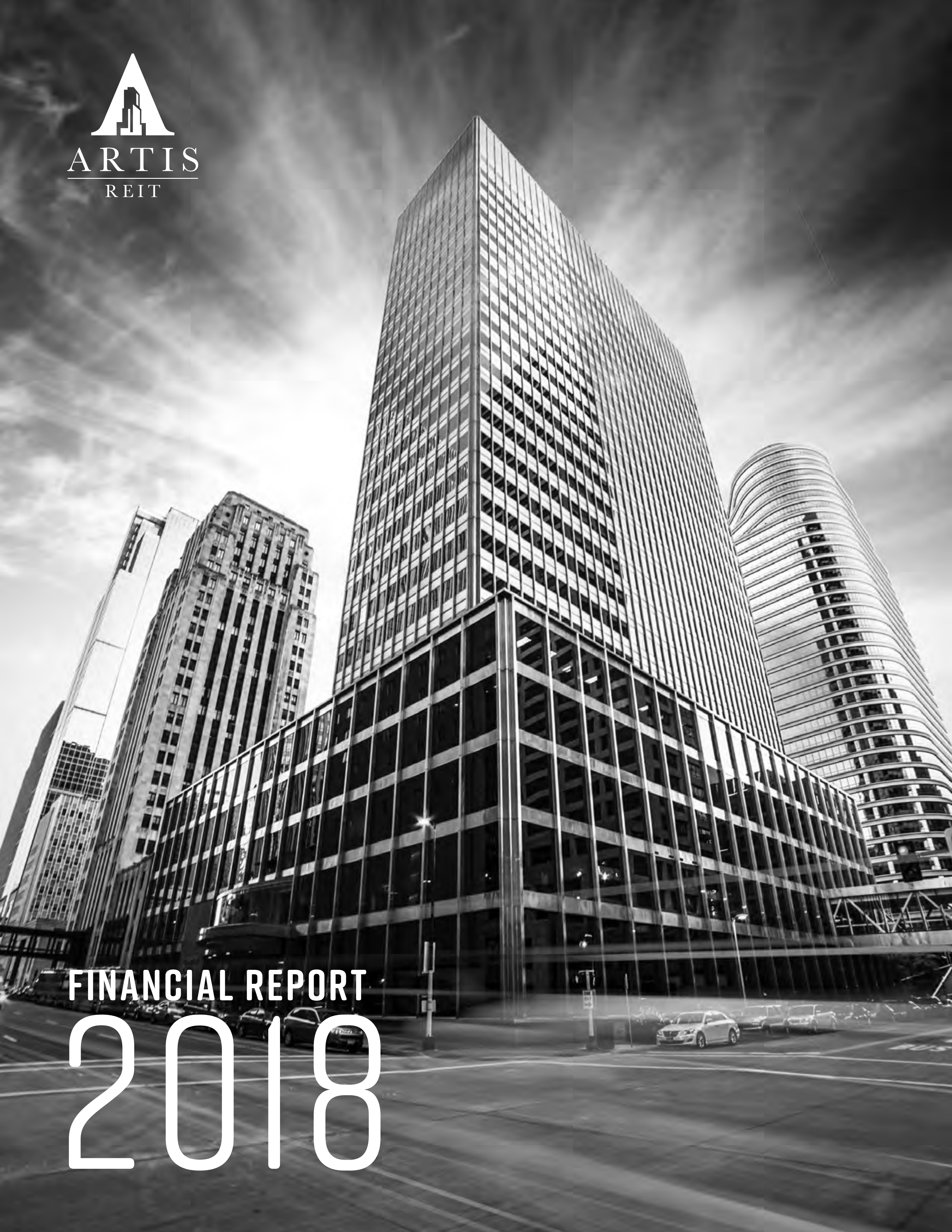

ARTIS
REIT

FINANCIAL REPORT
2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Artis Real Estate Investment Trust should be read in conjunction with the REIT's audited annual consolidated financial statements for the years ended December 31, 2018 and 2017, and the notes thereto. Unless otherwise noted, all amounts in this MD&A are based on the consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Additionally, "Artis", the "REIT", "we", "us" and "our" refers to Artis Real Estate Investment Trust and its consolidated operations. This MD&A has been prepared taking into account material transactions and events up to and including February 28, 2019. Additional information about Artis, including the REIT's most recent Annual Information Form, has been filed with applicable Canadian securities regulatory authorities and is available at www.sedar.com or on our website at www.artisreit.com.

FORWARD-LOOKING DISCLAIMER

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

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

NOTICE WITH RESPECT TO NON-GAAP MEASURES

In addition to reported IFRS measures, the following non-GAAP measures are commonly used by Canadian real estate investment trusts as an indicator of financial performance. "GAAP" means the generally accepted accounting principles described by the CPA Canada Handbook - Accounting, which are applicable as at the date on which any calculation using GAAP is to be made. Artis applies IFRS, which is the section of GAAP applicable to publicly accountable enterprises. These non-GAAP measures are not defined under IFRS and are not intended to represent operating profits for the period, or from a property, nor should any of these measures be viewed as an alternative to net income, cash flow from operations or other measures of financial performance calculated in accordance with IFRS. Readers should be further cautioned that the following measures as calculated by Artis may not be comparable to similar measures presented by other issuers.

Proportionate Share

The REIT has properties held in its investments in joint ventures, which are accounted for using the equity method in its consolidated financial statements in accordance with IFRS. Amounts presented on a Proportionate Share basis include Artis' interest in properties held in its joint ventures based on its percentage of ownership in these properties in addition to the amounts per its consolidated financial statements. Management is of the view that presentation on a Proportionate Share basis is meaningful for investors as it is representative of how Artis manages its properties as well as certain operating and financial metrics. Artis does not independently control its unconsolidated joint ventures, and the presentation of pro-rata assets, liabilities, revenue and expenses may not accurately depict the legal and economic implications of the REIT's interest in its joint ventures. Income statement and balance sheet metrics, such as those identified below, are shown on both an IFRS and a Proportionate Share basis. Unless otherwise noted, comparative period amounts have been updated to reflect the current period's presentation. Artis provides a reconciliation to its consolidated financial statements in the Analysis of Operating Results and Analysis of Financial Position sections of this MD&A.

Property Net Operating Income ("Property NOI")

Artis calculates Property NOI as revenues less property operating expenses such as utilities, repairs and maintenance and realty taxes. Property NOI does not include charges for interest or other expenses not specific to the day-to-day operation of the REIT's properties. Management considers Property NOI to be a valuable measure for evaluating the operating performance of the REIT's properties. Refer to the Revenue and Property NOI section of this MD&A for further discussion and calculation of this measure.

Same Property NOI

Artis calculates Same Property NOI by including Property NOI for investment properties that were owned for a full quarterly reporting period in both the current and comparative year, and excludes properties held for (re)development. Adjustments are made to this measure to exclude non-cash revenue items and other non-recurring revenue amounts such as lease termination income. Management considers Same Property NOI to be a valuable measure for evaluating the operating performance of the REIT's properties due to changes in occupancy, rental rates and the recovery of property operating expenses and realty taxes. Refer to the Same Property NOI Analysis section of this MD&A for further discussion and calculation of this measure.

Funds from Operations ("FFO")

Artis calculates FFO in accordance with the guidelines set out by the Real Property Association of Canada ("REALpac"), as issued in February 2018. These guidelines have been applied consistently to all comparative periods included in this MD&A. Management considers FFO to be a valuable recurring earnings measure for evaluating the REIT's operating performance as it adjusts net income for gains or losses that are not recurring in nature such as fair value gains or losses on investment properties. Refer to the FFO and AFFO section of this MD&A for further discussion and a reconciliation of net income to this measure.

Adjusted Funds from Operations ("AFFO")

Artis calculates AFFO in accordance with the guidelines set out by REALpac, as issued in February 2018. These guidelines have been applied consistently to all comparative periods included in this MD&A. Management considers AFFO to be a valuable recurring earnings measure for evaluating the REIT's operating performance. Refer to the FFO and AFFO section of this MD&A for further discussion and a reconciliation of net income to this measure.

FFO and AFFO Payout Ratios

Artis calculates FFO and AFFO payout ratios by dividing the distributions per common unit by diluted FFO per unit and diluted AFFO per unit, respectively, over the same period. Management uses the FFO and AFFO payout ratios to measure the REIT's ability to pay distributions.

Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") Interest Coverage Ratio

Artis calculates EBITDA as net income, adjusted for interest expense, transaction costs, income taxes and all non-cash revenue and expense items. Management considers this ratio to be a valuable measure of Artis' ability to service the interest requirements on its outstanding debt. Refer to the Income Statement Metrics section of this MD&A for a reconciliation of net income to this measure, on both an IFRS and Proportionate Share basis.

Debt to Gross Book Value ("GBV")

Artis calculates GBV based on the total consolidated assets of the REIT, adding back the amount of accumulated depreciation of property and equipment. The REIT has adopted debt to GBV as an indebtedness ratio used to measure its leverage. Refer to the Balance Sheet Metrics section of this MD&A for a calculation of this measure.

Debt to EBITDA Ratio

Artis calculates debt to EBITDA based on annualizing the current quarter's EBITDA as defined above and comparing that balance to Artis' total outstanding debt. Management considers this ratio to be a valuable measure of Artis' leverage. Refer to the Balance Sheet Metrics section of this MD&A for a calculation of this measure.

Net Asset Value ("NAV") per Unit

Artis calculates NAV per unit as its unitholders' equity, adjusted for the outstanding face value in Canadian dollars of its preferred units, divided by its total number of dilutive units outstanding. Management considers this metric to be a valuable measure of the REIT's residual equity available to its common unitholders. Refer to the Balance Sheet Metrics section of this MD&A for a calculation of this measure.

OVERVIEW

Artis is one of the largest diversified commercial real estate investment trusts in Canada and 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").

Certain of the REIT's securities are listed on the Toronto Stock Exchange ("TSX"). The REIT's common units trade under the symbol AX.UN and the REIT's preferred units trade under the symbols AX.PR.A, AX.PR.E, AX.PR.G and AX.PR.I. The REIT's common units also trade in the United States ("U.S.") on the OTCQX Best Market ("OTCQX"), under the symbol ARESF. As at February 28, 2019, there were 146,779,570 common units, 15,570,100 preferred units, 541,865 restricted units and 111,766 deferred units of Artis outstanding (refer to the Outstanding Unit Data section of this MD&A for further details).

PRIMARY OBJECTIVE

Artis' primary objective is to provide a tax-efficient monthly cash distribution as well as long-term appreciation in the value of Artis' units through the accumulation and effective management of a quality portfolio of commercial real estate.

Since its inception, Artis has provided a steady stream of monthly cash distributions to its unitholders. The amount distributed is set by the Board of Trustees (the "Board" or "Trustees") in accordance with the Declaration of Trust. Prior to November 1, 2018, the distribution was $1.08 per unit annualized. Effective November 1, 2018, the distribution was reset to $0.54 per unit annualized.

Artis' management utilizes several key strategies to meet its primary objective, which are executed with consideration given to current economic and market factors:

- **Strategic Asset Ownership.** Artis' portfolio of office, retail and industrial real estate is strategically and diversely located in select primary and secondary markets in Canada and the U.S. Artis' management conducts on-going analysis of the performance of its assets and the relevant economic fundamentals of its target markets, identifying opportunities to make accretive acquisitions, develop new generation real estate and dispose of assets that are not aligned with its long-term strategy.

- **Disciplined Growth.** Artis' management strives to extract maximum value from its portfolio through effective management of assets, including leasing initiatives that focus on maintaining strong occupancy levels and realizing the gain between in-place rental rates and market rental rates. Artis' management creates value through strategic asset redevelopment and property intensification initiatives, and through new development projects. New developments provide Artis an opportunity to build and own new generation real estate, and are considered in circumstances where the return on a development project is higher than that of acquiring an existing property.

- **Prudent Financial Management.** Artis has a long-term conservative approach to financial management, characterized by diligent management of its balance sheet, and prudent management of financial metrics, such as debt ratios, interest coverage ratios, payout ratios, and per unit metrics. Artis minimizes its risk related to interest rates by utilizing various sources of capital and staggering debt maturities. Ample access to cash is required to fulfill distribution obligations and for on-going operations, which includes re-investing in the portfolio, making accretive acquisitions and funding development projects.

2018 OVERVIEW

Update on New Initiatives

2018 has been a year of significant change for Artis. The downturn in oil prices has created challenges in the Calgary real estate sector, particularly the office market, since late 2014. Given this and the current overall real estate and economic outlook, including rising interest rates, and in consideration of Artis' units trading at a significant discount to NAV, on November 1, 2018, we announced several new capital allocation initiatives to improve our growth profile and our NAV and to strengthen our balance sheet.

Our first initiative was to reset the distribution from $1.08 per unit annualized to $0.54 per unit annualized. This change has been implemented and was effective for the November 2018 distribution that was payable on December 14, 2018. The revised distribution is expected to result in a more conservative payout ratio. The normalized AFFO payout ratio, calculated pro forma for the revised distribution, was 55.7% for the year ended December 31, 2018.

Next, we committed to immediately focusing on purchasing units through our normal course issuer bid ("NCIB") to capitalize on the recent trading price, which was and continues to be at a significant discount to our NAV. From November 1, 2018, when we announced our intention to buy back units until December 31, 2018, we purchased 3,541,927 common units at a weighted-average price of $9.77, and 12,200 preferred units at a weighted-average price of $19.83. As of the filing date of this MD&A, we have purchased 7,048,619 common units at a weighted-average price of $10.02, and 79,900 preferred units at a weighted-average price of $20.68.

Our next initiative is to optimize our portfolio by narrowing our focus to key assets in fewer markets. Accordingly, we have identified between $800,000 to $1,000,000 of non-core assets to sell over the next three years. Since the announcement, we have sold our 50% interest in one office property (held under a joint venture arrangement) in Winnipeg, Manitoba, and have listed 16 properties for sale with qualified brokers in the respective markets who are actively marketing the properties. The listed properties have a fair value of $320,465 at December 31, 2018. We look forward to providing an update on our progress with this initiative in subsequent quarters.

Lastly, as a result of the improved balance sheet and the increase in retained cash flow from the revised distribution, we will have the ability to continue with our unit buyback, to fund development and intensification projects, and to pursue select acquisitions in our target markets that will improve the value and quality of our portfolio. We continue to maximize our unit buyback through our NCIB and to make progress on our development pipeline and we expect that the benefit of the improved balance sheet and the increase in retained cash flow from the revised distribution will be further demonstrated over time, with the successful execution of the other initiatives.

Update on Property Transactions

During 2018, we sold five office properties (including a 50% interest in one held under a joint venture arrangement) and one industrial property, totalling approximately 685,000 square feet of leasable area, for aggregate sale prices of $159,100 and US$19,067, representing a weighted-average capitalization rate of 5.07% (excluding one property that was sold to an owner-occupier and one property that was substantially vacant) and a net gain of $13,208 over the most recently reported IFRS value. Also during the year, we purchased an office property in the Greater Phoenix Area, Arizona, an office property in the Twin Cities Area, Minnesota, and the remaining 50% interest in two office properties in Denver, Colorado, at a weighted-average capitalization rate of 6.54%. In addition, we acquired the remaining 10% interest in Park Lucero II, three parcels of land in the U.S. (one of which was an 80% interest) and a parking lot that is ancillary to an owned office property in Winnipeg, Manitoba. The aggregate purchase price for all acquisitions in 2018 was $10,500 and US$190,014.

Update on Development Projects

During the year, we acquired three parcels of development land in the U.S., including Cedar Port, Tower Business Center (80% interest in the form of a joint venture arrangement), and 1630 Aspen. Cedar Port is a two-phase development expected to comprise approximately 1.0 million square feet of industrial real estate in Houston, Texas. Phase I of this project, which is under way, will total approximately 519,000 square feet and is 100% leased for a 12.5-year term. Tower Business Center is a two-building industrial development in the Greater Denver Area, Colorado, that is expected to total approximately 420,000 square feet. Construction is underway, and there has been positive leasing interest in this development. Lastly, 1630 Aspen is a parcel of land adjacent to an owned office property in Madison, Wisconsin, that will be held for future development.

We also have numerous ongoing development and densification projects underway in the portfolio. In 2018, construction of 300 Main and 330 Main began, which are two new projects that will span nearly an entire city block in downtown Winnipeg, Manitoba. These sites are located above the Shops of Winnipeg Square retail concourse and Winnipeg Square Parkade, and adjacent to 360 Main, a 30-storey Class A office tower, all of which is currently owned by Artis. 300 Main will be a best-in-class amenity-rich 395-suite apartment building with main floor commercial space, while 330 Main will be a state-of-the-art multi-tenant retail property. 330 Main is approximately 90.0% leased pursuant to a 20-year lease with rental increases every five years. At Park Lucero in the Greater Phoenix Area, Arizona, all four phases are complete and 100% leased. At Park 8Ninety in the Greater Houston Area, Texas, the first phase is complete and 88.5% leased, while construction of the second phase is under way and 40% pre-leased. We successfully negotiated a build-to-suit development for the third phase at the site with a national tenant for 33,000 square feet that is expected to be completed in mid-2019.

Update on Operational Performance

On a year-over-year basis at December 31, our portfolio occupancy increased from 91.6% to 92.1%, and our Calgary office portfolio occupancy increased from 73.9% to 81.6%. Our Same Property NOI year-over-year increased 1.1%, or 2.9% for stabilized properties, which are healthy rates of growth. In 2018, we completed 1.3 million square feet of new lease transactions and 1.7 million square feet of lease renewal transactions. The weighted-average increase on renewal rents achieved was 3.7% excluding Calgary office renewals and 2.3% including Calgary office renewals. Our leasing team continues to work diligently on our upcoming renewals and leasing program.

Update on Alberta Investment and Diversification Strategy

As a result of the downturn in oil prices, and the impact on the Alberta economy and real estate sector, we previously announced our intention to reduce the percentage of Property NOI derived from our Alberta properties by further diversifying our portfolio in a patient and disciplined manner. Accordingly, the percentage of Proportionate Share Property NOI derived from our Alberta properties has decreased from 39.1% in Q4-14 to 21.0% in Q4-18, while the percentage of Proportionate Share Property NOI derived from our Calgary office properties has decreased from 17.7% in Q4-14 to 7.7% in Q4-18. Since 2014, we have sold 27 properties in Alberta totalling 2.8 million square feet of leasable area. The aggregate sale price of these assets was $562,939, representing a weighted-average capitalization rate of 5.98% (excluding two properties that were sold to owner-occupiers and one property that was substantially vacant) and a net gain of $9,901 over the most recently reported IFRS value. Of these sales, 12 were located in Calgary, eight of which were office properties. We are pleased with the capitalization rate and net gain over our IFRS value we have been able to achieve on these sales despite the market challenges, and feel this demonstrates the benefit of patience and diligence in executing this strategy. At December 31, 2018, the fair value of our Calgary office portfolio was $326,786.

Update on Environmental, Social and Governance ("ESG") Practices

Environmental Practices

Corporate sustainability is a high priority for Artis. We are committed to improving the energy efficiency of our properties and reducing our environmental footprint. At December 31, 2018, we had 15 properties with a Leadership in Energy and Environmental Design ("LEED") certification, 18 properties with a Building Owners and Managers Association ("BOMA") Building Environmental Standards ("BEST") certification and 15 properties with an Energy Star certification.

For more information on Artis' comprehensive corporate sustainability program, including Artis' annual Corporate Sustainability Report, please visit www.artisreit.com.

Social Practices

Artis demonstrates social responsibility through its relationships with employees, tenants and the communities in which we operate. Artis is committed to fostering a diverse, inclusive and safe work environment. Employees make meaningful contributions to local charities through fundraising activities and by volunteering their time. The REIT's social committee and health and wellness committee provide opportunities for social engagement and an array of valuable information on health and wellness. This focus on a positive culture in the workplace and strong community relationships fosters an environment that is conducive to an engaged and dedicated workforce.

Governance Practices

Artis' Board recently conducted a comprehensive strategic review of our corporate governance practices and executive compensation to better align the REIT with industry best practices. As part of this review, our Governance and Compensation Committee conducted a widespread unitholder outreach campaign that focused on engaging in open and active dialogue with unitholders to elicit input and feedback. As a result of this review, the Board approved the following policies and initiatives:

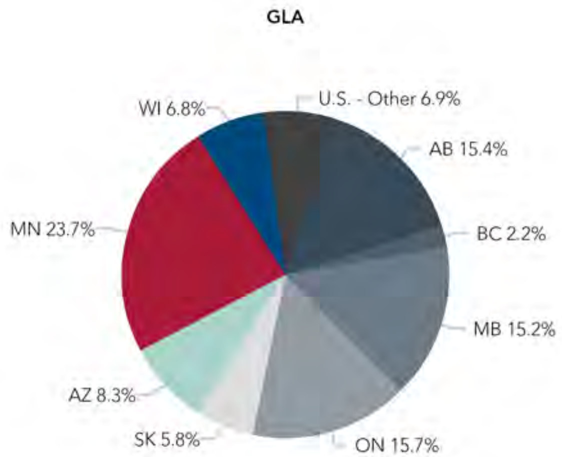
- a diversity policy which requires that, no later than the 2020 annual general meeting, at least 20% of the Trustees are female, a target which was achieved at the 2018 Annual General Meeting;
- a board renewal policy pursuant to which one trustee did not stand for re-election at the 2018 Annual General Meeting, and three new trustees were elected;
- the introduction of performance-based compensation for executives, which will be subject to objectively measurable criteria, commencing in the 2018 fiscal year;
- the adoption of a policy that requires employment contracts for new executives joining Artis or one of its subsidiaries to contain a "double-trigger" provision in the event of a "change of control" with a maximum severance multiplier of 2.0 of base salary and bonuses; and
- the submission to unitholders of a non-binding "say on pay" vote on an annual basis, commencing no later than Artis' 2019 annual general meeting with respect to compensation practices for the 2018 year.

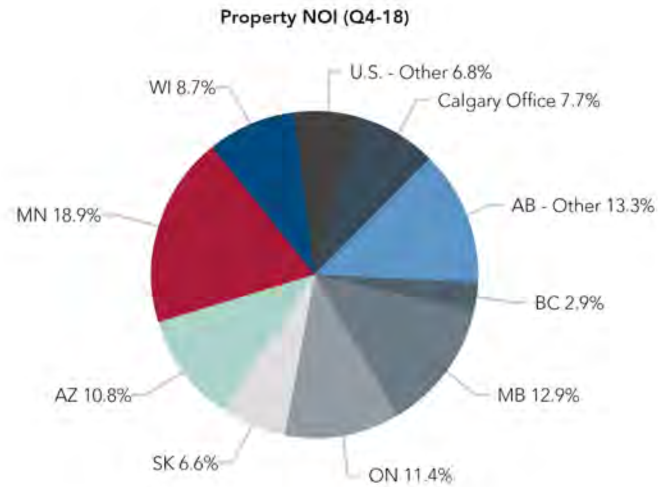
The Trustees continue to discuss the vision and long-term strategic direction of Artis and the important oversight role that the Board plays, and to consider corporate governance and compensation changes to better align with industry best practices.

PORTFOLIO SUMMARY

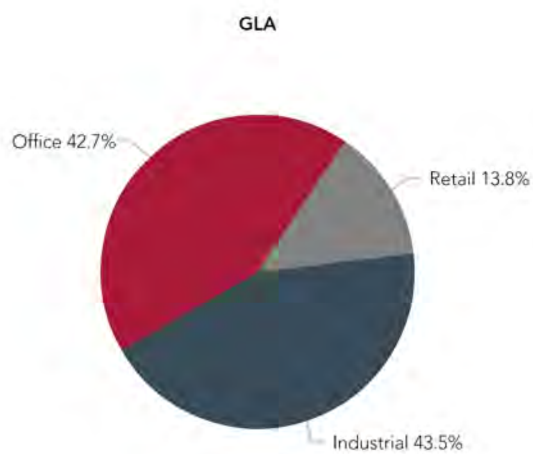
At December 31, 2018, the REIT's portfolio was comprised of 235 commercial properties (inclusive of properties held in joint venture arrangements) totalling approximately 25.1 million square feet ("S.F.") of gross leasable area ("GLA").

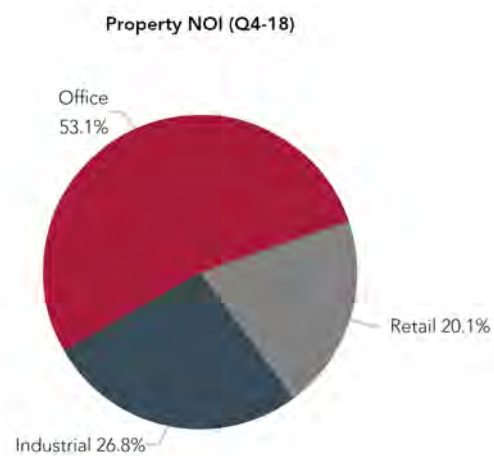
Diversification by Geographical Region (Proportionate Share basis)



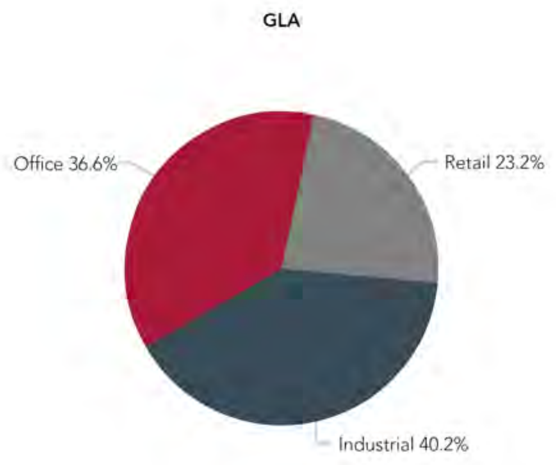


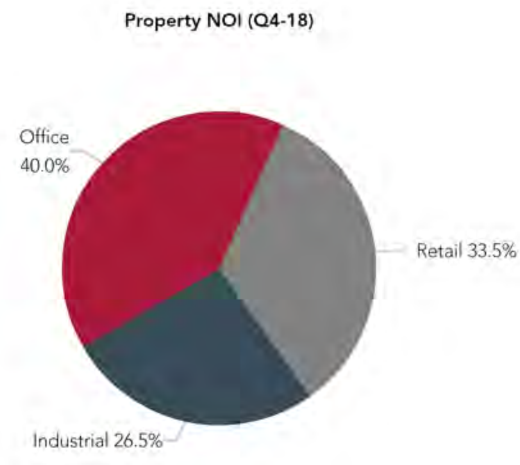
Diversification by Asset Class - ***Total Canadian and U.S. Portfolio (Proportionate Share basis)***



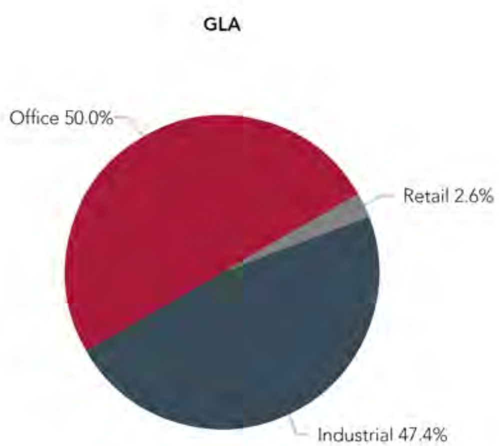


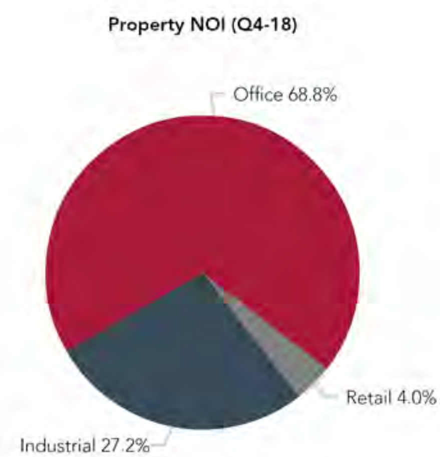
Diversification by Asset Class - *Canadian Portfolio (Proportionate Share basis)*





Diversification by Asset Class - *U.S. Portfolio (Proportionate Share basis)*





(In thousands of Canadian dollars, unless otherwise noted)

Portfolio by Asset Class (1)

Asset class	City	Province / State	Property count	Owned share of GLA (000's of S.F.)	% of portfolio GLA	% Occupied	% Committed (2)
Canadian portfolio:							
Office	Calgary	AB	12	1,743	6.9%	81.6%	82.4%
	Greater Edmonton Area	AB	1	48	0.2%	97.5%	97.5%
	Greater Toronto Area	ON	7	1,082	4.3%	84.6%	88.1%
	Greater Vancouver Area	BC	2	164	0.7%	97.1%	99.0%
	Nanaimo	BC	1	38	0.2%	100.0%	100.0%
	Ottawa	ON	2	287	1.1%	96.7%	97.6%
	Saskatoon	SK	1	64	0.3%	100.0%	100.0%
	Winnipeg	MB	9	1,465	5.8%	83.1%	90.1%
Office total			35	4,891	19.5%	84.7%	87.9%
Retail	Calgary	AB	5	345	1.3%	99.0%	99.3%
	Estevan	SK	2	175	0.7%	89.0%	93.6%
	Fort McMurray	AB	8	195	0.8%	93.7%	93.7%
	Grande Prairie	AB	5	365	1.5%	68.5%	69.2%
	Greater Edmonton Area	AB	5	440	1.8%	99.6%	99.6%
	Greater Vancouver Area	BC	1	165	0.6%	99.6%	99.6%
	Nanaimo	BC	3	74	0.3%	70.8%	94.7%
	Regina	SK	8	533	2.0%	93.5%	93.5%
	Saskatoon	SK	3	219	0.9%	98.4%	98.4%
	Winnipeg	MB	7	654	2.7%	97.7%	98.7%
Retail total			47	3,165	12.6%	92.8%	93.9%
Industrial	Calgary	AB	6	362	1.4%	96.8%	100.0%
	Greater Edmonton Area	AB	3	156	0.6%	100.0%	100.0%
	Greater Toronto Area	ON	28	2,524	10.1%	96.5%	97.6%
	Greater Vancouver Area	BC	2	98	0.4%	100.0%	100.0%
	Red Deer	AB	1	126	0.5%	79.3%	79.3%
	Regina	SK	2	143	0.6%	100.0%	100.0%
	Saskatoon	SK	5	327	1.3%	100.0%	100.0%
	Winnipeg	MB	28	1,692	6.7%	93.3%	98.3%
Industrial total			75	5,428	21.6%	95.6%	97.9%
Total Canadian portfolio			157	13,484	53.7%	91.0%	93.3%
U.S. portfolio:							
Office	Greater Denver Area	CO	4	917	3.7%	89.3%	90.9%
	Greater Phoenix Area	AZ	6	1,173	4.7%	93.3%	93.3%
	Madison	WI	16	1,697	6.8%	88.7%	91.9%
	New Hartford	NY	1	123	0.4%	67.4%	67.4%
	Twin Cities Area	MN	7	1,697	6.8%	91.7%	93.1%
Office total			34	5,607	22.4%	90.2%	91.9%
Retail	Twin Cities Area	MN	7	298	1.2%	91.8%	92.4%
Industrial	Greater Denver Area	CO	1	138	0.6%	100.0%	100.0%
	Greater Phoenix Area	AZ	6	826	3.2%	96.5%	96.5%
	Twin Cities Area	MN	25	3,952	15.7%	97.6%	97.6%
	Greater Houston Area	TX	1	418	1.7%	88.5%	88.5%
Industrial total			33	5,334	21.2%	96.8%	96.8%
Total U.S. portfolio			74	11,239	44.8%	93.4%	94.2%
Total Canadian and U.S. portfolio			231	24,723	98.5%	92.1%	93.7%

(1) Information is as at December 31, 2018, and excludes properties listed in the Property Held for Redevelopment table and the New Development Activity table on the following page, and includes properties held in joint venture arrangements.

(2) Percentage committed is based on occupancy at December 31, 2018, plus commitments on vacant space.

(In thousands of Canadian dollars, unless otherwise noted)

Properties Held for Redevelopment

Asset class	City	Province / State	Property count	Owned share of GLA (000's of S.F.)	% of portfolio GLA	Property	% Committed (1)
Office	Calgary	AB	1	92	0.4%	Sierra Place	5.4%
Industrial	Greater Toronto Area	ON	1	53	0.2%	2145-2155 Dunwin Drive	53.3%
Total properties held for redevelopment			2	145	0.6%		22.9%

(1) Percentage committed is based on occupancy at December 31, 2018, plus commitments on vacant space.

Redevelopments in Process:

Redevelopment plans are underway to convert Sierra Place, located in Calgary, Alberta, from an office property to a residential property. The building, which is conveniently located downtown on a light rail transit line and provides access to the Plus 15 walkway system, will have approximately 100 suites upon completion of the redevelopment. Redevelopment work is anticipated to begin in 2019.

Artis has implemented a plan to convert an industrial property into commercial condominium units at 2145-2155 Dunwin Drive, located in the Greater Toronto Area, Ontario. 2145-2155 Dunwin Drive is a 52,969 square foot two-storey complex that is located just minutes from Queen Elizabeth Way and Highway 403. The completion of the conversion is expected in Q2-19. Interest in these commercial condominium units is strong.

New Development Activity (1)

Asset class	City	Province / State	Property count	Owned share of GLA (000's of S.F.)	% of portfolio GLA	Property	% Completed	% Committed (2)
Office	Greater Denver Area	CO	1	118	0.5%	169 Inverness Drive West I	100.0%	0.0%
Industrial	Greater Phoenix Area	AZ	1	96	0.4%	Park Lucero IV	100.0%	100.0%
Total completed new developments			2	214	0.9%			
Industrial	*Greater Houston Area*	*TX*	*1*	*33*	*—%*	*Park 8Ninety III*	*48.0%*	*100.0%*
Industrial	*Greater Houston Area*	*TX*	*1*	*519*	*—%*	*Cedar Port I*	*40.0%*	*100.0%*
Industrial	*Greater Houston Area*	*TX*	*1*	*543*	*—%*	*Park 8Ninety II*	*32.0%*	*40.0%*
Industrial	*Greater Denver Area*	*CO*	*1*	*336*	*—%*	*Tower Business Center*	*30.0%*	*0.0%*
Retail	*Winnipeg*	*MB*	*1*	*27*	*—%*	*330 Main*	*25.0%*	*90.0%*
Residential/ Commercial	*Winnipeg*	*MB*	*1*	*580*	*—%*	*300 Main*	*11.0%*	*0.0%*
Total new developments in process (3)			*6*	*2,038*				

(1) Information is at December 31, 2018, and includes properties held in joint venture arrangements.

(2) Percentage committed is based on occupancy at December 31, 2018, plus commitments on vacant space.

(3) Property count and owned share of GLA for new developments in process (properties that are not 100% completed) are not included in portfolio property count and GLA totals. GLA numbers are estimates.

Completed New Developments and New Developments in Process:

In Q1-18, Artis completed base-building construction of 169 Inverness Drive West I, an office development situated on a 10 acre parcel of land adjacent to the AT&T Building in the Greater Denver Area, Colorado. The first phase of this project includes the development of a Class A office building comprising approximately 118,000 square feet. The site can accommodate a total development of 320,000 square feet and is located on the I-25 with immediate connectivity to the light rail transit system. Leasing at this project is under way.

Artis has completed construction of the all four phases of Park Lucero, an industrial project located in the Greater Phoenix Area, Arizona. The four completed phases, which total approximately 583,000 square feet, are 100% leased. In Q4-18, Artis completed base-building construction of Park Lucero IV, a 96,000 square foot rear-load building, and leased the entire building to a single tenant pursuant to a lease commencing in Q2-19. Tenant improvement work is under way. In Q4-18, Artis acquired the remaining 10% ownership interest in Park Lucero II (which was previously partially owned as a joint venture arrangement) and now owns 100% of all phases of Park Lucero.

Artis owns a 127 acre parcel of development land called Park 8Ninety located in the Southwest industrial submarket in the Greater Houston Area, Texas, which is expected to be developed in several phases into approximately1,774,000 square feet of new generation industrial real estate. Construction of Park 8Ninety I was completed in Q2-17, comprising three buildings and totalling approximately 440,000 square feet. Site work began in Q2-18 for the Park 8Ninety II and Park 8Ninety III developments on the land. Park 8Ninety II is expected to comprise approximately 572,000 square feet, while Park 8Ninety III is expected to comprise 33,000 square feet and is 100% leased to a national tenant pursuant to a long-term lease. Both projects are expected to be complete in Q2-19. Artis has a 95% ownership interest in Park 8Ninety I and Park 8Ninety II (in the form of a joint venture arrangement).

In Q1-18, Artis acquired Cedar Port, two parcels of land totalling 52.5 acres in Houston (Baytown), Texas, for the multi-phase development of approximately 1,000,000 square feet of industrial real estate. Site work is under way for the first phase of this project, which is anticipated to total approximately 519,000 square feet and is 100% leased for a 12.5-year term with annual rent escalations of 2.5%. Artis anticipates the completion of this project in Q2-19.

(In thousands of Canadian dollars, unless otherwise noted)

In Q2-18, Artis acquired an 80% interest in Tower Business Center (in the form of a joint venture arrangement), an industrial development in the Greater Denver Area, Colorado. This site, totalling approximately 30 acres, is located in close proximity to I-10 and is part of a large industrial/retail market. Construction is under way for this development, which is expected to comprise two buildings totalling approximately 420,000 square feet of leasable area once completed. Artis anticipates the completion of this project in Q2-19.

Construction is under way for the development of 300 Main and 330 Main, two new projects that will span nearly one city block in downtown Winnipeg, Manitoba. These sites are located above the Shops of Winnipeg Square retail concourse and Winnipeg Square Parkade, and adjacent to 360 Main, a 30-storey Class A office tower, all of which are owned by Artis. 300 Main will be a best-in-class amenity-rich apartment building with main floor commercial space, while 330 Main will be a state-of-the-art multi-tenant retail property. 330 Main is approximately 90% pre-leased pursuant to a 20-year lease with rental increases every five years.

Future Development Program

Future Development Projects:

Asset class	City	Province / State	Estimated owned share of GLA (000's of S.F.)	Property
Industrial	Greater Houston Area	TX	520	Cedar Port II
Industrial	Greater Houston Area	TX	688	Park 8Ninety - Future Phases
Office	Greater Denver Area	CO	120	Inverness Drive West II
Office	Madison	WI	43	1630 Aspen
Office	Madison	WI	244	Heartland Trail Land

Additional information about these developments will be released as progress is made and key milestones are achieved.

Rezoning and Densification Initiatives

Projects Being Rezoned for Densification:

Artis is exploring opportunities for a densification project at 415 Yonge Street in Toronto, Ontario. 415 Yonge Street is in a prime location in downtown Toronto, across from the College Station subway stop and in close proximity to the University of Toronto and Ryerson University. Preliminary plans to build 375 apartment units above this 19-storey office building are underway.

Artis is exploring opportunities for a densification project at Concorde Corporate Centre in the Greater Toronto Area, Ontario. The site provides direct access to Don Valley Parkway and convenient access to other major thoroughfares in the Greater Toronto Area. Preliminary plans are underway to build approximately 600 apartment units on the site.

Development plans are underway to rezone the Stampede Station II site on Macleod Trail in Calgary, Alberta, from the original plan for a 300,000 square foot office project to a 30-storey multi-family project with 300 suites.

Artis is exploring opportunities for a densification project at Poco Place in Port Coquitlam, British Columbia. The site provides access to major transportation routes and frontage on four streets, including Lougheed Highway, an east-west arterial corridor. Preliminary plans to build 600 to 900 apartment units are underway.

These projects will be planned for sale once rezoning and densification entitlements are achieved. Additional information about these projects will be released as progress is made.

(In thousands of Canadian dollars, unless otherwise noted)

2018 ANNUAL HIGHLIGHTS

PORTFOLIO ACTIVITY

During 2018, Artis acquired two office properties, the remaining interest in two office properties and one industrial property (previously held in joint venture arrangements) and three parcels of development land. Artis disposed of five office properties (one of which was held in a joint venture arrangement) and one industrial property and completed the development of one office property and one industrial property.

	Office		Retail		Industrial		Total	
	Property count	S.F. (000's) (1)	Property count	S.F. (000's) (1)	Property count	S.F. (000's) (1)	Property count	S.F. (000's) (1)
Portfolio properties, December 31, 2017	73	10,470	54	3,463	110	10,824	237	24,757
Acquisitions	2	784	—	—	—	13	2	797
New developments	1	118	—	—	1	96	2	214
Dispositions	(5)	(664)	—	—	(1)	(22)	(6)	(686)
Portfolio properties, December 31, 2018	71	10,708	54	3,463	110	10,911	235	25,082

(1) Based on owned share of GLA, and includes properties held in joint venture arrangements.

Acquisitions

During 2018, Artis acquired the following properties:

Property	Property count	Location	Acquisition date	Asset class	Owned share of GLA	Purchase price
Stapley Center	1	Greater Phoenix Area, AZ	August 13, 2018	Office	277,264	$ US48,500
Boulder Lakes Business Park I	1	Twin Cities Area, MN	November 27, 2018	Office	223,138	US56,862

On March 7, 2018, the REIT acquired the remaining 50% interest in each of 1700 Broadway and Hudson's Bay Centre, office properties located in the Greater Denver Area, Colorado. The aggregate purchase price was US$70,000 (Artis' IFRS value at December 31, 2017) and was satisfied through the assumption of the existing mortgages and the issuance of the REIT's common units. Prior to the acquisition date, the REIT owned 50% 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 50% interests to fair value at the acquisition date, resulting in a fair value gain of $1,697. The REIT recorded a bargain purchase gain of $5,384 on the acquisition of the previously unowned 50% of the net assets of these properties.

On October 5, 2018, the REIT acquired the remaining 10% interest in Park Lucero II, an industrial property located in the Greater Phoenix Area, Arizona for total consideration of US$1,582. Prior to the acquisition date, the REIT owned 90% of this investment property and the property was classified as joint venture and accounted for using the equity method. As a result of this acquisition, the REIT owns 100% of the property and accounts for it on a consolidated basis. The REIT accounted for this acquisition as step acquisition and remeasured its existing 90% interests to fair value at the acquisition date.

On October 19, 2018, the REIT acquired a surface parking lot ancillary to an existing office property in Winnipeg, Manitoba for a purchase price of $10,500.

The REIT has an unconditional purchase agreement for an office development project located in the Twin Cities Area, Minnesota. As of December 31, 2018, the REIT expects the purchase to close in the last quarter of 2019 for an anticipated purchase price of US$41,961.

During 2018, Artis acquired the following parcels of development land:

Property	Location	Acquisition date	Asset class	Purchase price
Cedar Port	Houston (Bayport), TX	March 26, 2018	Industrial	$ US8,792
Tower Business Center (1)	Greater Denver Area, CO	April 20, 2018	Industrial	US2,884
1630 Aspen	Madison, WI	May 31, 2018	Office	US1,394

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

(In thousands of Canadian dollars, unless otherwise noted)

Dispositions

During 2018, Artis disposed of the following properties:

Property	Property count	Location	Disposition date	Asset class	Owned share of GLA	Sale price
Humana Building	1	Greater Phoenix Area, AZ	January 23, 2018	Office	106,418	$ US19,067
1810 Dublin Avenue	1	Winnipeg, MB	March 22, 2018	Industrial	21,840	1,850
630 - 4th Avenue SW	1	Calgary, AB	June 1, 2018	Office	68,069	9,000
Production Court & Eau Claire Place II	2	Greater Vancouver Area, BC & Calgary, AB	June 27, 2018	Office	437,457	121,000
Centrepoint (1)	1	Winnipeg, MB	October 31, 2018	Office	51,723	27,250

(1) On October 31, 2018, the REIT disposed of its 50% interest in Centrepoint, a property held under a joint venture arrangement.

On September 11, 2018, the REIT contributed industrial development land located in the Greater Houston Area, Texas, to a new joint venture arrangement, Park 8Ninety II.

During 2018, Artis repaid mortgage debt related to the disposition of the above properties in the aggregate amounts of $34,718 and US$8,639.

FINANCING ACTIVITIES

Preferred Units Offering

On January 31, 2018, under its August 8, 2016 short form base shelf prospectus, Artis issued 5,000,000 Series I preferred units, at a price of $25.00 per unit for aggregate gross proceeds of $125,000. This included 1,000,000 units issued pursuant to the exercise of the underwriters' over-allotment option. These preferred units yield 6.00% per annum for the initial period ending April 30, 2023.

Senior Unsecured Debentures Offering

On February 7, 2018, under its August 8, 2016 short form base shelf prospectus, Artis issued two-year Series B floating rate senior unsecured debentures for gross proceeds of $200,000. These debentures bear interest at the three month Canadian Dollar Offered Rate ("CDOR") plus 1.07%.

Private Equity Placement

On March 7, 2018, as part of the 1700 Broadway and Hudson's Bay Centre acquisitions, Artis issued an aggregate total of 3,185,152 common units at a price of $14.85 per unit for gross consideration of $47,300.

Redemption of Preferred Units

On March 31, 2018, Artis completed the redemption of its outstanding Series C preferred units for US$75,000.

Short Form Base Shelf Prospectuses

On August 23, 2018, the REIT issued a new short form base shelf prospectus. The REIT may from time to time during the 25-month period that this short form base shelf prospectus is valid, offer and issue the following securities up to a maximum of $1,000,000 (i) common units of the REIT; (ii) preferred 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, 2018, the REIT had not issued any securities under this short form base shelf prospectus.

Under the short form base shelf prospectus issued on August 8, 2016, the REIT had issued senior unsecured debentures under one offering in the amount of $200,000 and preferred units under one offering in the amount of $125,000. This short form base shelf prospectus expired on September 8, 2018.

OTCQX Best Market

On September 5, 2018, the REIT qualified to trade in the United States on the OTCQX Best Market, under the symbol ARESF.

Series E Preferred Units Distribution Rate Reset

On September 30, 2018, the annual distribution rate was reset for the Series E preferred units. The REIT did not exercise its right to redeem any of the Series E preferred units and none of these units were reclassified to Series F preferred units. Accordingly, all 4,000,000 Series E preferred units remain issued and outstanding for the subsequent five-year period commencing October 1, 2018. During this period, Series E preferred unitholders will be entitled to receive a cumulative distribution yield of 5.472% per annum, payable quarterly, if, as and when declared by the Board of Trustees.

Unsecured Revolving Term Credit Facilities

In 2018, Artis amended the revolving credit facilities agreement to increase the aggregate amount of its revolving credit facilities from $500,000 to $700,000 and to extend the related maturity dates. The first tranche in the amount of $400,000 matures on December 14, 2021 and the second tranche in the amount of $300,000 matures on April 29, 2023.

During 2018, Artis drew a net balance of $25,043 on its revolving credit facilities. Proceeds of the revolving credit facilities were primarily used for the repayment of maturing mortgages, ongoing development expenditures and purchases under the normal course issuer bid.

Mortgage Debt Financing and Repayment Activity

During 2018, Artis repaid six maturing mortgages in the aggregate amount of $87,606, refinanced four maturing mortgages, received upward financing on two mortgages and received new mortgage financing on three properties, net of financing costs in the aggregate amount of $65,331 and drew on development loans, net of financing costs, in the amount of $3,661.

(In thousands of Canadian dollars, unless otherwise noted)

Normal Course Issuer Bid ("NCIB")

In 2018, Artis utilized the NCIB to purchase 3,541,927 common units for an aggregate market price of $34,605 and 4,600 Series A, 3,800 Series E and 3,800 Series G preferred units for an aggregate market price of $242.

DISTRIBUTIONS

On November 1, 2018, Artis reset the annual distribution rate to $0.54 per common unit.

Artis declared distributions of $173,408 to unitholders in 2018, which included distributions to preferred unitholders in the amount of $21,948.

SELECTED FINANCIAL INFORMATION

000's, except per unit amounts	2018	Year ended December 31, 2017	Change	% Change	December 31, 2016
Revenue	$ 512,870	$ 516,328	$ (3,458)	(0.7)%	$ 549,151
Property NOI	304,323	311,224	(6,901)	(2.2)%	336,116
Net income	158,636	234,435	(75,799)	(32.3)%	115,935
Total comprehensive income	274,388	161,941	112,447	69.4 %	95,256
Basic income per common unit	0.89	1.43	(0.54)	(37.8)%	0.67
Diluted income per common unit	0.88	1.43	(0.55)	(38.5)%	0.67
Distributions to common unitholders	$ 151,460	$ 162,634	$ (11,174)	(6.9)%	$ 157,018
Distributions per common unit	0.99	1.08	(0.09)	(8.3)%	1.08
FFO (1)	$ 191,722	$ 215,360	$ (23,638)	(11.0)%	$ 225,876
FFO per unit (1)	1.25	1.43	(0.18)	(12.6)%	1.55
FFO payout ratio (1)	79.2%	75.5%		3.7 %	69.7%
Normalized FFO (1) (2)	$ 200,139	$ 215,360	$ (15,221)	(7.1)%	$ 225,876
Normalized FFO per unit (1) (2)	1.30	1.43	(0.13)	(9.1)%	1.55
Normalized FFO payout ratio (1) (2)	76.2%	75.5%		0.7 %	69.7%
AFFO (1)	$ 141,011	$ 157,467	$ (16,456)	(10.5)%	$ 168,748
AFFO per unit (1)	0.92	1.04	(0.12)	(11.5)%	1.16
AFFO payout ratio (1)	107.6%	103.8%		3.8 %	93.1%
Normalized AFFO (1) (2)	$ 149,428	$ 157,467	$ (8,039)	(5.1)%	$ 168,748
Normalized AFFO per unit (1) (2)	0.97	1.04	(0.07)	(6.7)%	1.16
Normalized AFFO payout ratio (1) (2)	102.1%	103.8%		(1.7)%	93.1%

(1) Represents a non-GAAP measure. Refer to the Notice with Respect to non-GAAP Measures section of this MD&A.

(2) Normalized FFO and normalized AFFO exclude certain non-recurring adjustments. Please refer to the FFO and AFFO section of this MD&A for further discussion of these adjustments.

Revenue, Property NOI, FFO and AFFO in 2018 were primarily impacted by dispositions completed in 2017 and 2018, partially offset by the impact of acquisitions and (re)developments completed in 2017 and 2018 and year-over-year Same Property NOI growth.

The largest contributor to the decrease in net income during the year ended December 31, 2018 was the fair value change on investments properties.

The increase in total comprehensive income during the year ended December 31, 2018 was primarily due to the impact of changes in foreign currency translations.

Effective November 1, 2018, the distribution was reset to $0.54 per unit annualized. Normalized FFO payout ratio and normalized AFFO payout ratio, calculated pro forma for the revised distribution, were 41.5% and 55.7%, respectively, for the year ended December 31, 2018.

(In thousands of Canadian dollars, unless otherwise noted)

The following non-GAAP metrics are prepared using amounts from the REIT's consolidated financial statements, which are prepared in accordance with IFRS. Please refer to the Notice with Respect to non-GAAP Measures section of this MD&A.

	Three months ended				Year ended			
	December 31,			%	December 31,			%
	2018	2017	Change	Change	2018	2017	Change	Change
Interest coverage ratio	2.82	3.07	(0.25)	(8.1)%	2.89	3.09	(0.20)	(6.5)%
Normalized interest coverage ratio (1)	2.82	3.07	(0.25)	(8.1)%	2.92	3.09	(0.17)	(5.5)%
EBITDA interest coverage ratio	3.18	3.44	(0.26)	(7.6)%	3.24	3.44	(0.20)	(5.8)%
Normalized EBITDA interest coverage ratio (1)	3.18	3.44	(0.26)	(7.6)%	3.28	3.44	(0.16)	(4.7)%

000's, except per unit amounts	December 31, 2018	December 31, 2017	% Change	December 31, 2016
Secured mortgages and loans to GBV	29.4%	29.9%	(0.5)%	39.1%
Total long-term debt and credit facilities to GBV	49.9%	47.9%	2.0 %	49.8%
Total long-term debt and credit facilities to EBITDA	8.7	7.9	10.1 %	7.9
Total long-term debt and credit facilities to normalized EBITDA (2)	8.7	7.9	10.1 %	7.9
NAV per unit	$ 15.55	$ 14.86	4.6 %	$ 15.00
Fair value of unencumbered properties	$ 1,805,382	$ 1,649,077	9.5 %	$ 957,375
Total assets	$ 5,717,177	$ 5,215,896	9.6 %	$ 5,492,755
Total non-current financial liabilities	2,252,874	1,695,705	32.9 %	1,844,219

The following non-GAAP metrics are prepared on a Proportionate Share basis. Please refer to the Notice with Respect to non-GAAP Measures section of this MD&A.

	Three months ended				Year ended			
	December 31,			%	December 31,			%
	2018	2017	Change	Change	2018	2017	Change	Change
Interest coverage ratio	2.78	3.02	(0.24)	(7.9)%	2.84	3.05	(0.21)	(6.9)%
Normalized interest coverage ratio (1)	2.78	3.02	(0.24)	(7.9)%	2.87	3.05	(0.18)	(5.9)%
EBITDA interest coverage ratio	3.04	3.23	(0.19)	(5.9)%	3.08	3.24	(0.16)	(4.9)%
Normalized EBITDA interest coverage ratio (1)	3.04	3.23	(0.19)	(5.9)%	3.11	3.24	(0.13)	(4.0)%

	December 31, 2018	December 31, 2017	% Change	December 31, 2016
Secured mortgages and loans to GBV	30.6%	31.9%	(1.3)%	40.6%
Total long-term debt and credit facilities to GBV	50.6%	49.3%	1.3 %	51.0%
Total long-term debt and credit facilities to EBITDA	9.0	8.4	7.1 %	8.4
Total long-term debt and credit facilities to normalized EBITDA (2)	9.0	8.4	7.1 %	8.4
Fair value of unencumbered properties	$ 1,847,443	$ 1,687,754	9.5 %	$ 998,770
Total assets	$ 5,841,846	$ 5,382,008	8.5 %	$ 5,664,907
Total non-current financial liabilities	2,296,891	1,807,853	27.1 %	1,962,023

(1) Normalized interest coverage ratio and normalized EBITDA interest coverage ratio exclude certain non-recurring adjustments. Please refer to the Income Statement Metrics section of this MD&A for further discussion of these adjustments.

(2) Normalized EBITDA excludes the non-recurring pension liability adjustment of $3,392 included in corporate expenses in Q1-18.

(In thousands of Canadian dollars, unless otherwise noted)

ANALYSIS OF OPERATING RESULTS

The following provides a reconciliation of the consolidated statements of operations as prepared in accordance with IFRS in the REIT's consolidated financial statements to its Proportionate Share:

	Three months ended December 31,					
	2018			2017		
	Per consolidated financial statements	Adjustment [1]	Total Proportionate Share	Per consolidated financial statements	Adjustment [1]	Total Proportionate Share
Revenue	$ 132,864	$ 4,432	$ 137,296	$ 126,256	$ 6,827	$ 133,083
Expenses:						
Property operating	35,315	1,021	36,336	32,222	2,038	34,260
Realty taxes	20,290	1,022	21,312	19,092	1,017	20,109
	55,605	2,043	57,648	51,314	3,055	54,369
Net operating income	77,259	2,389	79,648	74,942	3,772	78,714
Other income (expenses):						
Corporate expenses	(2,186)	—	(2,186)	(3,332)	—	(3,332)
Interest expense	(26,853)	(1,275)	(28,128)	(23,462)	(1,613)	(25,075)
Interest income	689	2	691	307	3	310
Net (loss) income from investments in joint ventures	(2,085)	2,085	—	5,742	(5,742)	—
Fair value (loss) gain on investment properties	(23,576)	(3,201)	(26,777)	4,906	3,580	8,486
Foreign currency translation loss	(12,119)	—	(12,119)	(3,144)	—	(3,144)
Transaction costs	(488)	—	(488)	(543)	—	(543)
Fair value loss on derivative instruments and other transactions	(3,357)	—	(3,357)	(1,420)	—	(1,420)
Income before income taxes	7,284	—	7,284	53,996	—	53,996
Income tax (expense) recovery	(64)	—	(64)	67	—	67
Net income	7,220	—	7,220	54,063	—	54,063
Other comprehensive income:						
Unrealized foreign currency translation gain	70,444	6,677	77,121	8,362	4,172	12,534
Unrealized foreign currency translation gain on joint ventures	6,677	(6,677)	—	4,172	(4,172)	—
Unrealized loss from remeasurements of net pension obligation	(437)	—	(437)	(33)	—	(33)
	76,684	—	76,684	12,501	—	12,501
Total comprehensive income	$ 83,904	$ —	$ 83,904	$ 66,564	$ —	$ 66,564

(1) Adjustment to reflect investments in joint ventures on a Proportionate Share basis.

(In thousands of Canadian dollars, unless otherwise noted)

	Year ended December 31,					
	2018			2017		
	Per consolidated financial statements	**Adjustment [1]**	**Total Proportionate Share**	**Per consolidated financial statements**	**Adjustment [1]**	**Total Proportionate Share**
Revenue	$ 512,870	$ 21,195	$ 534,065	$ 516,328	$ 26,601	$ 542,929
Expenses:						
Property operating	127,697	5,560	133,257	123,855	7,921	131,776
Realty taxes	80,850	4,422	85,272	81,249	4,259	85,508
	208,547	9,982	218,529	205,104	12,180	217,284
Net operating income	304,323	11,213	315,536	311,224	14,421	325,645
Other income (expenses):						
Corporate expenses	(14,436)	—	(14,436)	(13,778)	—	(13,778)
Interest expense	(101,164)	(5,592)	(106,756)	(96,496)	(6,210)	(102,706)
Interest income	1,974	8	1,982	1,148	8	1,156
Net income from investments in joint ventures	8,754	(8,754)	—	21,280	(21,280)	—
Fair value (loss) gain on investment properties	(37,099)	1,428	(35,671)	4,694	13,061	17,755
Foreign currency translation loss	(8,113)	—	(8,113)	(267)	—	(267)
Transaction costs	(6,418)	—	(6,418)	(1,110)	—	(1,110)
Fair value gain on derivative instruments and other transactions	11,342	1,697	13,039	7,421	—	7,421
Income before income taxes	159,163	—	159,163	234,116	—	234,116
Income tax (expense) recovery	(527)	—	(527)	319	—	319
Net income	158,636	—	158,636	234,435	—	234,435
Other comprehensive income (loss):						
Unrealized foreign currency translation gain (loss)	105,935	10,254	116,189	(60,530)	(11,853)	(72,383)
Unrealized foreign currency translation gain (loss) on joint ventures	10,254	(10,254)	—	(11,853)	11,853	—
Unrealized loss from remeasurements of net pension obligation	(437)	—	(437)	(111)	—	(111)
	115,752	—	115,752	(72,494)	—	(72,494)
Total comprehensive income	$ 274,388	$ —	$ 274,388	$ 161,941	$ —	$ 161,941

(1) Adjustment to reflect investments in joint ventures on a Proportionate Share basis.

(In thousands of Canadian dollars, unless otherwise noted)

INCOME STATEMENT METRICS

Quarterly Interest Coverage Ratio

	IFRS		Proportionate Share	
	Three months ended December 31,		Three months ended December 31,	
	2018	2017	2018	2017
Property NOI	$ 77,259	$ 74,942	$ 79,648	$ 78,714
Interest income	689	307	691	310
Corporate expenses	(2,186)	(3,332)	(2,186)	(3,332)
	75,762	71,917	78,153	75,692
Interest expense	$ 26,853	$ 23,462	$ 28,128	$ 25,075
Interest coverage ratio	2.82	3.07	2.78	3.02
Normalized interest coverage ratio	2.82	3.07	2.78	3.02

Quarterly EBITDA Interest Coverage Ratio

	IFRS		Proportionate Share	
	Three months ended December 31,		Three months ended December 31,	
	2018	2017	2018	2017
Net income	$ 7,220	$ 54,063	$ 7,220	$ 54,063
Add (deduct):				
Tenant inducements amortized to revenue	5,152	4,415	5,385	4,750
Straight-line rent adjustments	(1,090)	(1,729)	(1,337)	(1,925)
Interest expense	26,853	23,462	28,128	25,075
Adjustment for investments in joint ventures (1)	4,462	(1,828)	—	—
Fair value loss (gain) on investment properties	23,576	(4,906)	26,777	(8,486)
Foreign currency translation loss	12,119	3,144	12,119	3,144
Transaction costs	488	543	488	543
Fair value loss on derivative instruments and other transactions	3,357	1,420	3,357	1,420
Depreciation of property and equipment	249	235	249	235
Income tax expense (recovery)	64	(67)	64	(67)
EBITDA	82,450	78,752	82,450	78,752
Interest expense	26,853	23,462	28,128	25,075
Add (deduct):				
Amortization of financing costs	(977)	(823)	(1,048)	(943)
Amortization of above- and below-market mortgages, net	29	233	29	233
Accretion on liability component of debentures	56	54	56	54
Adjusted interest expense	$ 25,961	$ 22,926	$ 27,165	$ 24,419
EBITDA interest coverage ratio	3.18	3.44	3.04	3.23
Normalized EBITDA	$ 82,450	$ 78,752	$ 82,450	$ 78,752
Normalized EBITDA interest coverage ratio	3.18	3.44	3.04	3.23

(1) This adjustment is to remove non-cash items and interest expense that are included in net income from investments in joint ventures.

(In thousands of Canadian dollars, unless otherwise noted)

Year-to-Date Interest Coverage Ratio

	IFRS		Proportionate Share	
	2018	Year ended December 31, 2017	2018	Year ended December 31, 2017
Property NOI	$ 304,323	$ 311,224	$ 315,536	$ 325,645
Interest income	1,974	1,148	1,982	1,156
Corporate expenses	(14,436)	(13,778)	(14,436)	(13,778)
	291,861	298,594	303,082	313,023
Interest expense	$ 101,164	$ 96,496	$ 106,756	$ 102,706
Interest coverage ratio	2.89	3.09	2.84	3.05
Normalized interest coverage ratio (1)	2.92	3.09	2.87	3.05

Year-to-Date EBITDA Interest Coverage Ratio

	IFRS		Proportionate Share	
	2018	Year ended December 31, 2017	2018	Year ended December 31, 2017
Net income	$ 158,636	$ 234,435	$ 158,636	$ 234,435
Add (deduct):				
Tenant inducements amortized to revenue	19,761	17,026	20,649	18,598
Straight-line rent adjustments	(5,491)	(6,383)	(6,998)	(7,413)
Interest expense	101,164	96,496	106,756	102,706
Adjustment for investments in joint ventures (2)	1,848	(6,309)	—	—
Fair value loss (gain) on investment properties	37,099	(4,694)	35,671	(17,755)
Foreign currency translation loss	8,113	267	8,113	267
Transaction costs	6,418	1,110	6,418	1,110
Fair value gain on derivative instruments and other transactions	(11,342)	(7,421)	(13,039)	(7,421)
Depreciation of property and equipment	1,049	911	1,049	911
Income tax expense (recovery)	527	(319)	527	(319)
EBITDA	317,782	325,119	317,782	325,119
Interest expense	101,164	96,496	106,756	102,706
Add (deduct):				
Amortization of financing costs	(3,602)	(3,362)	(3,976)	(3,788)
Amortization of above- and below-market mortgages, net	271	1,132	271	1,132
Accretion on liability component of debentures	216	333	216	333
Adjusted interest expense	$ 98,049	$ 94,599	$ 103,267	$ 100,383
EBITDA interest coverage ratio	3.24	3.44	3.08	3.24
Normalized EBITDA (1)	$ 321,174	$ 325,119	$ 321,174	$ 325,119
Normalized EBITDA interest coverage ratio (1)	3.28	3.44	3.11	3.24

(1) This ratio excludes the non-recurring pension liability adjustment of $3,392 included in corporate expenses in Q1-18.

(2) This adjustment is to remove non-cash items and interest expense that are included in net income from investments in joint ventures.

(In thousands of Canadian dollars, unless otherwise noted)

REVENUE AND PROPERTY NOI

	Three months ended December 31,					
	2018			2017		
	IFRS	Adjustment (1)	Total Proportionate Share	IFRS	Adjustment (1)	Total Proportionate Share
Revenue:						
Rental income	$ 136,493	$ 4,418	$ 140,911	$ 128,281	$ 6,966	$ 135,247
Tenant inducements amortized to revenue	(5,152)	(233)	(5,385)	(4,415)	(335)	(4,750)
Straight-line rent adjustments	1,090	247	1,337	1,729	196	1,925
Lease termination income	433	—	433	661	—	661
	132,864	4,432	137,296	126,256	6,827	133,083
Property operating and realty tax expenses	55,605	2,043	57,648	51,314	3,055	54,369
Property NOI	$ 77,259	$ 2,389	$ 79,648	$ 74,942	$ 3,772	$ 78,714

	Year ended December 31,					
	2018			2017		
	IFRS	Adjustment (1)	Total Proportionate Share	IFRS	Adjustment (1)	Total Proportionate Share
Revenue:						
Rental income	$ 523,358	$ 20,536	$ 543,894	$ 524,927	$ 27,128	$ 552,055
Tenant inducements amortized to revenue	(19,761)	(888)	(20,649)	(17,026)	(1,572)	(18,598)
Straight-line rent adjustments	5,491	1,507	6,998	6,383	1,030	7,413
Lease termination income	3,782	40	3,822	2,045	15	2,060
	512,870	21,195	534,065	516,329	26,601	542,930
Property operating and realty tax expenses	208,547	9,982	218,529	205,104	12,180	217,284
Property NOI	$ 304,323	$ 11,213	$ 315,536	$ 311,225	$ 14,421	$ 325,646

(1) Adjustment to reflect investments in joint ventures on a Proportionate Share basis.

Rental income is revenue earned from tenants primarily related to lease agreements.

Tenant inducement costs are amortized over the term of the tenant's lease.

Rent steps are accounted for by straight-lining the incremental increases over the entire non-cancelable lease term.

Lease termination income relates to payments received from tenants where the REIT and the tenant agreed to terminate a lease prior to the contractual expiry date. Lease termination income is common in the real estate industry, however, it is unpredictable and period-over-period changes are not indicative of trends.

Property operating expenses include costs related to interior and exterior maintenance, insurance, utilities and property management expenses.

(In thousands of Canadian dollars, unless otherwise noted)

SAME PROPERTY NOI ANALYSIS [(1)]

Same Property NOI includes investment properties that were owned for a full quarterly reporting period in both the current and comparative year, and excludes properties held for (re)development and properties transferred to inventory.

	Three months ended December 31, 2018	2017	Change	% Change	Year ended December 31, 2018	2017	Change	% Change
Property NOI	$ 79,648	$ 78,714			$ 315,536	$ 325,645		
Add (deduct) Property NOI from:								
Acquisitions	(4,765)	(187)			(13,204)	(195)		
Dispositions	(78)	(3,698)			(1,978)	(25,072)		
(Re)development properties	190	117			(1,441)	387		
Other [(2)]	(153)	(61)			(3,459)	(3,198)		
	(4,806)	(3,829)			(20,082)	(28,078)		
Straight-line rent adjustments	(1,054)	(1,898)			(5,789)	(7,236)		
Tenant inducements amortized to revenue	5,355	4,080			19,928	15,826		
Same Property NOI	$ 79,143	$ 77,067	$ 2,076	2.7%	$ 309,593	$ 306,157	$ 3,436	1.1%

(1) Information is presented on a Proportionate Share basis. Please refer to the Notice with Respect to non-GAAP Measures section of this MD&A.

(2) Primarily includes lease termination income adjustments.

Lease termination income related to significant tenants has been excluded, other than the portion that covers lost revenue due to vacancy, for purposes of the Same Property NOI calculation.

Same Property NOI by Asset Class [(1)]

	Three months ended December 31, 2018	2017	Change	% Change	Year ended December 31, 2018	2017	Change	% Change
Canada:								
Office	$ 19,572	$ 19,985	$ (413)	(2.1)%	$ 77,799	$ 79,544	$ (1,745)	(2.2)%
Retail	15,094	15,163	(69)	(0.5)%	60,377	59,613	764	1.3 %
Industrial	11,464	11,190	274	2.4 %	45,341	44,649	692	1.5 %
Total Canada	46,130	46,338	(208)	(0.4)%	183,517	183,806	(289)	(0.2)%
U.S.:								
Office	17,256	17,017	239	1.4 %	68,951	67,891	1,060	1.6 %
Retail	1,212	1,212	—	— %	4,625	4,449	176	4.0 %
Industrial	6,519	5,930	589	9.9 %	23,672	21,946	1,726	7.9 %
Total U.S.	24,987	24,159	828	3.4 %	97,248	94,286	2,962	3.1 %
Total in functional currency	71,117	70,497	620	0.9 %	280,765	278,092	2,673	1.0 %
Foreign exchange	8,026	6,570	1,456	22.2 %	28,828	28,065	763	2.7 %
Total in Canadian dollars	$ 79,143	$ 77,067	$ 2,076	2.7 %	$ 309,593	$ 306,157	$ 3,436	1.1 %

(1) Information is presented on a Proportionate Share basis. Please refer to the Notice with Respect to non-GAAP Measures section of this MD&A.

(In thousands of Canadian dollars, unless otherwise noted)

Artis' Canadian office segment decreased $1,745 year-over-year primarily due to increased vacancy in two properties being re-purposed, one of which was completed and fully leased in Q4-18. Excluding the impact of the Calgary office properties, the Canadian office segment decreased $2,174 (Q4-18 - decreased $674) or 4.2% (Q4-18 - 5.1%) in 2018.

Same Property Occupancy Report (1)

Geographical Region	As at December 31, 2018	2017
Alberta	87.0%	83.8%
British Columbia	95.0%	93.7%
Manitoba	90.4%	92.0%
Ontario	93.2%	95.1%
Saskatchewan	96.0%	92.4%
Arizona	93.2%	89.9%
Minnesota	96.0%	93.8%
Wisconsin	88.7%	92.3%
U.S. - Other	88.5%	75.6%
Total	91.8%	90.3%

Asset Class	As at December 31, 2018	2017
Office	88.0%	86.8%
Retail	89.9%	91.6%
Industrial	96.2%	93.0%
Total	91.8%	90.3%

(1) Information is presented on a Proportionate Share basis. Please refer to the Notice with Respect to non-GAAP Measures section of this MD&A.

Same Property NOI by Geographical Region and stabilized Same Property NOI (1)

	Three months ended December 31, 2018	2017	Change	% Change	Year ended December 31, 2018	2017	Change	% Change
Alberta	$ 17,838	$ 17,653	$ 185	1.0 %	$ 70,711	$ 70,453	$ 258	0.4 %
British Columbia	2,437	2,461	(24)	(1.0)%	10,905	10,417	488	4.7 %
Manitoba	11,172	11,614	(442)	(3.8)%	44,440	45,173	(733)	(1.6)%
Ontario	9,424	9,437	(13)	(0.1)%	37,486	36,871	615	1.7 %
Saskatchewan	5,259	5,173	86	1.7 %	19,975	20,892	(917)	(4.4)%
Arizona	5,035	4,476	559	12.5 %	19,041	18,662	379	2.0 %
Minnesota	11,252	10,950	302	2.8 %	43,977	41,907	2,070	4.9 %
Wisconsin	5,365	5,603	(238)	(4.2)%	21,557	21,516	41	0.2 %
U.S. - Other	3,335	3,130	205	6.5 %	12,673	12,201	472	3.9 %
Total Same Property NOI in functional currency	71,117	70,497	620	0.9 %	280,765	278,092	2,673	1.0 %
Less: properties planned for disposition	*(5,444)*	*(5,427)*	*(17)*	*0.3 %*	*(9,235)*	*(8,939)*	*(296)*	*3.3 %*
Less: properties planned for re-purposing	*(1,571)*	*(2,421)*	*850*	*(35.1)%*	*(6,552)*	*(11,274)*	*4,722*	*(41.9)%*
Less: Calgary office segment	*(5,364)*	*(5,307)*	*(57)*	*1.1 %*	*(26,048)*	*(25,823)*	*(225)*	*0.9 %*
Stabilized Same Property NOI in functional currency	*58,738*	*57,342*	*1,396*	*2.4 %*	*238,930*	*232,056*	*6,874*	*3.0 %*
Foreign exchange	*7,638*	*6,240*	*1,398*	*22.4 %*	*27,461*	*26,748*	*713*	*2.7 %*
Stabilized Same Property NOI in Canadian dollars	*$ 66,376*	*$ 63,582*	*$ 2,794*	*4.4 %*	*$ 266,391*	*$ 258,804*	*$ 7,587*	*2.9 %*

(1) Information is presented on a Proportionate Share basis. Please refer to the Notice with Respect to non-GAAP Measures section of this MD&A.

The REIT has presented a stabilized Same Property NOI calculation which excludes properties planned for disposition, those undergoing plans for re-purposing and the Calgary office segment.

Properties planned for disposition include 10 retail properties and six office properties. Three of these office properties are located in Calgary, Alberta.
Properties planned for re-purposing include Prairie Ridge Centre (formerly Sears Centre) and 360 Main. Prairie Ridge Centre, a retail property located in Grande Prairie, Alberta, is being considered for re-purposing. Additionally, 360 Main, an office property located in Winnipeg, Manitoba, is undergoing significant improvements to accommodate two major tenants with long-term leases, one of which commenced in Q3-18.

The Calgary office segment has been considered a non-stabilized segment as the volatility of oil prices has impacted Alberta's economy and created non-stabilized results. Management has been proactive in new leasing and tenant retention initiatives, and is focused on minimizing risk wherever possible. During 2018, the REIT sold two Calgary office properties and has three Calgary office properties planned for disposition at December 31, 2018.

(In thousands of Canadian dollars, unless otherwise noted)

PROPERTY NOI BY ASSET CLASS

Canadian Portfolio:

In Q4-18, Proportionate Share Property NOI decreased $3,465 in the office segment, $706 in the retail segment, and $60 in the industrial segment compared to Q4-17. The office segment decreased primarily due to dispositions in 2017 and 2018. Vacancy at 360 Main, an office property in Winnipeg, Manitoba undergoing significant improvements to accommodate a major tenant with a long-term lease, also continues to impact the office segment.

	Three months ended December 31,					
	2018			2017		
	Office	Retail	Industrial	Office	Retail	Industrial
Property NOI	$ 17,243	$ 14,600	$ 10,191	$ 20,520	$ 15,306	$ 10,222
Property NOI from investments in joint ventures	157	—	1,353	345	—	1,382
Proportionate Share Property NOI	$ 17,400	$ 14,600	$ 11,544	$ 20,865	$ 15,306	$ 11,604
% of Proportionate Share Property NOI	*40.0%*	*33.5%*	*26.5%*	*43.7%*	*32.0%*	*24.3%*

U.S. Portfolio:

In Q4-18, Proportionate Share Property NOI increased $3,504 in the office segment, $16 in the retail segment, and $1,635 in the industrial segment compared to Q4-17. The office segment increased primarily due to acquisitions in 2018. The industrial segment increased primarily due to acquisitions in 2017, partially offset by dispositions in 2017, and increased occupancy at Park Lucero II and Park 8Ninety I. The U.S. portfolio has also been impacted by the effect of foreign exchange.

	Three months ended December 31,					
	2018			2017		
	Office	Retail	Industrial	Office	Retail	Industrial
Property NOI	$ 24,440	$ 1,435	$ 9,320	$ 19,603	$ 1,419	$ 7,852
Property NOI from investments in joint ventures	370	—	509	1,703	—	342
Proportionate Share Property NOI	$ 24,810	$ 1,435	$ 9,829	$ 21,306	$ 1,419	$ 8,194
% of Proportionate Share Property NOI	*68.8%*	*4.0%*	*27.2%*	*68.9%*	*4.6%*	*26.5%*

Total Canadian and U.S. Portfolio:

	Three months ended December 31,					
	2018			2017		
	Office	Retail	Industrial	Office	Retail	Industrial
Property NOI	$ 41,683	$ 16,035	$ 19,511	$ 40,123	$ 16,725	$ 18,074
Property NOI from investments in joint ventures	527	—	1,862	2,048	—	1,724
Proportionate Share Property NOI	$ 42,210	$ 16,035	$ 21,373	$ 42,171	$ 16,725	$ 19,798
% of Proportionate Share Property NOI	*53.1%*	*20.1%*	*26.8%*	*53.6%*	*21.2%*	*25.2%*

(In thousands of Canadian dollars, unless otherwise noted)

Canadian Portfolio:

	Year ended December 31,					
	2018			2017		
	Office	Retail	Industrial	Office	Retail	Industrial
Property NOI	$ 71,262	$ 59,117	$ 40,560	$ 89,604	$ 61,470	$ 40,862
Property NOI from investments in joint ventures	1,124	—	5,410	1,445	—	5,384
Proportionate Share Property NOI	$ 72,386	$ 59,117	$ 45,970	$ 91,049	$ 61,470	$ 46,246
% of Proportionate Share Property NOI	*40.8%*	*33.3%*	*25.9%*	*45.8%*	*30.9%*	*23.3%*

U.S. Portfolio:

	Year ended December 31,					
	2018			2017		
	Office	Retail	Industrial	Office	Retail	Industrial
Property NOI	$ 92,432	$ 5,397	$ 35,274	$ 83,776	$ 5,447	$ 29,727
Property NOI from investments in joint ventures	2,365	—	2,314	6,270	—	1,322
Proportionate Share Property NOI	$ 94,797	$ 5,397	$ 37,588	$ 90,046	$ 5,447	$ 31,049
% of Proportionate Share Property NOI	*68.8%*	*3.9%*	*27.3%*	*71.2%*	*4.3%*	*24.5%*

Total Canadian and U.S. Portfolio:

	Year ended December 31,					
	2018			2017		
	Office	Retail	Industrial	Office	Retail	Industrial
Property NOI	$ 163,694	$ 64,514	$ 75,834	$ 173,380	$ 66,917	$ 70,589
Property NOI from investments in joint ventures	3,489	—	7,724	7,715	—	6,706
Proportionate Share Property NOI	$ 167,183	$ 64,514	$ 83,558	$ 181,095	$ 66,917	$ 77,295
% of Proportionate Share Property NOI	*53.0%*	*20.5%*	*26.5%*	*55.7%*	*20.6%*	*23.7%*

(In thousands of Canadian dollars, unless otherwise noted)

PROPERTY NOI BY GEOGRAPHICAL REGION

In Q4-18, Proportionate Share Property NOI decreased $1,494 in Alberta and $1,221 in British Columbia primarily due to dispositions in 2017 and 2018. Manitoba decreased $981 primarily due to vacancy at 360 Main, an office property in Winnipeg, Manitoba undergoing significant improvements to accommodate a major tenant with a long-term lease. Arizona increased $2,295 primarily due to acquisitions in 2017 and 2018, and Minnesota increased $1,206 primarily due to acquisitions in 2017, partially offset by dispositions in 2017. U.S. - Other increased $1,903 primarily due to an acquisition in 2017, as well as the Q1-18 acquisition of the remaining 50% interest in two office properties located in the Greater Denver Area, Colorado. The U.S. region has also been impacted by the effect of foreign exchange.

Three months ended December 31, 2018

	Canada					U.S.			
	AB	**BC**	**MB**	**ON**	**SK**	**AZ**	**MN**	**WI**	**Other**
Property NOI	$ 15,842	$ 2,150	$ 10,100	$ 9,084	$ 4,857	$ 8,549	$ 14,944	$ 6,937	$ 4,766
Property NOI from investments in joint ventures	848	129	158	—	376	45	110	—	723
Proportionate Share Property NOI	$ 16,690	$ 2,279	$ 10,258	$ 9,084	$ 5,233	$ 8,594	$ 15,054	$ 6,937	$ 5,489
% of Proportionate Share Property NOI	*21.0%*	*2.9%*	*12.9%*	*11.4%*	*6.6%*	*10.8%*	*18.9%*	*8.7%*	*6.8%*

Three months ended December 31, 2017

	Canada					U.S.			
	AB	**BC**	**MB**	**ON**	**SK**	**AZ**	**MN**	**WI**	**Other**
Property NOI	$ 17,302	$ 3,372	$ 10,894	$ 9,598	$ 4,882	$ 6,221	$ 13,553	$ 7,186	$ 1,914
Property NOI from investments in joint ventures	882	128	345	—	372	78	295	—	1,672
Proportionate Share Property NOI	$ 18,184	$ 3,500	$ 11,239	$ 9,598	$ 5,254	$ 6,299	$ 13,848	$ 7,186	$ 3,586
% of Proportionate Share Property NOI	*23.1%*	*4.4%*	*14.3%*	*12.2%*	*6.7%*	*8.0%*	*17.6%*	*9.1%*	*4.6%*

Year ended December 31, 2018

	Canada					U.S.			
	AB	**BC**	**MB**	**ON**	**SK**	**AZ**	**MN**	**WI**	**Other**
Property NOI	$ 64,854	$ 10,536	$ 40,864	$ 36,079	$ 18,605	$ 29,169	$ 57,571	$ 27,963	$ 18,401
Property NOI from investments in joint ventures	3,392	515	1,125	—	1,503	966	472	—	3,240
Proportionate Share Property NOI	$ 68,246	$ 11,051	$ 41,989	$ 36,079	$ 20,108	$ 30,135	$ 58,043	$ 27,963	$ 21,641
% of Proportionate Share Property NOI	*21.6%*	*3.5%*	*13.3%*	*11.4%*	*6.4%*	*9.6%*	*18.4%*	*8.9%*	*6.9%*

Year ended December 31, 2017

	Canada					U.S.			
	AB	**BC**	**MB**	**ON**	**SK**	**AZ**	**MN**	**WI**	**Other**
Property NOI	$ 79,470	$ 13,597	$ 42,546	$ 36,606	$ 19,717	$ 24,956	$ 55,724	$ 30,302	$ 7,968
Property NOI from investments in joint ventures	3,392	510	1,445	—	1,482	691	568	—	6,333
Proportionate Share Property NOI	$ 82,862	$ 14,107	$ 43,991	$ 36,606	$ 21,199	$ 25,647	$ 56,292	$ 30,302	$ 14,301
% of Proportionate Share Property NOI	*25.5%*	*4.3%*	*13.5%*	*11.3%*	*6.5%*	*7.8%*	*17.3%*	*9.3%*	*4.5%*

(In thousands of Canadian dollars, unless otherwise noted)

CORPORATE EXPENSES

	Three months ended December 31, 2018	Three months ended December 31, 2017	Change	% Change	Year ended December 31, 2018	Year ended December 31, 2017	Change	% Change
Accounting, legal and consulting	$ 525	$ 720	$ (195)	(27.1)%	$ 2,214	$ 2,579	$ (365)	(14.2)%
Public company costs	241	283	(42)	(14.8)%	1,599	1,460	139	9.5 %
Unit-based compensation	(150)	839	(989)	(117.9)%	1,476	2,637	(1,161)	(44.0)%
Salaries and benefits	610	675	(65)	(9.6)%	6,247	3,454	2,793	80.9 %
Depreciation of property and equipment	249	235	14	6.0 %	1,049	911	138	15.1 %
General and administrative	711	580	131	22.6 %	1,851	2,737	(886)	(32.4)%
Total corporate expenses	$ 2,186	$ 3,332	$ (1,146)	(34.4)%	$ 14,436	$ 13,778	$ 658	4.8 %

Corporate expenses in 2018 were $14,436 (Q4-18 - $2,186), or 2.8% (Q4-18 - 1.6%) of total revenues compared to $13,778 (Q4-17 - $3,332, or 2.7% (Q4-17 - 2.6%) of total revenues in 2017. In Q1-18, Artis recorded a non-recurring pension liability adjustment of $3,392 which is included in salaries and benefits.

Unit based compensation was impacted by fluctuations in Artis' unit price during the period.

INTEREST EXPENSE

	Three months ended December 31, 2018	Three months ended December 31, 2017	Change	% Change	Year ended December 31, 2018	Year ended December 31, 2017	Change	% Change
Mortgages and other loans (1)	$ 14,441	$ 13,812	$ 629		$ 56,773	$ 64,486	$ (7,713)	
Debentures (1)	3,635	1,937	1,698		13,229	8,342	4,887	
Credit facilities (1)	6,050	5,959	91		22,057	16,001	6,056	
Preferred shares (1)	34	34	—		135	136	(1)	
	24,160	21,742	2,418	11.1%	92,194	88,965	3,229	3.6%
Foreign exchange	2,693	1,720	973		8,970	7,531	1,439	
Total interest expense	$ 26,853	$ 23,462	$ 3,391	14.5%	$ 101,164	$ 96,496	$ 4,668	4.8%
Mortgages and other loans included in investments in joint ventures (1)	1,062	1,375	(313)		4,747	5,250	(503)	
Foreign exchange included in investments in joint ventures	213	238	(25)		845	960	(115)	
Total Proportionate Share interest expense	$ 28,128	$ 25,075	$ 3,053	12.2%	$ 106,756	$ 102,706	$ 4,050	3.9%

(1) Amounts shown are in Canadian and US dollars.

Year-to-date interest expense on mortgages and other loans has decreased primarily due to the repayment of mortgages upon maturity and on the disposition of investment properties in 2017 and 2018. Interest on debentures has increased from the issuance of the Series B senior unsecured debentures in Q1-18. Interest on credit facilities has increased primarily due to the new non-revolving term credit facilities drawn in Q3-17. Financing costs on mortgages and other loans, debentures and the credit facilities are netted against the related debt and amortized on an effective interest basis over the expected term of the debt.

The REIT's weighted-average effective rate at December 31, 2018, on mortgages and other loans secured by properties, inclusive of properties held in joint venture arrangements, was 4.30%, compared to 3.96% at December 31, 2017. The weighted-average nominal interest rate on mortgages and other loans secured by properties, inclusive of properties held in joint venture arrangements, at December 31, 2018, was 4.09%, compared to 3.79% at December 31, 2017.

FAIR VALUE (LOSS) GAIN ON INVESTMENT PROPERTIES

The changes in fair value on investment properties, period-over-period, are recognized as fair value gains and losses in the consolidated statement of operations. Fair values of the investment properties are determined through either the discounted cash flow method or the overall capitalization method. External valuations are performed for a selection of properties representing various geographical regions and asset classes across the REIT's portfolio. Fair value changes in individual properties result from changes in the projected income and cash flow projections of those properties, as well as from changes in capitalization rates and discount rates applied. In 2018, the Proportionate Share fair value loss on investment properties was $35,671 (Q4-18 - loss of $26,777), compared to a gain of $17,755 (Q4-17 - gain of $8,486) in 2017. The fair value loss in 2018 was primarily due to a decline in the value of Alberta office properties and select U.S. office properties.

FOREIGN CURRENCY TRANSLATION LOSS

In 2018, Artis held cash, deposits and a portion of its revolving term credit facilities in US dollars. These assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. This translation resulted in a foreign currency translation loss of $8,113 (Q4-18 - loss of $12,119), compared to a loss of $267 (Q4-17 - loss of $3,144) in 2017.

TRANSACTION COSTS

During 2018, $6,418 (Q4-18 - $488) of transaction costs were expensed, compared to $1,110 (Q4-17 - $543) in 2017. In Q1-18, Artis internalized the property management of several of its investment properties and terminated the third party property management contracts for an aggregate fee of $5,025, which is included in transaction costs. Management anticipates that this transaction will be accretive to the REIT's Property NOI and cash flows in future quarters from property management and other related fees that will be earned from these properties. The remaining transaction costs were attributable to the acquisitions of investment properties.

FAIR VALUE GAIN ON DERIVATIVE INSTRUMENTS AND OTHER TRANSACTIONS

In 2018, Artis recorded an aggregate bargain purchase gain of $5,384 related to acquiring the remaining 50% of 1700 Broadway and Hudson's Bay Centre. Please refer to the Portfolio Activity section of this MD&A for further discussion on these transactions.

Artis holds a number of interest rate swaps to effectively lock the interest rate on a portion of variable rate debt. The REIT recorded an unrealized gain on the fair value adjustment of the interest rate swaps outstanding of $221 (Q4-18 - loss of $10,469) in 2018, compared to an unrealized gain of $11,926 (Q4-17 - gain of $4,461) in 2017. The REIT anticipates holding the mortgages, non-revolving term credit facilities and related interest rate swap contracts until maturity.

Artis also recorded an unrealized gain of $5,562 (Q4-18 - gain of $7,199) in 2018 on the fair value of outstanding foreign currency contracts, compared to an unrealized loss of $2,867 (Q4-17 - loss of $3,198) in 2017.

INCOME TAX

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

The REIT's U.S. 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.

OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) includes the unrealized foreign currency translation gains in the aggregate amount of $116,189 (Q4-18 - gains of $77,121) in 2018, compared to losses of $72,383 (Q4-17 - gains of $12,534) in 2017. Foreign currency translation gains and losses relate to the REIT's net investments in its U.S. subsidiaries.

(In thousands of Canadian dollars, unless otherwise noted)

FUNDS FROM OPERATIONS AND ADJUSTED FUNDS FROM OPERATIONS

Artis calculates FFO and AFFO in accordance with the guidelines set out by REALpac, as issued in February 2018.

Reconciliation of Net Income to FFO and AFFO

000's, except per unit amounts	Three months ended December 31, 2018	Three months ended December 31, 2017	Change	% Change	Year ended December 31, 2018	Year ended December 31, 2017	Change	% Change
Net income	$ 7,220	$ 54,063			$ 158,636	$ 234,435		
Add (deduct):								
Fair value loss (gain) on investment properties (1)	26,777	(8,486)			35,671	(17,755)		
Tenant inducements amortized to revenue (1)	5,385	4,750			20,649	18,598		
Transaction costs on acquisitions	488	543			1,393	1,110		
Foreign currency translation loss	12,119	3,144			8,113	267		
Fair value loss (gain) on derivative instruments and other transactions (1)	3,357	1,420			(13,039)	(7,421)		
Remeasurement component of unit-based compensation	(946)	289			(1,510)	470		
Distributions on preferred shares treated as interest expense	44	43			174	177		
Incremental leasing costs	1,124	1,252			3,583	3,897		
Preferred unit distributions	(5,461)	(4,643)			(21,948)	(18,418)		
FFO	$ 50,107	$ 52,375	$ (2,268)	(4.3)%	$ 191,722	$ 215,360	$ (23,638)	(11.0)%
Add (deduct):								
Amortization of recoverable capital expenditures (1)	$ (2,716)	$ (3,407)			$ (9,383)	$ (10,030)		
Non-recoverable property maintenance reserve (1)	(950)	(950)			(3,800)	(3,250)		
Leasing costs reserve (1)	(7,560)	(8,100)			(30,530)	(37,200)		
Straight-line rent adjustments (1)	(1,337)	(1,925)			(6,998)	(7,413)		
AFFO	$ 37,544	$ 37,993	$ (449)	(1.2)%	$ 141,011	$ 157,467	$ (16,456)	(10.5)%
FFO per unit:								
Basic	$ 0.33	$ 0.35	$ (0.02)	(5.7)%	$ 1.25	$ 1.43	$ (0.18)	(12.6)%
Diluted	0.33	0.35	(0.02)	(5.7)%	1.25	1.43	(0.18)	(12.6)%
AFFO per unit:								
Basic	$ 0.25	$ 0.25	$ —	— %	$ 0.92	$ 1.05	$ (0.13)	(12.4)%
Diluted	0.24	0.25	(0.01)	(4.0)%	0.92	1.04	(0.12)	(11.5)%

(1) Information is presented on a Proportionate Share basis. Please refer to the Notice with Respect to non-GAAP Measures section of this MD&A.

FFO and AFFO were significantly impacted in Q1-18 by a non-recurring pension liability adjustment and non-recurring termination fees, included in transaction costs, paid to internalize several property management contracts for properties the REIT owns. In the following table the REIT has calculated normalized FFO and AFFO which excludes both of these adjustments.

(In thousands of Canadian dollars, unless otherwise noted)

000's, except per unit amounts	Three months ended December 31, 2018	2017	Change	% Change	Year ended December 31, 2018	2017	Change	% Change
FFO per above	$ 50,107	$ 52,375			$ 191,722	$ 215,360		
Add (deduct):								
Pension liability adjustment [(1)]	—	—			3,392	—		
Property management termination fees [(2)]	—	—			5,025	—		
Normalized FFO	$ 50,107	$ 52,375	$ (2,268)	(4.3)%	$ 200,139	$ 215,360	$ (15,221)	(7.1)%
Normalized AFFO	$ 37,544	$ 37,993	$ (449)	(1.2)%	$ 149,428	$ 157,467	$ (8,039)	(5.1)%
Normalized FFO per unit:								
Basic	$ 0.33	$ 0.35	$ (0.02)	(5.7)%	$ 1.31	$ 1.43	$ (0.12)	(8.4)%
Diluted	0.33	0.35	(0.02)	(5.7)%	1.30	1.43	(0.13)	(9.1)%
Normalized AFFO per unit:								
Basic	$ 0.25	$ 0.25	$ —	— %	$ 0.98	$ 1.05	$ (0.07)	(6.7)%
Diluted	0.24	0.25	(0.01)	(4.0)%	0.97	1.04	(0.07)	(6.7)%

(1) In Q1-18, the REIT recorded a non-recurring pension liability adjustment is to reflect the amounts that will be due upon expiry of key management personnel contracts.

(2) In Q1-18, the REIT internalized the property management of several of its investment properties and terminated the third party property management contracts.

Normalized FFO and AFFO in 2018 were primarily impacted by dispositions completed in 2017 and 2018, partially offset by the impact of acquisitions and (re)developments completed in 2017 and 2018, the impact of foreign exchange and Same Property NOI growth.

Actual capital expenditures are by nature variable and unpredictable. Recoverable capital expenditures are building improvement or property maintenance expenditures recovered from tenants over time. Management has deducted from AFFO the actual amortization of recoverable capital expenditures included in property operating expenses charged to tenants for the period. Approximately 81.1% of this amortization (Q4-18 - 81.5%) is recoverable from tenants in 2018, compared to 82.9% in 2017 (Q4-17 - 82.6%). The non-recoverable property maintenance reserve reflects management's estimate of a normalized expenditure using the 2016, 2017 and 2018 actual expenditures and the 2019 annual budgeted expenditures. Refer to the capital expenditures disclosure under the Assets section of this MD&A for further discussion of actual expenditures for the period.

Actual leasing costs, which are not related to (re)development projects and include tenant improvements that are not capital in nature, tenant allowances and commissions, are also variable in nature. Leasing costs will fluctuate depending on the square footage of leases rolling over, in-place rates at expiry, tenant retention and local market conditions in a given year. In Q4-17, management changed the calculation of its leasing costs reserve applied in the calculation of AFFO to reflect the amortization of leasing costs over the related lease term. In the previously reported quarters for 2017, the leasing costs reserve applied in the calculation of AFFO reflected a rolling five-year average of actual leasing costs. Due to the leasing costs incurred in recent quarters related to leases with terms of 10 or more years and acquisition and disposition activity, management no longer believes that a rolling five-year average of actual leasing costs is an accurate reflection of leasing costs going forward and that using the amortization of leasing costs over the related lease term better matches these costs with the related revenue.

The following reconciles the weighted-average number of basic common units to diluted common units:

(000's)	Three months ended December 31, 2018	2017
Basic units	153,138	150,594
Add:		
Restricted units	480	346
Deferred units	93	82
Diluted units	153,711	151,022

(000's)	Year ended December 31, 2018	2017
Basic units	153,069	150,578
Add:		
Restricted units	427	309
Deferred units	73	67
Diluted units	153,569	150,954

(In thousands of Canadian dollars, unless otherwise noted)

PORTFOLIO OCCUPANCY

Occupancy levels impact the REIT's revenues and Property NOI. Occupancy and commitments at December 31, 2018, and the previous four periods, were as follows:

Occupancy Report by Asset Class (1)

	Q4-18 % Committed (2)	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17
Office	90.0%	87.6%	87.3%	86.7%	84.9%	87.2%
Retail	93.8%	92.7%	92.1%	91.7%	91.9%	92.6%
Industrial	97.3%	96.2%	94.7%	95.8%	95.8%	95.6%
Total portfolio	93.7%	92.1%	91.2%	91.4%	90.6%	91.6%

Occupancy Report by Geographical Region (1)

	Q4-18 % Committed (2)	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17
Canada:						
Alberta	87.7%	87.0%	86.0%	84.6%	81.0%	82.1%
British Columbia	98.9%	95.0%	94.2%	94.7%	94.9%	94.8%
Manitoba	95.2%	90.2%	89.2%	89.4%	89.2%	92.0%
Ontario	94.9%	93.2%	91.7%	94.0%	94.6%	94.8%
Saskatchewan	96.6%	96.0%	94.5%	89.8%	90.2%	92.4%
U.S.:						
Arizona	94.6%	94.6%	94.5%	94.0%	91.3%	92.2%
Minnesota	96.1%	95.6%	96.1%	95.5%	95.1%	94.3%
Wisconsin	91.9%	88.7%	88.3%	88.7%	88.8%	92.3%
Other	89.2%	88.3%	85.2%	93.2%	91.9%	93.8%
Total portfolio	93.7%	92.1%	91.2%	91.4%	90.6%	91.6%

(1) Based on properties included in the Portfolio Summary - Portfolio by Asset Class table.

(2) Percentage committed is based on occupancy at December 31, 2018, plus commitments on vacant space.

PORTFOLIO LEASING ACTIVITY AND LEASE EXPIRIES

Renewal Summary (1)

	Three months ended December 31, 2018	2017	Year ended December 31, 2018	2017
Leasable area renewed (in S.F.)	537,165	594,559	1,657,813	2,373,422
Increase in weighted-average rental rate	0.0%	1.6%	2.3%	2.3%

(1) Based on owned share of GLA of properties included in the Portfolio Summary - Portfolio by Asset Class table.

In 2018, 1,657,813 square feet (Q4-18 - 537,165 square feet) were renewed at an increase in the weighted-average rental rate of 2.3% (Q4-18 - 0.0%), compared to 2,373,422 square feet (Q4-17 - 594,559 square feet) renewed at an increase of 2.3% (Q4-17 - 1.6%) in 2017.

Excluding the impact of Calgary office segment lease renewals, Artis' increase in the weighted-average rental rate was 3.7% (Q4-18 - 2.5%) in 2018.

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

(In thousands of Canadian dollars, unless otherwise noted)

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

	Current vacancy	Monthly tenants (2)	2019	2020	2021	2022	2023 & later	Total
Office - uncommitted	1,047,989	60,549	1,331,589	1,067,437	1,343,000	440,860	3,941,249	9,232,673
Office - committed	252,288	—	493,130	236,537	27,852	6,905	249,516	1,266,228
Total office	1,300,277	60,549	1,824,719	1,303,974	1,370,852	447,765	4,190,765	10,498,901
Retail - uncommitted	214,719	15,986	221,429	397,199	416,884	490,833	1,453,870	3,210,920
Retail - committed	37,117	—	108,548	25,955	48,197	—	32,384	252,201
Total retail	251,836	15,986	329,977	423,154	465,081	490,833	1,486,254	3,463,121
Industrial - uncommitted	287,475	13,432	1,157,415	1,259,921	1,578,898	1,432,960	4,642,703	10,372,804
Industrial - committed	122,370	—	151,021	7,320	8,615	69,999	29,160	388,485
Total industrial	409,845	13,432	1,308,436	1,267,241	1,587,513	1,502,959	4,671,863	10,761,289
Total - uncommitted	1,550,183	89,967	2,710,433	2,724,557	3,338,782	2,364,653	10,037,822	22,816,397
Total - committed	411,775	—	752,699	269,812	84,664	76,904	311,060	1,906,914
Total portfolio	1,961,958	89,967	3,463,132	2,994,369	3,423,446	2,441,557	10,348,882	24,723,311

(1) Based on owned share of GLA of properties included in the Portfolio Summary - Portfolio by Asset Class table.

(2) Includes holdovers and renewals where term has not been negotiated.

In-Place Rents

In-place rents reflect the weighted-average net annual rental rate per square foot as at December 31, 2018, for the leasable area expiring in the year indicated. In-place rents do not reflect either the average rate over the term of the lease or the rate in place in the year of expiry.

Market Rents

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

(In thousands of Canadian dollars, unless otherwise noted)

Market Rents by Asset Class [(1)]

Canadian Portfolio:

		2019		2020		2021		2022		2023 & later		Total
Office:												
In-place rents	$	16.04	$	15.76	$	18.04	$	14.05	$	16.75	$	16.67
Market rents		12.61		16.19		17.43		16.17		18.20		16.62
Change		(21.4)%		2.7 %		(3.4)%		15.1%		8.7 %		(0.3)%
Revenue impact [(2)]	$	(2,925)	$	200	$	(472)	$	205	$	2,771	$	(221)
Retail:												
In-place rents	$	25.47	$	23.34	$	24.48	$	20.60	$	21.19	$	22.26
Market rents		24.61		23.33		25.16		20.82		21.72		22.55
Change		(3.4)%		— %		2.8 %		1.1%		2.5 %		1.3 %
Revenue impact [(2)]	$	(273)	$	(2)	$	271	$	100	$	727	$	823
Industrial:												
In-place rents	$	7.46	$	7.94	$	7.49	$	7.07	$	9.79	$	8.55
Market rents		7.37		7.69		7.50		7.07		9.77		8.50
Change		(1.2)%		(3.1)%		0.1 %		—%		(0.2)%		(0.6)%
Revenue impact [(2)]	$	(32)	$	(220)	$	5	$	5	$	(43)	$	(285)
Total Canadian portfolio:												
In-place rents	$	15.94	$	13.11	$	16.14	$	11.73	$	14.92	$	14.57
Market rents		13.84		13.09		16.03		11.93		15.52		14.59
Change		(13.2)%		(0.2)%		(0.7)%		1.7%		4.0 %		0.1 %
Revenue impact [(2)]	$	(3,230)	$	(22)	$	(196)	$	310	$	3,455	$	317

U.S. Portfolio:

		2019		2020		2021		2022		2023 & later		Total
Office:												
In-place rents	$	20.49	$	18.15	$	15.68	$	17.12	$	18.77	$	18.52
Market rents		21.28		19.20		16.87		17.83		19.15		19.21
Change		3.9 %		5.8%		7.6 %		4.1 %		2.0%		3.7%
Revenue impact [(2)]	$	761	$	873	$	716	$	249	$	866	$	3,465
Retail:												
In-place rents	$	20.23	$	12.97	$	17.83	$	19.02	$	13.01	$	14.85
Market rents		21.21		14.60		17.57		19.97		13.65		15.62
Change		4.8 %		12.6%		(1.5)%		5.0 %		4.9%		5.2%
Revenue impact [(2)]	$	13	$	136	$	(16)	$	17	$	61	$	211
Industrial:												
In-place rents	$	5.20	$	6.27	$	5.36	$	5.62	$	6.46	$	5.91
Market rents		5.01		6.33		5.47		5.46		6.54		5.92
Change		(3.7)%		1.0%		2.1 %		(2.8)%		1.2%		0.2%
Revenue impact [(2)]	$	(179)	$	19	$	112	$	(88)	$	183	$	47
Total U.S. portfolio:												
In-place rents	$	13.02	$	14.51	$	9.48	$	10.26	$	12.61	$	12.20
Market rents		13.33		15.31		9.96		10.45		12.85		12.56
Change		2.4 %		5.5%		5.1 %		1.9 %		1.9%		3.0%
Revenue impact [(2)]	$	595	$	1,028	$	812	$	178	$	1,110	$	3,723

(1) Based on owned share of GLA of properties included in the Portfolio Summary - Portfolio by Asset Class table.

(2) This impact is based on the difference between the in-place rents and the market rents for the period in Canadian and US dollars. This excludes the impact of any straight-line rent adjustments on revenues.

(In thousands of Canadian dollars, unless otherwise noted)

Total Canadian and U.S. Portfolio(1):

	2019	2020	2021	2022	2023 & later	Total
Office:						
In-place rents	$ 18.42	$ 17.30	$ 17.00	$ 16.46	$ 17.85	$ 17.69
Market rents	17.23	18.12	17.18	17.47	18.72	18.04
Change	(6.5)%	4.7 %	1.1%	6.1 %	4.9%	2.0 %
Revenue impact (2)	$ (2,164)	$ 1,073	$ 244	$ 454	$ 3,637	$ 3,244
Retail:						
In-place rents	$ 25.26	$ 21.29	$ 23.59	$ 20.55	$ 20.66	$ 21.63
Market rents	24.47	21.61	24.14	20.79	21.19	21.95
Change	(3.1)%	1.5 %	2.3%	1.2 %	2.6%	1.5 %
Revenue impact (2)	$ (260)	$ 134	$ 255	$ 117	$ 788	$ 1,034
Industrial:						
In-place rents	$ 5.83	$ 7.47	$ 6.11	$ 6.54	$ 8.16	$ 7.23
Market rents	5.67	7.31	6.18	6.48	8.19	7.21
Change	(2.7)%	(2.1)%	1.1%	(0.9)%	0.4%	(0.3)%
Revenue impact (2)	$ (211)	$ (201)	$ 117	$ (83)	$ 140	$ (238)
Total Canadian and U.S. portfolio:						
In-place rents	$ 14.31	$ 13.70	$ 12.85	$ 11.17	$ 13.88	$ 13.48
Market rents	13.55	14.04	13.03	11.37	14.32	13.65
Change	(5.3)%	2.5 %	1.4%	1.8 %	3.2%	1.3 %
Revenue impact (2)	$ (2,635)	$ 1,006	$ 616	$ 488	$ 4,565	$ 4,040
Total Canadian and U.S. portfolio excluding Calgary office segment:						
In-place rents	*$ 13.57*	*$ 13.69*	*$ 12.26*	*$ 11.21*	*$ 13.79*	*$ 13.23*
Market rents	*13.70*	*14.06*	*12.61*	*11.36*	*14.02*	*13.47*
Change	*1.0 %*	*2.7 %*	*2.9%*	*1.3 %*	*1.7%*	*1.8 %*
Revenue impact (2)	*$ 406*	*$ 1,093*	*$ 1,077*	*$ 363*	*$ 2,188*	*$ 5,127*

(1) Based on owned share of GLA of properties included in the Portfolio Summary - Portfolio by Asset Class table.

(2) This impact is based on the difference between the in-place rents and the market rents for the period in Canadian and US dollars. This excludes the impact of any straight-line rent adjustments on revenues.

Market rents at December 31, 2018, were estimated to be 1.3% above in-place rents across the portfolio, compared to 0.9% at September 30, 2018 and 1.3% at December 31, 2017. Today's market rents for the 2019 and 2020 lease expiries are estimated to be 5.3% below and 2.5% above in-place rents, respectively. The office segment is expected to be the strongest contributor to incremental rental revenue over the long-term.

In certain years, market rents are estimated to be below in-place rents due to the impact of the Calgary office segment. Excluding the Calgary office segment, today's market rents for the 2019 and 2020 lease expiries are estimated to be 1.0% and 2.7% above in-place rents, respectively.

(In thousands of Canadian dollars, unless otherwise noted)

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

	Current vacancy	Monthly tenants (2)	2019	2020	2021	2022	2023 & later	Total
AB - uncommitted	463,026	18,513	325,388	252,103	541,039	258,212	1,799,060	3,657,341
AB - committed	28,651	—	88,102	—	—	—	4,946	121,699
Total Alberta	491,677	18,513	413,490	252,103	541,039	258,212	1,804,006	3,779,040
BC - uncommitted	6,164	10,685	126,667	19,367	54,668	53,615	206,079	477,245
BC - committed	20,878	—	34,197	8,037	—	—	—	63,112
Total British Columbia	27,042	10,685	160,864	27,404	54,668	53,615	206,079	540,357
MB - uncommitted	183,481	7,048	284,284	524,412	607,070	264,923	1,486,976	3,358,194
MB - committed	191,837	—	106,116	83,521	—	—	71,372	452,846
Total Manitoba	375,318	7,048	390,400	607,933	607,070	264,923	1,558,348	3,811,040
ON - uncommitted	196,845	21,579	374,138	701,282	406,849	572,435	1,383,612	3,656,740
ON - committed	67,700	—	108,733	45,548	—	7,649	6,496	236,126
Total Ontario	264,545	21,579	482,871	746,830	406,849	580,084	1,390,108	3,892,866
SK - uncommitted	49,757	6,756	40,323	79,197	119,815	362,101	718,244	1,376,193
SK - committed	8,000	—	45,952	6,940	—	—	23,938	84,830
Total Saskatchewan	57,757	6,756	86,275	86,137	119,815	362,101	742,182	1,461,023
AZ - uncommitted	107,072	3,562	156,853	325,553	248,437	74,615	1,074,270	1,990,362
AZ - committed	—	—	—	—	8,615	—	—	8,615
Total Arizona	107,072	3,562	156,853	325,553	257,052	74,615	1,074,270	1,998,977
MN - uncommitted	233,798	6,943	879,377	491,350	1,221,137	573,944	2,158,052	5,564,601
MN - committed	26,179	—	89,278	120,288	48,197	62,350	36,416	382,708
Total Minnesota	259,977	6,943	968,655	611,638	1,269,334	636,294	2,194,468	5,947,309
WI - uncommitted	137,963	6,607	196,853	234,018	80,103	78,907	453,207	1,187,658
WI - committed	53,892	—	246,987	5,478	27,852	6,905	167,892	509,006
Total Wisconsin	191,855	6,607	443,840	239,496	107,955	85,812	621,099	1,696,664
U.S. - Other - uncommitted	172,077	8,274	326,550	97,275	59,664	125,901	758,322	1,548,063
U.S. - Other - committed	14,638	—	33,334	—	—	—	—	47,972
Total U.S. - Other	186,715	8,274	359,884	97,275	59,664	125,901	758,322	1,596,035
Total - uncommitted	1,550,183	89,967	2,710,433	2,724,557	3,338,782	2,364,653	10,037,822	22,816,397
Total - committed	411,775	—	752,699	269,812	84,664	76,904	311,060	1,906,914
Total portfolio	1,961,958	89,967	3,463,132	2,994,369	3,423,446	2,441,557	10,348,882	24,723,311

(1) Based on owned share of GLA of properties included in the Portfolio Summary - Portfolio by Asset Class table.

(2) Includes holdovers and renewals where term has not been negotiated.

(In thousands of Canadian dollars, unless otherwise noted)

Market Rents by Geographical Region (1)

	2019	2020	2021	2022	2023 & later	Total
Alberta:						
In-place rents	$ 26.26	$ 22.03	$ 21.36	$ 22.73	$ 18.34	$ 20.47
Market rents	18.31	21.03	21.14	23.37	19.91	20.27
Change	(30.3)%	(4.5)%	(1.0)%	2.8 %	8.6 %	(1.0)%
Revenue impact (2)	$ (3,286)	$ (252)	$ (120)	$ 163	$ 2,844	$ (651)
British Columbia:						
In-place rents	$ 18.01	$ 22.81	$ 20.20	$ 22.18	$ 16.14	$ 18.19
Market rents	18.59	23.55	19.61	21.51	16.97	18.62
Change	3.2 %	3.2 %	(2.9)%	(3.0)%	5.1 %	2.4 %
Revenue impact (2)	$ 94	$ 20	$ (32)	$ (36)	$ 171	$ 217
Manitoba:						
In-place rents	$ 9.59	$ 12.98	$ 13.85	$ 9.03	$ 13.52	$ 12.69
Market rents	9.73	12.99	12.87	9.17	13.71	12.63
Change	1.5 %	0.1 %	(7.1)%	1.6 %	1.4 %	(0.5)%
Revenue impact (2)	$ 55	$ 6	$ (594)	$ 39	$ 305	$ (189)
Ontario:						
In-place rents	$ 10.65	$ 9.23	$ 10.28	$ 6.54	$ 11.96	$ 10.16
Market rents	10.64	9.11	11.74	6.94	12.02	10.38
Change	(0.1)%	(1.3)%	14.2 %	6.1 %	0.5 %	2.2 %
Revenue impact (2)	$ (2)	$ (91)	$ 591	$ 232	$ 83	$ 813
Saskatchewan:						
In-place rents	$ 21.05	$ 18.43	$ 22.18	$ 12.60	$ 14.74	$ 15.44
Market rents	19.99	21.85	21.83	12.36	14.81	15.53
Change	(5.0)%	18.6 %	(1.6)%	(1.9)%	0.5 %	0.6 %
Revenue impact (2)	$ (91)	$ 295	$ (41)	$ (88)	$ 52	$ 127
Arizona:						
In-place rents	$ 25.05	$ 18.27	$ 14.25	$ 21.46	$ 16.27	$ 17.27
Market rents	26.67	19.41	15.38	21.42	16.54	17.91
Change	6.5 %	6.2 %	7.9 %	(0.2)%	1.7 %	3.7 %
Revenue impact (2)	$ 254	$ 373	$ 291	$ (2)	$ 298	$ 1,214
Minnesota:						
In-place rents	$ 6.48	$ 11.06	$ 7.59	$ 8.29	$ 9.99	$ 8.78
Market rents	6.35	12.10	7.93	8.51	9.98	8.97
Change	(2.0)%	9.4 %	4.5 %	2.7 %	(0.1)%	2.2 %
Revenue impact (2)	$ (126)	$ 641	$ 441	$ 137	$ (22)	$ 1,071
Wisconsin:						
In-place rents	$ 16.29	$ 15.34	$ 15.19	$ 15.96	$ 13.93	$ 15.06
Market rents	16.26	15.85	16.22	16.59	15.12	15.74
Change	(0.2)%	3.3 %	6.8 %	3.9 %	8.5 %	4.5 %
Revenue impact (2)	$ (12)	$ 123	$ 112	$ 54	$ 742	$ 1,019
U.S. - Other:						
In-place rents	$ 21.34	$ 21.56	$ 19.00	$ 9.70	$ 13.95	$ 16.21
Market rents	22.67	20.44	18.47	9.61	14.08	16.51
Change	6.2 %	(5.2)%	(2.8)%	(0.9)%	0.9 %	1.9 %
Revenue impact (2)	$ 479	$ (109)	$ (32)	$ (11)	$ 92	$ 419
Total portfolio:						
In-place rents	$ 14.31	$ 13.70	$ 12.85	$ 11.17	$ 13.88	$ 13.48
Market rents	13.55	14.04	13.03	11.37	14.32	13.65
Change	(5.3)%	2.5 %	1.4 %	1.8 %	3.2 %	1.3 %
Revenue impact (2)	$ (2,635)	$ 1,006	$ 616	$ 488	$ 4,565	$ 4,040

(1) Based on owned share of GLA of properties included in the Portfolio Summary - Portfolio by Asset Class table.

(2) This impact is based on the difference between the in-place rents and the market rents for the period in Canadian and US dollars. This excludes the impact of any straight-line rent adjustments on revenues.

LARGEST SEGMENTS BY PROPERTY NOI

Artis' real estate is diversified across five Canadian provinces and six U.S. states, and across the office, retail and industrial asset classes. For the three months ended December 31, 2018, the five largest segments of the REIT's portfolio (by Proportionate Share Property NOI) were Twin Cities Area office, Madison office, Twin Cities Area industrial, Calgary office and Greater Phoenix Area office.

Twin Cities Area Office Segment

The Twin Cities Area office segment represents 8.9% of the Q4-18 Proportionate Share Property NOI and 6.8% of the overall portfolio by GLA. Direct vacancy in the Twin Cities Office market, as reported by CBRE, was 17.8% at December 31, 2018, unchanged from 17.8% at September 30, 2018. At December 31, 2018, the Twin Cities Area office segment of Artis' portfolio was 91.7% occupied, compared to 94.8% at September 30, 2018. In 2019, 99,602 square feet comes up for renewal, which represents 0.4% of the total portfolio GLA; 28.5% was renewed or committed to new leases at December 31, 2018. Of the total Twin Cities Area office GLA, 44.4% expires in 2023 or later.

Madison Office Segment

The Madison office segment represents 8.7% of the Q4-18 Proportionate Share Property NOI and 6.8% of the overall portfolio by GLA. At December 31, 2018, the Madison office segment of Artis' portfolio was 88.7% occupied, compared to 88.3% at September 30, 2018. In 2019, 443,840 square feet comes up for renewal, which represents 1.8% of the total portfolio GLA; 55.6% was renewed or committed to new leases at December 31, 2018. Of the total Madison office GLA, 36.6% expires in 2023 or later.

Twin Cities Area Industrial Segment

The Twin Cities Area industrial segment represents 8.3% of the Q4-18 Proportionate Share Property NOI and 15.7% of the overall portfolio by GLA. Direct vacancy in the Twin Cities Area industrial market, as reported by CBRE, was 4.4% at December 31, 2018, compared to 4.3% at September 30, 2018. The average asking market lease rate was $6.09 per square foot at December 31, 2018, compared to $6.03 per square foot at September 30, 2018. Occupancy in this segment of the portfolio was 97.6% at December 31, 2018, increased from 96.5% reported at September 30, 2018. In 2019, 855,661 square feet comes up for renewal, which represents 3.5% of the total portfolio GLA; 7.1% was renewed or committed to new leases at December 31, 2018. Of Artis' total Twin Cities Area industrial GLA, 34.0% expires in 2023 or later.

Calgary Office Segment

The Calgary office segment represents 7.7% of the Q4-18 Proportionate Share Property NOI and 6.9% of the overall portfolio by GLA (excluding properties held for redevelopment). 34.9% of the total Calgary office GLA is located downtown, 31.3% is beltline and 33.8% is suburban. Overall direct vacancy in the Calgary office market, as reported by CBRE, was 18.2% at December 31, 2018, down from 18.4% at September 30, 2018. At December 31, 2018, the Calgary office segment of Artis' portfolio was 81.6% occupied (excluding properties held for redevelopment), compared to 81.7% at September 30, 2018. In 2019, 197,089 square feet comes up for renewal, which represents 0.8% of the total portfolio GLA. Of Artis' Calgary office GLA, 45.3% expires in 2023 or later (excluding properties held for redevelopment). Artis' largest 10 Calgary office tenants by GLA lease over half of Artis' Calgary office space with a weighted-average lease term of 4.5 years. The average size of Artis' Calgary office tenants is approximately 10,000 square feet.

Greater Phoenix Area Office Segment

The Greater Phoenix Area office segment represents 7.7% of the Q4-18 Proportionate Share Property NOI and 4.7% of the overall portfolio by GLA. Overall direct vacancy in the Greater Phoenix Area office market, as reported by CBRE, was 15.2% at December 31, 2018, compared to 15.7% at September 30, 2018. At December 31, 2018, the Greater Phoenix area office segment of Artis' portfolio was 93.3% occupied, increased from 93.2% at September 30, 2018. In 2019, 138,446 square feet comes up for renewal, which represents 0.6% of the total portfolio GLA. Of Artis' Greater Phoenix area office GLA, 38.7% expires in 2023 or later.

(In thousands of Canadian dollars, unless otherwise noted)

Additional Disclosure Pertaining to the Calgary Office Segment [(1)]

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

	Current vacancy	Monthly tenants [(2)]	2019	2020	2021	2022	2023 & later	Total
Downtown - uncommitted	247,678	12,991	76,523	6,123	32,355	15,346	157,975	548,991
Downtown - committed	—	—	—	—	—	—	—	—
Total downtown	247,678	12,991	76,523	6,123	32,355	15,346	157,975	548,991
Beltline - uncommitted	5,613	—	69,710	11,758	—	—	462,527	549,608
Beltline - committed	8,008	—	16,118	—	—	—	—	24,126
Total beltline	13,621	—	85,828	11,758	—	—	462,527	573,734
Suburban - uncommitted	53,653	2,443	34,343	30,345	292,528	32,252	168,733	614,297
Suburban - committed	5,440	—	395	—	—	—	—	5,835
Total suburban	59,093	2,443	34,738	30,345	292,528	32,252	168,733	620,132
Total - uncommitted	306,944	15,434	180,576	48,226	324,883	47,598	789,235	1,712,896
Total - committed	13,448	—	16,513	—	—	—	—	29,961
Total Calgary office	320,392	15,434	197,089	48,226	324,883	47,598	789,235	1,742,857

Lease Expiries for the Office Segment excluding Calgary (in S.F.):

	Current vacancy	Monthly tenants [(2)]	2019	2020	2021	2022	2023 & later	Total
Other - uncommitted	741,045	45,115	1,151,013	1,019,211	1,018,117	393,262	3,152,014	7,519,777
Other - committed	238,840	—	476,617	236,537	27,852	6,905	249,516	1,236,267
Total other office	979,885	45,115	1,627,630	1,255,748	1,045,969	400,167	3,401,530	8,756,044

(1) Based on owned share of GLA of properties included in the Portfolio Summary - Portfolio by Asset Class table.

(2) Includes holdovers and renewals where term has not been negotiated.

(In thousands of Canadian dollars, unless otherwise noted)

Market Rents for Calgary Office Segment [1]:

The market rents reported in the below table are reflective of management's estimates for today's market rent rates. They do not allow for the impact of inflation. The Calgary office market rents for the next 24 months are revised on an on-going basis to reflect management's estimate of the impact of the decline in oil prices on the Calgary office market.

	2019	2020	2021	2022	2023 & later	Total
Downtown:						
In-place rents	$ 26.82	$ 15.73	$ 19.69	$ 5.34	$ 20.21	$ 21.02
Market rents	7.56	12.47	19.94	8.07	21.30	16.61
Change	(71.8)%	(20.7)%	1.3 %	51.1%	5.4%	(21.0)%
Revenue impact [2]	$ (1,473)	$ (20)	$ 8	$ 42	$ 172	$ (1,271)
Beltline:						
In-place rents	$ 30.18	$ 18.50	$ —	$ —	$ 14.59	$ 17.06
Market rents	13.20	10.00	—	—	19.26	18.14
Change	(56.3)%	(45.9)%	— %	—%	32.0%	6.3 %
Revenue impact [2]	$ (1,457)	$ (100)	$ —	$ —	$ 2,159	$ 602
Suburban:						
In-place rents	$ 17.01	$ 12.92	$ 18.32	$ 11.25	$ 11.32	$ 15.43
Market rents	13.82	14.02	16.72	13.84	11.59	14.68
Change	(18.8)%	8.5 %	(8.7)%	23.0%	2.4%	(4.9)%
Revenue impact [2]	$ (111)	$ 33	$ (469)	$ 83	$ 46	$ (418)
Total Calgary Office:						
In-place rents	$ 26.55	$ 14.64	$ 18.46	$ 9.34	$ 15.02	$ 17.22
Market rents	11.12	12.85	17.04	11.98	18.03	16.45
Change	(58.1)%	(12.2)%	(7.7)%	28.3%	20.0%	(4.5)%
Revenue impact [2]	$ (3,041)	$ (87)	$ (461)	$ 125	$ 2,377	$ (1,087)

Market Rents for the Office Segment excluding Calgary [1]:

	2019	2020	2021	2022	2022 & later	Total
Other office:						
In-place rents	$ 17.43	$ 17.40	$ 16.55	$ 17.31	$ 18.51	$ 17.77
Market rents	17.97	18.32	17.23	18.13	18.88	18.33
Change	3.1%	5.3%	4.1%	4.7%	2.0%	3.2%
Revenue impact [2]	$ 877	$ 1,160	$ 705	$ 329	$ 1,260	$ 4,331

(1) Based on owned share of GLA of properties included in the Portfolio Summary - Portfolio by Asset Class table.

(2) This impact is based on the difference between the in-place rents and the market rents for the period in Canadian and US dollars. This excludes the impact of any straight-line rent adjustments on revenues.

(In thousands of Canadian dollars, unless otherwise noted)

ANALYSIS OF FINANCIAL POSITION

The following provides a reconciliation of the consolidated balance sheets as prepared in accordance with IFRS in the REIT's consolidated financial statements to its Proportionate Share.

	December 31, 2018			December 31, 2017		
	Per consolidated financial statements	Adjustment [1]	Total Proportionate Share	Per consolidated financial statements	Adjustment [1]	Total Proportionate Share
ASSETS						
Non-current assets:						
Investment properties	$ 4,941,825	$ 255,661	$ 5,197,486	$ 4,720,362	$ 332,359	$ 5,052,721
Investment properties under development	119,604	40,635	160,239	79,701	—	79,701
Investments in joint ventures	176,501	(176,501)	—	200,383	(200,383)	—
Property and equipment	6,533	—	6,533	7,005	—	7,005
Notes receivable	16,216	—	16,216	12,982	—	12,982
	5,260,679	119,795	5,380,474	5,020,433	131,976	5,152,409
Current assets:						
Investment properties held for sale	320,465	—	320,465	110,188	26,187	136,375
Inventory properties	11,227	—	11,227	—	—	—
Deposits on investment properties	2,237	—	2,237	5,081	—	5,081
Prepaid expenses and other assets	20,582	244	20,826	17,134	282	17,416
Notes receivable	4,543	—	4,543	2,322	—	2,322
Accounts receivable and other receivables	21,101	822	21,923	16,816	655	17,471
Cash held in trust	10,200	—	10,200	8,090	—	8,090
Cash	66,143	3,808	69,951	35,832	7,012	42,844
	456,498	4,874	461,372	195,463	34,136	229,599
	$ 5,717,177	$ 124,669	$ 5,841,846	$ 5,215,896	$ 166,112	$ 5,382,008
LIABILITIES AND UNITHOLDERS' EQUITY						
Non-current liabilities:						
Mortgages and loans payable	$ 1,272,452	$ 44,017	$ 1,316,469	$ 1,190,525	$ 112,148	$ 1,302,673
Senior unsecured debentures	199,565	—	199,565	199,854	—	199,854
Credit facilities	772,538	—	772,538	298,922	—	298,922
Other long-term liabilities	8,319	—	8,319	6,404	—	6,404
	2,252,874	44,017	2,296,891	1,695,705	112,148	1,807,853
Current liabilities:						
Mortgages and loans payable	412,558	59,068	471,626	370,508	46,484	416,992
Senior unsecured debentures	199,971	—	199,971	—	—	—
Security deposits and prepaid rent	35,842	3,264	39,106	30,521	2,190	32,711
Accounts payable and other liabilities	77,887	18,320	96,207	75,570	5,290	80,860
Credit facilities	—	—	—	438,383	—	438,383
	726,258	80,652	806,910	914,982	53,964	968,946
	2,979,132	124,669	3,103,801	2,610,687	166,112	2,776,799
Unitholders' equity	2,738,045	—	2,738,045	2,605,209	—	2,605,209
	$ 5,717,177	$ 124,669	$ 5,841,846	$ 5,215,896	$ 166,112	$ 5,382,008

(1) Adjustment to reflect investments in joint ventures on a Proportionate Share basis.

(In thousands of Canadian dollars, unless otherwise noted)

BALANCE SHEET METRICS

Under the terms of the REIT's Declaration of Trust, the total indebtedness of the REIT is limited to 70% of GBV.

Secured Mortgages and Loans to GBV and Total Long-term Debt and Credit Facilities to GBV Ratios

	IFRS		Proportionate Share	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
GBV	$ 5,722,580	$ 5,220,217	$ 5,847,249	$ 5,386,329
Secured mortgages and loans	1,685,010	1,561,033	1,788,095	1,719,665
Secured mortgages and loans to GBV	29.4%	29.9%	30.6%	31.9%
Preferred shares liability	$ 653	$ 601	$ 653	$ 601
Carrying value of debentures	399,536	199,854	399,536	199,854
Credit facilities	772,538	737,305	772,538	737,305
Total long-term debt and credit facilities	$ 2,857,737	$ 2,498,793	$ 2,960,822	$ 2,657,425
Total long-term debt and credit facilities to GBV	49.9%	47.9%	50.6%	49.3%

Total Long-term Debt and Credit Facilities to EBITDA Ratios

	IFRS		Proportionate Share	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Total long-term debt and credit facilities	$ 2,857,737	$ 2,498,793	$ 2,960,822	$ 2,657,425
EBITDA (1)	329,800	315,008	329,800	315,008
Total long-term debt and credit facilities to EBITDA	8.7	7.9	9.0	8.4
Normalized EBITDA	$ 329,800	$ 315,008	$ 329,800	$ 315,008
Total long-term debt and credit facilities to normalized EBITDA	8.7	7.9	9.0	8.4

(1) EBITDA, as calculated for the quarter under the Income Statement Metrics section of this MD&A, has been annualized for purposes of this ratio calculation.

Unencumbered Assets to Unsecured Debt Ratios

	IFRS		Proportionate Share	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Unencumbered assets	$ 1,805,382	$ 1,649,077	$ 1,847,443	$ 1,687,754
Senior unsecured debentures	399,536	199,854	399,536	199,854
Unsecured credit facilities	772,538	737,305	772,538	737,305
Total unsecured debt	$ 1,172,074	$ 937,159	$ 1,172,074	$ 937,159
Unencumbered assets to unsecured debt	1.5	1.8	1.6	1.8

(In thousands of Canadian dollars, unless otherwise noted)

NAV per Unit

000's, except unit and per unit amounts		December 31, 2018		December 31, 2017		Change
Unitholders' equity	$	2,738,045	$	2,605,209	$	132,836
Less value of preferred equity [(1)]		(390,945)		(360,338)		(30,607)
NAV attributable to common unitholders	$	2,347,100	$	2,244,871	$	102,229
Total number of dilutive units outstanding:						
Common units		150,282,829		150,599,666		(316,837)
Restricted units		546,573		394,040		152,533
Deferred units		92,673		81,635		11,038
		150,922,075		151,075,341		(153,266)
NAV per unit	$	15.55	$	14.86	$	0.69

(1) The value of preferred equity is calculated using the outstanding face value in Canadian dollars of preferred units at the end of the period.

Unitholders' equity increased year-over-year due to net income and other comprehensive income, partially offset by distributions made to unitholders and units purchased through the NCIB. The total number of dilutive units outstanding has decreased year-over-year primarily due to units purchased through the NCIB, partially offset by units issued under the private placement.

ASSETS

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

The change in total investment properties is a result of the following:

		Per consolidated financial statements		Adjustment [(1)]		Total Proportionate Share
Balance, December 31, 2017	$	4,910,251	$	358,546	$	5,268,797
Additions:						
Acquisitions		252,680		3,724		256,404
Reclassification from investments in joint ventures [(2)]		108,390		(108,390)		—
Capital expenditures						
Investment properties		35,661		3,177		38,838
Investment properties under development		56,544		26,062		82,606
Capitalized interest		1,304		118		1,422
Leasing commissions		13,040		2,941		15,981
Straight-line rent adjustments		5,491		1,507		6,998
Tenant inducement additions, net of amortization		26,784		6,367		33,151
Contributions to investments in joint ventures		(10,421)		10,421		—
Dispositions		(153,194)		(26,811)		(180,005)
Transfer to inventory properties [(3)]		(10,616)		—		(10,616)
Foreign currency translation gain		183,079		17,206		200,285
Fair value (loss) gain		(37,099)		1,428		(35,671)
Balance, December 31, 2018	$	5,381,894	$	296,296	$	5,678,190

(1) Adjustment to reflect investments in joint ventures on a Proportionate Share basis.

(2) During 2018, the REIT increased its ownership interest in 1700 Broadway, Hudson's Bay Centre and Park Lucero II to 100%.

(3) During 2018, an investment property and the related development expenditures were transferred to inventory properties.

(In thousands of Canadian dollars, unless otherwise noted)

Acquisitions [(1)]*:*

The results of operations for the acquired properties are included in the REIT's accounts from the date of acquisition. Artis primarily funded these acquisitions from the issuance of units, the proceeds of new or assumed mortgage financing and cash on hand.

	Three months ended December 31, 2018	Three months ended December 31, 2017	Change	% Change	Year ended December 31, 2018	Year ended December 31, 2017	Change	% Change
Issuance of units	$ —	$ —	$ —		$ 43,651	$ —	$ 43,651	
Long-term debt, including acquired above- and below-market mortgages, net of financing costs	45,415	—	45,415		83,803	2,962	80,841	
Cash consideration	42,333	84,999	(42,666)		122,506	101,706	20,800	
Bargain purchase gains	—	—	—		5,384	—	5,384	
Foreign currency translation gain	—	—	—		968	—	968	
Other net liabilities (assets)	92	(1,309)	1,401		92	(1,434)	1,526	
Total acquisitions	$ 87,840	$ 83,690	$ 4,150	5.0%	$ 256,404	$ 103,234	$ 153,170	148.4%

(1) Information is presented on a Proportionate Share basis. Please refer to the Notice with Respect to non-GAAP Measures section of this MD&A.

Capital expenditures [(1)]*:*

Building improvements are capital expenditures that increase the long-term value or revenue generating potential of the property. These expenditures include costs to modernize or upgrade existing properties. Property maintenance costs are capital expenditures to repair or replace components of existing properties such as roofs, HVAC units and parking lots.

In 2018, new and (re)development expenditures included $20,135 (Q4-18 - $6,169) for 300 Main and 330 Main, $19,546 (Q4-18 - $16,187) for Cedar Port I, $12,005 (Q4-18 - $9,517) for Tower Business Center and $11,691 (Q4-18 - $10,480) for Park 8Ninety II.

	Three months ended December 31, 2018	Three months ended December 31, 2017	Change	% Change	Year ended December 31, 2018	Year ended December 31, 2017	Change	% Change
New and (re)development expenditures	$ 50,577	$ 7,254	$ 43,323		$ 82,606	$ 67,474	$ 15,132	
Building improvements expenditures:								
Recoverable from tenants	3,362	2,522	840		7,406	7,357	49	
Non-recoverable	2,607	4,461	(1,854)		18,257	23,754	(5,497)	
Property maintenance expenditures:								
Recoverable from tenants	3,548	2,632	916		8,597	9,573	(976)	
Non-recoverable	960	850	110		4,578	3,706	872	
Total capital expenditures	$ 61,054	$ 17,719	$ 43,335	244.6%	$ 121,444	$ 111,864	$ 9,580	8.6%

(1) Information is presented on a Proportionate Share basis. Please refer to the Notice with Respect to non-GAAP Measures section of this MD&A.

(In thousands of Canadian dollars, unless otherwise noted)

Leasing costs [(1)]*:*

Tenant inducements consist of costs incurred to improve the space that primarily benefit the tenant, as well as allowances paid to tenants. Leasing commissions are fees primarily paid to brokers.

	Three months ended December 31, 2018	Three months ended December 31, 2017	Change	% Change	Year ended December 31, 2018	Year ended December 31, 2017	Change	% Change
Investment property leasing costs:								
Tenant inducements	$ 8,283	$ 15,554	$ (7,271)		$ 44,054	$ 45,409	$ (1,355)	
Leasing commissions	4,124	3,311	813		11,021	12,212	(1,191)	
Investment property (re)development related leasing costs:								
Tenant inducements	6,206	179	6,027		9,746	12,823	(3,077)	
Leasing commissions	1,986	432	1,554		4,960	3,214	1,746	
Total leasing costs	$ 20,599	$ 19,476	$ 1,123	5.8%	$ 69,781	$ 73,658	$ (3,877)	(5.3)%

(1) Information is presented on a Proportionate Share basis. Please refer to the Notice with Respect to non-GAAP Measures section of this MD&A.

In 2018, tenant inducements on investment properties paid to tenants with long-term leases included $2,303 for an industrial tenant in the Greater Houston Area, Texas and $1,859 for an office tenant in the Twin Cities Area, Minnesota.

Dispositions:

During 2018, Artis sold one industrial property, three office properties, two of which were located in Calgary, Alberta, and its 50% interest in an office property, held under a joint venture arrangement, in Canada and one office property in the United States, for an aggregate sale price of $183,737. The aggregate sale proceeds, net of costs of $3,735 and related debt of $45,644, were $134,358.

Investment properties held for sale:

At December 31, 2018, the REIT had six office properties located in Canada, three retail properties located in Canada and seven retail properties located in the United States, with an aggregate Proportionate Share fair value of $320,465 classified as held for sale. These properties were listed for sale with external brokers.

Inventory properties:

During 2018, the REIT implemented a plan to convert an industrial property into commercial condominium units and transferred the fair value at the transfer date to inventory properties.

Foreign currency translation gain on investment properties:

During 2018, the Proportionate Share foreign currency translation gain on investment properties was $200,285 (Q4-18 - gain of $131,473) due to the change in the period end US dollar to Canadian dollar exchange rate from 1.2545 at December 31, 2017 to 1.3642 at December 31, 2018.

Fair value (loss) gain on investment properties:

During 2018, the REIT recorded a loss on the Proportionate Share fair value of investment properties of $35,671 (Q4-18 - loss of $26,777), compared to a gain of $17,755 (Q4-17 - gain of $8,486) in 2017. The fair value loss in 2018 was primarily due to a decline in the value of Alberta office properties and select U.S. office properties.

Artis determines the fair value of investment properties based upon either the discounted cash flow method or the overall capitalization method. Capitalization rates are estimated using market surveys, available appraisals and market comparables. Under the overall capitalization method, year one income is stabilized and capitalized at a rate deemed appropriate for each investment property. Individual properties were valued using capitalization rates in the range of 3.75% to 8.75%. Additional information on the average capitalization rates and ranges used for the portfolio properties, assuming all properties were valued using an overall capitalization method, broken out by asset class and country are set out in the table below.

(In thousands of Canadian dollars, unless otherwise noted)

	December 31, 2018			December 31, 2017		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Office:						
Canada	8.50%	4.75%	6.43%	8.50%	5.00%	6.35%
U.S.	8.00%	5.75%	6.83%	8.25%	5.50%	6.79%
Total office	8.50%	4.75%	6.62%	8.50%	5.00%	6.54%
Retail:						
Canada	8.75%	5.25%	6.41%	8.50%	5.25%	6.34%
U.S.	8.50%	5.75%	6.98%	8.50%	5.75%	6.85%
Total retail	8.75%	5.25%	6.44%	8.50%	5.25%	6.38%
Industrial:						
Canada	7.75%	3.75%	5.96%	7.75%	4.25%	6.26%
U.S.	8.00%	5.25%	6.47%	7.75%	5.50%	6.57%
Total industrial	8.00%	3.75%	6.17%	7.75%	4.25%	6.38%
Total:						
Canadian portfolio	8.75%	3.75%	6.30%	8.50%	4.25%	6.33%
U.S. portfolio	8.50%	5.25%	6.72%	8.50%	5.50%	6.73%
Total portfolio	8.75%	3.75%	6.46%	8.50%	4.25%	6.46%

Notes Receivable

In conjunction with the 2007 acquisition of TransAlta Place, the REIT acquired a note receivable in the amount of $31,000. The balance of this note receivable at December 31, 2018 was $10,814 (December 31, 2017, $12,950). The note bears interest at 5.89% per annum and is repayable in varying blended monthly installments of principal and interest. The note is transferable at the option of the REIT and matures in May 2023. The balance outstanding on all notes receivable at December 31, 2018 was $20,759, compared to $15,304 at December 31, 2017.

Cash

At December 31, 2018, the REIT had $66,143 of cash on hand, compared to $35,832 at December 31, 2017. The balance is anticipated to be invested in investment properties in subsequent periods, used for working capital purposes or for debt repayment. All of the REIT's cash is held in current accounts.

LIABILITIES

Mortgages and Loans Payable

Artis finances acquisitions and development projects in part through the arrangement or assumption of mortgage financing and consequently, the majority of the REIT's investment properties are pledged as security under mortgages and other loans. The weighted-average term to maturity on all mortgages and loans payable, on a Proportionate Share basis, at December 31, 2018 was 3.3 years, compared to 3.6 years at December 31, 2017.

At December 31, 2018, Artis had mortgages and loans payable outstanding, as follows:

Canadian Portfolio:

	IFRS		Proportionate Share	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Fixed rate mortgages	$ 466,539	$ 515,460	$ 500,301	$ 552,442
Variable rate mortgages:				
Hedged	138,171	188,760	138,171	188,760
Unhedged	49,312	61,948	49,312	79,118
Net above- and below-market mortgage adjustments	(59)	(50)	(59)	(50)
Financing costs	(1,671)	(1,895)	(1,757)	(2,049)
	$ 652,292	$ 764,223	$ 685,968	$ 818,221

(In thousands of Canadian dollars, unless otherwise noted)

U.S. Portfolio:

	IFRS		Proportionate Share	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Fixed rate mortgages	$ 209,048	$ 205,225	$ 221,335	$ 256,937
Variable rate mortgages:				
Hedged	396,070	268,196	396,070	268,196
Unhedged	431,531	323,110	489,315	376,621
Net above- and below-market mortgage adjustments	1,234	5,041	1,234	5,041
Financing costs	(5,165)	(4,762)	(5,827)	(5,351)
	$ 1,032,718	$ 796,810	$ 1,102,127	$ 901,444

Total Canadian and U.S. Portfolio:

	IFRS		Proportionate Share	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Fixed rate mortgages	$ 675,587	$ 720,685	$ 721,636	$ 809,379
Variable rate mortgages:				
Hedged	534,241	456,956	534,241	456,956
Unhedged	480,843	385,058	538,627	455,739
Net above- and below-market mortgage adjustments	1,175	4,991	1,175	4,991
Financing costs	(6,836)	(6,657)	(7,584)	(7,400)
	$ 1,685,010	$ 1,561,033	$ 1,788,095	$ 1,719,665
% of unhedged variable rate mortgage debt of total debt, including credit facilities	16.8%	15.4%	18.1%	17.1%

Management believes that holding a percentage of variable rate debt is prudent in managing a portfolio of debt and provides the benefit of lower interest rates, while keeping the overall risk at a moderate level. All of the REIT's variable rate mortgage debt is term debt and cannot be called on demand. The REIT has the ability to refinance, or use interest rate swaps, at any given point without incurring penalties.

(In thousands of Canadian dollars, unless otherwise noted)

The change in total mortgages and loans payable is a result of the following:

	Per consolidated financial statements	Adjustment (1)	Total Proportionate Share
Balance, December 31, 2017	$ 1,562,699	$ 159,375	$ 1,722,074
Add (deduct):			
Assumed fixed rate mortgages on acquisitions	80,454	(40,227)	40,227
Assumed variable rate mortgage on acquisition	10,956	(9,860)	1,096
Uplift on renewals of fixed rate mortgages	15,478	—	15,478
New variable rate mortgages	51,365	—	51,365
New variable rate mortgage on acquisition of an investment property	44,927	—	44,927
Draws on variable rate construction loans	4,777	9,356	14,133
Repayment of maturing fixed rate mortgages	(30,879)	—	(30,879)
Repayment of maturing hedged mortgage	(9,452)	—	(9,452)
Repayment of maturing variable rate mortgage	(47,274)	—	(47,274)
Repayment of fixed rate mortgage related to the sale of an investment property	(15,756)	(2,203)	(17,959)
Repayment of variable rate mortgage related to the sale of an investment property	(10,926)	(16,759)	(27,685)
Principal repayments	(45,201)	(1,953)	(47,154)
Foreign currency translation loss	79,503	6,104	85,607
Balance, December 31, 2018	1,690,671	103,833	1,794,504

(1) Adjustment to reflect investments in joint ventures on a Proportionate Share basis.

During 2018, the REIT renewed two previously fixed rate mortgages at variable rates with interest rate swaps in place for an aggregate amount of $62,347, renewed two previously fixed rate mortgages at variable rates in the aggregate amount of $55,164 and renewed a previously hedged mortgage at a fixed rate in the amount of $36,013.

Senior Unsecured Debentures

Artis has two series of senior unsecured debentures outstanding, as follows:

				December 31, 2018		December 31, 2017	
	Issued	Maturity	Interest rate	Carrying value	Face value	Carrying value	Face value
Series A	March 27, 2014, September 10, 2014	March 27, 2019	3.753%	$ 199,971	$ 200,000	$ 199,854	$ 200,000
Series B	February 7, 2018	February 7, 2020	Three month CDOR plus 1.07%	199,565	200,000	—	—
				$ 399,536	$ 400,000	$ 199,854	$ 200,000

Credit Facilities

The REIT has unsecured revolving credit facilities in the aggregate amount of $700,000. The first tranche of the revolving credit facilities in the amount of $400,000 matures on December 14, 2021. The second tranche of the revolving credit facilities in the amount of $300,000 matures on April 29, 2023. The REIT can draw on the revolving credit facilities in Canadian or US dollars. Amounts drawn on the revolving credit facilities in Canadian dollars bear interest at the bankers' acceptance rate plus 1.70% or at prime plus 0.70%. Amounts drawn on the revolving credit facilities in US dollars bear interest at LIBOR plus 1.70% or at the U.S. base rate plus 0.70%. At December 31, 2018, there was $474,707 drawn on these facilities (December 31, 2017, $438,383).

The REIT has two unsecured non-revolving credit facilities in the aggregate amount of $300,000. The first non-revolving credit facility of $150,000 matures on July 6, 2022 and the second non-revolving credit facility of $150,000 matures on July 18, 2022. Amounts drawn on the non-revolving credit facilities bear interest at 3.57% and 3.50%, respectively. At December 31, 2018, there was $300,000 drawn on these facilities (December 31, 2017, $300,000).

Other Current Liabilities

Included in other current liabilities were accounts payable and other liabilities and security deposits and prepaid rent. Included in accounts payable and other liabilities was accrued distributions payable to unitholders of $8,674, which was paid subsequent to the end of the year.

UNITHOLDERS' EQUITY

Unitholders' equity increased overall by $132,836 between December 31, 2017 and December 31, 2018. This increase was primarily due to net income of $158,636, other comprehensive income of $115,752, the issuance of preferred units of $121,304 and the issuance of common units for $44,174. The increase was partially offset by distributions made to unitholders of $175,478 and the redemption of preferred units of $96,705. Common units of $46,186 and preferred units of $293 purchased through the NCIB and the related contributed surplus of $11,632 also offset the increase to unitholders' equity.

(In thousands of Canadian dollars, unless otherwise noted)

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operations represents the primary source of funds for distributions to unitholders and principal repayments on mortgages and loans.

DISTRIBUTIONS

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

	Three months ended December 31, 2018	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Cash flow from operations	$ 52,899	$ 213,727	$ 214,005	$ 251,820
Net income	7,220	158,636	234,435	115,935
Distributions declared	32,911	173,408	181,052	175,450
Excess of cash flow from operations over distributions declared	19,988	40,319	32,953	76,370
(Shortfall) excess of net income over distributions declared	(25,691)	(14,772)	53,383	(59,515)

Artis' primary objective is to provide tax-efficient monthly cash distributions. The shortfall of net income over distributions declared during 2018 was primarily due to the non-cash impact of fair value losses on investment properties.

CAPITAL RESOURCES

At December 31, 2018, Artis had $66,143 of cash on hand. Management anticipates that the cash on hand may be invested in the REIT's portfolio of investment properties in subsequent periods, used for working capital purposes or for debt repayment.

The REIT has two unsecured revolving term credit facilities in the aggregate amount of $700,000, 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. At December 31, 2018, the REIT had $225,293 available on its revolving term credit facilities.

At December 31, 2018, the REIT had 91 unencumbered properties and eight unencumbered parcels of development land, inclusive of properties held in joint venture arrangements, representing a Proportionate Share fair value of $1,847,443.

Artis is not in default or arrears on any of its obligations, including distributions to unitholders, interest or principal payments on debt or any debt covenants at December 31, 2018.

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

(In thousands of Canadian dollars, unless otherwise noted)

CONTRACTUAL OBLIGATIONS (1)

		Total		Less than 1 year		1 - 3 years		4 - 5 years		After 5 years
Accounts payable and other liabilities	$	96,207		96,207	$	—	$	—	$	—
Credit facilities		774,707		—		283,907		490,800		—
Senior unsecured debentures (2)		400,000		200,000		200,000		—		—
Mortgages and loans payable		1,794,504		389,662		648,997		661,084		94,761
Total contractual obligations	$	3,065,418	$	685,869	$	1,132,904	$	1,151,884	$	94,761

The REIT's schedule of mortgage maturities is as follows:

Year ended December 31,		Debt maturities	% of total principal		Scheduled principal repayments on non-matured debt		Total annual principal repayments	Weighted-average nominal interest rate on balance due at maturity
2019	$	342,406	21.7%	$	47,256	$	389,662	4.36%
2020		183,642	11.6%		39,975		223,617	4.03%
2021		395,924	25.1%		29,456		425,380	4.02%
2022		198,255	12.6%		22,713		220,968	3.92%
2023		425,797	27.0%		14,319		440,116	4.02%
2024 & later		31,925	2.0%		62,836		94,761	3.64%
Total	$	1,577,949	100.0%	$	216,555	$	1,794,504	4.08%

(1) Information is presented on a Proportionate Share basis. Please refer to the Notice with Respect to non-GAAP Measures section of this MD&A.

(2) It is assumed that the outstanding debentures are not redeemed prior to maturity and that they are paid out in cash on maturity.

SUMMARIZED QUARTERLY INFORMATION

$000's, except per unit amounts	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17
Revenue	$ 132,864	$ 128,097	$ 126,140	$ 125,769	$ 126,256	$ 127,008	$ 129,507	$ 133,557
Expenses:								
Property operating	35,315	31,281	30,301	30,800	32,222	30,065	29,737	31,831
Realty taxes	20,290	20,605	19,951	20,004	19,092	19,639	21,070	21,448
	55,605	51,886	50,252	50,804	51,314	49,704	50,807	53,279
Net operating income	77,259	76,211	75,888	74,965	74,942	77,304	78,700	80,278
Other income (expenses):								
Corporate expenses	(2,186)	(2,585)	(3,364)	(6,301)	(3,332)	(3,334)	(3,330)	(3,782)
Interest expense	(26,853)	(25,032)	(25,665)	(23,614)	(23,462)	(23,882)	(24,070)	(25,082)
Interest income	689	371	329	585	307	300	262	279
Net (loss) income from investments in joint ventures	(2,085)	5,343	475	5,021	5,742	7,896	1,528	6,114
Fair value (loss) gain on investment properties	(23,576)	(32,096)	24,505	(5,932)	4,906	2,486	(16,169)	13,471
Foreign currency translation (loss) gain	(12,119)	6,692	(519)	(2,167)	(3,144)	(3,542)	1,552	4,867
Transaction costs	(488)	(227)	(27)	(5,676)	(543)	(567)	—	—
Fair value (loss) gain on derivative instruments and other transactions	(3,357)	(2,714)	3,459	13,954	(1,420)	8,231	131	479
Income before income taxes	7,284	25,963	75,081	50,835	53,996	64,892	38,604	76,624
Income tax (expense) recovery	(64)	(244)	(106)	(113)	67	(89)	(51)	392
Net income	7,220	25,719	74,975	50,722	54,063	64,803	38,553	77,016
Other comprehensive income (loss):								
Unrealized foreign currency translation gain (loss)	77,121	(23,702)	28,260	34,510	12,534	(44,755)	(30,072)	(10,090)
Unrealized (loss) gain from remeasurements of net pension obligation	(437)	—	—	—	(33)	(70)	38	(46)
	76,684	(23,702)	28,260	34,510	12,501	(44,825)	(30,034)	(10,136)
Total comprehensive income	$ 83,904	$ 2,017	$ 103,235	$ 85,232	$ 66,564	$ 19,978	$ 8,519	$ 66,880
Net income per unit attributable to common unitholders:								
Basic	$ 0.01	$ 0.13	$ 0.45	$ 0.30	$ 0.33	$ 0.40	$ 0.23	$ 0.48
Diluted	0.01	0.13	0.45	0.29	0.33	0.40	0.22	0.48
Secured mortgages and loans to GBV	29.4%	29.4%	30.2%	30.2%	29.9%	31.4%	36.9%	38.5%

The quarterly trend for revenue and Property NOI has been impacted by acquisition, disposition and (re)development activity, the impact of foreign exchange and lease termination income. Net income and per unit amounts are also impacted by the fair value gains and losses on investment properties and derivative instruments and other transactions and transactions costs.

(In thousands of Canadian dollars, unless otherwise noted)

Reconciliation of Net Income to FFO and AFFO

000's, except per unit amounts		Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17
Net income	$	7,220 $	25,719 $	74,975 $	50,722 $	54,063 $	64,803 $	38,553 $	77,016
Add (deduct):									
Adjustment for investments in joint ventures [1]		3,434	(3,548)	796	(2,919)	(3,245)	(5,426)	1,069	(3,887)
Fair value loss (gain) on investment properties		23,576	32,096	(24,505)	5,932	(4,906)	(2,486)	16,169	(13,471)
Tenant inducements amortized to revenue		5,152	4,871	4,940	4,798	4,415	4,292	4,107	4,212
Transaction costs on acquisitions		488	227	27	651	543	567	—	—
Foreign currency translation loss (gain)		12,119	(6,692)	519	2,167	3,144	3,542	(1,552)	(4,867)
Fair value loss (gain) on derivative instruments and other transactions		3,357	2,714	(3,459)	(13,954)	1,420	(8,231)	(131)	(479)
Remeasurement component of unit-based compensation		(946)	(342)	(135)	(87)	289	76	(13)	118
Distributions on preferred shares treated as interest expense		44	45	43	42	43	43	45	46
Incremental leasing costs		1,124	654	889	916	1,252	1,058	792	795
Preferred unit distributions		(5,461)	(5,283)	(5,283)	(5,921)	(4,643)	(4,548)	(4,597)	(4,630)
FFO	$	50,107 $	50,461 $	48,807 $	42,347 $	52,375 $	53,690 $	54,442 $	54,853
Add (deduct):									
Amortization of recoverable capital expenditures [2]	$	(2,716) $	(2,223) $	(2,274) $	(2,170) $	(3,407) $	(2,196) $	(2,137) $	(2,290)
Non-recoverable property maintenance reserve [2]		(950)	(950)	(950)	(950)	(950)	(950)	(700)	(650)
Leasing costs reserve [2]		(7,560)	(7,560)	(7,560)	(7,850)	(8,100)	(10,000)	(9,600)	(9,500)
Straight-line rent adjustments [2]		(1,337)	(2,145)	(1,719)	(1,797)	(1,925)	(1,954)	(1,871)	(1,663)
AFFO	$	37,544 $	37,583 $	36,304 $	29,580 $	37,993 $	38,590 $	40,134 $	40,750
FFO per unit:									
Basic	$	0.33 $	0.33 $	0.32 $	0.28 $	0.35 $	0.36 $	0.36 $	0.36
Diluted		0.33	0.33	0.32	0.28	0.35	0.36	0.36	0.36
AFFO per unit:									
Basic	$	0.25 $	0.24 $	0.24 $	0.20 $	0.25 $	0.26 $	0.27 $	0.27
Diluted		0.24	0.24	0.24	0.19	0.25	0.26	0.27	0.27
Weighted-average number of common units outstanding for FFO:									
Basic		153,138	153,820	153,798	151,494	150,594	150,593	150,581	150,545
Diluted [3]		153,711	154,401	154,346	152,041	151,022	151,035	150,966	150,947

(1) This adjustment is to remove certain non-cash items that are included in net income (loss) from investments in joint ventures.

(2) Information is presented on a Proportionate Share basis. Please refer to the Notice with Respect to non-GAAP Measures section of this MD&A.

(3) Options, convertible debentures, restricted units and deferred units are factored into the diluted weighted-average calculation, to the extent that their impact is dilutive.

(In thousands of Canadian dollars, unless otherwise noted)

000's, except per unit amounts	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17
FFO per above	$ 50,107	$ 50,461	$ 48,807	$ 42,347	$ 52,375	$ 53,690	$ 54,442	$ 54,853
Add (deduct):								
Pension liability adjustment [(1)]	—	—	—	3,392	—	—	—	—
Property management termination fees [(1)]	—	—	—	5,025	—	—	—	—
Normalized FFO	$ 50,107	$ 50,461	$ 48,807	$ 50,764	$ 52,375	$ 53,690	$ 54,442	$ 54,853
Normalized AFFO	$ 37,544	$ 37,583	$ 36,304	$ 37,997	$ 37,993	$ 38,590	$ 40,134	$ 40,750
Normalized FFO per unit:								
Basic	$ 0.33	$ 0.33	$ 0.32	$ 0.34	$ 0.35	$ 0.36	$ 0.36	$ 0.36
Diluted	0.33	0.33	0.32	0.33	0.35	0.36	0.36	0.36
Normalized AFFO per unit:								
Basic	$ 0.25	$ 0.24	$ 0.24	$ 0.25	$ 0.25	$ 0.26	$ 0.27	$ 0.27
Diluted	0.24	0.24	0.24	0.25	0.25	0.26	0.27	0.27

(1) Please refer to the FFO and AFFO section of this MD&A for further discussion of these adjustments.

FFO and AFFO and per unit results are impacted by acquisition, disposition and (re)development activity, foreign exchange and by lease termination income received from tenants during the period.

OUTSTANDING UNIT DATA

As of February 28, 2019, the balance of common units outstanding is as follows:

	Total
Units outstanding at December 31, 2018	150,282,829
Units issued on redemption of restricted units	3,433
Units purchased and cancelled through NCIB	(3,338,836)
Units purchased through NCIB, not cancelled at February 28, 2019	(167,856)
Units outstanding at February 28, 2019	146,779,570

As of February 28, 2019, the balance of preferred units outstanding is as follows:

	Series A	Series E	Series G	Series I	Total
Preferred units outstanding at December 31, 2018	3,445,400	3,996,200	3,196,200	5,000,000	15,637,800
Preferred units purchased and cancelled through NCIB	(15,700)	(19,100)	(19,900)	—	(54,700)
Preferred units purchased through NCIB, not cancelled at February 28, 2019	(5,000)	(3,500)	(4,500)	—	(13,000)
Preferred units outstanding at February 28, 2019	3,424,700	3,973,600	3,171,800	5,000,000	15,570,100

The balance of restricted units outstanding as of February 28, 2019 is 541,865, none of which have vested.

The balance of deferred units outstanding as of February 28, 2019 is 111,766. All of these deferred units have vested, none of which are redeemable.

OUTLOOK

Scotiabank's Global Outlook dated January 11, 2019, predicts that real GDP in Canada will grow by 1.8% in 2019. GDP in British Columbia, Manitoba and Ontario in 2019 is estimated to grow by 2.6%, 1.8% and 1.9%, respectively, which are all healthy growth rates that are near or above the 2019 national forecast. Scotiabank is forecasting continued GDP growth of 1.8% in 2019 for Saskatchewan and 1.5% in 2019 for Alberta, and stabilized unemployment rates for both provinces in 2019. We continue to monitor the Saskatchewan and Alberta markets closely and work diligently to maximize occupancy and rental rates, while diversifying our portfolio in an accretive manner so as to reduce and optimize our weighting in Alberta.

The Scotiabank Global Outlook report further predicts that U.S. GDP will grow at a rate of 2.4% in 2019. According to the United States Bureau of Labor Statistics, U.S. unemployment decreased nationally from 4.1% to 3.9% year-over-year in December. Most recently available unemployment rates in our U.S target markets are generally near or below the national average. We continue to monitor this and other key economic indicators in our target U.S. markets on a continuous basis. Given the health of the U.S. economy, strength of the US dollar, positive GDP growth expectations and decline in unemployment rates, we anticipate that there is further growth potential to be realized in 2019 and beyond. We will continue to monitor acquisition opportunities in both Canada and the U.S., but anticipate that the majority our of near- to mid-term investments will be in high-yield development projects in our target U.S. markets.

On November 1, 2018, we announced several new capital allocation initiatives to improve our growth profile, our NAV and strengthen our balance sheet. Since the announcement, we have, and will continue to maximize our unit purchases through our NCIB for the full 2019 year. In accordance with these new initiatives, we have listed 16 properties for sale with qualified brokers in the respective markets who are actively marketing the properties. The listed properties have a fair value of $320,465 at December 31, 2018. We look forward to providing an update on our progress with this initiative in subsequent quarters.

In the meantime, we continue to maintain our Investment Grade Credit Rating, BBB(low) with a Stable trend, from DBRS Limited. Additionally, DBRS Limited has assigned a rating of Pfd-3(low) with a Stable trend to Artis' preferred units. We anticipate that with this Investment Grade Credit Rating, the debt and equity markets will continue to be receptive to new financing in 2019. We further anticipate that interest rates will continue to increase at a methodical pace and will be well-communicated by the central banks. While borrowing costs remain low when compared to historical levels, we may look to reduce our variable rate debt in the near term.

Overall, we anticipate that real estate fundamentals in Canada and the U.S. will remain stable in 2019, and that our properties will perform in line with the moderate growth expectations of our target markets. We will continue to focus on organic growth and value creation opportunities by extracting maximum value from our portfolio, redevelopment and repositioning of select assets in primary markets through property improvement projects, expansion of existing portfolio properties, selective recycling of capital and capitalizing on new development opportunities.

SUBSEQUENT EVENTS

As at December 31, 2018, Artis had $66,143 of cash on hand and $225,293 available on its revolving term credit facilities. Subsequent to December 31, 2018, the following transactions took place:

- The REIT repaid a maturing mortgage on an office property in the amount of $14,974.
- The REIT entered into an interest rate swap agreement for the Series B senior unsecured debentures at a fixed interest rate of 3.354% effective February 7, 2019.
- The REIT made an interest payment for the Series B senior unsecured debentures in the amount of $1,653 for the three months ended February 7, 2019.
- The REIT issued 2-year Series C senior unsecured debentures with an aggregate principal amount of $250,000. These debentures will bear interest at a fixed rate of 3.674%.
- The REIT drew a net balance of $40,000 and US$1,800 on its revolving term credit facilities.
- The REIT purchased US$35,000 for $46,102.
- The REIT purchased through the NCIB 3,506,692 common units at a weighted-average price of $10.27, 20,700 Series A preferred units at a weighted-average price of $21.54, 22,600 Series E preferred units at a weighted-average price of $19.86 and 24,400 Series G preferred units at a weighted-average price of $21.12.
- The REIT declared a monthly cash distribution of $0.045 per common unit for the months of January and February 2019.
- The REIT declared a quarterly cash distribution of $0.3125 per Series G preferred unit for the three months ended January 31, 2019.
- The REIT declared a quarterly cash distribution of $0.3750 per Series I preferred unit for the three months ended January 31, 2019.

RISKS AND UNCERTAINTIES

REAL ESTATE OWNERSHIP

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

INTEREST RATE AND DEBT FINANCING

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

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

Artis is also subject to interest rate risk associated with the REIT's credit facilities, mortgages and debentures payable due to the expected requirement to refinance such debts in the year of maturity. The REIT minimizes the risk by restricting debt to 70% of gross book value and by carefully monitoring the amount of variable rate debt. At December 31, 2018, 40.0% of the REIT's mortgages and loans payable bear interest at fixed rates, and a further 31.6% of the REIT's mortgages and loans payable bear interest at variable rates with interest rate swaps in place. At December 31, 2018, the REIT is a party to $1,989,356 of variable rate debt, including credit facilities and debentures (December 31, 2017, $1,580,397). At December 31, 2018, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with $834,241 of variable rate debt (December 31, 2017, $756,956). The REIT has the ability to place interest rate swaps on top of variable rate debt at any time in order to effectively fix the interest rate.

At December 31, 2018, the REIT's ratio of secured mortgages and loans to GBV was 29.4%, compared to 29.9% at December 31, 2017. At December 31, 2018, the REIT's ratio of total long-term debt and credit facilities to GBV was 49.9%, compared to 47.9% at December 31, 2017. Approximately 19.2% of Artis' maturing mortgage debt comes up for renewal in 2019, and 12.4% in 2020. Management is in discussion with various lenders with respect to the renewal or refinancing of the 2019 mortgage maturities.

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 a portion of this risk, the REIT's debt on U.S. properties is held in US dollars to act as a natural hedge.

(In thousands of Canadian dollars, unless otherwise noted)

CREDIT RISK AND TENANT CONCENTRATION

Artis is exposed to risks relating to tenants that may be unable to pay their contracted rents. Management mitigates this risk by acquiring and owning properties across several asset classes and geographical regions. As well, management seeks to acquire properties with strong tenant covenants in place. Artis' portfolio includes 1,915 tenant leases with a weighted-average term to maturity of 4.8 years. Approximately 53.6% of the REIT's gross revenue is derived from national or government tenants. As indicated below, the largest tenant by gross revenue is Bell MTS, which is one of Canada's leading national communication companies providing voice services, internet and data services, and television. The second largest tenant by gross revenue is Graham Group Ltd., which provides construction management, general contracting, design build, and public-private partnership services to industrial, commercial, and infrastructure sectors.

Top 20 Tenants by Gross Revenue [(1)]

Tenant	% of total gross revenue [(2)]	Owned share of GLA (000's of S.F.)	% of total GLA	Weighted-average remaining lease term
Bell MTS	2.1%	322	1.3%	4.2
Graham Group Ltd.	1.6%	243	1.0%	15.6
AT&T	1.5%	257	1.0%	6.5
WorleyParsons Canada	1.4%	170	0.7%	2.7
Whiting Oil and Gas Corporation	1.2%	223	0.9%	0.8
Bell Canada	1.1%	115	0.5%	10.8
TDS Telecommunications Corporation	1.1%	195	0.8%	1.0
TransAlta Corp	1.1%	336	1.4%	4.4
Home Depot	1.0%	122	0.5%	2.6
Bellatrix Exploration Ltd.	1.0%	94	0.4%	5.1
Shoppers Drug Mart	1.0%	136	0.6%	6.6
Canada Institute for Health Info.	0.9%	92	0.4%	6.7
CB Richard Ellis, Inc.	0.9%	108	0.4%	8.0
Fairview Health Services	0.8%	179	0.7%	4.7
3M Canada Company	0.8%	319	1.3%	1.2
Cara Operations Limited	0.8%	100	0.4%	10.0
Prime Therapeutics LLC	0.8%	223	0.9%	15.8
TD Canada Trust	0.7%	96	0.4%	1.6
Sobeys	0.7%	158	0.6%	4.1
Telephone and Data Systems Inc.	0.7%	131	0.5%	5.9
Total	21.2%	3,619	14.7%	5.8

(1) Based on owned share of GLA of properties included in the Portfolio Summary - Portfolio by Asset Class table.

(2) Total gross revenue is in Canadian and US dollars.

Government Tenants by Gross Revenue [(1)]

Tenant	% of total gross revenue [(2)]	Owned share of GLA (000's of S.F.)	% of total GLA	Weighted-average remaining lease term
Federal Government	3.1%	450	1.8%	7.5
Provincial Government	2.0%	287	1.2%	4.1
Civic or Municipal Government	0.4%	91	0.4%	13.8
Total	5.5%	828	3.4%	7.0
Weighted-average term to maturity (entire portfolio)				4.8

(1) Based on owned share of GLA of properties included in the Portfolio Summary - Portfolio by Asset Class table.

(2) Total gross revenue is in Canadian and US dollars.

(In thousands of Canadian dollars, unless otherwise noted)

LEASE ROLLOVER RISK

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

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

	Canada						U.S.				
Expiry Year	**AB**	**BC**	**MB**	**SK**	**ON**	***Calgary office only***	**AZ**	**MN**	**WI**	**Other**	**Total**
2019	1.6%	0.6%	1.6%	0.3%	1.9%	*0.8%*	0.6%	3.9%	1.8%	1.5%	13.8%
2020	1.0%	0.1%	2.4%	0.3%	3.0%	*0.2%*	1.3%	2.4%	1.0%	0.4%	11.9%
2021	2.2%	0.2%	2.4%	0.5%	1.6%	*1.3%*	1.0%	5.1%	0.4%	0.2%	13.6%
2022	1.0%	0.2%	1.1%	1.4%	2.3%	*0.2%*	0.4%	2.5%	0.3%	0.5%	9.7%
2023	2.7%	0.3%	1.5%	0.6%	1.5%	*1.6%*	0.4%	1.9%	0.2%	0.7%	9.8%
2024	0.7%	—%	0.8%	0.1%	0.9%	*0.4%*	0.6%	1.7%	0.6%	0.4%	5.8%
2025 & later	3.7%	0.5%	3.9%	2.3%	3.2%	*1.1%*	3.2%	5.2%	1.7%	2.0%	25.7%
Month-to-month	0.1%	0.1%	—%	0.1%	0.1%	*0.1%*	—%	—%	—%	—%	0.4%
Vacant	2.0%	0.2%	1.5%	0.2%	1.1%	*1.2%*	0.4%	1.0%	0.8%	0.7%	7.9%
New development/ redevelopment	0.4%	—%	—%	—%	0.1%	*0.4%*	0.4%	—%	—%	0.5%	1.4%
Total	15.4%	2.2%	15.2%	5.8%	15.7%	*7.3%*	8.3%	23.7%	6.8%	6.9%	100.0%

Artis' real estate is diversified across five Canadian provinces and six U.S. states, and across the office, retail and industrial asset classes. By city and asset class, the five largest segments of the REIT's portfolio (by Q4-18 Proportionate Share Property NOI) are Twin Cities Area office, Madison office, Twin Cities Area industrial, Calgary office and Greater Phoenix Area office.

TAX RISK

The Income Tax Act (Canada) contains legislations affecting the tax treatment of a specified investment flow-through ("SIFT") trust or partnership ("the SIFT Rules"), which are applicable to publicly traded income trusts unless the trust satisfies the REIT Exception. The REIT Exception to the SIFT Rules is comprised of a number of technical tests and the determination as to whether the REIT qualifies for the REIT Exception in any particular taxation year can only be made with certainty at the end of the taxation year. Management believes that the REIT has met the requirements of the REIT Exception in each taxation year since 2009 and that it has met the REIT Exception throughout the year ended December 31, 2018 and the year ended December 31, 2017. There can be no assurances, however, that the REIT will continue to be able to satisfy the REIT Exception in the future such that the REIT will not be subject to the tax imposed by the SIFT Rules.

The Tax Act also contains restrictions relating to the activities and the investments permitted by a mutual fund trust. Closed-end trusts must also comply with a number of technical tests relating to its investments and income. No assurance can be given that the REIT will be able to continue to comply with these restrictions at all times.

The REIT operates in the United States through U.S. REITs, which are capitalized by the REIT by way of equity, debt in the form of notes owed to the REIT and preferred shares. If the Internal Revenue Service or a court were to determine that the notes and related interest should be treated differently for tax purposes, this may adversely affect the REIT's ability to flow income from the U.S. to Canada.

CYBER SECURITY RISK

Cyber security has become an increasingly problematic issue for issuers and businesses in Canada and around the world, including for Artis and the real estate industry. Cyber attacks against large organizations are increasing in sophistication and are often focused on financial fraud, compromising sensitive data for inappropriate use or disrupting business operations. A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of the organization's information resources. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to information systems to disrupt operations, corrupt data or steal confidential information.

As Artis' reliance on technology has increased, so have the risks posed to its system. Artis' primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to its reputation, damage to its business relationships with its tenants, disclosure of confidential information regarding its tenants, employees and third parties with who Artis interacts, and may result in negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny and litigation. These developments may subject Artis' operations to increased risks, as well as increased costs, and, depending on their magnitude, could have a material adverse effect on Artis' financial position and results of operations.

The Board and management are responsible for overseeing Artis' cyber security risks. To remain resilient to these risks, Artis has implemented processes, procedures and controls to help mitigate these risks, including installing firewalls and antivirus programs on its networks, servers and computers, and staff training. However, these measures, as well as its increased awareness of a risk of a cyber incident, do not provide assurance that its efforts will be effective or that attempted security breaches or disruptions will not be successful or damaging.

DEVELOPMENT RISK

Artis is exposed to risks relating to completed developments not being leased or not leased at anticipated rates and the costs of development exceeding original estimates. At December 31, 2018, investment properties under development account for 2.2% of Artis' total investment properties (December 31, 2017, 1.6%).

OTHER RISKS

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

The REIT may also be subject to risks arising from land leases for properties in which the REIT has an interest, public market risks, unitholder liability risks, risks pertaining to the availability of cash flow, risks related to fluctuations in cash distributions, changes in legislation and risks relating to the REIT's reliance on key personnel. A summary of additional risks applicable to the REIT are set forth in Artis' most recent Annual Information Form.

CRITICAL ACCOUNTING ESTIMATES

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

VALUATION OF INVESTMENT PROPERTIES

Investment properties include properties held to earn rental income and properties that are being constructed or developed for future use as investment properties. Investment properties are measured at fair value with any changes therein recognized in net income or loss for the year. Artis determines the fair value of investment properties, including those held under joint venture arrangements, based upon either the discounted cash flow method or the overall capitalization method. Under the discounted cash flow method, expected future cash flows for each investment property were discounted, generally over a term of approximately 10 years, using weighted-average rates of approximately 7.69% at December 31, 2017 and 7.62% at December 31, 2018. Expected future cash flows for each investment property have been based upon, but not limited to, rental income from current leases, budgeted and actual expenses, and assumptions about rental income from future leases. Under the overall capitalization method, year one income was stabilized and capped at weighted-average capitalization rates of approximately 6.46% at December 31, 2017 and 6.46% at December 31, 2018.

Investment properties under development include initial acquisition costs, other direct costs and borrowing costs during the period of development. The REIT considers practical completion to have occurred when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

VALUATION OF DEFERRED TAX ASSETS AND LIABILITIES

The REIT has reviewed the SIFT Rules (see discussion under the Tax Risk section of this MD&A) 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 it has met the REIT Exception throughout the year ended December 31, 2017 and the year ended December 31, 2018.

CHANGES IN ACCOUNTING STANDARDS

New or Revised Accounting Standards Adopted During the Period

The REIT adopted IFRS 15 - *Revenue from Contracts with Customers* ("IFRS 15") on its effective date of January 1, 2018 using the modified retroactive basis with no restatement of comparative periods.

The REIT's most material revenue category of base rental revenue is outside the scope of this standard. The only significant revenue category falling under IFRS 15 relates to property operating and realty tax cost recoveries. The REIT's practices of revenue recognition are unchanged upon adoption of this standard, therefore, the adoption of IFRS 15 did not result in a material impact to the consolidated financial statements. The REIT has elected to apply the standard on a modified retrospective basis. Under this approach, the 2017 comparative period was not restated. There was no cumulative transitional adjustment to the opening retained earnings balance required. The impact was limited to additional note disclosure on the disaggregation of its revenue categories, specifically as it relates to property operating and realty tax cost recoveries.

The REIT adopted IFRS 9 - *Financial Instruments* ("IFRS 9") on its effective date of January 1, 2018 using the modified retroactive basis with no restatement of comparative periods. IFRS 9 replaces 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.

(In thousands of Canadian dollars, unless otherwise noted)

The following table summarizes the classification impacts of the adoption of IFRS 9. This adoption did not result in any changes to the measurement of the REIT's consolidated financial statements.

Financial instrument	Previous classification under IAS 39	New classification under IFRS 9
Financial assets:		
Notes receivable	Loans and receivables	Amortized cost
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Accounts receivable and other receivables	Loans and receivables	Amortized cost
Cash held in trust	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost
Financial liabilities:		
Mortgages and loans payable	Other liabilities	Amortized cost
Senior unsecured debentures	Other liabilities	Amortized cost
Credit facilities	Other liabilities	Amortized cost
Preferred shares/units liabilities	Other liabilities	Amortized cost
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Accounts payable and other liabilities	Other liabilities	Amortized cost

IFRS 9 uses the expected credit loss ("ECL") model on financial assets measured at amortized cost and financial liabilities that are financial guarantee contracts or commitments to provide a loan at a below-market interest rate. The measurement options for the ECL are lifetime expected credit losses and 12-month expected credit losses. The ECL model is based on an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. As the REIT elected to follow the simplified approach of always measuring the loss allowance for trade receivables, contract assets and lease receivables at the lifetime ECL, IFRS 9 did not have a material impact on the REIT's note receivables and accounts receivables and other receivables balances.

The REIT does not have any instruments that are designated in a hedge relationship; therefore, the new general hedge accounting model included in IFRS 9 has not impacted the consolidated financial statements.

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. This amendment did not result in a material impact to the consolidated financial statements.

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. This interpretation did not result in a material impact to the consolidated financial statements.

In December 2016, the IASB amended IAS 40 - *Investment Property*. The amendments clarify that an asset be transferred to, or from, investment property only when there is a change in use, and are effective for annual periods beginning on or after January 1, 2018. These amendments did not result in a material impact to the consolidated financial statements.

In December 2016, the IASB issued *Annual Improvements to IFRS Standards 2014-2016 Cycle* effective for annual periods beginning on or after January 1, 2018. These amendments did not result in a material impact to the consolidated financial statements.

Future Changes in Accounting Standards

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*. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The most significant change introduced by IFRS 16 is a single lessee accounting model, bringing leases on-balance sheet for lessees. The REIT is in the final stages of its assessment of existing lease arrangements that would be capitalized under the new standard and the initial quantification of the existing obligations as at this date is not significant to the REIT's financial position. As the changes in IFRS 16 do not materially impact the lessor accounting model, the REIT expects the adoption of this new standard will have no material impact on its consolidated financial statements. The REIT intends to adopt the standard effective January 1, 2019 without restatement of prior period comparatives.

In June 2017, the IASB issued IFRIC 23 – *Uncertainty over Income Tax Treatments* ("IFRIC 23"). IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The REIT does not expect a material impact to its consolidated financial statements from the adoption of this interpretation.

In October 2017, the IASB amended IFRS 9 – *Financial Instruments*. The amendments clarify that for the purpose of assessing whether a prepayment feature meets the condition to be classified as measured at amortized cost, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. The amendment is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The REIT does not expect a material impact to its consolidated financial statements from the adoption of this amendment.

In October 2017, the IASB amended IAS 28 – *Long-term Interests in Associates and Joint Ventures* ("IAS 28"). The amendments clarify that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28. The amendments apply retrospectively to annual periods beginning on or after January 1, 2019. The REIT does not expect a material impact to its consolidated financial statements from the adoption of this amendment.

CONTROLS AND PROCEDURES

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The REIT's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management is responsible for establishing and maintaining adequate internal controls over financial reporting.

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

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") evaluated, or caused to be evaluated, the design of the REIT's internal controls over financial reporting (as defined in NI 52-109). Based on this evaluation, the CEO and CFO have concluded that, as at December 31, 2018, the design of our internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. No changes were made in the REIT's design of internal controls over financial reporting during the year ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, the REIT's internal controls over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

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

As of December 31, 2018, an evaluation was carried out, under the supervision of and with the participation of management, including the CEO and CFO, of the effectiveness of the REIT's disclosure controls and procedures (as defined in NI 52-109). Based on the evaluation, the CEO and CFO have concluded that the REIT's disclosure controls and procedures were effective for the year ended December 31, 2018.

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
February 28, 2019

"Jim Green"

Jim Green, CPA, CA
Chief Financial Officer
February 28, 2019

Deloitte.

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Winnipeg MB R3C 3Z3
Canada

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Independent Auditor's Report

To the Unitholders of Artis Real Estate Investment Trust

Opinion

We have audited the consolidated financial statements of Artis Real Estate Investment Trust (the "Trust"), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of operations, changes in unitholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Trust to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Haik (Haig) Vanlian.

Deloitte LLP

Chartered Professional Accountants
Winnipeg, Manitoba
February 28, 2019

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(In thousands of Canadian dollars, except as otherwise noted)

CONSOLIDATED BALANCE SHEETS

	Note	December 31, 2018	December 31, 2017
ASSETS			
Non-current assets:			
Investment properties	4	$ 4,941,825	$ 4,720,362
Investment properties under development	4	119,604	79,701
Investments in joint ventures	5	176,501	200,383
Property and equipment	6	6,533	7,005
Notes receivable	8	16,216	12,982
		5,260,679	5,020,433
Current assets:			
Investment properties held for sale	4	320,465	110,188
Inventory properties	7	11,227	—
Deposits on investment properties		2,237	5,081
Prepaid expenses and other assets	9	20,582	17,134
Notes receivable	8	4,543	2,322
Accounts receivable and other receivables	10	21,101	16,816
Cash held in trust		10,200	8,090
Cash		66,143	35,832
		456,498	195,463
		$ 5,717,177	$ 5,215,896
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities:			
Mortgages and loans payable	11	$ 1,272,452	$ 1,190,525
Senior unsecured debentures	12	199,565	199,854
Credit facilities	13	772,538	298,922
Other long-term liabilities		8,319	6,404
		2,252,874	1,695,705
Current liabilities:			
Mortgages and loans payable	11	412,558	370,508
Senior unsecured debentures	12	199,971	—
Security deposits and prepaid rent		35,842	30,521
Accounts payable and other liabilities	14	77,887	75,570
Credit facilities	13	—	438,383
		726,258	914,982
		2,979,132	2,610,687
Unitholders' equity		2,738,045	2,605,209
Commitments, contingencies and guarantees	28		
Subsequent events	32		
		$ 5,717,177	$ 5,215,896

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Note		Year ended December 31, 2018		2017
Revenue	18	$	512,870	$	516,328
Expenses:					
Property operating			127,697		123,855
Realty taxes			80,850		81,249
			208,547		205,104
Net operating income			304,323		311,224
Other income (expenses):					
Corporate expenses	19		(14,436)		(13,778)
Interest expense	20		(101,164)		(96,496)
Interest income			1,974		1,148
Net income from investments in joint ventures	5		8,754		21,280
Fair value (loss) gain on investment properties	4		(37,099)		4,694
Foreign currency translation loss			(8,113)		(267)
Transaction costs	21		(6,418)		(1,110)
Fair value gain on derivative instruments and other transactions	22		11,342		7,421
Income before income taxes			159,163		234,116
Income tax (expense) recovery	23		(527)		319
Net income			158,636		234,435
Other comprehensive income (loss) that may be reclassified to net income in subsequent periods:					
Unrealized foreign currency translation gain (loss)			105,935		(60,530)
Unrealized foreign currency translation gain (loss) on investments in joint ventures			10,254		(11,853)
Other comprehensive loss that will not be reclassified to net income in subsequent periods:					
Unrealized loss from remeasurements of net pension obligation			(437)		(111)
			115,752		(72,494)
Total comprehensive income		$	274,388	$	161,941
Basic income per unit attributable to common unitholders	15 (e)	$	0.89	$	1.43
Diluted income per unit attributable to common unitholders	15 (e)		0.88		1.43
Weighted-average number of common units outstanding:					
Basic	15 (e)		153,069,303		150,578,462
Diluted	15 (e)		153,569,072		150,887,813

See accompanying notes to consolidated financial statements.

(In thousands of Canadian dollars, except as otherwise noted)

CONSOLIDATED STATEMENTS OF CHANGES IN UNIHOLDERS' EQUITY

	Common units capital contributions	Retained earnings	Accumulated other comprehensive income (loss)	Contributed surplus	Total common equity	Total preferred equity	Total
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 common units, net of issue costs (note 15)	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
Changes for the year:							
Issuance of common units, net of issue costs (note 15)	44,174	—	—	—	44,174	—	44,174
Issuance of preferred units, net of issue costs (note 15)	—	—	—	—	—	121,304	121,304
Redemption of preferred units (note 15)	—	—	—	(26,952)	(26,952)	(69,753)	(96,705)
Reclassification of contributed surplus	—	(10,796)	—	10,796	—	—	—
Units acquired and cancelled through normal course issuer bid (note 15)	(43,998)	—	—	10,975	(33,023)	(267)	(33,290)
Units acquired through normal course issuer bid, not cancelled at year end (note 15)	(2,188)	—	—	657	(1,531)	(26)	(1,557)
Net income	—	158,636	—	—	158,636	—	158,636
Other comprehensive income	—	—	115,752	—	115,752	—	115,752
Distributions	—	(175,478)	—	—	(175,478)	—	(175,478)
Unitholders' equity, December 31, 2018	$ 1,959,647	$ 143,169	$ 246,716	$ 11,632	$ 2,361,164	$ 376,881	$ 2,738,045

See accompanying notes to consolidated financial statements.

(In thousands of Canadian dollars, except as otherwise noted)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	2018	Year ended December 31, 2017
Cash provided by (used in):			
Operating activities:			
Net income		$ 158,636	$ 234,435
Distributions from joint ventures		4,126	4,481
Adjustments for non-cash items:			
Fair value loss (gain) on investment properties	4	37,099	(4,694)
Depreciation of property and equipment		1,049	911
Net income from investments in joint ventures	5	(8,754)	(21,280)
Tenant inducements amortized to revenue	18	19,761	17,026
Amortization of above- and below-market mortgages, net	20	(271)	(1,132)
Accretion on liability component of debentures	20	(216)	(333)
Straight-line rent adjustments	18	(5,491)	(6,383)
Unrealized foreign currency translation loss		6,834	12,507
Fair value gain on derivative instruments and other transactions	22	(11,342)	(7,421)
Unit-based compensation		(122)	1,819
Amortization of financing costs included in interest expense	20	3,602	3,362
Other long-term employee benefits		1,427	1,293
Additions to inventory properties	7	(611)	—
Changes in non-cash operating items	24	8,000	(20,586)
		213,727	214,005
Investing activities:			
Acquisitions of investment properties, net of related debt	3	(118,782)	(101,706)
Proceeds from dispositions of investment properties, net of costs and related debt	3	126,508	264,800
Distribution from disposition of investment property in a joint venture, net of costs and related debt	5	7,850	—
Additions to investment properties	4	(35,661)	(42,581)
Additions to investment properties under development	4	(56,544)	(36,972)
Additions to joint ventures	5	(18,228)	(8,129)
Additions to tenant inducements		(46,545)	(50,545)
Additions to leasing commissions	4	(13,040)	(12,912)
Additions to property and equipment		(565)	(4,578)
Issuances of notes receivable		(7,293)	(723)
Notes receivable principal repayments		3,274	2,587
Change in deposits on investment properties		2,410	(3,775)
Change in cash held in trust		(1,733)	(441)
		(158,349)	5,025
Financing activities:			
Issuance of common units, net of issue costs	15	—	2,972
Issuance of senior unsecured debentures, net of financing costs	12	199,217	—
Issuance of preferred units, net of issue costs	15	121,304	—
Purchase of common units under normal course issuer bid	15	(34,605)	—
Purchase of preferred units under normal course issuer bid	15	(242)	—
Redemption of preferred units	15	(96,705)	—
Redemption of convertible debentures		—	(116,549)
Advance of revolving credit facilities		419,274	511,000
Repayment of revolving credit facilities, including financing costs		(394,231)	(348,500)
Advance of non-revolving credit facilities, net of financing costs		—	298,822
Distributions paid on common units		(160,313)	(166,196)
Distributions paid on preferred units		(20,708)	(18,418)
Mortgages and loans principal repayments		(45,201)	(53,951)
Repayment of mortgages and loans payable		(87,606)	(391,811)
Advance of mortgages and loans payable, net of financing costs		68,992	52,680
		(30,824)	(229,951)
Foreign exchange gain (loss) on cash held in foreign currency		5,757	(3,976)
Increase (decrease) in cash		30,311	(14,897)
Cash, beginning of year		35,832	50,729
Cash, end of year		$ 66,143	$ 35,832
Supplemental cash flow information:			
Interest paid		$ 103,550	$ 104,411
Interest received		2,172	1,155

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2018 and 2017

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 $0.54 per common unit, $1.4155 per Series A Unit, $1.3680 per Series E Unit, $1.25 per Series G Unit and $1.50 per Series I 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 unless otherwise indicated. Standards issued but not yet effective for the current accounting year are described in note 2 (s).

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:

Effective January 1, 2018, in accordance with IFRS 9 – *Financial Instruments* ("IFRS 9"), financial assets are classified, at initial recognition, and subsequently measured, based on three categories: (i) amortized cost, (ii) fair value through other comprehensive income ("FVOCI"), or (iii) fair value through profit and loss ("FVTPL"). Financial assets are classified and measured on the basis of both the business model in which the assets are managed and the contractual cash flow characteristics of the asset. With the exception of trade receivables that do not contain a significant financing component, the REIT initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price. Financial assets are recorded at amortized cost when financial assets are held with the objective of collecting contractual cash flows and those cash flows represent solely payments of principal and interest ("SPPI") and are not designated as FVTPL. Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. Financial liabilities are classified and measured in two categories: (i) amortized cost or (ii) FVTPL.

The REIT classifies and measures its notes receivables, accounts receivable and other receivables, cash held in trust, cash, mortgages and loans payable, senior unsecured debentures, preferred shares liability, preferred units liabilities, accounts payable and other liabilities and credit facilities at amortized costs. All derivative instruments, including embedded derivatives, are classified as at FVTPL and are recorded on the consolidated balance sheet at fair value.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, with the exception of those classified as at FVTPL, 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 FVTPL are recognized immediately in net income.

Financial assets, other than those classified as at FVTPL, are assessed for impairment at the end of each reporting period using the expected credit loss ("ECL") model. The ECL model is based on an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The REIT measures loss allowance for notes receivable, accounts receivable and other receivables at the lifetime expected credit losses.

Prior to January 1, 2018 in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39") all financial assets and liabilities were initially recorded on the consolidated balance sheet at fair value. Subsequent measurement was determined by the classification of each financial asset and liability as fair value through profit or loss, held-to-maturity, loans and receivables, available-for-sale or other liabilities. Financial assets, other than those classified as at fair value through profit or loss, were assessed for indicators of impairment at the end of each reporting period. Financial assets were considered to be impaired when there was 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 had 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) Inventory properties:

Commercial condominium projects are recorded as inventory properties. Inventory properties are recorded at the lower of cost, including pre-development expenditures and capitalized borrowing costs, and net realizable value, which the REIT determines using the estimated selling price in the ordinary course of business, less estimated selling costs and development costs to complete.

Inventory properties are reviewed for impairment at each reporting date. An impairment loss is recognized in net income when the carrying value of the asset exceeds its net realizable value.

Transfers to inventory properties are based on a change in use evidenced by the commencement of development activities and expenditures, with a view to sell, at which point an investment property is transferred to inventory properties.

(i) 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.

(j) 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.

A disposal group is classified as discontinued operation if it meets the following conditions: (i) it is a component that can be distinguished operationally and financially from the rest of the REIT's operations and (ii) it represents either a separate major line of business or geographical area of operations. The results of operations associated with disposal groups classified as discontinued operations held for sale are reported separately in the consolidated statement of operations.

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.

(k) 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.

(l) 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.

(m) 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. 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.

(n) 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.

(o) 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.

(p) 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 of unit options, restricted units and deferred units.

(q) 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 (m). 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 (m). 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.

(In thousands of Canadian dollars, except as otherwise noted)

- 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 23.

- Allowance for doubtful accounts - The critical estimates and assumptions underlying the value of the allowance for doubtful accounts are described in note 30 (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 31.

(r) New or revised accounting standards adopted during the year:

The REIT adopted IFRS 15 - *Revenue from Contracts with Customers* ("IFRS 15") on its effective date of January 1, 2018 using the modified retroactive basis with no restatement of comparative periods.

The REIT's most material revenue category of base rental revenue is outside the scope of this standard. The only significant revenue category falling under IFRS 15 relates to property operating and realty tax cost recoveries. The REIT's practices of revenue recognition are unchanged upon adoption of this standard, therefore, the adoption of IFRS 15 did not result in a material impact to the consolidated financial statements. The REIT has elected to apply the standard on a modified retrospective basis. Under this approach, the 2017 comparative period was not restated. There was no cumulative transitional adjustment to the opening retained earnings balance required. The impact was limited to additional note disclosure on the disaggregation of its revenue categories, specifically as it relates to property operating and realty tax cost recoveries.

The REIT adopted IFRS 9 on its effective date of January 1, 2018 using the modified retroactive basis with no restatement of comparative periods. IFRS 9 replaces 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 following table summarizes the classification impacts of the adoption of IFRS 9. This adoption did not result in any changes to the measurement of the REIT's consolidated financial statements.

Financial instrument	Previous classification under IAS 39	New classification under IFRS 9
Financial assets:		
Notes receivable	Loans and receivables	Amortized cost
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Accounts receivable and other receivables	Loans and receivables	Amortized cost
Cash held in trust	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost
Financial liabilities:		
Mortgages and loans payable	Other liabilities	Amortized cost
Senior unsecured debentures	Other liabilities	Amortized cost
Credit facilities	Other liabilities	Amortized cost
Preferred shares/units liabilities	Other liabilities	Amortized cost
Derivative instruments	Fair value through profit or loss	Fair value through profit or loss
Accounts payable and other liabilities	Other liabilities	Amortized cost

IFRS 9 uses the ECL model on financial assets measured at amortized cost and financial liabilities that are financial guarantee contracts or commitments to provide a loan at a below-market interest rate. The measurement options for the ECL are lifetime expected credit losses and 12-month expected credit losses. The ECL model is based on an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. As the REIT elected to follow the simplified approach of always measuring the loss allowance for trade receivables, contract assets and lease receivables at the lifetime ECL, IFRS 9 did not have a material impact on the REIT's note receivables and accounts receivables and other receivables balances.

The REIT does not have any instruments that are designated in a hedge relationship; therefore, the new general hedge accounting model included in IFRS 9 has not impacted the consolidated financial statements.

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. This amendment did not result in a material impact to the consolidated financial statements.

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. This interpretation did not result in a material impact to the consolidated financial statements.

In December 2016, the IASB amended IAS 40 - *Investment Property*. The amendments clarify that an asset be transferred to, or from, investment property only when there is a change in use, and are effective for annual periods beginning on or after January 1, 2018. These amendments did not result in a material impact to the consolidated financial statements.

(In thousands of Canadian dollars, except as otherwise noted)

In December 2016, the IASB issued *Annual Improvements to IFRS Standards 2014-2016 Cycle* effective for annual periods beginning on or after January 1, 2018. These amendments did not result in a material impact to the consolidated financial statements.

(s) Future changes in accounting standards:

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*. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The most significant change introduced by IFRS 16 is a single lessee accounting model, bringing leases on-balance sheet for lessees. The REIT is in the final stages of its assessment of existing lease arrangements that would be capitalized under the new standard and the initial quantification of the existing obligations as at this date is not significant to the REIT's financial position. As the changes in IFRS 16 do not materially impact the lessor accounting model, the REIT expects the adoption of this new standard will have no material impact on its consolidated financial statements. The REIT intends to adopt the standard effective January 1, 2019 without restatement of prior period comparatives.

In June 2017, the IASB issued IFRIC 23 – *Uncertainty over Income Tax Treatments* ("IFRIC 23"). IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The REIT does not expect a material impact to its consolidated financial statements from the adoption of this interpretation.

In October 2017, the IASB amended IFRS 9 – *Financial Instruments*. The amendments clarify that for the purpose of assessing whether a prepayment feature meets the condition to be classified as measured at amortized cost, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. The amendment is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The REIT does not expect a material impact to its consolidated financial statements from the adoption of this amendment.

In October 2017, the IASB amended IAS 28 – *Long-term Interests in Associates and Joint Ventures* ("IAS 28"). The amendments clarify that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28. The amendments apply retrospectively to annual periods beginning on or after January 1, 2019. The REIT does not expect a material impact to its consolidated financial statements from the adoption of this amendment.

Note 3. Acquisitions and dispositions of investment properties

Acquisitions:

The REIT acquired the following properties during the year ended December 31, 2018:

Property	Property count	Location	Acquisition date	Asset class
Stapley Center	1	Greater Phoenix Area, AZ	August 13, 2018	Office
Boulder Lakes Business Park I	1	Twin Cities Area, MN	November 27, 2018	Office

On March 7, 2018, the REIT acquired an additional 50% interest in each of 1700 Broadway and Hudson's Bay Centre, office properties located in the Greater Denver Area, Colorado. Prior to the acquisition date, the REIT owned 50% 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 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 50% interests to fair value at the acquisition date. The REIT recorded a net fair value gain of $1,697 on this remeasurement, which was included in net income from investments in joint ventures.

The REIT acquired the remaining 50% interests for total consideration of $50,148. This consideration primarily consisted of the issuance of common units at a price of $14.85 per unit for gross consideration of $47,300. The REIT recorded a bargain purchase gain related to the issuance of the units of $3,504. As part of acquiring the previously unowned 50% of the net assets of these properties, the REIT also recorded additional bargain purchase gains of $1,880 for a total gain of $5,384.

On October 5, 2018, the REIT acquired an additional 10% interest in Park Lucero II, an industrial property located in the Greater Phoenix Area, Arizona for total consideration of $2,090. Prior to the acquisition date, the REIT owned 90% of this investment property and the property was classified as joint venture and accounted for using the equity method. As a result of this acquisition, the REIT owns 100% of the property and accounts for it on a consolidated basis. The REIT accounted for this acquisition as step acquisition and remeasured its existing 90% interests to fair value at the acquisition date.
On October 19, 2018, the REIT also acquired a surface parking lot ancillary to an existing office property in Winnipeg, Manitoba.

The REIT acquired the following parcels of development land during the year ended December 31, 2018:

Property	Location	Acquisition date	Asset class
Cedar Port	Houston (Bayport), TX	March 26, 2018	Industrial
Tower Business Center [(1)]	Greater Denver Area, CO	April 20, 2018	Industrial
1630 Aspen	Madison, WI	May 31, 2018	Office

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

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.

(In thousands of Canadian dollars, except as otherwise noted)

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 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.

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:

		2018		Year ended December 31, 2017
Investment properties (note 4)	$	252,680	$	103,234
Long-term debt, including acquired above- and below-market mortgages, net of financing costs		(83,803)		(2,962)
Other net assets		(92)		1,434
		168,785		101,706
Consideration was comprised of the following:				
Common units (note 15 (a) (ii))		43,651		—
Cash consideration		118,782		101,706
Bargain purchase gains		5,384		—
Foreign currency translation gain		968		—
Total consideration	$	168,785	$	101,706
Transaction costs expensed (note 21)	$	1,393	$	1,110

Dispositions:

The REIT disposed of the following properties during the year ended December 31, 2018:

Property	Property count	Location	Disposition date	Asset class
Humana Building	1	Greater Phoenix Area, AZ	January 23, 2018	Office
1810 Dublin Avenue	1	Winnipeg, MB	March 22, 2018	Industrial
630 - 4th Avenue SW	1	Calgary, AB	June 1, 2018	Office
Production Court & Eau Claire Place II	2	Greater Vancouver Area, BC & Calgary, AB	June 27, 2018	Office

On September 11, 2018, the REIT contributed industrial development land located in the Greater Houston Area, Texas, to a new joint venture arrangement, Park 8Ninety II.

The proceeds from the sale of the above properties, net of costs and related debt, were $126,508. The assets and liabilities associated with the properties were derecognized.

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.

(In thousands of Canadian dollars, except as otherwise noted)

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

		Year ended December 31, 2018				
		Investment properties		Investment properties under development		Investment properties held for sale
Balance, beginning of year	$	4,720,362	$	79,701	$	110,188
Additions:						
Acquisitions (note 3)		241,560		11,120		—
Reclassification from investments in joint ventures [(1) (3)]		108,390		—		—
Capital expenditures		35,659		56,544		2
Capitalized interest		—		1,304		—
Leasing commissions		10,511		2,283		246
Straight-line rent adjustments		5,485		—		6
Tenant inducement additions, net of amortization		25,655		—		1,129
Contribution to investments in joint ventures [(2)]		—		(10,421)		—
Dispositions		(121,205)		(521)		(31,468)
Transfer to inventory properties [(4)]		(8,800)		(1,816)		—
Foreign currency translation gain		169,867		5,417		7,795
Fair value (loss) gain		(43,384)		10,104		(3,819)
Reclassification of investment properties under development		34,111		(34,111)		—
Reclassification of investment properties held for sale		(236,386)		—		236,386
Balance, end of year	$	4,941,825	$	119,604	$	320,465

(1) On March 7, 2018, the REIT increased its ownership interest in 1700 Broadway and Hudson's Bay Centre to 100%. See note 3 for further information.
(2) On September 11, 2018, the REIT contributed land under development to Park 8Ninety II, a joint venture arrangement. See note 5 for further information.
(3) On October 5, 2018, the REIT increased its ownership interest in Park Lucero II to 100%. See note 3 for further information.
(4) During the year ended December 31, 2018, an investment property and the related development expenditures were transferred to inventory properties. See note 7 for further information.

		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
Straight-line rent adjustments		6,398		2		(17)
Tenant inducement additions, net of amortization		32,921		150		448
Dispositions		(168,602)		—		(264,529)
Foreign currency translation loss		(119,309)		(3,658)		(1,672)
Fair value gain (loss)		7,688		(1,753)		(1,241)
Reclassification of investment properties under development		21,752		(21,752)		—
Reclassification of investment properties held for sale		(257,214)		—		257,214
Balance, end of year	$	4,720,362	$	79,701	$	110,188

During the year ended December 31, 2018, the REIT reclassified one office property from investment properties under development to investment properties.

The REIT had 10 retail properties and six office properties classified as investment properties held for sale that were listed with external brokers at December 31, 2018 (December 31, 2017, one office property and seven retail properties). These properties had an aggregate mortgage payable balance of $114,935 at December 31, 2018 (December 31, 2017, $61,463). This balance is not accounted for as held for sale but is included in current liabilities as the REIT intends to repay the mortgages upon disposition of the related investment properties.

At December 31, 2018, included in investment properties was $44,709 (December 31, 2017, $38,260) 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 $12,978 at December 31, 2018 (December 31, 2017, $10,904).

At December 31, 2018, investment properties with a fair value of $3,587,739 (December 31, 2017, $3,261,174) 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, 2018, properties (including the REIT's ownership interest in properties held in joint venture arrangements) with an appraised value of $977,379 (2017, $865,928) 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, 2018 and 2017.

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 31.

(In thousands of Canadian dollars, except as otherwise noted)

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

	December 31, 2018			December 31, 2017		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Western Canada:						
Discount rate	9.50%	5.75%	7.61%	9.50%	6.25%	7.61%
Terminal capitalization rate	9.00%	3.75%	6.75%	9.00%	4.25%	6.72%
Capitalization rate	8.75%	3.75%	6.68%	8.50%	4.25%	6.54%
Investment horizon (years)	11.0	10.0	10.3	11.0	10.0	10.2
Central Canada:						
Discount rate	9.25%	6.25%	7.66%	9.00%	6.25%	7.66%
Terminal capitalization rate	8.50%	5.50%	6.42%	8.50%	5.50%	6.42%
Capitalization rate	8.25%	5.50%	6.33%	8.25%	5.50%	6.28%
Investment horizon (years)	11.0	10.0	10.3	12.0	10.0	10.4
Eastern Canada:						
Discount rate	7.50%	5.25%	6.79%	7.75%	6.25%	7.11%
Terminal capitalization rate	6.75%	4.25%	5.67%	6.75%	4.75%	6.01%
Capitalization rate	7.00%	4.25%	5.69%	7.00%	4.75%	6.03%
Investment horizon (years)	12.0	10.0	10.3	12.0	10.0	10.4
U.S.:						
Discount rate	9.00%	6.50%	7.94%	9.00%	6.75%	8.06%
Terminal capitalization rate	8.75%	5.50%	6.92%	8.75%	5.75%	7.00%
Capitalization rate	8.50%	5.25%	6.77%	8.50%	5.50%	6.81%
Investment horizon (years)	15.0	10.0	10.6	20.0	10.0	11.0
Total portfolio:						
Discount rate	9.50%	5.25%	7.62%	9.50%	6.25%	7.69%
Terminal capitalization rate	9.00%	3.75%	6.57%	9.00%	4.25%	6.63%
Capitalization rate	8.75%	3.75%	6.47%	8.50%	4.25%	6.48%
Investment horizon (years)	15.0	10.0	10.4	20.0	10.0	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, 2018:

	Change to fair value if capitalization rate increased by 0.25%	Change to fair value if capitalization rate decreased by 0.25%
Western Canada	$ (42,456)	$ 46,011
Central Canada	(41,976)	45,482
Eastern Canada	(30,969)	33,922
U.S.	(83,152)	86,680
	$ (198,553)	$ 212,095

(In thousands of Canadian dollars, except as otherwise noted)

Note 5. Joint arrangements

The REIT had interests in the following joint arrangements:

			Ownership interest	
Property	Principal purpose	Type of arrangement	December 31, 2018	December 31, 2017
Park 8Ninety I	Investment property	Joint venture	95%	95%
Park 8Ninety II	Investment property	Joint venture	95%	—%
Corridor Park	Investment property	Joint venture	90%	90%
Park Lucero II (1)	Investment property	Joint venture	—%	90%
Millwright Building	Investment property	Joint venture	80%	80%
Tower Business Center	Investment property	Joint venture	80%	—%
Graham Portfolio	Investment property	Joint venture	75%	75%
Centrepoint	Investment property	Joint venture	—%	50%
The Point at Inverness	Investment property	Joint venture	50%	50%
1700 Broadway (1)	Investment property	Joint venture	—%	50%
Hudson's Bay Centre (1)	Investment property	Joint venture	—%	50%
Centre 70 Building	Investment property	Joint operation	85%	85%
Cliveden Building	Investment property	Joint operation	50%	50%
Kincaid Building	Investment property	Joint operation	50%	50%

(1) During 2018, the REIT increased its ownership interest in these properties to 100%. 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.

During the year ended December 31, 2018, the REIT entered into two new joint venture arrangements. The REIT contributed $8,660 to Tower Business Center, an industrial development project in the Greater Denver Area, Colorado, and $18,268, including land under development, to Park 8Ninety II, an industrial development project in the Greater Houston Area, Texas.

The REIT also contributed $1,721 during the year ended December 31, 2018 to the Park Lucero II and Hudson's Bay Centre joint venture arrangements.

During the year ended December 31, 2018, the Centrepoint joint venture disposed of its investment property and the REIT received net proceeds of $7,850 from its share of the disposition.

The REIT is contingently liable for the obligations of certain joint arrangements. As at December 31, 2018, the co-owners' share of mortgage liabilities was $37,642 (December 31, 2017, $96,494). Management believes that the assets available from its joint arrangements are sufficient for the purpose of satisfying such obligations.

(In thousands of Canadian dollars, except as otherwise noted)

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

		December 31, 2018		December 31, 2017
Non-current assets:				
Investment properties	$	255,661	$	332,359
Investment properties under development		40,635		—
Current assets:				
Investment property held for sale		—		26,187
Prepaid expenses and other assets		244		282
Accounts receivable and other receivables		822		655
Cash		3,808		7,012
		301,170		366,495
Non-current liabilities:				
Mortgages and loans payable		44,017		112,148
Current liabilities:				
Mortgages and loans payable		59,068		46,484
Security deposits and prepaid rent		3,264		2,190
Accounts payable and other liabilities		18,320		5,290
		124,669		166,112
Investments in joint ventures	$	176,501	$	200,383

		Year ended December 31, 2018		2017
Revenue	$	21,195	$	26,601
Expenses:				
Property operating		5,560		7,921
Realty taxes		4,422		4,259
		9,982		12,180
Net operating income		11,213		14,421
Other income (expenses):				
Interest expense		(5,592)		(6,210)
Interest income		8		8
Fair value gain on investment properties		1,428		13,061
Fair value gain on business combinations (1)		1,697		—
Net income from investments in joint ventures	$	8,754	$	21,280

(1) This gain relates to the step acquisitions of 1700 Broadway and Hudson's Bay Centre. See note 3 for further information.

(In thousands of Canadian dollars, except as otherwise noted)

Note 6. Property and equipment

	December 31, 2018	December 31, 2017
Office furniture and fixtures	$ 10,582	$ 9,990
Office equipment and software	1,354	1,336
Accumulated depreciation	(5,403)	(4,321)
	$ 6,533	$ 7,005

Note 7. Inventory properties

The changes to the REIT's inventory properties were as follows:

	2018	Year ended December 31, 2017
Balance, beginning of year	$ —	$ —
Transfers from investment properties	8,800	—
Transfers from investment properties under development	1,816	—
Capital expenditures	611	—
Balance, end of year	$ 11,227	$ —

During the year ended December 31, 2018, the REIT transferred an industrial property being converted into commercial condominium units to inventory properties at the fair value on the transfer date. Inventory properties earned net operating income of $99 for the year ended December 31, 2018.

Note 8. Notes receivable

	December 31, 2018	December 31, 2017
Note receivable from tenant maturing in May 2023, bearing interest at 5.89% per annum, repayable in varying blended monthly installments. A default under the terms of the note constitutes a default of the lease of the tenant.	$ 10,814	$ 12,950
Note receivable from tenant, repayable in 144 blended monthly installments beginning 6 months after development completion and lease commencement, bearing interest at 4.00% per annum, increasing to 8.50% per annum upon lease commencement.	3,710	—
Note receivable from tenant maturing in September 2021, bearing interest at 1.00% per annum, repayable in blended monthly installments of $61.	2,075	—
Other notes receivable	4,160	2,354
	20,759	15,304
Current portion	4,543	2,322
Non-current portion	$ 16,216	$ 12,982

(In thousands of Canadian dollars, except as otherwise noted)

Note 9. Prepaid expenses and other assets

	December 31, 2018	December 31, 2017
Prepaid insurance	$ 3,234	$ 3,144
Prepaid realty taxes	1,165	1,866
Prepaid acquisition, disposition and development costs	593	952
Derivative instruments (note 31)	12,322	8,425
Other prepaid expenses	3,268	2,747
	$ 20,582	$ 17,134

Note 10. Accounts receivable and other receivables

	December 31, 2018	December 31, 2017
Rents receivable (note 30 (b))	$ 8,970	$ 8,121
Allowance for doubtful accounts (note 30 (b))	(471)	(331)
Accrued recovery income	4,019	2,521
Other receivables	8,583	6,505
	$ 21,101	$ 16,816

Note 11. Mortgages and loans payable

	December 31, 2018	December 31, 2017
Mortgages and loans payable	$ 1,690,671	$ 1,562,699
Net above- and below-market mortgage adjustments	1,175	4,991
Financing costs	(6,836)	(6,657)
	1,685,010	1,561,033
Current portion	412,558	370,508
Non-current portion	$ 1,272,452	$ 1,190,525

The majority of the REIT's investment properties have been pledged as security under mortgages and other security agreements. 40.0% of the REIT's mortgages and loans payable bear interest at fixed rates (December 31, 2017, 46.1%), and a further 31.6% of the REIT's mortgages and loans payable bear interest at variable rates with interest rate swaps in place (December 31, 2017, 29.2%). The weighted-average effective rate on all mortgages and loans payable was 4.27% and the weighted-average nominal rate was 4.07% at December 31, 2018 (December 31, 2017, 3.96% and 3.80%, respectively). Maturity dates range from January 1, 2019 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, 2018 and 2017.

Note 12. 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.

On February 7, 2018, under the August 8, 2016 short form base shelf prospectus, the REIT issued Series B floating rate senior unsecured debentures for gross proceeds of $200,000. Interest is payable quarterly on February 7, May 7, August 7 and November 7 in each year. These debentures are not redeemable by the REIT prior to maturity and rank equally with all other indebtedness of the REIT.

In accordance with the Series A and Series B senior unsecured debenture supplemental indentures, 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, 2018 and 2017, the REIT was in compliance with these requirements.

(In thousands of Canadian dollars, except as otherwise noted)

Interest expense on the senior unsecured debentures is determined by applying the effective interest rate to the outstanding liability balance. The difference between actual cash interest payments and interest expense is an accretion 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%
Series B	February 7, 2018	February 7, 2020	Three month CDOR [(1)] plus 1.07%

(1) Canadian Dollar Offered Rate ("CDOR")

	Face value	Unamortized accretion	Unamortized financing costs	Carrying value	Current portion	Non-current portion
Series A	$ 200,000	$ 51	$ (80)	$ 199,971	$ 199,971	$ —
Series B	200,000	—	(435)	199,565	—	199,565
December 31, 2018	$ 400,000	$ 51	$ (515)	$ 399,536	$ 199,971	$ 199,565
December 31, 2017	200,000	267	(413)	199,854	—	199,854

During the year ended December 31, 2018, accretion to the liability of $216 and financing cost amortization of $682 (2017, $209 and $323, respectively) were recorded.

Note 13. Credit facilities

The REIT has unsecured revolving term credit facilities in the aggregate amount of $700,000 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. On June 14, 2018, the revolving term credit facilities agreement was amended to extend the related maturity dates. The first tranche of the facilities was extended from December 15, 2018 to December 14, 2021 and the second tranche was extended from April 29, 2021 to April 29, 2023. On November 27, 2018, the revolving term credit facilities agreement was amended to increase the borrowing capacity from an aggregate amount of $500,000 to $700,000.

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 credit facilities are summarized as follows:

	December 31, 2018			December 31, 2017		
	Borrowing capacity	Amounts drawn	Available to be drawn	Amounts drawn	Available to be drawn	Applicable interest rates [(1)]
Revolving facilities maturing December 14, 2021	$ 400,000	$ 283,907	$ 116,093	$ 267,748	$ 32,252	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, 2023	300,000	190,800	109,200	170,635	29,365	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	—	150,000	—	3.57%
Non-revolving facility maturing July 18, 2022	150,000	150,000	—	150,000	—	3.50%
Financing costs		(2,169)		(1,078)		
Total credit facilities	$ 1,000,000	$ 772,538	$ 225,293	$ 737,305	$ 61,617	
Current portion		—		438,383		
Non-current portion		$ 772,538		$ 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, 2018 and 2017, the REIT was in compliance with these requirements.

(In thousands of Canadian dollars, except as otherwise noted)

Note 14. Accounts payable and other liabilities

	December 31, 2018	December 31, 2017
Accounts payable and accrued liabilities	$ 33,988	$ 25,391
Distributions payable	8,674	14,217
Accrued interest	8,744	7,297
Accrued realty taxes	14,189	8,286
Tenant installments payable	4,152	6,776
Derivative instruments (note 31)	4,006	6,185
Cash-settled unit-based payments liability	2,942	3,659
Other payables and liabilities	1,192	3,759
	$ 77,887	$ 75,570

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, 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, December 31, 2017	150,599,666	1,961,659
Restricted units redeemed	35,749	464
Deferred units redeemed	4,189	59
Private placement, net of issue costs of $145 (1)	3,185,152	43,651
Units acquired and cancelled through normal course issuer bid	(3,374,071)	(43,998)
Units acquired through normal course issuer bid, not cancelled at year end	(167,856)	(2,188)
Balance, December 31, 2018	150,282,829	$ 1,959,647

(1) The REIT issued units related to the step-acquisitions of 1700 Broadway and Hudson's Bay Centre. See note 3 for further information.

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

(In thousands of Canadian dollars, except as otherwise noted)

(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:

	Series A	Series C	Series E	Series G	Series I	Total
Number of units outstanding at December 31, 2016	3,450,000	3,000,000	4,000,000	3,200,000	—	13,650,000
Number of units outstanding at December 31, 2017	3,450,000	3,000,000	4,000,000	3,200,000	—	13,650,000
Preferred units redeemed	—	(3,000,000)	—	—	—	(3,000,000)
Preferred units issued	—	—	—	—	5,000,000	5,000,000
Units acquired and cancelled through normal course issuer bid	(4,000)	—	(3,800)	(3,300)	—	(11,100)
Units acquired through normal course issuer bid, not cancelled at year end	(600)	—	—	(500)	—	(1,100)
Number of units outstanding at December 31, 2018	3,445,400	—	3,996,200	3,196,200	5,000,000	15,637,800

The carrying value of the REIT's outstanding preferred units are as follows:

	Series A	Series C	Series E	Series G	Series I	Total
Carrying value at December 31, 2016	$ 82,143	$ 69,753	$ 96,537	$ 77,190	$ —	$ 325,623
Carrying value at December 31, 2017	82,143	69,753	96,537	77,190	—	325,623
Preferred units redeemed	—	(69,753)	—	—	—	(69,753)
Preferred units issued	—	—	—	—	121,304	121,304
Units acquired and cancelled through normal course issuer bid	(95)	—	(92)	(80)	—	(267)
Units acquired through normal course issuer bid, not cancelled at year end	(14)	—	—	(12)	—	(26)
Carrying value at December 31, 2018	$ 82,034	$ —	$ 96,445	$ 77,098	$ 121,304	$ 376,881
Annual distribution rate	5.662%	5.250%	5.472%	5.000%	6.000%	
Face value at December 31, 2018	$ 86,135	$ —	$ 99,905	$ 79,905	$ 125,000	
Face value at December 31, 2017	86,250	US 75,000	100,000	80,000	—	

(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. On March 31, 2018, the REIT redeemed all 3,000,000 outstanding Series C Units with an aggregate face value of US$75,000. The REIT recognized a foreign currency translation loss of $26,952 on this redemption through contributed surplus.

(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 was reset on September 30, 2018 at 5.472% and will be reset on September 30, 2023 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%.

(In thousands of Canadian dollars, except as otherwise noted)

The REIT may redeem the Series E Units on September 30, 2023 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, 2023 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, 2028 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.

(v) Series I:

On January 31, 2018, under the August 8, 2016 short form base shelf prospectus, the REIT issued 5,000,000 Cumulative Minimum Rate Reset Preferred Trust Units, Series I (the "Series I Units") for aggregate gross proceeds of $125,000. The Series I Units pay a cumulative distribution yield of 6.00% per annum, payable quarterly, as and when declared by the Board of Trustees of the REIT, for the initial five-year period ending April 30, 2023. The distribution rate will be reset on April 30, 2023 and every five years thereafter at a rate equal to the greater of (i) the sum of the then five-year Government of Canada bond yield and 3.93% and (ii) 6.00%.

The REIT may redeem the Series I Units on April 30, 2023 and on April 30 every five years thereafter. The holders of Series I Units have the right to reclassify their Series I Units to Preferred Units, Series J (the "Series J Units"), subject to certain conditions, on April 30, 2023 and on April 30 every five years thereafter. The Series J Units pay floating rate cumulative preferential distributions on a quarterly basis, at the discretion of the Board of Trustees. The holders of Series J Units have the right to reclassify their Series J Units to Series I Units on April 30, 2028 and on April 30 every five years thereafter.

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

(c) Normal course issuer bid:

On December 13, 2018, the REIT announced that the Toronto Stock Exchange ("TSX") approved the renewal of its normal course issuer bid ("NCIB"). Under the renewed bid, the REIT has the ability to purchase for cancellation up to a maximum of 10% of the REIT's public float of common units and preferred units as at December 5, 2018 as follows:

	Public float	10% of public float
Common units	132,404,572	13,240,457
Preferred unit series:		
Series A	3,450,000	345,000
Series E	4,000,000	400,000
Series G	3,200,000	320,000
Series I	4,900,000	490,000

Purchases will be made at market prices through the facilities of the TSX and all common units and preferred units acquired by the REIT under this bid will be cancelled. This bid will remain in effect until the earlier of December 16, 2019, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the year ended December 31, 2018, the REIT acquired 3,541,927 common units (3,374,071 units cancelled) at market prices aggregating $34,605, resulting in contributed surplus of $11,581, which was the excess of stated capital over redemption proceeds. During the year ended December 31, 2018, the REIT also acquired 4,600, 3,800 and 3,800 Series A, E and G Units, respectively (4,000, 3,800 and 3,300 Series A, E and G Units cancelled, respectively) at market prices aggregating $242, resulting in contributed surplus of $51, which was the excess of stated capital over redemption proceeds. During the year ended December 31, 2017, the REIT did not acquire units through the normal course issuer bid.

(d) Short form base shelf prospectuses:

On August 23, 2018, the REIT issued a new short form base shelf prospectus. The REIT may from time to time during the 25-month period that this short form base shelf prospectus is valid, offer and issue the following securities up to a maximum of $1,000,000 (i) common units of the REIT; (ii) preferred 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, 2018, the REIT had not issued any securities under this short form base shelf prospectus.

Under the short form base shelf prospectus issued on August 8, 2016, the REIT had issued senior unsecured debentures under one offering in the amount of $200,000 and preferred units under one offering in the amount of $125,000. This short form base shelf prospectus expired on September 8, 2018.

(In thousands of Canadian dollars, except as otherwise noted)

(e) Weighted-average common units:

				Year ended December 31,
		2018		2017
Net income	$	158,636	$	234,435
Adjustment for distributions to preferred unitholders (note 17)		(21,948)		(18,418)
Net income attributable to common unitholders		136,688		216,017
Adjustment for restricted units		(1,140)		371
Adjustment for deferred units		(403)		—
Diluted net income attributable to common unitholders	$	135,145	$	216,388
The weighted-average number of common units outstanding was as follows:				
Basic common units		153,069,303		150,578,462
Effect of dilutive securities:				
Restricted units		427,187		309,351
Deferred units		72,582		—
Diluted common units		153,569,072		150,887,813
Net income per unit attributable to common unitholders:				
Basic	$	0.89	$	1.43
Diluted		0.88		1.43

The computation of diluted net income per unit attributable to common unitholders includes unit options, restricted units and deferred units when these instruments are dilutive. For the year ended December 31, 2018, there were no anti-dilutive units. For the year ended December 31, 2017, deferred units were anti-dilutive for a total of 67,427 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) Restricted units:

Unit-based compensation expense related to restricted units outstanding under the equity incentive plan for the year ended December 31, 2018 amounted to $1,136 (2017, $2,006). 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.

The REIT's restricted units outstanding are as follows:

		Year ended December 31,
	2018	2017
	Units	Units
Balance, beginning of year	394,040	359,819
Granted	260,920	125,075
Accrued	42,447	29,397
Redeemed	(129,621)	(83,617)
Expired	(21,213)	(36,634)
Balance, end of year	546,573	394,040
Restricted units vested at end of year	25,389	19,131

(In thousands of Canadian dollars, except as otherwise noted)

(b) Deferred units:

Unit-based compensation expense related to deferred units outstanding under the equity incentive plan for the year ended December 31, 2018 amounted to $340 (2017, $631). 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.

The REIT's deferred units outstanding are as follows:

		Year ended December 31,
	2018	2017
	Units	Units
Balance, beginning of year	81,635	43,250
Granted	47,027	33,335
Accrued	7,560	5,050
Redeemed	(43,549)	—
Balance, end of year	92,673	81,635
Deferred units vested at end of year	92,673	81,635

(c) Unit options:

At December 31, 2018 and 2017, no unit options had been granted under the REIT's equity incentive plan.

(d) Installment units:

At December 31, 2018 and 2017, 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, 2018		Year ended December 31, 2017	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	$ 151,460	$ 0.99	$ 162,634	$ 1.08
Preferred unitholders - Series A	4,882	1.42	4,617	1.34
Preferred unitholders - Series C	1,269	0.42	5,051	1.68
Preferred unitholders - Series E	4,929	1.23	4,750	1.19
Preferred unitholders - Series G	4,000	1.25	4,000	1.25
Preferred unitholders - Series I	6,868	1.38	—	—

(In thousands of Canadian dollars, except as otherwise noted)

Note 18. Revenue

The REIT's revenue is made up of the following significant categories:

			Year ended December 31,
		2018	2017
Basic rent	$	314,743	$ 320,839
Operating cost and realty tax recoveries		187,967	185,801
Parking and other revenue		20,648	18,286
Tenant inducements amortized to revenue		(19,761)	(17,026)
Straight-line rent adjustments		5,491	6,383
Lease termination income		3,782	2,045
	$	512,870	$ 516,328

Refer to note 27 for a disaggregation of revenue by reportable geographical region.

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, 2018	December 31, 2017
Not later than one year	$	349,873	$ 321,566
Later than one year and not later than five years		962,934	908,727
Later than five years		696,545	676,587
	$	2,009,352	$ 1,906,880

Note 19. Corporate expenses

For the year ended December 31, 2018, corporate expenses included a non-recurring pension liability adjustment of $3,392 (2017, $nil) to reflect the amounts that will be due upon expiry of key management personnel contracts.

Note 20. Interest expense

			Year ended December 31,
		2018	2017
Interest on mortgages and loans payable	$	63,745	$ 70,642
Interest on senior unsecured debentures		12,762	7,506
Interest on convertible debentures		—	1,075
Interest on credit facilities		21,542	15,376
Net amortization of above- and below-market mortgages fair value adjustments		(271)	(1,132)
Amortization of financing costs		3,602	3,362
Accretion on liability component of debentures		(216)	(333)
	$	101,164	$ 96,496

(In thousands of Canadian dollars, except as otherwise noted)

Note 21. Transaction costs

The REIT incurred transaction costs in relation to the following:

				Year ended December 31,
		2018		2017
Acquisitions of investment properties	$	1,393	$	1,110
Termination of property management agreements		5,025		—
	$	6,418	$	1,110

During the year ended December 31, 2018, the REIT internalized the property management of several of its investment properties and terminated the third party property management agreements.

Note 22. Fair value gain on derivative instruments and other transactions

The REIT recorded gains (losses) on the following:

				Year ended December 31,
		2018		2017
Interest rate swaps	$	221	$	11,926
Foreign currency contracts		5,562		(2,867)
Convertible debentures		—		1,045
Other derivatives		175		(2,683)
Bargain purchase gains (1)		5,384	$	—
	$	11,342	$	7,421

(1) The REIT realized bargain purchase gains related to the step-acquisitions of 1700 Broadway and Hudson's Bay Centre. See note 3 for further information.

Note 23. 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, 2018 and December 31, 2017. 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.

(In thousands of Canadian dollars, except as otherwise noted)

Note 24. Changes in non-cash operating items

	Year ended December 31, 2018	2017
Prepaid expenses and other assets	$ 1,588	$ (1,210)
Accounts receivable and other receivables	(3,703)	(2,570)
Security deposits and prepaid rent	3,384	(3,315)
Accounts payable and other liabilities	6,731	(13,491)
	$ 8,000	$ (20,586)

Note 25. Subsidiaries

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

		Ownership interest	
Name of entity	Country	December 31, 2018	December 31, 2017
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%
Park 8Ninety Phase II, LP	U.S.	95%	—%
Artis/Core Park West Land, Ltd.	U.S.	90%	90%
Park Lucero II, LP (1)	U.S.	100%	90%
Tower Business Center L.P.	U.S.	80%	—%
Artis/Ryan Millwright, LP	U.S.	80%	80%
Artis HRA 1700 Broadway GP, LLC (2)	U.S.	100%	50%
Artis HRA 1700 Broadway, LP (2)	U.S.	100%	50%
Artis HRA Hudsons Bay GP, LLC (2)	U.S.	100%	50%
Artis HRA Hudsons Bay, LP (2)	U.S.	100%	50%
ARTIS HRA Inverness Point GP, LLC	U.S.	50%	50%
ARTIS HRA Inverness Point, LP	U.S.	50%	50%

(1) On October 5, 2018, the REIT increased its ownership interest in this property to 100%. Effective as of October 5, 2018, the REIT will no longer disclose its interests in this property as a joint venture. See note 3 for further information.

(2) On March 7, 2018, the REIT increased its ownership interest in these properties to 100%. Effective as of March 7, 2018, the REIT will no longer disclose its interests in these properties as joint ventures. See note 3 for further information.

(In thousands of Canadian dollars, except as otherwise noted)

Note 26. 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, 2018		2017
Short-term benefits	$	7,892	$	8,436
Post-employment benefits		4,684		1,243
Other long-term benefits		1,382		1,405
Unit-based compensation		945		1,239
	$	14,903	$	12,323

(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, 2018		December 31, 2017
Accrued defined benefit obligation	$	14,053	$	8,339
Fair value of plan assets		13,773		9,229
Funded status		280		(890)
Assets not recognized due to asset ceiling		201		890
Net liability arising from defined benefit obligation	$	481	$	—

(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.

(In thousands of Canadian dollars, except as otherwise noted)

Note 27. 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, 2018						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	$ 129,023	$ 108,543	$ 62,650	$ 233,568	$ 281	$ (21,195)	$ 512,870
Expenses:							
Property operating	31,114	28,683	15,903	57,557	—	(5,560)	127,697
Realty taxes	18,612	17,763	10,668	38,229	—	(4,422)	80,850
	49,726	46,446	26,571	95,786	—	(9,982)	208,547
Net operating income	79,297	62,097	36,079	137,782	281	(11,213)	304,323
Other income (expenses):							
Corporate expenses	—	—	—	—	(14,436)	—	(14,436)
Interest expense	(12,666)	(8,585)	(8,173)	(41,651)	(35,681)	5,592	(101,164)
Interest income	768	81	105	351	677	(8)	1,974
Net income from investments in joint ventures	—	—	—	—	—	8,754	8,754
Fair value (loss) gain on investment properties	(41,607)	(14,505)	64,117	(43,823)	147	(1,428)	(37,099)
Foreign currency translation loss	—	—	—	—	(8,113)	—	(8,113)
Transaction costs	—	(115)	—	(1,278)	(5,025)	—	(6,418)
Fair value gain on derivative instruments and other transactions	—	—	—	3,578	9,461	(1,697)	11,342
Income (loss) before income taxes	25,792	38,973	92,128	54,959	(52,689)	—	159,163
Income tax expense	—	—	—	(527)	—	—	(527)
Net income (loss)	$ 25,792	$ 38,973	$ 92,128	$ 54,432	$ (52,689)	$ —	$ 158,636
Acquisitions of investment properties	$ —	$ —	$ —	$ 256,404	$ —	$ (3,724)	$ 252,680
Additions to investment properties and investment properties under development	6,032	32,666	3,243	79,503	—	(29,239)	92,205
Additions to tenant inducements	14,950	15,792	1,599	21,459	—	(7,255)	46,545
Additions to leasing commissions	2,476	1,592	1,959	9,954	—	(2,941)	13,040

	December 31, 2018						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Joint ventures adjustment	Total
Total assets	$ 1,229,254	$ 1,165,685	$ 743,133	$ 2,644,707	$ 59,067	$ (124,669)	$ 5,717,177
Total liabilities	324,382	201,800	200,760	1,174,199	1,202,660	(124,669)	2,979,132

(In thousands of Canadian dollars, except as otherwise noted)

	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)
Fair value gain on derivative instruments and other transactions	—	—	—	—	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

(In thousands of Canadian dollars, except as otherwise noted)

Note 28. Commitments, contingencies and guarantees

(a) Unconditional purchase and sale agreements:

The REIT has an unconditional purchase agreement for an office development project located in the Twin Cities Area, Minnesota. As of December 31, 2018, the REIT expects the purchase to close in the last quarter of 2019 for an anticipated purchase price of US$41,961.

(b) Letters of credit:

As of December 31, 2018, the REIT had issued letters of credit in the amount of $4,574 (December 31, 2017, $4,904).

(c) 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.

(d) Guarantees:

At December 31, 2018, AX L.P. has guaranteed certain debt assumed by purchasers in connection with the dispositions of three properties (December 31, 2017, four 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, 2018 was $58,161 (December 31, 2017, $61,927), with an estimated weighted-average remaining term of 4.1 years (December 31, 2017, 5.0 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 29. 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, 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, 2018, the ratio of such indebtedness to gross book value was 49.9% (December 31, 2017, 47.9%), 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, 2018	December 31, 2017
Mortgages and loans payable	11	$ 1,685,010	$ 1,561,033
Senior unsecured debentures	12	399,536	199,854
Credit facilities	13	772,538	737,305
Total debt		2,857,084	2,498,192
Unitholders' equity		2,738,045	2,605,209
		$ 5,595,129	$ 5,103,401

Note 30. Risk management

In the normal course of business, the REIT is exposed to a number of risks that can affect its operating performance. The most significant of these risks, and the actions taken to manage them, 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 majority of REIT's mortgages payable and debentures are in fixed rate terms or variables rates with interest rate swaps in place. In addition, management considers the weighted-average term to maturity of long-term debt relative to the remaining average lease terms. At December 31, 2018, the REIT was a party to $1,989,356 of variable rate debt, including credit facilities and debentures (December 31, 2017, $1,580,397). At December 31, 2018, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with $834,241 of variable rate debt, including swaps on credit facilities (December 31, 2017, $756,956).

(In thousands of Canadian dollars, except as otherwise noted)

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	$ 11,551
Fixed rate debt due within one year	3,888
	$ 15,439

(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.

A $0.10 weakening in the US dollar against the calculated average Canadian dollar exchange rate of 1.2985 for the year ended December 31, 2018, and the year end exchange rate of 1.3642 at December 31, 2018, would have decreased net income by approximately $1,255 for the year ended December 31, 2018. A $0.10 weakening in the US dollar against the Canadian dollar would have decreased other comprehensive income by approximately $110,823 for the year ended December 31, 2018. 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 $1,000 during the year ended December 31, 2018 (2017, $509). 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, 2018	December 31, 2017
Past due 0 - 30 days	$ 6,413	$ 6,244
Past due 31 - 90 days	935	700
Past due more than 91 days	1,622	1,177
	8,970	8,121
Allowance for doubtful accounts	(471)	(331)
	$ 8,499	$ 7,790

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 risk 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.

(In thousands of Canadian dollars, except as otherwise noted)

The following are the estimated maturities of the REIT's financial liabilities at December 31, 2018 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	$ 77,887	$ 77,887	$ —	$ —	$ —
Credit facilities	774,707	—	283,907	490,800	—
Senior unsecured debentures	400,000	200,000	200,000	—	—
Mortgages and loans payable	1,690,671	330,526	646,146	647,336	66,663
	$ 2,943,265	$ 608,413	$ 1,130,053	$ 1,138,136	$ 66,663

Note 31. 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, 2018 and 2017.

		December 31, 2018		December 31, 2017	
	Fair value hierarchy	Carrying value	Fair value	Carrying value	Fair value
Assets:					
Investment properties	Level 3	$ 4,941,825	$ 4,941,825	$ 4,720,362	$ 4,720,362
Investment properties under development	Level 3	119,604	119,604	79,701	79,701
Notes receivable	Level 2	20,759	21,317	15,304	16,152
Investment properties held for sale	Level 3	320,465	320,465	110,188	110,188
Derivative instruments	Level 2	12,322	12,322	8,425	8,425
		5,414,975	5,415,533	4,933,980	4,934,828
Liabilities:					
Mortgages and loans payable	Level 2	1,685,010	1,693,090	1,561,033	1,574,614
Senior unsecured debentures	Level 2	399,536	400,741	199,854	201,438
Credit facilities	Level 2	772,538	774,707	737,305	738,383
Derivative instruments	Level 2	4,006	4,006	6,185	6,185
		2,861,090	2,872,544	2,504,377	2,520,620
		$ 2,553,885	$ 2,542,989	$ 2,429,603	$ 2,414,208

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 year 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 32. Subsequent events

The following events occurred subsequent to December 31, 2018:

- The REIT repaid a maturing mortgage on an office property in the amount of $14,974.
- The REIT entered into an interest rate swap agreement for the Series B senior unsecured debentures at a fixed interest rate of 3.354% effective February 7, 2019.
- The REIT made an interest payment for the Series B senior unsecured debentures in the amount of $1,653 for the three months ended February 7, 2019.
- The REIT issued 2-year Series C senior unsecured debentures with an aggregate principal amount of $250,000. These debentures will bear interest at a fixed rate of 3.674%.
- The REIT drew a net balance of $40,000 and US$1,800 on its revolving term credit facilities.
- The REIT purchased US$35,000 for $46,102.
- The REIT purchased through the NCIB 3,506,692 common units at a weighted-average price of $10.27, 20,700 Series A Units at a weighted-average price of $21.54, 22,600 Series E Units at a weighted-average price of $19.86 and 24,400 Series G Units at a weighted-average price of $21.12.
- The REIT declared a monthly cash distribution of $0.045 per common unit for the months of January and February 2019.
- The REIT declared a quarterly cash distribution of $0.3125 per Series G Unit for the three months ended January 31, 2019.
- The REIT declared a quarterly cash distribution of $0.3750 per Series I Unit for the three months ended January 31, 2019.

Note 33. Approval of financial statements

These consolidated financial statements were approved by the Board of Trustees and authorized for issue on February 28, 2019.

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