximately $3,814 for the year ended December 31, 2017. A $0.10 weakening in the US dollar against the Canadian dollar would have decreased other comprehensive income by approximately $92,384 for the year ended December 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.

(iii) 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.

(b) 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, cash held in trust, accounts receivable and other receivables, deposits on investment properties and notes receivable.

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 office, retail and industrial asset classes, and geographically diversified with properties owned across five Canadian provinces and six U.S. states. Included in property operating expenses is an impairment loss on accounts receivable and other receivables of $509 during the year ended December 31, 2017 (2016, $1,043). The credit quality of the accounts receivable and other receivables amount is considered adequate.

The aging of accounts receivable is summarized as follows:

	December 31, 2017	December 31, 2016
Past due 0 - 30 days	$ 6,244	$ 3,663
Past due 31 - 90 days	700	551
Past due more than 91 days	1,177	3,061
	8,121	7,275
Allowance for doubtful accounts	(331)	(1,166)
	$ 7,790	$ 6,109

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.

(c) 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 financial liabilities at December 31, 2017 including accounts payable and other liabilities, credit facilities, senior unsecured debentures and mortgages and loans payable. All debentures are disclosed at their face value.

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Accounts payable and other liabilities	$ 75,570	$ 75,570	$ —	$ —	$ —
Credit facilities	738,383	267,748	—	470,635	—
Senior unsecured debentures	200,000	—	200,000	—	—
Mortgages and loans payable	1,562,699	322,177	435,066	543,578	261,878
	$ 2,576,652	$ 665,495	$ 635,066	$ 1,014,213	$ 261,878

Note 30. 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 years ended December 31, 2017 and 2016.

	Fair value hierarchy	December 31, 2017 Carrying value	December 31, 2017 Fair value	December 31, 2016 Carrying value	December 31, 2016 Fair value
Assets:					
Investment properties	Level 3	$ 4,720,362	$ 4,720,362	$ 4,991,825	$ 4,991,825
Investment properties under development	Level 3	79,701	79,701	65,199	65,199
Notes receivable	Level 2	15,304	16,152	15,787	16,973
Investment properties held for sale	Level 3	110,188	110,188	119,178	119,178
Derivative instruments	Level 2	8,425	8,425	3,567	3,567
		4,933,980	4,934,828	5,195,556	5,196,742
Liabilities:					
Mortgages and loans payable	Level 2	1,561,033	1,574,614	2,147,962	2,178,696
Senior unsecured debentures	Level 2	199,854	201,438	199,740	202,795
Convertible debentures	Level 1	—	—	119,358	118,158
Credit facilities	Level 2	737,305	738,383	269,680	269,680
Derivative instruments	Level 2	6,185	6,185	7,957	7,957
		2,504,377	2,520,620	2,744,697	2,777,286
		$ 2,429,603	$ 2,414,208	$ 2,450,859	$ 2,419,456

The fair value of the REIT's accounts receivable and other receivables, cash held in trust, cash and accounts payable and other liabilities 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, senior unsecured debentures and credit facilities 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.

Derivative instruments primarily consist of interest rate and foreign currency swaps. The REIT entered into interest rate swaps on a number of mortgages and its non-revolving credit facilities. The swaps are not designated in a hedge relationship.

Note 31. Subsequent events

The following events occurred subsequent to December 31, 2017:

- The REIT issued 5,000,000 Cumulative Minimum Rate Reset Preferred Trust Units, Series I ("Series I Units") at a price of $25 per unit, for gross proceeds of $125,000. The Series I Units will pay fixed cumulative preferential distributions of $1.50 per unit per annum, at the discretion of the Board of Trustees.
- The REIT issued 2-year Series B floating rate senior unsecured debentures with an aggregate principal amount of $200,000. These debentures will bear interest at a floating rate basis based on the three month CDOR plus 107 basis points.
- The REIT delivered its notice of redemption on all outstanding Series C Units, effective March 31, 2018.
- The REIT entered into a foreign currency forward contract to buy US$75,000 for $92,760.
- The REIT disposed of Humana Building, an office property located in the Greater Phoenix Area, Arizona. The property was sold for US$19,067 and a portion of the proceeds was used to repay the outstanding mortgage financing in the amount of US$8,639.
- The REIT has an unconditional purchase agreement for an office development project located in the Twin Cities Area, Minnesota. The REIT will acquire each phase upon completion, for a total anticipated purchase price of US$98,512.
- The REIT repaid a net balance of $169,000 and US$21,000 on its revolving term credit facilities.
- The REIT received new mortgage financing on a previously unencumbered property in the amount of US$16,110 and repaid a maturing mortgage in the amount of $21,542.

- The REIT declared a monthly cash distribution of $0.09 per unit for the months of January and February 2018.
- The REIT declared a quarterly cash distribution of $0.3125 per Series G preferred unit for the quarter ending January 31, 2018.

Note 32. Approval of financial statements

These consolidated financial statements were approved by the Board of Trustees and authorized for issue on March 1, 2018.