ARTIS
REIT

FINANCIAL REPORT

2019

PROPERTIES OF SUCCESS

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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, 2019 and 2018, 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 27, 2020. 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 associated with the implementation of Artis' New Initiatives, real property ownership, debt financing, foreign currency, credit and tenant concentration, lease rollover, tax related matters, illiquidity, reliance on key personnel, future property transactions, general uninsured losses, cyber security, environmental matters, land and air rights leases, public market risk, availability of cash flow, fluctuations in cash distributions, potential dilution, unitholder liability, potential conflicts of interest, changes in legislation and development risk. 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. 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 and properties that are unconditionally sold. 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 substantially in accordance with the guidelines set out by the Real Property Association of Canada ("REALpac"), as issued in February 2019. 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 substantially in accordance with the guidelines set out by REALpac, as issued in February 2019. 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 as it adjusts FFO by excluding straight-line rent adjustments, as well as costs incurred relating to leasing activities and property capital expenditures. 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.

Net Asset Value ("NAV") per Unit

Artis calculates NAV per Unit as its unitholders' equity, adjusted for the outstanding face value 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.

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.

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, on a Proportionate Share basis. EBITDA Interest Coverage Ratio is calculated by dividing EBITDA by interest expense from operations (excluding amortization of financing costs, above- and below-market mortgage adjustments and accretion on debentures). Management considers this ratio to be a valuable measure of Artis' ability to service the interest requirements on its outstanding debt. Refer to the Debt 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, on a Proportionate Share basis. Management considers this ratio to be a valuable measure of Artis' ability to meet financial obligations. Refer to the Debt 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 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 27, 2020, there were 137,975,121 common units, 12,221,200 preferred units, 744,453 restricted units and 482,221 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 annually is currently $0.54 per common unit and is set by the Board of Trustees (the "Board" or "Trustees") in accordance with the Declaration of Trust.

Artis' management utilizes several key strategies to meet its primary objective, which are executed in consideration of 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.

UPDATE ON NEW INITIATIVES

In November 2018, we announced several new initiatives that are focused on improving our growth profile, strengthening our balance sheet and ensuring the REIT is best positioned for long-term and sustainable AFFO and NAV per unit growth. These initiatives included revising the REIT's distribution, immediately and continually purchasing units under the normal course issuer bid ("NCIB"), optimizing our portfolio by narrowing our focus to key assets in fewer markets, and pursuing high-yield, accretive development projects in our target markets that will improve the value and quality of our portfolio.

NCIB Activity and Preferred Unit Redemption

During 2019, we purchased 12,417,833 common units for a weighted-average price of $11.15 and 278,100 preferred units for a weighted-average price of $21.10 under our NCIB. From November 1, 2018, when we announced our intention to purchase units under our NCIB until December 31, 2019, we purchased 15,959,760 common units for a weighted-average price of $10.84 and 290,300 preferred units for a weighted-average price of $21.04. The total aggregate market prices of common units and preferred units purchased under the NCIB from November 1, 2018, to December 31, 2019, were $173,008 and $6,108, respectively. Artis purchased the maximum number of common units permitted under the December 16, 2018, normal course issuer bid. On December 17, 2019, Artis renewed its normal course issuer bid for a further year.

During 2019, we completed the redemption of the outstanding Series G preferred units with an aggregate face value of $78,463.

(In thousands of Canadian dollars, unless otherwise noted)

Property Dispositions

In November 2018, we announced our intention to sell between $800,000 to $1,000,000 of non-core assets over the following three years. In accordance with these initiatives, at December 31, 2019, we have sold or entered into unconditional sale agreements for the following properties:

Property	Property count	Location	Disposition date	Asset class	Owned share of GLA	Annualized Property NOI [1]	Capitalization rate [2]	Sale price	Fair value [3]
Centrepoint [4]	1	Winnipeg, MB	October 31, 2018	Office	51,723	$ 1,479	6.00 %	$ 27,250	$ 26,106
169 Inverness Drive West I & II [5]	1	Greater Denver Area, CO	April 9, 2019	Office	118,518	(146)	N/A	36,113	46,590
Reenders Square	1	Winnipeg, MB	May 21, 2019	Retail	65,713	1,258	6.00 %	20,550	18,315
Britannia Building	1	Calgary, AB	May 22, 2019	Office	133,897	(269)	N/A	10,650	10,101
Nanaimo Portfolio	4	Nanaimo, BC	June 17, 2019	Office / Retail	112,327	2,079	4.60 %	37,038	36,621
1700 Broadway	1	Greater Denver Area, CO	June 27, 2019	Office	394,151	8,867	N/A	104,325	111,196
GSA Professional Office Building	1	Greater Phoenix Area, AZ	July 26, 2019	Office	210,202	7,008	5.81 %	121,825	117,958
415 Yonge Street	1	Greater Toronto Area, ON	September 27, 2019	Office	192,036	4,600	3.71 %	124,000	94,801
Estevan Retail Portfolio	2	Estevan, SK	October 30, 2019	Retail	167,114	1,153	9.52 %	13,000	12,867
495 Richmond Road	1	Ottawa, ON	November 27, 2019	Office	106,195	2,509	6.28 %	39,000	37,143
Centre 70 Building	1	Calgary, AB	December 16, 2019	Office	134,293	2,467	N/A	23,500	25,124
Minnesota Retail Portfolio [5]	6	Twin Cities Area, MN	December 19, 2019	Retail	298,232	4,487	10.75 %	45,870	52,035
Centre 15 Building (unconditional)	1	Calgary, AB	January 21, 2020	Office	76,021	1,349	7.50 %	14,000	13,991
Calgary Office Portfolio [5] (unconditional)	2	Calgary, AB	January 30, 2020	Office	497,635	6,727	8.75 %	77,826	78,872
800 5th Avenue (unconditional)	1	Calgary, AB	January 31, 2020	Office	258,445	2,418	8.00 %	26,000	25,854
1165 Kenaston Street (unconditional)	1	Ottawa, ON	February 2020	Office	180,689	638	N/A	22,500	22,437
	26				2,997,191	$ 46,624		$ 743,447	$ 730,011

(1) Based on the annualized Property NOI reported for the quarter prior to disposition, except for properties where the sale has not yet closed. Property NOI for 415 Yonge Street is forward- looking and includes future lease commitments.
(2) Capitalization rates based on 12-month forward looking Property NOI, as of the date of closing.
(3) Based on the fair value reported at the quarter prior to disposition, except for properties where the sale has not yet closed.
(4) The REIT disposed of its 50% interest in Centrepoint, a property held under a joint venture arrangement.
(5) This disposition includes a parcel of development land.

At December 31, 2019, we had seven office properties, one retail property and one parcel of development land classified as held for sale, for a total fair value of $221,915.

Disposition Activity Subsequent to December 31, 2019

In January 2020, we sold the Centre 15 Building, the Calgary Office Portfolio and 800 5th Avenue, office properties located in Calgary, Alberta for an aggregate sale price of $117,826, which represents a weighted-average capitalization rate of 8.44%.

New Developments

During 2019, we completed five new industrial development projects located in key target markets in the U.S., adding 1,527,000 square feet to our portfolio. Additionally, we currently have three new development projects in process in Winnipeg, Manitoba, and the fourth phase of an industrial development project in process in the Greater Houston Area, Texas.

2019 OVERVIEW

At December 31, 2019, our portfolio occupancy (including commitments) was 93.4%, compared to 93.7% at December 31, 2018. During the year, we completed 1,607,341 square feet of lease renewal transactions. The weighted-average increase in renewal rents in 2019 compared to the expiring rents was 5.6%. Our leasing team continues to work diligently on our upcoming renewals and leasing program.

FFO per unit for the year ended December 31, 2019, increased 8.5% to $1.41 (from $1.30 for the year ended December 31, 2018), while AFFO per unit for the same period increased 8.2% to $1.05 (from $0.97 for the year ended December 31, 2018). We reported conservative FFO and AFFO payout ratios for the year ended December 31, 2019, of 38.3% and 51.4%, respectively. Same Property NOI year-over-year increased 3.8%, or 5.1% for stabilized properties. At December 31, 2019, NAV per unit was $15.56 compared to $15.55 at December 31, 2018.

In 2019, we completed construction of five industrial projects totalling approximately 1,640,000 square feet of leasable area (1,527,000 square feet of owned leasable area) in the Greater Houston Area, Texas, the Greater Denver Area, Colorado and the Greater Phoenix Area, Arizona. Three of these projects were 100% leased before completion.

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. To assist with this initiative, in 2015 we hired Goby Inc. as a consultant and to track consumption at all of our properties to the extent that it is possible to do so. In addition, we are in our second year of participating in Global Real Estate Sustainability Benchmark ("GRESB"). At December 31, 2019, we had 17 properties with a Leadership in Energy and

Environmental Design ("LEED") certification, 22 properties with a Building Owners and Managers Association ("BOMA") Building Environmental Standards ("BEST") certification and 18 properties with an Energy Star certification.

For more information on Artis' comprehensive corporate sustainability program, including Artis' Environmental, Social and Governance 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 has 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, 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 and surpassed at the 2019 Annual General Meeting;
- a board renewal policy pursuant to which three out of eight Trustees are new to the Board over the last two years, resulting in a decrease in average tenure from 9 years to 8 years; and
- the submission to unitholders of a non-binding "say on pay" vote on an annual basis, which was implemented at Artis' 2019 annual general meeting, with respect to compensation practices for the 2018 year.

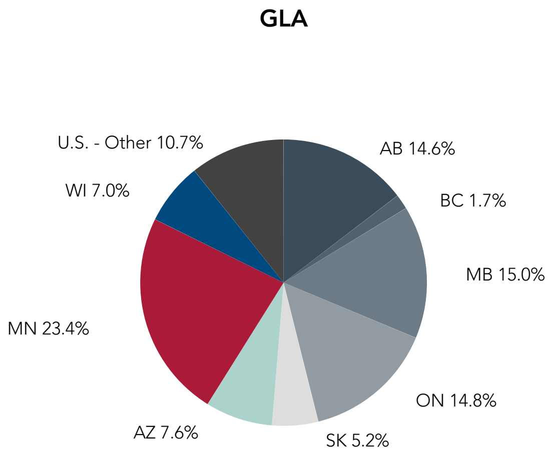
In addition to its role overseeing the vision and strategic direction of Artis, the Board continuously reviews the corporate governance of the REIT to ensure it is aligned with industry best practices.

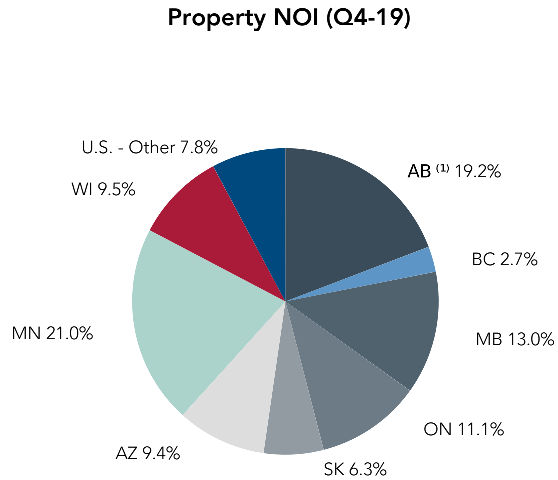
On May 9, 2019, the Board announced the formation of a Special Committee ("Special Committee") of Independent Trustees to review and evaluate additional strategic alternatives that may arise. On August 6, 2019, the Special Committee announced that it had retained financial and legal advisory services in connection with the previously announced strategic alternatives review.

PORTFOLIO SUMMARY

At December 31, 2019, the REIT's portfolio was comprised of 220 commercial properties (inclusive of properties held in joint venture arrangements) totalling approximately 24.8 million square feet ("S.F.") of gross leasable area ("GLA").

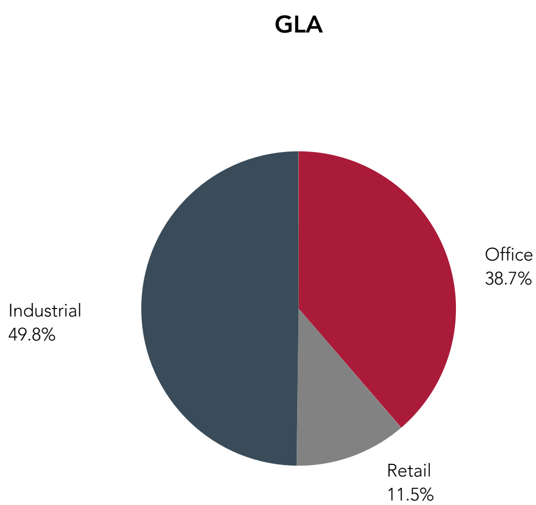
Diversification by Geographical Region (Proportionate Share basis)

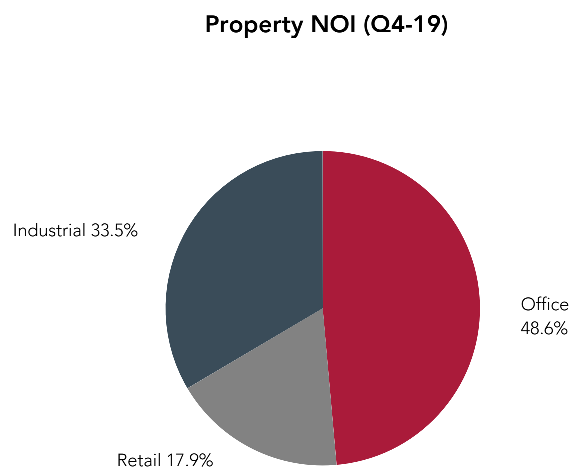




(1) The Calgary office segment represents 6.0% of the Q4-19 Proportionate Share Property NOI. Adjusted for disposition activity in January and February 2020, the Q4-19 Proportionate Share Property NOI is reduced to 2.1% on a proforma basis.

Diversification by Asset Class (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 S.F.)	% of portfolio GLA	% Occupied	% Committed (2)
Canadian portfolio:							
Office	Calgary	AB	10	1,496	6.0 %	78.7 %	79.2 %
	Greater Edmonton Area	AB	1	48	0.2 %	92.7 %	92.7 %
	Greater Toronto Area	ON	6	909	3.7 %	86.2 %	88.1 %
	Greater Vancouver Area	BC	2	164	0.7 %	83.2 %	83.2 %
	Ottawa	ON	1	181	0.7 %	29.9 %	29.9 %
	Saskatoon	SK	1	64	0.3 %	100.0 %	100.0 %
	Winnipeg	MB	9	1,460	5.9 %	80.6 %	89.0 %
Office total			30	4,322	17.5 %	79.5 %	82.9 %
Retail	Calgary	AB	5	345	1.3 %	88.1 %	88.1 %
	Fort McMurray	AB	8	195	0.8 %	88.6 %	88.6 %
	Grande Prairie	AB	5	365	1.5 %	66.6 %	66.6 %
	Greater Edmonton Area	AB	5	440	1.8 %	99.2 %	99.2 %
	Greater Vancouver Area	BC	1	165	0.6 %	97.6 %	98.2 %
	Regina	SK	8	541	2.2 %	91.9 %	92.5 %
	Saskatoon	SK	3	219	0.9 %	97.9 %	98.8 %
	Winnipeg	MB	6	587	2.4 %	97.9 %	98.2 %
Retail total			41	2,857	11.5 %	91.1 %	91.4 %
Industrial	Calgary	AB	6	362	1.5 %	100.0 %	100.0 %
	Greater Edmonton Area	AB	3	156	0.6 %	100.0 %	100.0 %
	Greater Toronto Area	ON	28	2,526	10.2 %	99.9 %	99.9 %
	Greater Vancouver Area	BC	2	98	0.4 %	100.0 %	100.0 %
	Red Deer	AB	1	126	0.5 %	74.9 %	74.9 %
	Regina	SK	2	143	0.6 %	100.0 %	100.0 %
	Saskatoon	SK	5	327	1.2 %	100.0 %	100.0 %
	Winnipeg	MB	28	1,690	6.7 %	97.7 %	98.3 %
Industrial total			75	5,428	21.7 %	98.7 %	98.8 %
Total Canadian portfolio			146	12,607	50.7 %	90.4 %	91.7 %
U.S. portfolio:							
Office	Greater Denver Area	CO	3	525	2.1 %	91.1 %	94.4 %
	Greater Phoenix Area	AZ	5	963	3.9 %	93.6 %	97.1 %
	Madison	WI	16	1,737	7.0 %	90.7 %	91.6 %
	New Hartford	NY	1	123	0.5 %	100.0 %	100.0 %
	Twin Cities Area	MN	8	1,855	7.5 %	91.3 %	95.2 %
Office total			33	5,203	21.0 %	91.7 %	94.4 %
Industrial	Greater Denver Area	CO	1	138	0.6 %	100.0 %	100.0 %
	Greater Phoenix Area	AZ	7	921	3.7 %	98.3 %	98.3 %
	Twin Cities Area (3)	MN	26	3,951	15.9 %	96.8 %	97.9 %
	Greater Houston Area	TX	4	1,540	6.2 %	81.6 %	89.0 %
Industrial total			38	6,550	26.4 %	93.5 %	95.9 %
Total U.S. portfolio			71	11,753	47.4 %	92.7 %	95.2 %
Total Canadian and U.S. portfolio			217	24,360	98.1 %	91.5 %	93.4 %

(1) Information is as at December 31, 2019, and excludes properties listed in the Properties Held for Redevelopment table and the New Developments in Process table on the following page, and includes properties held in joint venture arrangements.
(2) Percentage committed is based on occupancy at December 31, 2019, plus commitments on vacant space.
(3) During 2019, Artis reclassified a land lease to Home Depot from the retail asset class to the industrial asset class.

(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	0.0 %
Industrial	Greater Toronto Area	ON	1	53	0.2%	2145-2155 Dunwin Drive	74.1 %
Total properties held for redevelopment			2	145	0.6%		27.1 %

(1) Percentage committed is based on occupancy at December 31, 2019, plus commitments on vacant space.

Redevelopment plans were underway to convert Sierra Place, located in Calgary, Alberta, from an office property to a multi-residential property. The building, which is conveniently located downtown on a light rail transit line and provides access to the Plus 15 walkway system, would have approximately 100 suites upon completion. Redevelopment work is on hold as the REIT is pursuing opportunities to sell this property.

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 2020. At December 31, 2019, commercial condominium units representing 68.6% of the total square footage of the converted complex were under conditional sale agreements.

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]
Industrial	Greater Denver Area	CO	1	336	1.3 %	Tower Business Center	100.0 %	69.0 %
Total new developments completed			1	336	1.3 %			
Retail	*Winnipeg*	*MB*	*1*	*27*		*330 Main*	*80.0 %*	*90.0 %*
Residential / Multi-Family	*Winnipeg*	*MB*	*1*	*580*		*300 Main*	*35.0 %*	*0.0 %*
Industrial	*Greater Houston Area*	*TX*	*1*	*95*		*Park 8Ninety IV*	*5.0 %*	*100.0 %*
Retail	*Winnipeg*	*MB*	*—*	*17*		*Linden Ridge Shopping Centre II*	*15.0 %*	*100.0 %*
Total new developments in process [3]			*3*	*719*				

(1) Information is at December 31, 2019, and includes properties held in joint venture arrangements.
(2) Percentage committed is based on occupancy at December 31, 2019, 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

Artis has completed construction of all four phases of Park Lucero, an industrial development project located in the Greater Phoenix Area, Arizona. All four phases of the development, which total approximately 582,000 square feet, are over 90% leased. Construction of Park Lucero IV (the last phase of this project), a 95,000 square foot rear-load building, was completed in Q4-18. The property is 100% leased to a single tenant pursuant to a lease that commenced in Q2-19.

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 1,040,000 square feet of industrial real estate. The first phase of this project, Cedar Port I, totals approximately 519,000 square feet and is 100% leased for a 12.5-year term with annual rent escalations of 2.5%. Artis completed Cedar Port I in Q2-19.

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 being developed in several phases into approximately 1,789,000 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. Park 8Ninety III, comprising 33,000 square feet, is 100% leased to a national tenant and was completed in Q2-19 while Park 8Ninety II, comprising 572,000 square feet, was completed in Q3-19. Artis has a 95% ownership interest in Park 8Ninety II in the form of a joint venture arrangement.

In 2018, 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. This project comprises two buildings totalling approximately 420,000 square feet of leasable area. The first building totals approximately 290,000 square feet and is 100% leased to a national tenant pursuant to a long-term lease which commenced in Q4-19. Construction of Tower Business Center was completed in Q4-19.

New Developments in Process

Construction of 300 Main and 330 Main, two new projects that will span nearly one city block in downtown Winnipeg, Manitoba, is under way. 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 to a national tenant with rental increases every five years.

(In thousands of Canadian dollars, unless otherwise noted)

In Q4-19, Artis commenced construction of Park 8Ninety IV, a 100,000 square foot build-to-suit development for a multi-national tenant. Artis has a 95% interest in Park 8Ninety IV in the form of a joint venture arrangement.

Artis owns Linden Ridge Shopping Centre II, a 12 acre parcel of land in Winnipeg, Manitoba, which is located adjacent to Linden Ridge Shopping Centre, a retail property also owned by Artis. In 2017, Artis completed a build-to-suit building at Linden Ridge Shopping Centre II for a land lease with Lowe's on nine acres at the site. In Q4-19, Artis began construction of an additional 17,000 square foot building on the site, which is 100% pre-leased to two national tenants.

Future Development Program

Asset class	City	Province / State	Estimated owned share of GLA (000's of S.F.)	Property
Industrial	Greater Houston Area	TX	1,270	Cedar Port - Future Phases
Industrial	Greater Houston Area	TX	613	Park 8Ninety - Future Phases
Office	Madison	WI	43	1630 Aspen
Office	Madison	WI	50	Heartland Trail Land

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

Rezoning and Densification Initiatives

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 500 apartment units on the site.

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.

Stampede Station II development land on Macleod Trail in Calgary, Alberta, has been rezoned from office to multi-residential. The original plan for a 300,000 square foot office project has been changed to a 30-storey multi-family project with 300 suites. This parcel of development land was sold subsequent to December 31, 2019.

2019 ANNUAL HIGHLIGHTS

PORTFOLIO ACTIVITY

During 2019, Artis acquired one office property and disposed of eight office and 12 retail properties. During the year, Artis also acquired the remaining interest in one office and one industrial property and completed the development of four industrial properties.

	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, 2018	71	10,721	53	3,462	111	10,916	235	25,099
Acquisitions	1	183	—	—	—	20	1	203
New developments	—	40	—	—	4	1,431	4	1,471
Dispositions	(8)	(1,327)	(12)	(605)	—	—	(20)	(1,932)
Portfolio properties, December 31, 2019	64	9,617	41	2,857	115	12,367	220	24,841

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

Acquisitions

During 2019, Artis acquired the following property:

Property	Property count	Location	Acquisition date	Asset class	Owned share of GLA	Purchase price
Boulder Lakes Business Park II	1	Twin Cities Area, MN	October 25, 2019	Office	163,109	$ US 41,961

The purchase of this property was partially satisfied with new mortgage financing in the amount of US$25,175.

On May 15, 2019, the REIT acquired the remaining 15% interest in the Centre 70 Building, an office property located in Calgary, Alberta for total consideration of $3,023, and subsequently sold the property in December 2019.

On May 16, 2019, the REIT acquired the remaining 5% interest in Park 8Ninety I, an industrial property located in the Greater Houston Area, Texas for total consideration of US $4,681. The REIT now owns 100% of the property.

On August 8, 2019, the REIT purchased a surface parking lot ancillary to an existing office property located in Winnipeg, Manitoba for $3,800.

(In thousands of Canadian dollars, unless otherwise noted)

On November 1, 2019, Artis acquired a parcel of industrial development land adjacent to an existing industrial property in the Greater Houston Area, Texas, for a purchase price of US$3,614.

New Developments

During 2019, Artis completed the following new developments:

Property	Property count	Location	Quarter Complete	Asset class	Owned share of GLA	% Occupied	% Committed
Park Lucero IV	1	Greater Phoenix Area, AZ	Q2-19	Industrial	96,000	100.0 %	100.0 %
Cedar Port I	1	Greater Houston Area, TX	Q2-19	Industrial	519,000	100.0 %	100.0 %
Park 8Ninety III	1	Greater Houston Area, TX	Q2-19	Industrial	33,000	100.0 %	100.0 %
Park 8Ninety II (1)	1	Greater Houston Area, TX	Q3-19	Industrial	543,000	48.4 %	69.2 %
Tower Business Center (1)	1	Greater Denver Area, CO	Q4-19	Industrial	336,000	69.0 %	69.0 %

(1) The REIT has a 95% interest in Park 8Ninety II and an 80% interest in Tower Business Center, in the form of joint venture arrangements.

Dispositions

During 2019, Artis disposed of the following properties:

Property	Property count	Location	Disposition date	Asset class	Owned share of GLA	Sale price
169 Inverness Drive West I & II (1)	1	Greater Denver Area, CO	April 9, 2019	Office	118,518	$ US 27,000
Reenders Square	1	Winnipeg, MB	May 21, 2019	Retail	65,713	20,550
Britannia Building	1	Calgary, AB	May 22, 2019	Office	133,897	10,650
Nanaimo Portfolio	4	Nanaimo, BC	June 17, 2019	Office & Retail	112,327	37,038
1700 Broadway	1	Greater Denver Area, CO	June 27, 2019	Office	394,151	US 78,000
GSA Professional Office Building	1	Greater Phoenix Area, AZ	July 26, 2019	Office	210,202	US 92,250
415 Yonge Street	1	Greater Toronto Area, ON	September 27, 2019	Office	192,036	124,000
Estevan Retail Portfolio	2	Estevan, SK	October 30, 2019	Retail	167,114	13,000
495 Richmond Road	1	Ottawa, ON	November 27, 2019	Office	106,195	39,000
Centre 70 Building	1	Calgary, AB	December 16, 2019	Office	134,293	23,500
Minnesota Retail Portfolio (1)	6	Twin Cities Area, MN	December 19, 2019	Retail	298,232	US 34,750

(1) This disposition includes a parcel of development land.

During 2019, Artis repaid mortgage debt related to the disposition of the above properties in the aggregate amount of $224,661.

As at December 31, 2019, the REIT had entered into unconditional sale agreements for the Centre 15 Building, the Calgary Office Portfolio and 800 5th Avenue, office properties located in Calgary, Alberta, for an aggregate sale price of $117,826. These dispositions closed in January 2020. The REIT had also entered into an unconditional sale agreement for 1165 Kenaston Street, an office property located in Ottawa, Ontario for a sale price of $22,500, which is expected to close in February 2020.

FINANCING AND EQUITY ACTIVITIES

Unsecured Revolving Term Credit Facilities

During 2019, Artis drew a net balance of $122,576 on its revolving credit facilities. Proceeds of the revolving credit facilities were primarily used for the redemption of the Series G preferred units, repayment of maturing mortgages, ongoing development expenditures and unit purchases under the NCIB.

Mortgage Debt Financing and Repayment Activity

During 2019, the REIT repaid five maturing mortgages in the amount of $53,964, drew on development loans and received an uplift upon renewal of two maturing mortgages, net of financing costs, in the amount of $14,650.

Normal Course Issuer Bid

In 2019, Artis utilized the NCIB to purchase 12,417,833 common units for an aggregate market price of $138,403 and 58,100 Series A, 162,300 Series E and 57,700 Series G preferred units for an aggregate market price of $5,866.

Redemption of Preferred Units

On July 31, 2019, Artis completed the redemption of its outstanding Series G preferred units for an aggregate face value of $78,463.

(In thousands of Canadian dollars, unless otherwise noted)

Short Form Base Shelf Prospectus

On August 23, 2018, the REIT issued a short form base shelf prospectus. The REIT may from time to time during the 25-month period that this short form base shelf prospectus is valid, offer and issue the following securities up to a maximum of $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, 2019, the REIT had issued senior unsecured debentures under one offering in the amount of $250,000 under this short form base shelf prospectus.

Senior Unsecured Debentures

On February 7, 2019, the REIT entered into an interest rate swap agreement for the Series B senior unsecured debentures, effectively fixing the interest rate at 3.354%.

On February 22, 2019, under its August 23, 2018 short form base shelf prospectus, Artis issued two-year Series C fixed rate senior unsecured debentures for gross proceeds of $250,000. These debentures bear interest at 3.674%.

On March 27, 2019, the REIT completed the redemption of the outstanding 3.753% Series A senior unsecured debentures with a face value of $200,000.

DISTRIBUTIONS

Artis declared distributions of $96,332 to unitholders in 2019, which included distributions to preferred unitholders in the amount of $19,936.

SELECTED FINANCIAL INFORMATION

000's, except per unit amounts	2019	Year ended December 31, 2018	Change	% Change	Year ended December 31, 2017
Revenue	$ 521,660	$ 512,870	$ 8,790	1.7 %	$ 516,328
Property NOI [1]	309,856	304,323	5,533	1.8 %	311,224
Net income	122,737	158,636	(35,899)	(22.6)%	234,435
Total comprehensive income	51,069	274,388	(223,319)	(81.4)%	161,941
Basic income per common unit	0.72	0.89	(0.17)	(19.1)%	1.43
Diluted income per common unit	0.72	0.88	(0.16)	(18.2)%	1.43
Distributions per unit:					
Common units	$ 0.54	$ 0.99	(0.45)	(45.5)%	$ 1.08
Preferred units - Series A	1.42	1.42	—	— %	1.34
Preferred units - Series C	—	0.42	(0.42)	(100.0)%	1.68
Preferred units - Series E	1.37	1.23	0.14	11.4 %	1.19
Preferred units - Series G	0.73	1.25	(0.52)	(41.6)%	1.25
Preferred units - Series I	1.50	1.38	0.12	8.7 %	—
FFO [1] [2]	$ 202,398	$ 200,139	$ 2,259	1.1 %	$ 215,360
FFO per unit [1] [2]	1.41	1.30	0.11	8.5 %	1.43
FFO payout ratio [1] [2]	38.3 %	76.2 %		(37.9)%	75.5 %
AFFO [1] [2]	$ 150,518	$ 149,428	$ 1,090	0.7 %	$ 157,467
AFFO per unit [1] [2]	1.05	0.97	0.08	8.2 %	1.04
AFFO payout ratio [1] [2]	51.4 %	102.1 %		(50.7)%	103.8 %
Same Property NOI growth % [1]	3.8 %	1.1 %		2.7 %	(0.3)%
EBITDA interest coverage ratio [1] [2]	2.97	3.11	(0.14)	(4.5)%	3.24

(1) Represents a non-GAAP measure. Refer to the Notice with Respect to non-GAAP Measures section of this MD&A.
(2) FFO, AFFO and EBITDA exclude certain non-recurring adjustments in Q1-18. Please refer to the FFO and AFFO section and the Debt Metrics of this MD&A for further discussion of these adjustments.

Revenue, Property NOI, FFO and AFFO increased year-over-year, primarily due to the impact of completed new developments and acquisitions. Artis completed the development of three fully leased industrial properties located in the U.S. Artis acquired Boulder Lakes Business Park II, a 100% leased office property in the Twin Cities Area, Minnesota and a surface parking lot adjacent to an office property in Winnipeg, Manitoba. The REIT reported year-over-year Same Property NOI growth of 3.8% (or 2.6% in functional currency) primarily due to growth in the industrial portfolio and the U.S. office portfolio. The weighted-average rental rate on renewals that commenced during 2019 increased 5.6%.

Foreign exchange also continues to positively impact Artis' financial results, due to a higher US dollar to Canadian dollar average exchange rate of 1.3268 in 2019, compared to 1.2961 in 2018.

The disposition of eight office and 12 retail properties during 2019 partially offset these increases.

(In thousands of Canadian dollars, unless otherwise noted)

Net income and total comprehensive income were also impacted by the fair value loss on investment properties of $94,727 in 2019 compared to $37,099 in 2018. This was primarily due to a decline in the value of Alberta office properties and select U.S. properties, partially offset by capitalization rate compression and higher expected market rents in the industrial portfolio. Also contributing to the decrease in net income and total comprehensive income was the loss on derivative instruments and other transactions in 2019 of $16,379 compared to a gain of $11,342 in 2018.

On November 1, 2018, as part of Artis' New Initiatives, the REIT reset the distribution rate to $0.54 per unit annually. The decreased distributions resulted in conservative FFO and AFFO payout ratios of 38.3% and 51.4%, respectively, for the year ended December 31, 2019.

FFO per unit and AFFO per unit increased year-over-year, primarily due to the units acquired and cancelled under the NCIB in accordance with Artis' New Initiatives.

BALANCE SHEET METRICS

000's, except per unit amounts	December 31, 2019	December 31, 2018	% Change	December 31, 2017
NAV per unit [1]	$ 15.56	$ 15.55	0.1 %	$ 14.86
IFRS				
Secured mortgages and loans to GBV [1]	26.3 %	29.4 %	(3.1)%	29.9 %
Total long-term debt and credit facilities to GBV [1]	51.3 %	49.9 %	1.4 %	47.9 %
Fair value of unencumbered assets [1]	$ 1,926,661	$ 1,805,382	6.7 %	$ 1,649,077
Total assets	5,330,019	5,717,177	(6.8)%	5,215,896
Total non-current financial liabilities	2,142,090	2,252,874	(4.9)%	1,695,705
Proportionate Share				
Total long-term debt and credit facilities to EBITDA [1] [2]	8.8	9.0	(2.2)%	8.4
Secured mortgages and loans to GBV [1]	27.9 %	30.6 %	(2.7)%	31.9 %
Total long-term debt and credit facilities to GBV [1]	52.3 %	50.6 %	1.7 %	49.3 %
Fair value of unencumbered assets [1]	$ 1,968,369	$ 1,847,443	6.5 %	$ 1,687,754
Total assets	5,460,034	5,841,846	(6.5)%	5,382,008
Total non-current financial liabilities	2,236,067	2,296,891	(2.6)%	1,807,853

(1) Represents a non-GAAP measure. Refer to the Notice with Respect to non-GAAP Measures section of this MD&A.
(2) EBITDA exclude certain non-recurring adjustments in Q1-18. Please refer to the Debt Metrics of this MD&A for further discussion of these adjustments.

Artis reported NAV per unit of $15.56 at December 31, 2019, which has remained stable compared to $15.55 at December 31, 2018.

The fair value of unencumbered properties has increased year-over-year, primarily due to the repayment of maturing mortgages, partially offset by the disposition of investment properties.

The REIT's debt metrics have been impacted by Artis' New Initiatives due to the timing of the NCIB purchases and disposition of investment properties. Looking forward, Artis' primary focus will be to use proceeds from the disposition of investment properties to reduce debt.

Refer to the individual sections of this MD&A for additional information and discussion of the REIT's key financial metrics.

(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,					
	2019			2018		
	Per consolidated financial statements	Adjustment [(1)]	Total Proportionate Share	Per consolidated financial statements	Adjustment [(1)]	Total Proportionate Share
Revenue	$ 127,180	$ 4,798	$ 131,978	$ 132,864	$ 4,432	$ 137,296
Expenses:						
Property operating	32,910	1,377	34,287	35,315	1,021	36,336
Realty taxes	19,149	713	19,862	20,290	1,022	21,312
Total operating expenses	52,059	2,090	54,149	55,605	2,043	57,648
Net operating income	75,121	2,708	77,829	77,259	2,389	79,648
Other income (expenses):						
Corporate expenses	(3,399)	—	(3,399)	(2,186)	—	(2,186)
Interest expense	(26,299)	(1,106)	(27,405)	(26,853)	(1,275)	(28,128)
Interest income	1,745	2	1,747	689	2	691
Net income (loss) from investments in joint ventures	13,352	(13,352)	—	(2,085)	2,085	—
Fair value (loss) gain on investment properties	(31,863)	11,748	(20,115)	(23,576)	(3,201)	(26,777)
Foreign currency translation gain (loss)	4,804	—	4,804	(12,119)	—	(12,119)
Transaction costs	(84)	—	(84)	(488)	—	(488)
Fair value gain (loss) on derivative instruments and other transactions	105	—	105	(3,357)	—	(3,357)
Income before income taxes	33,482	—	33,482	7,284	—	7,284
Income tax expense	(605)	—	(605)	(64)	—	(64)
Net income	32,877	—	32,877	7,220	—	7,220
Other comprehensive (loss) income:						
Unrealized foreign currency translation (loss) gain	(26,084)	(2,696)	(28,780)	70,444	6,677	77,121
Unrealized foreign currency translation (loss) gain on joint ventures	(2,696)	2,696	—	6,677	(6,677)	—
Unrealized loss from remeasurements of net pension obligation	—	—	—	(437)	—	(437)
	(28,780)	—	(28,780)	76,684	—	76,684
Total comprehensive income	$ 4,097	$ —	$ 4,097	$ 83,904	$ —	$ 83,904

(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,					
	2019			2018		
	Per consolidated financial statements	Adjustment (1)	Total Proportionate Share	Per consolidated financial statements	Adjustment (1)	Total Proportionate Share
Revenue	$ 521,660	$ 17,958	$ 539,618	$ 512,870	$ 21,195	$ 534,065
Expenses:						
Property operating	130,099	4,938	135,037	127,697	5,560	133,257
Realty taxes	81,705	3,513	85,218	80,850	4,422	85,272
Total operating expenses	211,804	8,451	220,255	208,547	9,982	218,529
Net operating income	309,856	9,507	319,363	304,323	11,213	315,536
Other income (expenses):						
Corporate expenses	(15,810)	—	(15,810)	(14,436)	—	(14,436)
Interest expense	(108,809)	(4,372)	(113,181)	(101,164)	(5,592)	(106,756)
Interest income	3,212	7	3,219	1,974	8	1,982
Net income from investments in joint ventures	36,843	(36,843)	—	8,754	(8,754)	—
Fair value (loss) gain on investment properties	(94,727)	31,701	(63,026)	(37,099)	1,428	(35,671)
Foreign currency translation gain (loss)	10,668	—	10,668	(8,113)	—	(8,113)
Transaction costs	(301)	—	(301)	(6,418)	—	(6,418)
Fair value (loss) gain on derivative instruments and other transactions	(16,379)	—	(16,379)	11,342	1,697	13,039
Income before income taxes	124,553	—	124,553	159,163	—	159,163
Income tax expense	(1,816)	—	(1,816)	(527)	—	(527)
Net income	122,737	—	122,737	158,636	—	158,636
Other comprehensive (loss) income:						
Unrealized foreign currency translation (loss) gain	(66,214)	(6,125)	(72,339)	105,935	10,254	116,189
Unrealized foreign currency translation (loss) gain on joint ventures	(6,125)	6,125	—	10,254	(10,254)	—
Unrealized gain from remeasurements of net pension obligation	671	—	671	(437)	—	(437)
	(71,668)	—	(71,668)	115,752	—	115,752
Total comprehensive income	$ 51,069	$ —	$ 51,069	$ 274,388	$ —	$ 274,388

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

(In thousands of Canadian dollars, unless otherwise noted)

REVENUE AND PROPERTY NOI

	Three months ended December 31,											
	2019						2018					
		IFRS		Adjustment [(1)]		Total Proportionate Share		IFRS		Adjustment [(1)]		Total Proportionate Share
Revenue:												
Rental income	$	131,699	$	4,692	$	136,391	$	136,493	$	4,418	$	140,911
Tenant inducements amortized to revenue		(6,254)		(173)		(6,427)		(5,152)		(233)		(5,385)
Straight-line rent adjustments		1,579		279		1,858		1,090		247		1,337
Lease termination income		156		—		156		433		—		433
		127,180		4,798		131,978		132,864		4,432		137,296
Property operating and realty tax expenses		52,059		2,090		54,149		55,605		2,043		57,648
Property NOI	$	75,121	$	2,708	$	77,829	$	77,259	$	2,389	$	79,648

	Year ended December 31,											
	2019						2018					
		IFRS		Adjustment [(1)]		Total Proportionate Share		IFRS		Adjustment [(1)]		Total Proportionate Share
Revenue:												
Rental income	$	537,869	$	17,777	$	555,646	$	523,358	$	20,536	$	543,894
Tenant inducements amortized to revenue		(23,385)		(751)		(24,136)		(19,761)		(888)		(20,649)
Straight-line rent adjustments		6,077		932		7,009		5,491		1,507		6,998
Lease termination income		1,099		—		1,099		3,782		40		3,822
		521,660		17,958		539,618		512,870		21,195		534,065
Property operating and realty tax expenses		211,804		8,451		220,255		208,547		9,982		218,529
Property NOI	$	309,856	$	9,507	$	319,363	$	304,323	$	11,213	$	315,536

(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 and lease termination income (if it is likely the tenant will exercise the lease termination option) are accounted for by straight-lining the incremental increases and lease termination payments over the entire non-cancelable lease term, including the tenant fixturing period.

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 that are unconditionally sold.

	Three months ended December 31, 2019	Three months ended December 31, 2018	Change	% Change	Year ended December 31, 2019	Year ended December 31, 2018	Change	% Change
Property NOI	$ 77,829	$ 79,648			$ 319,363	$ 315,536		
Add (deduct) Property NOI from:								
Acquisitions	(2,172)	(686)			(11,245)	(1,628)		
Dispositions and unconditional dispositions	(4,654)	(11,644)			(11,837)	(26,247)		
(Re)development properties	(1,928)	123			(3,401)	449		
Other [(2)]	(867)	(175)			(2,207)	(2,811)		
	(9,621)	(12,382)			(28,690)	(30,237)		
Straight-line rent adjustments	(1,112)	(1,210)			(5,043)	(6,588)		
Tenant inducements amortized to revenue	5,848	4,538			22,620	18,292		
Same Property NOI	$ 72,944	$ 70,594	$ 2,350	3.3 %	$ 308,250	$ 297,003	$ 11,247	3.8 %

(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.

(In thousands of Canadian dollars, unless otherwise noted)

Same Property NOI by Asset Class (1)

	Three months ended December 31, 2019	Three months ended December 31, 2018	Change	% Change	Year ended December 31, 2019	Year ended December 31, 2018	Change	% Change
Canada:								
Office	$ 12,662	$ 12,854	$ (192)	(1.5)%	$ 66,552	$ 66,621	$ (69)	(0.1)%
Retail	14,279	14,398	(119)	(0.8)%	59,008	58,774	234	0.4 %
Industrial	12,543	11,464	1,079	9.4 %	47,933	45,397	2,536	5.6 %
Total Canada	39,484	38,716	768	2.0 %	173,493	170,792	2,701	1.6 %
U.S.:								
Office	17,071	16,344	727	4.4 %	66,269	64,967	1,302	2.0 %
Retail	—	—	—	— %	3,454	3,413	41	1.2 %
Industrial	8,276	7,782	494	6.3 %	31,835	29,013	2,822	9.7 %
Total U.S.	25,347	24,126	1,221	5.1 %	101,558	97,393	4,165	4.3 %
Total in functional currency	64,831	62,842	1,989	3.2 %	275,051	268,185	6,866	2.6 %
Foreign exchange	8,113	7,752	361	4.7 %	33,199	28,818	4,381	15.2 %
Total in Canadian dollars	$ 72,944	$ 70,594	$ 2,350	3.3 %	$ 308,250	$ 297,003	$ 11,247	3.8 %

	Three months ended December 31, 2019	Three months ended December 31, 2018	Change	% Change	Year ended December 31, 2019	Year ended December 31, 2018	Change	% Change
Office	$ 35,198	$ 34,449	$ 749	2.2 %	$ 154,484	$ 150,806	$ 3,678	2.4 %
Retail	14,279	14,398	(119)	(0.8)%	63,599	63,167	432	0.7 %
Industrial	23,467	21,747	1,720	7.9 %	90,167	83,030	7,137	8.6 %
Same Property NOI	$ 72,944	$ 70,594	$ 2,350	3.3 %	$ 308,250	$ 297,003	$ 11,247	3.8 %

Artis' Canadian office segment decreased $69 or 0.1% year-over-year. Excluding the impact of the Calgary office properties, the Canadian office segment increased $2,900 or 6.5% year-over-year.

Same Property Occupancy Report (1)

Geographical Region	As at December 31, 2019	As at December 31, 2018
Alberta	85.2%	89.1%
British Columbia	92.6%	98.7%
Manitoba	91.1%	90.0%
Ontario	96.3%	92.9%
Saskatchewan	96.3%	97.0%
Arizona	95.7%	94.0%
Minnesota	94.7%	95.7%
Wisconsin	90.7%	88.7%
U.S. - Other	96.2%	86.8%
Total	93.0%	92.4%

Asset Class	As at December 31, 2019	As at December 31, 2018
Office	88.3%	88.0%
Retail	87.9%	90.0%
Industrial	98.0%	96.2%
Total	93.0%	92.4%

(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.

(In thousands of Canadian dollars, unless otherwise noted)

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

	Three months ended December 31, 2019	Three months ended December 31, 2018	Change	% Change	Year ended December 31, 2019	Year ended December 31, 2018	Change	% Change
Alberta	$ 12,910	$ 13,308	$ (398)	(3.0)%	$ 62,060	$ 64,867	$ (2,807)	(4.3)%
British Columbia	2,112	2,106	6	0.3 %	8,821	8,495	326	3.8 %
Manitoba	11,363	10,866	497	4.6 %	45,818	43,881	1,937	4.4 %
Ontario	8,090	7,424	666	9.0 %	36,122	34,114	2,008	5.9 %
Saskatchewan	5,009	5,012	(3)	(0.1)%	20,672	19,435	1,237	6.4 %
Arizona	5,463	5,143	320	6.2 %	21,148	19,533	1,615	8.3 %
Minnesota	10,986	10,578	408	3.9 %	46,272	44,718	1,554	3.5 %
Wisconsin	5,688	5,365	323	6.0 %	22,061	21,557	504	2.3 %
U.S. - Other	3,210	3,040	170	5.6 %	12,077	11,585	492	4.2 %
Total Same Property NOI in functional currency	64,831	62,842	1,989	3.2 %	275,051	268,185	6,866	2.6 %
Less: properties planned for disposition	*(1,110)*	*(1,245)*	*135*	*(10.8)%*	*(13,421)*	*(12,619)*	*(802)*	*6.4 %*
Less: Calgary office properties planned for disposition	*(29)*	*(419)*	*390*	*(93.1)%*	*(2,760)*	*(5,740)*	*2,980*	*(51.9)%*
Less: Calgary office segment	*(2,120)*	*(2,199)*	*79*	*(3.6)%*	*(16,258)*	*(16,247)*	*(11)*	*0.1 %*
Stabilized Same Property NOI in functional currency	*61,572*	*58,979*	*2,593*	*4.4 %*	*242,612*	*233,579*	*9,033*	*3.9 %*
Foreign exchange	*8,113*	*7,752*	*361*	*4.7 %*	*31,684*	*27,524*	*4,160*	*15.1 %*
Stabilized Same Property NOI in Canadian dollars	*$ 69,685*	*$ 66,731*	*$ 2,954*	*4.4 %*	*$ 274,296*	*$ 261,103*	*$ 13,193*	*5.1 %*

(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.

The REIT has presented a stabilized Same Property NOI calculation which excludes properties planned for disposition and the Calgary office segment. Properties planned for disposition includes one retail property and two office properties, one of which is located in Calgary, Alberta.

The Calgary office segment has been considered a non-stabilized segment as oil prices have impacted Alberta's economy and created non-stabilized results. During 2019, the REIT sold two Calgary office properties. At December 31, 2019, the REIT has four Calgary office properties under unconditional sale agreements, and one planned for disposition.

(In thousands of Canadian dollars, unless otherwise noted)

PROPERTY NOI BY ASSET CLASS

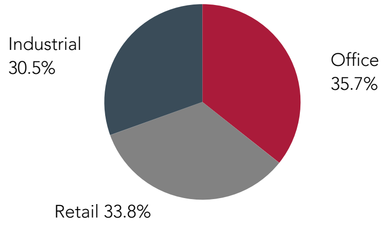
	IFRS			IFRS			Proportionate Share			Proportionate Share		
	Q4-19	Q4-18	Change	YTD-19	YTD-18	Change	Q4-19	Q4-18	Change	YTD-19	YTD-18	Change
Canada:												
Office	$14,589	$17,243	$ (2,654)	$ 64,198	$71,262	$ (7,064)	$ 14,510	$ 17,400	$ (2,890)	$64,098	$ 72,386	$ (8,288)
Retail	13,711	14,600	(889)	57,980	59,117	(1,137)	13,711	14,600	(889)	57,980	59,117	(1,137)
Industrial	11,033	10,190	843	42,501	40,559	1,942	12,400	11,544	856	47,943	45,970	1,973
	39,333	42,033	(2,700)	164,679	170,938	(6,259)	40,621	43,544	(2,923)	170,021	177,473	(7,452)
U.S.:												
Office	22,665	24,441	(1,776)	95,314	92,433	2,881	23,276	24,810	(1,534)	97,561	94,797	2,764
Retail	169	1,435	(1,266)	4,261	5,397	(1,136)	169	1,435	(1,266)	4,261	5,397	(1,136)
Industrial	12,863	9,320	3,543	45,291	35,274	10,017	13,672	9,829	3,843	47,209	37,588	9,621
	35,697	35,196	501	144,866	133,104	11,762	37,117	36,074	1,043	149,031	137,782	11,249
Total portfolio:												
Office	37,254	41,684	(4,430)	159,512	163,695	(4,183)	37,786	42,210	(4,424)	161,659	167,183	(5,524)
Retail	13,880	16,035	(2,155)	62,241	64,514	(2,273)	13,880	16,035	(2,155)	62,241	64,514	(2,273)
Industrial	23,896	19,510	4,386	87,792	75,833	11,959	26,072	21,373	4,699	95,152	83,558	11,594
	75,030	77,229	(2,199)	309,545	304,042	5,503	77,738	79,618	(1,880)	319,052	315,255	3,797
REIT	91	30	61	311	281	30	91	30	61	311	281	30
Property NOI	$75,121	$77,259	$ (2,138)	$ 309,856	$304,323	$ 5,533	$ 77,829	$ 79,648	$ (1,819)	$319,363	$ 315,536	$ 3,827

In Q4-19, the Canadian office segment decreased primarily due to dispositions in 2018 and 2019, in addition to increased vacancy and lower rental rates in Calgary, Alberta.

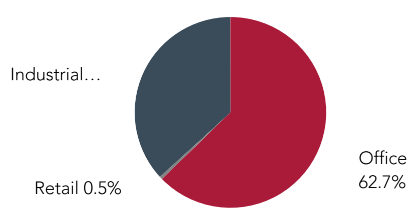
In Q4-19, the U.S. office and retail segments decreased primarily due to dispositions in 2019. The U.S. office portfolio was partially offset by acquisitions in 2018 and 2019. The U.S. industrial segment increased primarily due to increased occupancy at Park 8Ninety I, and completion of the Park Lucero IV, Cedar Port I, Park 8Ninety III, Tower Business Center and Park 8Ninety II developments. The U.S. portfolio was also impacted by the effect of foreign exchange.

The information below is based on Proportionate Share Property NOI:

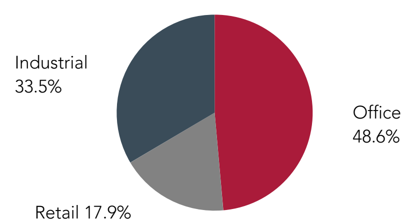
Canadian Portfolio (Q4-19)



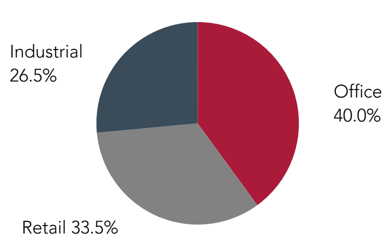
U.S. Portfolio (Q4-19)



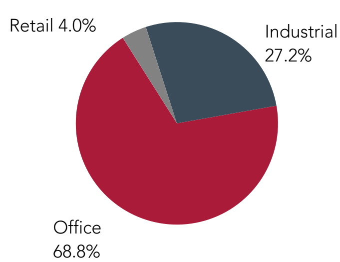
Total Portfolio (Q4-19)



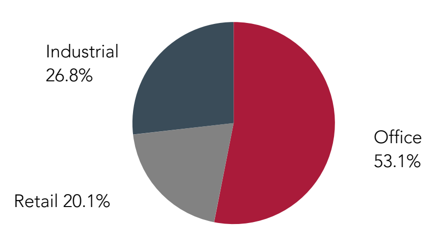
Canadian Portfolio (Q4-18)



U.S. Portfolio (Q4-18)



Total Portfolio (Q4-18)



(In thousands of Canadian dollars, unless otherwise noted)

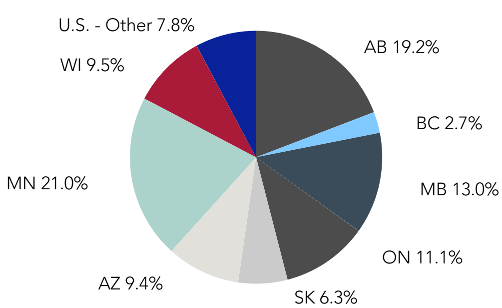
PROPERTY NOI BY GEOGRAPHICAL REGION

	IFRS			IFRS			Proportionate Share			Proportionate Share		
	Q4-19	**Q4-18**	**Change**	**YTD-19**	**YTD-18**	**Change**	**Q4-19**	**Q4-18**	**Change**	**YTD-19**	**YTD-18**	**Change**
Canada:												
Alberta	$ 14,050	$ 15,842	$ (1,792)	$ 58,219	$ 64,854	$ (6,635)	$ 14,898	$ 16,690	$ (1,792)	$ 61,611	$ 68,246	$ (6,635)
British Columbia	1,938	2,150	(212)	8,638	10,536	(1,898)	2,067	2,279	(212)	9,153	11,051	(1,898)
Manitoba	10,165	10,100	65	41,765	40,864	901	10,086	10,258	(172)	41,665	41,989	(324)
Ontario	8,642	9,084	(442)	36,984	36,079	905	8,642	9,084	(442)	36,984	36,079	905
Saskatchewan	4,538	4,857	(319)	19,073	18,605	468	4,928	5,233	(305)	20,608	20,108	500
	39,333	42,033	(2,700)	164,679	170,938	(6,259)	40,621	43,544	(2,923)	170,021	177,473	(7,452)
U.S.:												
Arizona	7,301	8,549	(1,248)	33,041	29,169	3,872	7,301	8,594	(1,293)	33,041	30,135	2,906
Minnesota	16,090	14,944	1,146	63,365	57,571	5,794	16,371	15,054	1,317	64,559	58,043	6,516
Wisconsin	7,420	6,937	483	28,746	27,963	783	7,420	6,937	483	28,746	27,963	783
U.S. - Other	4,886	4,766	120	19,714	18,401	1,313	6,025	5,489	536	22,685	21,641	1,044
	35,697	35,196	501	144,866	133,104	11,762	37,117	36,074	1,043	149,031	137,782	11,249
Total portfolio	75,030	77,229	(2,199)	309,545	304,042	5,503	77,738	79,618	(1,880)	319,052	315,255	3,797
REIT	91	30	61	311	281	30	91	30	61	311	281	30
Property NOI	$ 75,121	$ 77,259	$ (2,138)	$ 309,856	$ 304,323	$ 5,533	$ 77,829	$ 79,648	$ (1,819)	$ 319,363	$ 315,536	$ 3,827

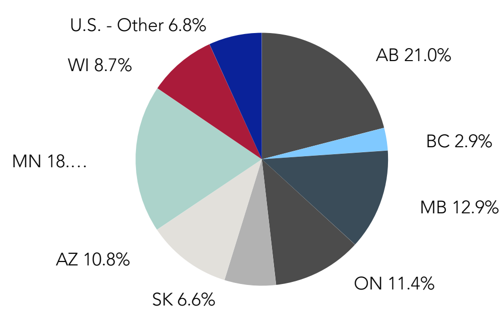
In Q4-19, Alberta decreased primarily due to increased vacancy and lower rental rates in Calgary, Alberta. Arizona decreased due to a disposition in 2019, partially offset by the completion of the Park Lucero IV development. Minnesota increased due to an acquisition in 2018 and 2019, partially offset by dispositions in 2019. U.S. - Other increased primarily due to increased occupancy at Park 8Ninety I and the completion of the Cedar Port I, Park 8Ninety II, Park 8Ninety III and Tower Business Center developments, partially offset by dispositions in 2019. The U.S. portfolio was also impacted by the effect of foreign exchange.

The information below is based on Proportionate Share Property NOI:

Total Portolio (Q4-19)



Total Portfolio (Q4-18)



(In thousands of Canadian dollars, unless otherwise noted)

CORPORATE EXPENSES

	Three months ended December 31, 2019	2018	Change	% Change	Year ended December 31, 2019	2018	Change	% Change
Accounting, legal and consulting	$ 1,520	$ 525	$ 995	189.5 %	$ 4,754	$ 2,214	$ 2,540	114.7 %
Public company costs	254	241	13	5.4 %	1,545	1,599	(54)	(3.4)%
Unit-based compensation	402	(150)	552	(368.0)%	4,264	1,476	2,788	188.9 %
Salaries and benefits	510	610	(100)	(16.4)%	2,688	6,247	(3,559)	(57.0)%
Depreciation of property and equipment	301	249	52	20.9 %	1,130	1,049	81	7.7 %
General and administrative	412	711	(299)	(42.1)%	1,429	1,851	(422)	(22.8)%
Total corporate expenses	$ 3,399	$ 2,186	$ 1,213	55.5 %	$ 15,810	$ 14,436	$ 1,374	9.5 %

Corporate expenses in 2019 were $15,810 (Q4-19 - $3,399), or 3.0% (Q4-19 - 2.7%) of total revenues compared to $14,436 (Q4-18 - $2,186), or 2.8% (Q4-18 - 1.6%) of total revenues in 2018.

Accounting, legal and consulting in 2019 includes $1,358 (Q4-19 - $937) related to the Board of Trustees' strategic review. 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, 2019	2018	Change	% Change	Year ended December 31, 2019	2018	Change	% Change
Mortgages and other loans (1)	$ 12,207	$ 14,441	$ (2,234)		$ 53,983	$ 56,773	$ (2,790)	
Debentures	4,210	3,635	575		17,202	13,229	3,973	
Credit facilities (1)	7,683	6,050	1,633		27,604	22,057	5,547	
Preferred shares (1)	34	34	—		135	135	—	
	24,134	24,160	(26)	(0.1)%	98,924	92,194	6,730	7.3 %
Foreign exchange	2,165	2,693	(528)		9,885	8,970	915	
Total interest expense	$ 26,299	$ 26,853	$ (554)	(2.1)%	$ 108,809	$ 101,164	$ 7,645	7.6 %
Mortgages and other loans included in investments in joint ventures (1)	909	1,062	(153)		3,589	4,747	(1,158)	
Foreign exchange included in investments in joint ventures	197	213	(16)		783	845	(62)	
Total Proportionate Share interest expense	$ 27,405	$ 28,128	$ (723)	(2.6)%	$ 113,181	$ 106,756	$ 6,425	6.0 %

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

Year-to-date interest expense has increased primarily due to additional amounts drawn on the revolving term credit facilities and the issuance of the Series C senior unsecured debentures in Q1-19, partially offset by the repayment of the Series A senior unsecured debentures in Q1-19 and the repayment of mortgages in 2018 and 2019. 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, 2019, on mortgages and other loans secured by properties, inclusive of properties held in joint venture arrangements, was 3.98%, compared to 4.30% at December 31, 2018. 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, 2019, was 3.79%, compared to 4.09% at December 31, 2018.

FAIR VALUE LOSS 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 2019, the Proportionate Share fair value loss on investment properties was $63,026 (Q4-19 - loss of $20,115), compared to a loss of $35,671 (Q4-18 - loss of $26,777) in 2018. The fair value loss in 2019 was primarily due to a decline in the value of Alberta office properties and select U.S. properties, partially offset by capitalization rate compression and higher expected market rents in the industrial portfolio.

FOREIGN CURRENCY TRANSLATION GAIN (LOSS)

In 2019, 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 gain of $10,668 (Q4-19 - gain of $4,804) in 2019, compared to a loss of $8,113 (Q4-18 - loss of $12,119) in 2018.

TRANSACTION COSTS

During 2019, $301 (Q4-19 - $84) of transaction costs were expensed, compared to $6,418 (Q4-18 - $488) in 2018. 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 was included in transaction costs. The remaining transaction costs were attributable to the acquisitions of investment properties.

FAIR VALUE (LOSS) GAIN ON DERIVATIVE INSTRUMENTS AND OTHER TRANSACTIONS

Artis has entered into a number of interest rate swap contracts to effectively lock the interest rate on a portion of variable rate debt. The REIT recorded an unrealized loss on the fair value adjustment of the interest rate swaps outstanding of $11,892 (Q4-19 - gain of $3,537) in 2019, compared to an unrealized gain of $221 (Q4-18 - loss of $10,469) in 2018. The REIT anticipates holding the mortgages, non-revolving term credit facilities, senior unsecured debentures and related interest rate swap contracts until maturity.

Artis also recorded an unrealized loss of $5,978 (Q4-19 - loss of $3,432) in 2019 on the fair value of outstanding foreign currency contracts, compared to an unrealized gain of $5,562 (Q4-18 - gain of $7,199) in 2018.

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 (LOSS) INCOME

Other comprehensive (loss) income includes the unrealized foreign currency translation losses in the aggregate amount of $72,339 (Q4-19 - losses of $28,780) in 2019, compared to gains $116,189 (Q4-18 - gains of $77,121) in 2018. 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 substantially in accordance with the guidelines set out by REALpac, as issued in February 2019.

Reconciliation of Net Income to FFO and AFFO

000's, except per unit amounts	Three months ended December 31, 2019	Three months ended December 31, 2018	Change	% Change	Year ended December 31, 2019	Year ended December 31, 2018	Change	% Change
Net income	$ 32,877	$ 7,220			$ 122,737	$ 158,636		
Add (deduct):								
Fair value loss on investment properties (1)	20,115	26,777			63,026	35,671		
Tenant inducements amortized to revenue (1)	6,427	5,385			24,136	20,649		
Transaction costs on acquisitions	84	488			301	1,393		
Strategic review costs	937	—			1,358	—		
Foreign currency translation (gain) loss	(4,804)	12,119			(10,668)	8,113		
Fair value (gain) loss on derivative instruments and other transactions (1)	(105)	3,357			16,379	(13,039)		
Deferred income tax (recovery) expense	(19)	—			317	—		
Remeasurement component of unit-based compensation	(531)	(946)			873	(1,510)		
Distributions on preferred shares treated as interest expense	44	44			178	174		
Incremental leasing costs	961	1,124			3,697	3,583		
Preferred unit distributions	(4,384)	(5,461)			(19,936)	(21,948)		
FFO	$ 51,602	$ 50,107	$ 1,495	3.0 %	$ 202,398	$ 191,722	$ 10,676	5.6 %
Add (deduct):								
Amortization of recoverable capital expenditures (1)	$ (3,172)	$ (2,716)			$ (10,401)	$ (9,383)		
Non-recoverable property maintenance reserve (1)	(1,100)	(950)			(3,950)	(3,800)		
Leasing costs reserve (1)	(7,700)	(7,560)			(30,520)	(30,530)		
Straight-line rent adjustments (1)	(1,858)	(1,337)			(7,009)	(6,998)		
AFFO	$ 37,772	$ 37,544	$ 228	0.6 %	$ 150,518	$ 141,011	$ 9,507	6.7 %
FFO per unit:								
Basic	$ 0.37	$ 0.33	$ 0.04	12.1 %	$ 1.42	$ 1.25	$ 0.17	13.6 %
Diluted	0.37	0.33	0.04	12.1 %	1.41	1.25	0.16	12.8 %
AFFO per unit:								
Basic	$ 0.27	$ 0.25	$ 0.02	8.0 %	$ 1.06	$ 0.92	$ 0.14	15.2 %
Diluted	0.27	0.24	0.03	12.5 %	1.05	0.92	0.13	14.1 %

(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.

The REIT adjusted FFO and AFFO for $1,358 (Q4-19 - $937) in 2019 relating to the Special Committee's strategic review. Although the add-back of strategic review costs to arrive at FFO and AFFO is not in accordance with the guidelines set out by REALpac as issued in February 2019, management believes it provides a better representation of recurring FFO and AFFO.

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, 2019	2018	Change	% Change	Year ended December 31, 2019	2018	Change	% Change
FFO per above	$ 51,602	$ 50,107			$ 202,398	$ 191,722		
Add (deduct):								
Pension liability adjustment (1)	—	—			—	3,392		
Property management termination fees (2)	—	—			—	5,025		
Normalized FFO	$ 51,602	$ 50,107	$ 1,495	3.0 %	$ 202,398	$ 200,139	$ 2,259	1.1 %
Normalized AFFO	$ 37,772	$ 37,544	$ 228	0.6 %	$ 150,518	$ 149,428	$ 1,090	0.7 %
Normalized FFO per unit:								
Basic	$ 0.37	$ 0.33	$ 0.04	12.1 %	$ 1.42	$ 1.31	$ 0.11	8.4 %
Diluted	0.37	0.33	0.04	12.1 %	1.41	1.30	0.11	8.5 %
Normalized AFFO per unit:								
Basic	$ 0.27	$ 0.25	$ 0.02	8.0 %	$ 1.06	$ 0.98	$ 0.08	8.2 %
Diluted	0.27	0.24	0.03	12.5 %	1.05	0.97	0.08	8.2 %

(1) In Q1-18, the REIT recorded a non-recurring pension liability adjustment 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.

FFO and AFFO in 2019 were impacted by acquisitions, dispositions and new developments completed in 2018 and 2019, year-over-year Same Property NOI growth and a higher US dollar to Canadian dollar average exchange rate in 2019 compared to 2018. Also contributing to the increase in per unit results is the decrease in the weighted-average number of units outstanding, primarily due to units acquired under the NCIB.

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 81.2% (Q4-19 - 81.9%) is recoverable from tenants in 2019, compared to 81.1% (Q4-18 - 81.5%) in 2018. The non-recoverable property maintenance reserve reflects management's estimate of a normalized expenditure using the 2016, 2017, 2018 and 2019 actual expenditures and the 2020 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 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. Management calculates the leasing cost reserve to reflect the amortization of leasing costs over the related lease term.

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

(000's)	Three months ended December 31, 2019	2018
Basic units	137,938	153,138
Add:		
Restricted units	639	480
Deferred units	472	93
Diluted units	139,049	153,711

(000's)	Year ended December 31, 2019	2018
Basic units	142,435	153,069
Add:		
Restricted units	535	427
Deferred units	281	73
Diluted units	143,251	153,569

(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, 2019, and the previous four periods, were as follows:

Occupancy Report by Asset Class (1)

	Q4-19 % Committed (2)	Q4-19	Q3-19	Q2-19	Q1-19	Q4-18
Office	89.2%	86.2%	87.1%	88.0%	87.1%	87.6%
Retail	91.4%	91.1%	93.4%	93.1%	92.9%	92.7%
Industrial	97.2%	95.8%	98.5%	96.8%	96.4%	96.2%
Total portfolio	93.4%	91.5%	93.3%	92.7%	92.0%	92.1%

Occupancy Report by Geographical Region (1)

	Q4-19 % Committed (2)	Q4-19	Q3-19	Q2-19	Q1-19	Q4-18
Canada:						
Alberta	84.9 %	84.7 %	87.7 %	87.7 %	85.2 %	87.0 %
British Columbia	92.8 %	92.6 %	93.6 %	99.2 %	98.5 %	95.0 %
Manitoba	94.6 %	91.1 %	90.8 %	91.0 %	91.0 %	90.2 %
Ontario	93.4 %	93.0 %	96.0 %	93.9 %	93.9 %	93.2 %
Saskatchewan	96.7 %	96.3 %	95.6 %	96.2 %	95.7 %	96.0 %
U.S.:						
Arizona	97.7 %	95.9 %	93.6 %	93.1 %	94.3 %	94.6 %
Minnesota	97.1 %	95.0 %	96.7 %	95.9 %	95.2 %	95.6 %
Wisconsin	91.6 %	90.7 %	90.5 %	89.4 %	88.2 %	88.7 %
Other	91.5 %	85.8 %	93.8 %	91.9 %	88.9 %	88.3 %
Total portfolio	93.4 %	91.5 %	93.3 %	92.7 %	92.0 %	92.1 %

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

(2) Percentage committed is based on occupancy at December 31, 2019, plus commitments on vacant space.

PORTFOLIO LEASING ACTIVITY AND LEASE EXPIRIES

Renewal Summary (1)

	Q4-19	Q3-19	Q2-19	Q1-19	Q4-18	Q3-18	Q2-18	Q1-18
Leasable area renewed (in S.F.)	558,544	362,669	353,870	332,258	537,165	249,051	349,313	522,283
Increase in weighted-average rental rate	8.1 %	8.7 %	4.0 %	(1.9)%	0.0 %	5.9 %	5.0 %	1.1 %

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

In 2019, 1,607,341 square feet were renewed at an increase in the weighted-average rental rate of 5.6% compared to 1,657,813 square feet renewed at an increase of 2.3% 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]	2020	2021	2022	2023	2024 & later	Total
Office - uncommitted	1,028,445	57,354	700,916	1,134,174	426,998	936,158	3,721,653	8,005,698
Office - committed	285,425	—	615,157	136,817	17,197	97,220	367,295	1,519,111
Total office	1,313,870	57,354	1,316,073	1,270,991	444,195	1,033,378	4,088,948	9,524,809
Retail - uncommitted	245,294	12,717	282,257	401,509	398,566	482,813	956,384	2,779,540
Retail - committed	7,534	—	39,509	1,294	—	—	28,130	76,467
Total retail	252,828	12,717	321,766	402,803	398,566	482,813	984,514	2,856,007
Industrial - uncommitted	330,235	—	914,664	1,620,019	1,610,032	904,800	5,708,107	11,087,857
Industrial - committed	168,070	—	229,248	61,872	103,146	3,014	325,771	891,121
Total industrial	498,305	—	1,143,912	1,681,891	1,713,178	907,814	6,033,878	11,978,978
Total - uncommitted	1,603,974	70,071	1,897,837	3,155,702	2,435,596	2,323,771	10,386,144	21,873,095
Total - committed	461,029	—	883,914	199,983	120,343	100,234	721,196	2,486,699
Total portfolio	2,065,003	70,071	2,781,751	3,355,685	2,555,939	2,424,005	11,107,340	24,359,794

(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, 2019, 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 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:

	2020	2021	2022	2023	2024 & later	Total
Office:						
In-place rents	$ 15.45	$ 17.55	$ 14.93	$ 15.00	$ 15.88	$ 15.97
Market rents	15.93	14.26	15.68	17.15	16.73	16.20
Change	3.1 %	(18.7)%	5.0 %	14.3 %	5.4 %	1.4 %
Revenue impact (2)	$ 223	$ (2,215)	$ 41	$ 1,393	$ 1,341	$ 783
Retail:						
In-place rents	$ 23.47	$ 24.61	$ 21.53	$ 25.14	$ 22.48	$ 23.28
Market rents	23.68	25.66	21.57	25.34	22.25	23.43
Change	0.9 %	4.3 %	0.2 %	0.8 %	(1.0)%	0.6 %
Revenue impact (2)	$ 69	$ 425	$ 15	$ 97	$ (228)	$ 378
Industrial:						
In-place rents	$ 8.01	$ 7.75	$ 7.40	$ 7.80	$ 10.21	$ 8.83
Market rents	8.36	8.71	8.05	8.49	10.06	9.10
Change	4.4 %	12.4 %	8.8 %	8.8 %	(1.5)%	3.1 %
Revenue impact (2)	$ 350	$ 540	$ 647	$ 285	$ (351)	$ 1,471
Total Canadian portfolio:						
In-place rents	$ 12.71	$ 15.90	$ 11.56	$ 16.23	$ 14.48	$ 14.27
Market rents	13.07	15.14	12.04	17.37	14.63	14.50
Change	2.8 %	(4.8)%	4.2 %	7.0 %	1.0 %	1.6 %
Revenue impact (2)	$ 642	$ (1,250)	$ 703	$ 1,775	$ 762	$ 2,632

U.S. Portfolio:

	2020	2021	2022	2023	2024 & later	Total
Office:						
In-place rents	$ 19.81	$ 16.92	$ 16.83	$ 18.80	$ 16.39	$ 17.32
Market rents	20.82	17.35	18.76	18.51	16.54	17.79
Change	5.1 %	2.5 %	11.5 %	(1.5)%	0.9 %	2.7 %
Revenue impact (2)	$ 940	$ 256	$ 753	$ (88)	$ 374	$ 2,235
Industrial:						
In-place rents	$ 5.05	$ 5.50	$ 5.96	$ 5.97	$ 6.28	$ 5.99
Market rents	5.24	5.43	5.62	5.82	6.22	5.90
Change	3.8 %	(1.3)%	(5.7)%	(2.5)%	(1.0)%	(1.5)%
Revenue impact (2)	$ 90	$ (81)	$ (249)	$ (71)	$ (230)	$ (541)
Total U.S. portfolio:						
In-place rents	$ 14.96	$ 9.49	$ 9.80	$ 10.90	$ 10.62	$ 10.93
Market rents	15.70	9.59	10.26	10.70	10.64	11.09
Change	4.9 %	1.1 %	4.7 %	(1.8)%	0.2 %	1.5 %
Revenue impact (2)	$ 1,030	$ 175	$ 504	$ (159)	$ 144	$ 1,694

(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)]:

	2020	2021	2022	2023	2024 & later	Total
Office:						
In-place rents	$ 18.36	$ 17.25	$ 16.60	$ 16.22	$ 16.19	$ 16.75
Market rents	19.19	15.71	18.38	17.58	16.61	17.12
Change	4.5 %	(8.9)%	10.7 %	8.4 %	2.6 %	2.2 %
Revenue impact [(2)]	$ 1,163	$ (1,959)	$ 794	$ 1,305	$ 1,715	$ 3,018
Retail:						
In-place rents	$ 23.47	$ 24.61	$ 21.53	$ 25.14	$ 22.48	$ 23.28
Market rents	23.68	25.66	21.57	25.34	22.25	23.43
Change	0.9 %	4.3 %	0.2 %	0.8 %	(1.0)%	0.6 %
Revenue impact [(2)]	$ 69	$ 425	$ 15	$ 97	$ (228)	$ 378
Industrial:						
In-place rents	$ 7.09	$ 6.26	$ 6.80	$ 6.81	$ 7.91	$ 7.31
Market rents	7.39	6.53	7.04	7.04	7.81	7.39
Change	4.2 %	4.3 %	3.5 %	3.4 %	(1.3)%	1.1 %
Revenue impact [(2)]	$ 440	$ 459	$ 398	$ 214	$ (581)	$ 930
Total Canadian and U.S. portfolio:						
In-place rents	$ 13.69	$ 12.63	$ 10.80	$ 14.41	$ 12.38	$ 12.64
Market rents	14.22	12.31	11.27	15.10	12.46	12.83
Change	3.9 %	(2.5)%	4.4 %	4.8 %	0.6 %	1.5 %
Revenue impact [(2)]	$ 1,672	$ (1,075)	$ 1,207	$ 1,616	$ 906	$ 4,326

(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, 2019, were estimated to be 1.5% above in-place rents across the portfolio, compared to 1.8% above in-place rents at September 30, 2019 and 1.3% above in-place rents at December 31, 2018. Today's market rents for the 2020 and 2021 lease expiries are estimated to be 3.9% above and 2.5% below in-place rents, respectively. The office segment is expected to be the strongest contributor to incremental rental revenue over the long-term.

(In thousands of Canadian dollars, unless otherwise noted)

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

	Current vacancy	Monthly tenants (2)	2020	2021	2022	2023	2024 & later	Total
AB - uncommitted	534,113	24,238	206,982	548,955	231,424	674,443	1,174,436	3,394,591
AB - committed	7,404	—	4,539	1,294	—	800	123,513	137,550
Total Alberta	541,517	24,238	211,521	550,249	231,424	675,243	1,297,949	3,532,141
BC - uncommitted	30,639	—	14,665	47,830	9,716	66,727	229,915	399,492
BC - committed	962	—	12,187	5,271	10,292	—	—	28,712
Total British Columbia	31,601	—	26,852	53,101	20,008	66,727	229,915	428,204
MB - uncommitted	200,038	7,530	400,828	559,661	291,573	339,489	1,396,598	3,195,717
MB - committed	133,852	—	302,893	55,095	2,625	11,601	35,245	541,311
Total Manitoba	333,890	7,530	703,721	614,756	294,198	351,090	1,431,843	3,737,028
ON - uncommitted	237,731	1,011	281,424	316,830	584,701	345,262	1,296,068	3,063,027
ON - committed	16,827	—	86,664	—	7,649	81,485	360,788	553,413
Total Ontario	254,558	1,011	368,088	316,830	592,350	426,747	1,656,856	3,616,440
SK - uncommitted	43,134	2,065	67,162	106,285	314,828	105,735	608,204	1,247,413
SK - committed	5,131	—	17,885	—	—	—	22,980	45,996
Total Saskatchewan	48,265	2,065	85,047	106,285	314,828	105,735	631,184	1,293,409
AZ - uncommitted	43,775	3,562	167,029	258,700	129,234	116,835	904,187	1,623,322
AZ - committed	33,213	—	208,483	—	—	—	18,587	260,283
Total Arizona	76,988	3,562	375,512	258,700	129,234	116,835	922,774	1,883,605
MN - uncommitted	171,148	—	473,228	1,160,011	594,419	469,386	2,411,641	5,279,833
MN - committed	116,763	—	197,859	112,775	92,872	6,348	—	526,617
Total Minnesota	287,911	—	671,087	1,272,786	687,291	475,734	2,411,641	5,806,450
WI - uncommitted	145,414	25,764	208,471	83,528	89,664	48,207	892,279	1,493,327
WI - committed	15,367	—	35,727	25,548	6,905	—	160,083	243,630
Total Wisconsin	160,781	25,764	244,198	109,076	96,569	48,207	1,052,362	1,736,957
U.S. - Other - uncommitted	197,982	5,901	78,048	73,902	190,037	157,687	1,472,816	2,176,373
U.S. - Other - committed	131,510	—	17,677	—	—	—	—	149,187
Total U.S. - Other	329,492	5,901	95,725	73,902	190,037	157,687	1,472,816	2,325,560
Total - uncommitted	1,603,974	70,071	1,897,837	3,155,702	2,435,596	2,323,771	10,386,144	21,873,095
Total - committed	461,029	—	883,914	199,983	120,343	100,234	721,196	2,486,699
Total portfolio	2,065,003	70,071	2,781,751	3,355,685	2,555,939	2,424,005	11,107,340	24,359,794

(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)]

	2020	2021	2022	2023	2024 & later	Total
Alberta:						
In-place rents	$ 22.80	$ 21.65	$ 24.76	$ 18.45	$ 18.37	$ 19.81
Market rents	22.18	18.22	25.26	20.57	19.17	20.00
Change	(2.7)%	(15.8)%	2.0 %	11.5 %	4.4 %	1.0 %
Revenue impact [(2)]	$ (130)	$ (1,886)	$ 116	$ 1,428	$ 1,045	$ 573
British Columbia:						
In-place rents	$ 24.43	$ 20.34	$ 24.62	$ 25.31	$ 16.53	$ 19.46
Market rents	27.90	25.31	26.47	27.64	15.56	20.28
Change	14.2 %	24.4 %	7.5 %	9.2 %	(5.9)%	4.2 %
Revenue impact [(2)]	$ 94	$ 264	$ 37	$ 155	$ (223)	$ 327
Manitoba:						
In-place rents	$ 12.18	$ 13.10	$ 8.98	$ 11.71	$ 13.29	$ 12.49
Market rents	12.02	12.67	8.57	11.63	13.25	12.32
Change	(1.3)%	(3.3)%	(4.6)%	(0.7)%	(0.3)%	(1.4)%
Revenue impact [(2)]	$ (108)	$ (264)	$ (120)	$ (29)	$ (65)	$ (586)
Ontario:						
In-place rents	$ 9.34	$ 8.09	$ 6.74	$ 13.03	$ 10.94	$ 9.78
Market rents	10.02	10.23	8.23	13.57	11.32	10.61
Change	7.3 %	26.5 %	22.1 %	4.1 %	3.5 %	8.5 %
Revenue impact [(2)]	$ 520	$ 676	$ 877	$ 187	$ 517	$ 2,777
Saskatchewan:						
In-place rents	$ 18.65	$ 23.45	$ 12.50	$ 21.79	$ 15.91	$ 16.38
Market rents	21.78	23.07	11.84	22.11	15.10	16.01
Change	16.8 %	(1.6)%	(5.3)%	1.5 %	(5.1)%	(2.3)%
Revenue impact [(2)]	$ 266	$ (40)	$ (207)	$ 34	$ (512)	$ (459)
Arizona:						
In-place rents	$ 23.50	$ 15.56	$ 18.16	$ 19.47	$ 12.81	$ 16.24
Market rents	25.00	16.75	18.05	19.02	12.68	16.63
Change	6.4 %	7.6 %	(0.6)%	(2.3)%	(1.0)%	2.4 %
Revenue impact [(2)]	$ 564	$ 309	$ (15)	$ (53)	$ (116)	$ 689
Minnesota:						
In-place rents	$ 9.76	$ 7.44	$ 7.31	$ 7.06	$ 9.77	$ 8.69
Market rents	10.46	7.30	8.17	7.06	9.63	8.79
Change	7.2 %	(1.9)%	11.8 %	0.0 %	(1.4)%	1.2 %
Revenue impact [(2)]	$ 466	$ (174)	$ 595	$ 1	$ (317)	$ 571
Wisconsin:						
In-place rents	$ 15.46	$ 15.60	$ 16.65	$ 15.31	$ 12.97	$ 13.85
Market rents	15.71	16.10	16.37	15.15	13.35	14.16
Change	1.6 %	3.2 %	(1.7)%	(1.0)%	2.9 %	2.2 %
Revenue impact [(2)]	$ 61	$ 54	$ (27)	$ (8)	$ 394	$ 474
U.S. - Other:						
In-place rents	$ 16.59	$ 14.45	$ 9.65	$ 14.77	$ 8.95	$ 10.05
Market rents	15.95	14.27	9.39	14.15	9.08	10.03
Change	(3.9)%	(1.2)%	(2.7)%	(4.2)%	1.5 %	(0.2)%
Revenue impact [(2)]	$ (61)	$ (14)	$ (49)	$ (99)	$ 183	$ (40)
Total portfolio:						
In-place rents	$ 13.69	$ 12.63	$ 10.80	$ 14.41	$ 12.38	$ 12.64
Market rents	14.22	12.31	11.27	15.10	12.46	12.83
Change	3.9 %	(2.5)%	4.4 %	4.8 %	0.6 %	1.5 %
Revenue impact [(2)]	$ 1,672	$ (1,075)	$ 1,207	$ 1,616	$ 906	$ 4,326

(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, 2019, 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, Greater Toronto Area industrial and Greater Phoenix Area office.

Twin Cities Area Office Segment

The Twin Cities Area office segment represents 10.7% of the Q4-19 Proportionate Share Property NOI and 7.5% of the overall portfolio by GLA. Direct vacancy in the Twin Cities Area office market, as reported by CBRE, was 18.5% at December 31, 2019, compared to 18.0% at September 30, 2019. At December 31, 2019, the Twin Cities Area office segment of Artis' portfolio was 91.3% occupied, increased from 90.9% at September 30, 2019. In 2020, 317,060 square feet comes up for renewal, which represents 1.3% of the total portfolio GLA; 31.1% was renewed or committed to new leases at December 31, 2019. Of the total Twin Cities Area office GLA, 47.3% expires in 2024 or later.

Madison Office Segment

The Madison office segment represents 9.5% of the Q4-19 Proportionate Share Property NOI and 7.0% of the overall portfolio by GLA. At December 31, 2019, the Madison office segment of Artis' portfolio was 90.7% occupied, increased from 90.5% at September 30, 2019. In 2020, 244,198 square feet comes up for renewal, which represents 1.0% of the total portfolio GLA; 14.6% was renewed or committed to new leases at December 31, 2019. Of the total Madison office GLA, 60.6% expires in 2024 or later.

Twin Cities Area Industrial Segment

The Twin Cities Area industrial segment represents 9.2% of the Q4-19 Proportionate Share Property NOI and 15.9% 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, 2019, unchanged from September 30, 2019. The average asking market lease rate was $6.46 per square foot at December 31, 2019, compared to $6.55 per square foot at September 30, 2019. Occupancy in this segment of the portfolio was 96.8% at December 31, 2019, compared to 99.1% reported at September 30, 2019. In 2020, 354,027 square feet comes up for renewal, which represents 1.4% of the total portfolio GLA; 28.0% was renewed or committed to new leases at December 31, 2019. Of Artis' total Twin Cities Area industrial GLA, 38.8% expires in 2024 or later.

Greater Toronto Area Industrial Segment

The Greater Toronto Area industrial segment represents 6.5% of the Q4-19 Proportionate Share Property NOI and 10.2% of the overall portfolio by GLA. Overall direct vacancy in the Greater Toronto Area industrial market, as reported by CBRE, was 0.8% at December 31, 2019. At December 31, 2019, the Greater Toronto Area industrial segment of Artis' portfolio was 99.9% occupied, compared to 100.0% at September 30, 2019. In 2020, 604,387 square feet comes up for renewal, which represents 2.4% of the total portfolio GLA; 55.9% was renewed or committed to new leases at December 31, 2019. Of Artis' Greater Toronto Area industrial GLA, 35.3% expires in 2024 or later.

Greater Phoenix Area Office Segment

The Greater Phoenix Area office segment represents 6.1% of the Q4-19 Proportionate Share Property NOI and 3.9% of the overall portfolio by GLA. Overall direct vacancy in the Greater Phoenix Area office market, as reported by CBRE, was 14.1% at December 31, 2019, compared to 14.4% at September 30, 2019. At December 31, 2019, the Greater Phoenix Area office segment of Artis' portfolio was 93.6% occupied, increased from 92.4% at September 30, 2019. In 2020, 318,354 square feet comes up for renewal, which represents 1.3% of the total portfolio GLA; 65.5% was renewed or committed to new leases at December 31, 2019. Of Artis' Greater Phoenix Area office GLA, 24.7% expires in 2024 or later.

(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, 2019			December 31, 2018		
	Per consolidated financial statements	Adjustment [1]	Total Proportionate Share	Per consolidated financial statements	Adjustment [1]	Total Proportionate Share
ASSETS						
Non-current assets:						
Investment properties	$ 4,618,719	$ 306,051	$ 4,924,770	$ 4,941,825	$ 255,661	$ 5,197,486
Investment properties under development	102,590	—	102,590	119,604	40,635	160,239
Investments in joint ventures	186,610	(186,610)	—	176,501	(176,501)	—
Property and equipment	7,786	—	7,786	6,533	—	6,533
Notes receivable	93,832	—	93,832	16,216	—	16,216
	5,009,537	119,441	5,128,978	5,260,679	119,795	5,380,474
Current assets:						
Investment properties held for sale	221,915	—	221,915	320,465	—	320,465
Inventory properties	14,632	—	14,632	11,227	—	11,227
Deposits on investment properties	—	—	—	2,237	—	2,237
Prepaid expenses and other assets	10,533	86	10,619	20,582	244	20,826
Notes receivable	3,996	—	3,996	4,543	—	4,543
Accounts receivable and other receivables	21,013	1,281	22,294	21,101	822	21,923
Cash held in trust	5,938	—	5,938	10,200	—	10,200
Cash	42,455	9,207	51,662	66,143	3,808	69,951
	320,482	10,574	331,056	456,498	4,874	461,372
Total assets	$ 5,330,019	$ 130,015	$ 5,460,034	$ 5,717,177	$ 124,669	$ 5,841,846
LIABILITIES AND UNITHOLDERS' EQUITY						
Non-current liabilities:						
Mortgages and loans payable	$ 1,005,196	$ 93,977	$ 1,099,173	$ 1,272,452	$ 44,017	$ 1,316,469
Senior unsecured debentures	249,372	—	249,372	199,565	—	199,565
Credit facilities	886,522	—	886,522	772,538	—	772,538
Other long-term liabilities	1,000	—	1,000	8,319	—	8,319
	2,142,090	93,977	2,236,067	2,252,874	44,017	2,296,891
Current liabilities:						
Mortgages and loans payable	396,152	27,598	423,750	412,558	59,068	471,626
Senior unsecured debentures	199,959	—	199,959	199,971	—	199,971
Security deposits and prepaid rent	32,834	3,483	36,317	35,842	3,264	39,106
Accounts payable and other liabilities	88,231	4,957	93,188	77,887	18,320	96,207
	717,176	36,038	753,214	726,258	80,652	806,910
Total liabilities	2,859,266	130,015	2,989,281	2,979,132	124,669	3,103,801
Unitholders' equity	2,470,753	—	2,470,753	2,738,045	—	2,738,045
Total liabilities and unitholders' equity	$ 5,330,019	$ 130,015	$ 5,460,034	$ 5,717,177	$ 124,669	$ 5,841,846

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

(In thousands of Canadian dollars, unless otherwise noted)

BALANCE SHEET METRICS

NAV per Unit

000's, except unit and per unit amounts	December 31, 2019	December 31, 2018	Change
Unitholders' equity	$ 2,470,753	$ 2,738,045	$ (267,292)
Less value of preferred equity [1]	(305,530)	(390,945)	85,415
NAV attributable to common unitholders	$ 2,165,223	$ 2,347,100	$ (181,877)
Total number of dilutive units outstanding:			
Common units	137,956,523	150,282,829	(12,326,306)
Restricted units	694,034	546,573	147,461
Deferred units	472,451	92,673	379,778
	139,123,008	150,922,075	(11,799,067)
NAV per unit	$ 15.56	$ 15.55	$ 0.01

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

Unitholders' equity decreased year-over-year due to units purchased through the NCIB, distributions made to unitholders, the redemption of the Series G preferred units, and other comprehensive loss, partially offset by net income. Preferred equity decreased year-over-year primarily due to the redemption of the Series G preferred units. The total number of dilutive units outstanding has decreased year-over-year primarily due to units purchased through the NCIB.

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

	IFRS		Proportionate Share	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
GBV	$ 5,336,529	$ 5,722,580	$ 5,466,544	$ 5,847,249
Secured mortgages and loans	1,401,348	1,685,010	1,522,923	1,788,095
Secured mortgages and loans to GBV	26.3 %	29.4 %	27.9 %	30.6 %
Preferred shares liability	$ 622	$ 653	$ 622	$ 653
Carrying value of debentures	449,331	399,536	449,331	399,536
Credit facilities	886,522	772,538	886,522	772,538
Total long-term debt and credit facilities	$ 2,737,823	$ 2,857,737	$ 2,859,398	$ 2,960,822
Total long-term debt and credit facilities to GBV	51.3 %	49.9 %	52.3 %	50.6 %

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

Unencumbered Assets to Unsecured Debt Ratios

	IFRS		Proportionate Share	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Unencumbered assets	$ 1,926,661	$ 1,805,382	$ 1,968,369	$ 1,847,443
Senior unsecured debentures	449,331	399,536	449,331	399,536
Unsecured credit facilities	886,522	772,538	886,522	772,538
Total unsecured debt	$ 1,335,853	$ 1,172,074	$ 1,335,853	$ 1,172,074
Unencumbered assets to unsecured debt	1.4	1.5	1.5	1.6

(In thousands of Canadian dollars, unless otherwise noted)

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, 2018	$ 5,381,894	$ 296,296	$ 5,678,190
Additions:			
Acquisitions	71,635	—	71,635
Reclassifications from investments in joint ventures [2]	66,765	(66,765)	—
Capital expenditures			
Investment properties	45,766	193	45,959
Investment properties under development	82,994	43,796	126,790
Capitalized interest [3]	3,740	1,972	5,712
Leasing commissions	16,741	3,638	20,379
Straight-line rent adjustments	6,077	932	7,009
Tenant inducement additions, net of amortization	20,427	4,596	25,023
Dispositions	(547,764)	—	(547,764)
Foreign currency translation loss	(110,324)	(10,308)	(120,632)
Fair value (loss) gain	(94,727)	31,701	(63,026)
Balance, December 31, 2019	$ 4,943,224	$ 306,051	$ 5,249,275

(1) Adjustment to reflect investments in joint ventures on a Proportionate Share basis.
(2) On May 16, 2019, the REIT increased its ownership interest in Park 8Ninety I to 100%.
(3) During 2019, interest was capitalized to investment properties under development at a weighted-average effective interest rate of 3.81%.

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, 2019	Three months ended December 31, 2018	Change	% Change	Year ended December 31, 2019	Year ended December 31, 2018	Change	% Change
Issuance of units	$ —	$ —	$ —		$ —	$ 43,651	$ (43,651)	
Long-term debt, including acquired above- and below-market mortgages, net of financing costs	32,783	45,415	(12,632)		34,109	83,803	(49,694)	
Cash consideration	27,409	42,333	(14,924)		36,349	122,506	(86,157)	
Bargain purchase gains	—	—	—		1,106	5,384	(4,278)	
Foreign currency translation gain	—	—	—		—	968	(968)	
Other net liabilities	—	92	(92)		71	92	(21)	
Total acquisitions	$ 60,192	$ 87,840	$ (27,648)	(31.5)%	$ 71,635	$ 256,404	$ (184,769)	(72.1)%

(In thousands of Canadian dollars, unless otherwise noted)

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.

	Three months ended December 31, 2019	Three months ended December 31, 2018	Change	% Change	Year ended December 31, 2019	Year ended December 31, 2018	Change	% Change
New and (re)development expenditures	$ 15,441	$ 50,577	$ (35,136)		$ 126,790	$ 82,606	$ 44,184	
Building improvements expenditures:								
Recoverable from tenants	3,434	3,362	72		8,504	7,406	1,098	
Non-recoverable	5,396	2,607	2,789		19,329	18,257	1,072	
Property maintenance expenditures:								
Recoverable from tenants	6,023	3,548	2,475		13,550	8,597	4,953	
Non-recoverable	803	960	(157)		4,576	4,578	(2)	
Total capital expenditures	$ 31,097	$ 61,054	$ (29,957)	(49.1)%	$ 172,749	$ 121,444	$ 51,305	42.2 %

(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 2019, new and (re)development expenditures included $53,820 for 300 Main and 330 Main, $25,329 for Park 8Ninety II, $13,752 for Tower Business Center, and $13,570 for Cedar Port I.

In 2018, new and (re)development expenditures included $20,135 for 300 Main and 330 Main, $19,546 for Cedar Port I, $12,005 for Tower Business Center and $11,691 for Park 8Ninety II.

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, 2019	Three months ended December 31, 2018	Change	% Change	Year ended December 31, 2019	Year ended December 31, 2018	Change	% Change
Investment property leasing costs:								
Tenant inducements	$ 9,606	$ 8,283	$ 1,323		$ 38,412	$ 44,054	$ (5,642)	
Leasing commissions	3,949	4,124	(175)		15,415	11,021	4,394	
Investment property (re)development related leasing costs:								
Tenant inducements	2,676	6,206	(3,530)		10,747	9,746	1,001	
Leasing commissions	2,979	1,986	993		4,964	4,960	4	
Total leasing costs	$ 19,210	$ 20,599	$ (1,389)	(6.7)%	$ 69,538	$ 69,781	$ (243)	(0.3)%

(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 2019, tenant inducements related to new and (re)developments included $2,839 for Tower Business Center, $1,732 for Park 8Ninety II, $1,555 for Cedar Port I and $1,142 for Park 8Ninety III.

Dispositions:

During 2019, Artis sold five office and six retail properties in Canada and three office and six retail properties and two parcel of development land in the U.S., for an aggregate sale price of $575,871. The aggregate sale proceeds, net of a note receivable of $79,000, costs of $24,391 and related debt of $224,661, were $247,819. The note receivable is secured by the disposed office property.

Foreign currency translation loss on investment properties:

In 2019, the Proportionate Share foreign currency translation loss on investment properties was $120,632 (Q4-19 - loss of $45,467) due to the change in the period end US dollar to Canadian dollar exchange rate from 1.3642 at December 31, 2018 to 1.2988 at December 31, 2019.

Investment properties held for sale:

At December 31, 2019, the REIT had seven office properties, one retail property and one parcel of development land located in Canada, with an aggregate Proportionate Share fair value of $221,915 classified as held for sale. These properties were listed for sale with external brokers or under unconditional sale agreements at December 31, 2019.

Completed new development properties:

In 2019, Artis completed the development of Cedar Port I, Park Lucero IV, Park 8Ninety III, Park 8Ninety II and Tower Business Center, as discussed in the Portfolio Summary section of this MD&A.

(In thousands of Canadian dollars, unless otherwise noted)

Fair value loss on investment properties:

During 2019, the REIT recorded a loss on the Proportionate Share fair value of investment properties of $63,026 (Q4-19 - loss of $20,115, compared to a loss of $35,671 (Q4-18 - loss of $26,777) in 2018. The fair value loss in 2019 was primarily due to a decline in the value of Alberta office properties and select U.S. properties, partially offset by capitalization rate compression and higher expected market rents in the industrial portfolio.

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 9.00%. 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 following table.

	December 31, 2019			December 31, 2018		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Office:						
Alberta	9.00%	6.50%	8.38%	8.50%	6.50%	7.82%
British Columbia	5.50%	4.75%	4.94%	5.75%	4.75%	5.06%
Manitoba	7.75%	5.00%	6.12%	7.50%	5.50%	6.10%
Ontario	7.00%	5.50%	6.47%	7.00%	4.75%	6.01%
Saskatchewan	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Total Canadian office portfolio	9.00%	4.75%	6.58%	8.50%	4.75%	6.43%
Arizona	8.00%	6.00%	6.67%	8.00%	5.75%	6.41%
Minnesota	7.75%	6.00%	6.92%	7.50%	6.00%	7.03%
Wisconsin	8.00%	7.00%	7.57%	7.75%	7.00%	7.56%
U.S. - Other	7.75%	6.00%	6.27%	7.25%	5.75%	6.23%
Total U.S. office portfolio	8.00%	6.00%	6.96%	8.00%	5.75%	6.83%
Total office portfolio	9.00%	4.75%	6.77%	8.50%	4.75%	6.62%
Retail:						
Alberta	8.75%	5.50%	6.64%	8.75%	5.75%	6.60%
British Columbia	5.25%	5.25%	5.25%	6.50%	5.25%	5.69%
Manitoba	6.25%	5.50%	6.13%	6.25%	5.75%	6.06%
Saskatchewan	8.25%	6.00%	6.85%	8.25%	6.00%	6.49%
Total Canadian retail portfolio	8.75%	5.25%	6.53%	8.75%	5.25%	6.41%
Minnesota	—	—	—	8.50%	5.75%	6.98%
Total U.S. retail portfolio	—	—	—	8.50%	5.75%	6.98%
Total retail portfolio	8.75%	5.25%	6.53%	8.75%	5.25%	6.44%
Industrial:						
Alberta	7.50%	5.50%	6.46%	7.50%	5.75%	6.42%
British Columbia	4.00%	3.75%	3.84%	4.00%	3.75%	3.84%
Manitoba	7.50%	6.00%	6.58%	7.75%	6.25%	6.82%
Ontario	5.25%	3.75%	4.61%	6.00%	4.25%	5.35%
Saskatchewan	7.50%	6.25%	6.82%	7.50%	6.25%	6.82%
Total Canadian industrial portfolio	7.50%	3.75%	5.52%	7.75%	3.75%	5.96%
Arizona	6.25%	5.75%	6.01%	6.50%	6.00%	6.21%
Minnesota	7.75%	5.50%	6.53%	8.00%	6.00%	6.81%
U.S. - Other	7.00%	4.75%	5.46%	7.00%	5.25%	5.64%
Total U.S. industrial portfolio	7.75%	4.75%	6.09%	8.00%	5.25%	6.47%
Total industrial portfolio	7.75%	3.75%	5.76%	8.00%	3.75%	6.17%
Total:						
Canadian portfolio	9.00%	3.75%	6.23%	8.75%	3.75%	6.30%
U.S. portfolio	8.00%	4.75%	6.63%	8.50%	5.25%	6.72%
Total portfolio	9.00%	3.75%	6.38%	8.75%	3.75%	6.46%

(In thousands of Canadian dollars, unless otherwise noted)

Inventory Properties

At December 31, 2019, inventory properties included one industrial property. The REIT is undergoing the conversion of this property into commercial condominium units.

Notes Receivable

On September 27, 2019, the REIT disposed of 415 Yonge Street and received as partial consideration a note receivable in the amount of $79,000. The REIT will receive monthly interest-only payments at a rate of 5.05% per annum. The note receivable is secured by the office property and matures in July 2022.

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, 2019 was $8,554 (December 31, 2018, $10,814). 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. Subsequent to the end of the year, Artis sold TransAlta Place, inclusive of the outstanding note receivable.

The balance outstanding on all notes receivable at December 31, 2019 was $97,828, compared to $20,759 at December 31, 2018.

Cash

At December 31, 2019, the REIT had $42,455 of cash on hand, compared to $66,143 at December 31, 2018. The balance is anticipated to be invested in investment properties in subsequent periods, used for working capital purposes, for debt repayment or for unit purchases under the NCIB. 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, 2019 was 2.4 years, compared to 3.3 years at December 31, 2018.

At December 31, 2019, Artis had mortgages and loans payable outstanding, as follows:

Canadian Portfolio:

	IFRS		Proportionate Share	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Fixed rate mortgages	$ 376,010	$ 466,539	$ 408,718	$ 500,301
Variable rate mortgages:				
Hedged	108,927	138,171	108,927	138,171
Unhedged	72,300	49,312	72,300	49,312
Net above- and below-market mortgage adjustments	(43)	(59)	(43)	(59)
Financing costs	(1,491)	(1,671)	(1,563)	(1,757)
	$ 555,703	$ 652,292	$ 588,339	$ 685,968

U.S. Portfolio:

	IFRS		Proportionate Share	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Fixed rate mortgages	$ 73,855	$ 209,048	$ 85,269	$ 221,335
Variable rate mortgages:				
Hedged	271,802	396,070	271,802	396,070
Unhedged	500,507	431,531	578,660	489,315
Net above- and below-market mortgage adjustments	3,213	1,234	3,213	1,234
Financing costs	(3,732)	(5,165)	(4,360)	(5,827)
	$ 845,645	$ 1,032,718	$ 934,584	$ 1,102,127

(In thousands of Canadian dollars, unless otherwise noted)

Total Canadian and U.S. Portfolio:

	IFRS		Proportionate Share	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Fixed rate mortgages	$ 449,865	$ 675,587	$ 493,987	$ 721,636
Variable rate mortgages:				
Hedged	380,729	534,241	380,729	534,241
Unhedged	572,807	480,843	650,960	538,627
Net above- and below-market mortgage adjustments	3,170	1,175	3,170	1,175
Financing costs	(5,223)	(6,836)	(5,923)	(7,584)
	$ 1,401,348	$ 1,685,010	$ 1,522,923	$ 1,788,095
% of unhedged variable rate mortgage debt of total debt, including credit facilities and debentures	20.9 %	16.8 %	22.7 %	18.1 %

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.

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, 2018	$ 1,690,671	$ 103,833	$ 1,794,504
Add (deduct):			
New variable rate mortgage on acquisition of investment property	33,231	—	33,231
Assumed variable rate mortgage on acquisition of investment property	33,278	(31,614)	1,664
Uplift upon renewal of maturing mortgages	15,754	—	15,754
Draws on variable rate construction loans	71	55,069	55,140
Repayment of variable rate mortgage related to sale of investment property	(18,821)	—	(18,821)
Repayment of hedged mortgages related to the sale of investment properties	(51,361)	—	(51,361)
Repayment of fixed rate mortgages related to sale of investment properties	(154,479)	—	(154,479)
Repayment of maturing fixed rate mortgages	(43,014)	—	(43,014)
Repayment of maturing variable rate mortgage	(10,949)	—	(10,949)
Principal repayments	(44,288)	(1,344)	(45,632)
Foreign currency translation gain	(46,692)	(3,669)	(50,361)
Balance, December 31, 2019	$ 1,403,401	$ 122,275	$ 1,525,676

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

Additionally, during 2019, the REIT renewed a maturing fixed rate mortgage in the amount of $40,874, renewed a previously hedged mortgage at a variable rate in the amount of $48,010 and renewed a variable rate mortgage in the amount of $26,688 for a property held under a joint venture arrangement.

(In thousands of Canadian dollars, unless otherwise noted)

Senior Unsecured Debentures

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

				December 31, 2019		December 31, 2018	
	Issued	**Maturity**	**Interest rate (1)**	**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
Series B	February 7, 2018	February 7, 2020	3.354 %	199,959	200,000	199,565	200,000
Series C	February 22, 2019	February 22, 2021	3.674 %	249,372	250,000	—	—
				$ 449,331	$ 450,000	$ 399,536	$ 400,000

(1) The REIT has entered into an interest swap agreement on the Series B senior unsecured debentures.

At December 31, 2019, the carrying value of the senior unsecured debentures increased $49,795 compared to December 31, 2018. The change is primarily due to the issuance of the Series C senior unsecured debentures on February 22, 2019, partially offset by the repayment of the Series A senior unsecured debentures on March 27, 2019.

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, 2019, there was $588,111 drawn on these facilities (December 31, 2018, $474,707).

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, 2019, there was $300,000 drawn on these facilities (December 31, 2018, $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 $7,458, which was paid subsequent to the end of the year.

UNITHOLDERS' EQUITY

Unitholders' equity decreased overall by $267,292 between December 31, 2018 and December 31, 2019. The decrease was primarily due to common units of $161,976 and preferred units of $6,687 purchased through the NCIB, partially offset by the related contributed surplus of $24,394. Also contributing to the decrease was the redemption of preferred units of $75,710 and related contributed surplus of $2,753, distributions made to unitholders of $96,705 and other comprehensive loss of $71,668, partially offset by net income of $122,737 and the issuance of common units for $1,076.

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 period, 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, 2019	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
Cash flow from operations	$ 46,471	$ 203,850	$ 213,727	$ 214,005
Net income	32,877	122,737	158,636	234,435
Distributions declared	23,006	96,332	173,408	181,052
Excess of cash flow from operations over distributions declared	23,465	107,518	40,319	32,953
Excess (shortfall) of net income over distributions declared	9,871	26,405	(14,772)	53,383

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 the fair value losses on investment properties.

CAPITAL RESOURCES

At December 31, 2019, Artis had $42,455 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 and for debt repayment or for unit purchases under the NCIB.

(In thousands of Canadian dollars, unless otherwise noted)

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, 2019, the REIT had $111,889 available on its revolving term credit facilities.

At December 31, 2019, the REIT had 102 unencumbered properties and six unencumbered parcels of development land, inclusive of properties held in joint venture arrangements, representing a Proportionate Share fair value of $1,968,369.

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, 2019.

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

DEBT METRICS

EBITDA Interest Coverage Ratio (1)

	Three months ended December 31, 2019	Three months ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2018
Net income	$ 32,877	$ 7,220	$ 122,737	$ 158,636
Add (deduct):				
Tenant inducements amortized to revenue	6,254	5,152	23,385	19,761
Straight-line rent adjustments	(1,579)	(1,090)	(6,077)	(5,491)
Interest expense	26,299	26,853	108,809	101,164
Adjustment for investments in joint ventures (2)	(10,748)	4,462	(27,510)	1,848
Fair value loss on investment properties	31,863	23,576	94,727	37,099
Foreign currency translation (gain) loss	(4,804)	12,119	(10,668)	8,113
Transaction costs	84	488	301	6,418
Fair value (gain) loss on derivative instruments and other transactions	(105)	3,357	16,379	(11,342)
Depreciation of property and equipment	301	249	1,130	1,049
Income tax expense	605	64	1,816	527
EBITDA	81,047	82,450	325,029	317,782
Interest expense	26,299	26,853	108,809	101,164
Add (deduct):				
Amortization of financing costs	(960)	(977)	(3,857)	(3,602)
Amortization of above- and below-market mortgages, net	185	29	434	271
Accretion on liability component of debentures	—	56	51	216
Adjustment for investments in joint ventures (2)	1,017	1,204	4,158	5,218
Adjusted interest expense	$ 26,541	$ 27,165	$ 109,595	$ 103,267
EBITDA interest coverage ratio	3.05	3.04	2.97	3.08
Normalized EBITDA (3)	$ 81,047	$ 82,450	$ 325,029	$ 321,174
Normalized EBITDA interest coverage ratio (3)	3.05	3.04	2.97	3.11

(In thousands of Canadian dollars, unless otherwise noted)

Debt to EBITDA Ratio (1)

		December 31, 2019		December 31, 2018
Secured mortgages and loans	$	1,522,923	$	1,788,095
Preferred shares liability		622		653
Carrying value of debentures		449,331		399,536
Credit facilities		886,522		772,538
Total long-term debt and credit facilities		2,859,398		2,960,822
EBITDA (4)		324,188		329,800
Total long-term debt and credit facilities to EBITDA		8.8		9.0

(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) These adjustments reflect non-cash items and interest expense that are included in net income from investments in joint ventures.
(3) This ratio includes the non-recurring pension liability adjustment of $3,392 included in corporate expense in Q1-18.
(4) EBITDA, as calculated for the quarter under EBITDA Interest Coverage Ratio, has been annualized for purposes of the Debt to EBITDA ratio calculation.

CONTRACTUAL OBLIGATIONS (1)

		Total		Less than 1 year		1 - 3 years		4 - 5 years		After 5 years
Accounts payable and other liabilities	$	93,188		93,188	$	—	$	—	$	—
Credit facilities		888,111		—		641,117		246,994		—
Senior unsecured debentures (2)		450,000		200,000		250,000		—		—
Mortgages and loans payable		1,525,676		399,223		595,262		488,314		42,877
Total contractual obligations	$	2,956,975	$	692,411	$	1,486,379	$	735,308	$	42,877

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
2020	$	363,942	25.6 %	$	35,281	$	399,223	3.85 %
2021		385,056	27.0 %		24,064		409,120	3.70 %
2022		168,334	11.8 %		17,808		186,142	3.76 %
2023		388,938	27.3 %		9,703		398,641	3.91 %
2024		86,338	6.1 %		3,335		89,673	3.31 %
2025 & later		31,925	2.2 %		10,952		42,877	3.64 %
Total	$	1,424,533	100.0 %	$	101,143	$	1,525,676	3.78 %

(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.

SUMMARIZED QUARTERLY INFORMATION

$000's, except per unit amounts	Q4-19	Q3-19	Q2-19	Q1-19	Q4-18	Q3-18	Q2-18	Q1-18
Revenue	$ 127,180	$ 127,005	$ 133,928	$ 133,547	$ 132,864	$ 128,097	$ 126,140	$ 125,769
Property NOI [1]	75,121	75,724	80,533	78,478	77,259	76,211	75,888	74,965
Net income	32,877	44,632	19,872	25,356	7,220	25,719	74,975	50,722
Total comprehensive income (loss)	4,097	62,238	(10,758)	(4,508)	83,904	2,017	103,235	85,232
Basic income per common unit	$ 0.21	$ 0.28	$ 0.10	$ 0.13	$ 0.01	$ 0.13	$ 0.45	$ 0.30
Diluted income per common unit	0.20	0.28	0.10	0.13	0.01	0.13	0.45	0.29
FFO [1] [2]	$ 51,602	$ 48,603	$ 51,909	$ 50,284	$ 50,107	$ 50,461	$ 48,807	$ 50,764
FFO per unit [1] [2]	0.37	0.34	0.36	0.34	0.33	0.33	0.32	0.33
FFO payout ratio [1] [2]	37.8 %	41.2 %	38.9 %	41.2 %	54.5 %	81.8 %	84.4 %	81.8 %
AFFO [1] [2]	$ 37,772	$ 35,769	$ 39,370	$ 37,607	$ 37,544	$ 37,583	$ 36,304	$ 37,997
AFFO per unit [1] [2]	0.27	0.25	0.27	0.25	0.24	0.24	0.24	0.25
AFFO payout ratio [1] [2]	51.9 %	56.0 %	51.9 %	56.0 %	75.0 %	112.5 %	112.5 %	108.0 %
Same Property NOI change [1] [3]	3.3 %	2.0 %	4.6 %	5.1 %	2.7 %	3.9 %	(0.4)%	(1.6)%
Stabilized Same Property NOI change [1] [3]	4.4 %	3.8 %	6.3 %	5.7 %	4.4 %	5.1 %	1.3 %	1.0 %
EBITDA interest coverage ratio [1] [2] [3]	3.05	2.85	3.00	2.96	3.04	3.14	3.02	3.26
Leasable area renewed (in square feet) [4]	558,544	362,669	353,870	332,258	537,165	249,051	349,313	522,283
Increase in weighted-average rental rate [4]	8.1 %	8.7 %	4.0 %	(1.9)%	0.0 %	5.9 %	5.0 %	1.1 %

	2019				2018			
	Dec 31	Sept 30	June 30	March 31	Dec 31	Sept 30	June 30	March 31
Number of properties [3]	220	228	229	235	235	234	233	236
GLA (000's of square feet) [3]	24,841	25,034	24,892	25,100	25,082	24,803	24,528	25,032
Occupancy [4]	91.5 %	93.3 %	92.7 %	92.0 %	92.1 %	91.2 %	91.4 %	90.6 %
NAV per Unit [1]	$ 15.56	$ 15.72	$ 15.37	$ 15.55	$ 15.55	$ 15.11	$ 15.39	$ 15.03
Total long-term debt and credit facilities to EBITDA [1] [2] [3]	8.8	9.3	8.8	9.2	9.0	8.4	8.8	8.5
Secured mortgages and loans to GBV [1]	26.3 %	26.9 %	28.3 %	28.8 %	29.4 %	29.4 %	30.2 %	30.2 %
Total long-term debt and credit facilities to GBV [1]	51.3 %	51.8 %	51.2 %	50.9 %	49.9 %	47.5 %	47.9 %	47.8 %
Fair value unencumbered assets	$1,926,661	$1,877,339	$1,829,594	$1,867,277	$1,805,382	$1,714,863	$1,591,976	$1,689,925
Total assets	$5,330,019	$5,431,426	$5,540,373	$5,676,308	$5,717,177	$5,435,895	$5,528,722	$5,427,394
Total non-current financial liabilities	2,142,090	2,127,476	2,177,391	2,244,999	2,252,874	2,145,517	2,158,444	1,791,677

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

(2) FFO, AFFO and EBITDA have been normalized to exclude certain non-recurring adjustments in Q1-18. Please refer to the FFO and AFFO section and the Debt Metrics section of this MD&A.

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

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

The quarterly financial results have been impacted by acquisition, disposition and (re)development activity, the impact of foreign exchange, lease termination income, transaction costs, and the fair value gains and losses on investment properties and derivative instruments and other transactions. Per unit results are also impacted by units purchased under the NCIB.

(In thousands of Canadian dollars, unless otherwise noted)

OUTSTANDING UNIT DATA

As of February 27, 2020, the balance of common units outstanding is as follows:

	Total
Units outstanding at December 31, 2019	137,956,523
Units issued on redemption of restricted units	9,587
Units issued on redemption of deferred units	9,011
Units outstanding at February 27, 2020	137,975,121

As of February 27, 2020, the balance of Series A, Series E and Series I preferred units outstanding are 3,387,300, 3,833,900 and 5,000,000, respectively.

The balance of restricted units outstanding as of February 27, 2020 is 744,453 and none have vested.

The balance of deferred units outstanding as of February 27, 2020 is 482,221. All of these deferred units have vested, of which 12,025 are redeemable.

OUTLOOK

Scotiabank's Global Outlook dated January 13, 2020, predicts that real GDP growth in Canada will be 1.5% in 2020. The report further predicts that GDP growth in British Columbia, Saskatchewan, Manitoba and Ontario will be 2.1%, 1.2%, 1.1% and 1.5%, respectively, in 2020, which are healthy growth rates. Scotiabank is forecasting that Alberta GDP growth will be 1.6% in 2020, and that unemployment rates for the province will remain stable. We continue to monitor the Alberta market 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 growth will be 1.7% in 2020. According to the United States Bureau of Labor Statistics, U.S. unemployment decreased nationally from 4.0% to 3.6% year-over-year in January. 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 an ongoing basis. Given the health of the U.S. economy, strength of the US dollar, positive GDP growth expectations and decline in unemployment rates, we continue to anticipate that there is further growth potential to be realized in 2020 and beyond. We anticipate that the majority of our 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. From the date of the announcement to December 31, 2019, we have purchased 15,959,760 common units for a weighted-average price of $10.84, and 290,300 preferred units for a weighted-average price of $21.04. Also in accordance with these new initiatives, at December 31, 2019, we have sold or entered into unconditional agreements to sell 26 properties totalling 2,997,191 square feet of leasable area for $743,447. At December 31, 2019, we had seven office properties, one retail property and one parcel of development land classified as held for sale, for a total fair value of $221,915.

Subsequent to December 31, 2019, we completed the disposition of four properties that were under unconditional sale agreements at the end of the year. In January 2020, we sold the Centre 15 Building, the Calgary Office Portfolio and 800 5th Avenue, office properties located in Calgary, Alberta for an aggregate sale price of $117,826, which represents a weighted-average capitalization rate of 8.44%.

One of our objectives as part of the new initiatives is to sell Calgary office properties to decrease our Calgary office Property NOI weighting. Since November 2018, we have sold or entered into unconditional agreements to sell six Calgary office properties totalling 1,100,291 square feet of leasable area. In Q4-19, the Calgary office segment represented 6.0% of Q4-19 Proportionate Share Property NOI. Factoring in the impact of unconditional sales, we anticipate that our Calgary office segment weighting of Proportionate Share Property NOI will decrease to approximately 2.0%.

We also anticipate that our retail Property NOI weighting will decrease from 17.9% (reported for the quarter ended December 31, 2019) to approximately 15%. While retail real estate remains part of our portfolio diversification strategy, we will continue to pursue opportunities to dispose of non-core retail assets. Our core retail properties are those focused on the consumer's everyday shopping needs, including food and beverage, and personal service providers.

We look forward to providing further updates on our progress with our new initiatives in subsequent quarters.

In the meantime, we continue to maintain our Investment Grade Credit Rating, BBB(low) from DBRS Limited. Additionally, DBRS Limited has assigned a rating of Pfd-3(low) 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 2020. 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 2020, 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, 2019, Artis had $42,455 of cash on hand and $111,889 available on its revolving term credit facilities. Subsequent to December 31, 2019, the following transactions took place:

- The REIT disposed of four office properties and a parcel of development land located in Calgary, Alberta, for an aggregate sale price of $117,826. The REIT received a note receivable of $10,000 as partial consideration for one of the disposed investment properties. In addition, the REIT sold a note receivable from a tenant in one of the disposed investment properties in the amount of $8,359. A portion of the proceeds was used to repay the outstanding mortgage financing in the amount of $30,475.
- The REIT entered into an unconditional purchase agreement for a parcel of development land adjacent to existing industrial properties located in the Greater Phoenix Area, Arizona for a purchase price of US$9,700. The acquisition is expected to close in January 2021.
- The REIT made an interest payment of $1,533 and repaid the outstanding face value of $200,000 for the Series B senior unsecured debentures.
- The REIT made an interest payment for the Series C senior unsecured debentures in the amount of $4,593 for the six months ended February 22, 2020.
- The REIT entered into a two-year senior unsecured non-revolving term credit facility agreement in the amount of $200,000, bearing interest at prime plus 0.60% or the bankers' acceptance rate plus 1.60%. The REIT drew $200,000 on this credit facility.
- The REIT repaid a net balance of $55,500 and US$5,900 on its revolving term credit facilities.
- The REIT declared a monthly cash distribution of $0.045 per common unit for the months of January and February 2020.
- The REIT declared a quarterly cash distribution of $0.3750 per Series I preferred unit for the three months ended January 31, 2020.

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 the largest geographical segments, measured by Proportionate Share Property NOI, located in the province of Alberta and in the state of Minnesota. As a result, our investment 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, 2019, 32.1% of the REIT's mortgages and loans payable bear interest at fixed rates, and a further 27.1% of the REIT's mortgages and loans payable bear interest at variable rates with interest rate swaps in place. At December 31, 2019, the REIT is a party to $2,041,647 of variable rate debt, including credit facilities and debentures (December 31, 2018, $1,989,356). At December 31, 2019, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with $880,729 of variable rate debt, including credit facilities and debentures, (December 31, 2018, $834,241). 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, 2019, the REIT's ratio of secured mortgages and loans to GBV was 26.3%, compared to 29.4% at December 31, 2018. At December 31, 2019, the REIT's ratio of total long-term debt and credit facilities to GBV was 51.3%, compared to 49.9% at December 31, 2018. Approximately 25.7% of Artis' maturing mortgage debt comes up for renewal during 2020, and 25.5% in 2021. Management is in discussion with various lenders with respect to the renewal or refinancing of the 2020 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 1,756 tenant leases with a weighted-average term to maturity of 5.5 years. Approximately 52.2% 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 Inc., 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 Inc.	2.3 %	322	1.3 %	3.2
Graham Group Ltd.	1.9 %	243	1.0 %	14.6
AT&T	1.7 %	257	1.1 %	5.5
WorleyParsons Canada Services Ltd.	1.6 %	170	0.7 %	1.7
Home Depot	1.4 %	158	0.6 %	9.3
Bell Canada	1.3 %	115	0.5 %	9.8
TransAlta Corporation	1.2 %	336	1.4 %	3.4
The Toronto Dominion Bank	1.1 %	133	0.5 %	6.5
TDS Telecommunications Corporation	1.1 %	195	0.8 %	5.0
Shoppers Drug Mart Inc.	1.1 %	136	0.6 %	6.2
CB Richard Ellis, Inc.	1.0 %	108	0.4 %	7.0
Fairview Health Services	0.9 %	179	0.7 %	3.7
Cara Operations Ltd.	0.9 %	100	0.4 %	9.0
Prime Therapeutics LLC	0.8 %	388	1.6 %	14.8
3M Canada Company	0.8 %	319	1.3 %	5.3
Catalent Pharma Solutions, LLC	0.8 %	198	0.8 %	16.6
Bellatrix Exploration Ltd.	0.8 %	94	0.4 %	10.2
UCare Minnesota	0.7 %	124	0.5 %	2.4
Silent Aire USA, Inc.	0.6 %	289	1.2 %	7.2
Civeo Corporation	0.6 %	72	0.3 %	8.5
Total	22.6 %	3,936	16.1 %	7.5

(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	1.2 %	189	0.8 %	1.7
Provincial Government	0.7 %	92	0.4 %	6.8
Civic or Municipal Government	0.4 %	95	0.4 %	12.4
Total	2.3 %	376	1.6 %	5.7
Weighted-average term to maturity (entire portfolio)				5.5

(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**	**AZ**	**MN**	**WI**	**Other**	**Total**
2020	0.9 %	0.1 %	2.8 %	0.3 %	1.5 %	1.5 %	2.7 %	1.0 %	0.4 %	11.2 %
2021	2.2 %	0.2 %	2.5 %	0.5 %	1.3 %	1.0 %	5.1 %	0.4 %	0.3 %	13.5 %
2022	0.9 %	0.1 %	1.2 %	1.3 %	2.4 %	0.5 %	2.8 %	0.4 %	0.8 %	10.4 %
2023	2.7 %	0.3 %	1.4 %	0.4 %	1.7 %	0.5 %	1.9 %	0.2 %	0.6 %	9.7 %
2024	0.8 %	0.1 %	1.5 %	0.3 %	1.3 %	0.5 %	2.6 %	1.8 %	0.4 %	9.3 %
2025	0.4 %	0.1 %	0.6 %	0.5 %	0.8 %	0.8 %	0.5 %	0.3 %	1.3 %	5.3 %
2026 & later	4.0 %	0.7 %	3.7 %	1.7 %	4.6 %	2.4 %	6.6 %	2.2 %	4.2 %	30.1 %
Month-to-month	0.1 %	— %	— %	— %	— %	— %	— %	0.1 %	— %	0.2 %
Vacant	2.2 %	0.1 %	1.3 %	0.2 %	1.0 %	0.4 %	1.2 %	0.6 %	1.3 %	8.3 %
New development/ redevelopment	0.4 %	— %	— %	— %	0.2 %	— %	— %	— %	1.4 %	2.0 %
Total	14.6 %	1.7 %	15.0 %	5.2 %	14.8 %	7.6 %	23.4 %	7.0 %	10.7 %	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 Q4-19 Proportionate Share Property NOI) are Twin Cities Area office, Madison office, Twin Cities Area industrial, Greater Toronto Area industrial 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, 2019 and the year ended December 31, 2018. 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, 2019, investment properties under development account for 2.1% of Artis' total investment properties (December 31, 2018, 2.2%).

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 associated with the implementation of Artis' New Initiatives, illiquidity of real property investments, reliance on key personnel, future property transactions, general uninsured losses, environmental matters, land and air rights leases, public market risk, availability of cash flow, fluctuations in cash distributions, potential dilution, unitholder liability, potential conflicts of interest and changes in legislation.

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 7.55% at December 31, 2019 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 6.41% at December 31, 2019 and 6.47% 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 years ended December 31, 2018 and 2019.

CHANGES IN ACCOUNTING STANDARDS

New or Revised Accounting Standards Adopted During the Year

The REIT adopted IFRS 16 – *Leases* ("IFRS 16") on its effective date of January 1, 2019. IFRS 16 replaces IAS 17 – *Leases* ("IAS 17") and IFRIC 4 – *Determining whether an Arrangement Contains a Lease* ("IFRIC 4"). The most significant change introduced by IFRS 16 is a single lessee accounting model, bringing leases on-balance sheet for lessees. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17 and the REIT will continue to classify leases with its tenants as operating leases. For leases in which the REIT is a lessee, at the commencement date of the lease, the REIT recognizes right-of-use assets and lease liabilities measured at the present value of lease payments to be made over the lease term. After the commencement date, the lease liabilities are increased to reflect the accretion of interest and reduced for the lease payments made. The recognized right-of-use assets are depreciated on a straight-line basis over the lease term. The REIT applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less and leases of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The REIT adopted IFRS 16 using the modified retrospective method. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The REIT elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The REIT also elected to use the recognition exemptions for lease contracts for which the lease term ends within 12 months as of the date of initial application and leases for which the underlying asset is of low value. The REIT has reviewed all lease contracts in which it is a lessee. The REIT has one land lease and the fair value has been included in investment properties prior to initial application. No adjustment is required on initial application for the land lease. The REIT also has lease contracts for vehicles and office equipment. The REIT recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets, resulting in an increase of property and equipment of $133 and increase in other long-term liabilities of $133 as at January 1, 2019.

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 adoption of this interpretation did not result in a material impact to the consolidated financial statements.

In October 2017, the IASB amended IFRS 9 – *Financial Instruments* ("IFRS 9"). 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. This amendment did not result in a material impact to the consolidated financial statements.

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

In December 2017, the IASB amended IFRS 3 – *Business Combinations* ("IFRS 3"). The amendments clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. The amendments apply to business combinations for which the acquisition date is on or after January 1, 2019. The REIT applies the amendments to acquisitions completed on or after January 1, 2019.

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, 2019, 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, 2019, 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, 2019, 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, 2019.

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"	"Jim Green"
Armin Martens, P.Eng., MBA President and Chief Executive Officer February 27, 2020	Jim Green, CPA, CA Chief Financial Officer February 27, 2020

Deloitte.

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

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

Independent Auditor's Report

To the Unitholders of Artis Real Estate Investment Trust

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, 2019 and 2018, 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, 2019 and 2018, 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.

/s/ Deloitte LLP

Chartered Professional Accountants
Winnipeg, Manitoba
February 27, 2020

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

CONSOLIDATED BALANCE SHEETS

	Note		December 31, 2019		December 31, 2018
ASSETS					
Non-current assets:					
Investment properties	4	$	4,618,719	$	4,941,825
Investment properties under development	4		102,590		119,604
Investments in joint ventures	5		186,610		176,501
Property and equipment	6		7,786		6,533
Notes receivable	8		93,832		16,216
			5,009,537		5,260,679
Current assets:					
Investment properties held for sale	4		221,915		320,465
Inventory properties	7		14,632		11,227
Deposits on investment properties			—		2,237
Prepaid expenses and other assets	9		10,533		20,582
Notes receivable	8		3,996		4,543
Accounts receivable and other receivables	10		21,013		21,101
Cash held in trust			5,938		10,200
Cash			42,455		66,143
			320,482		456,498
Total assets		$	5,330,019	$	5,717,177
LIABILITIES AND UNITHOLDERS' EQUITY					
Non-current liabilities:					
Mortgages and loans payable	11	$	1,005,196	$	1,272,452
Senior unsecured debentures	12		249,372		199,565
Credit facilities	13		886,522		772,538
Other long-term liabilities			1,000		8,319
			2,142,090		2,252,874
Current liabilities:					
Mortgages and loans payable	11		396,152		412,558
Senior unsecured debentures	12		199,959		199,971
Security deposits and prepaid rent			32,834		35,842
Accounts payable and other liabilities	14		88,231		77,887
			717,176		726,258
Total liabilities			2,859,266		2,979,132
Unitholders' equity			2,470,753		2,738,045
Commitments, contingencies and guarantees	28				
Subsequent events	32				
Total liabilities and unitholders' equity		$	5,330,019	$	5,717,177

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF OPERATIONS

	Note		2019		Year ended December 31, 2018
Revenue	18	$	521,660	$	512,870
Expenses:					
Property operating			130,099		127,697
Realty taxes			81,705		80,850
Total operating expenses			211,804		208,547
Net operating income			309,856		304,323
Other income (expenses):					
Corporate expenses	19		(15,810)		(14,436)
Interest expense	20		(108,809)		(101,164)
Interest income			3,212		1,974
Net income from investments in joint ventures	5		36,843		8,754
Fair value loss on investment properties	4		(94,727)		(37,099)
Foreign currency translation gain (loss)			10,668		(8,113)
Transaction costs	21		(301)		(6,418)
Fair value (loss) gain on derivative instruments and other transactions	22		(16,379)		11,342
Income before income taxes			124,553		159,163
Income tax expense	23		(1,816)		(527)
Net income			122,737		158,636
Other comprehensive (loss) income that may be reclassified to net income in subsequent periods:					
Unrealized foreign currency translation (loss) gain			(66,214)		105,935
Unrealized foreign currency translation (loss) gain on investments in joint ventures			(6,125)		10,254
Other comprehensive income (loss) that will not be reclassified to net income in subsequent periods:					
Unrealized gain (loss) from remeasurements of net pension obligation			671		(437)
Other comprehensive (loss) income			(71,668)		115,752
Total comprehensive income		$	51,069	$	274,388
Basic income per unit attributable to common unitholders	15 (e)	$	0.72	$	0.89
Diluted income per unit attributable to common unitholders	15 (e)		0.72		0.88
Weighted-average number of common units outstanding:					
Basic	15 (e)		142,434,694		153,069,303
Diluted	15 (e)		142,434,694		153,569,072

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' 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, 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
Changes for the year:							
Issuance of common units, net of issue costs (note 15)	1,076	—	—	—	1,076	—	1,076
Redemption of preferred units (note 15)	—	—	—	(2,753)	(2,753)	(75,710)	(78,463)
Units acquired and cancelled through normal course issuer bid (note 15)	(161,976)	—	—	24,394	(137,582)	(6,687)	(144,269)
Net income	—	122,737	—	—	122,737	—	122,737
Other comprehensive loss	—	—	(71,668)	—	(71,668)	—	(71,668)
Distributions	—	(96,705)	—	—	(96,705)	—	(96,705)
Unitholders' equity, December 31, 2019	$ 1,798,747	$ 169,201	$ 175,048	$ 33,273	$ 2,176,269	$ 294,484	$ 2,470,753

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	2019	Year ended December 31, 2018
Cash provided by (used in):			
Operating activities:			
Net income		$ 122,737	$ 158,636
Adjustments for:			
Distributions from joint ventures		3,730	4,126
Net income from investments in joint ventures	5	(36,843)	(8,754)
Fair value loss on investment properties	4	94,727	37,099
Fair value loss (gain) on derivative instruments and other transactions	22	16,379	(11,342)
Unrealized foreign currency translation (gain) loss		(10,820)	6,834
Other items not affecting cash	24	25,880	19,739
Changes in non-cash operating items	24	(11,940)	7,389
		203,850	213,727
Investing activities:			
Acquisitions of investment properties, net of related debt	3	(36,349)	(118,782)
Proceeds from dispositions of investment properties, net of costs and related debt	3	247,819	126,508
Distribution from disposition of investment property in a joint venture, net of costs and related debt	5	—	7,850
Additions to investment properties		(45,766)	(35,661)
Additions to investment properties under development		(86,639)	(56,544)
Additions to tenant inducements and leasing commissions		(60,553)	(59,585)
Additions to joint ventures	5	(17,087)	(18,228)
Additions to property and equipment		(1,801)	(565)
Issuances of notes receivable		(8,074)	(7,293)
Notes receivable principal repayments		9,650	3,274
Change in deposits on investment properties		2,165	2,410
Change in cash held in trust		4,123	(1,733)
		7,488	(158,349)
Financing activities:			
Repayment of mortgages and loans payable		(98,252)	(132,807)
Advance of mortgages and loans payable, net of financing costs		14,650	68,992
Issuance of senior unsecured debentures, net of financing costs	12	248,946	199,217
Redemption of senior unsecured debentures	12	(200,000)	—
Advance of revolving credit facilities		538,229	419,274
Repayment of revolving credit facilities, including financing costs		(415,653)	(394,231)
Repayment of lease liabilities		(91)	—
Issuance of preferred units, net of issue costs	15	—	121,304
Purchase of common units under normal course issuer bid	15	(138,403)	(34,605)
Purchase of preferred units under normal course issuer bid	15	(5,866)	(242)
Redemption of preferred units	15	(78,463)	(96,705)
Distributions paid on common units		(77,331)	(160,313)
Distributions paid on preferred units		(20,589)	(20,708)
		(232,823)	(30,824)
Foreign exchange (loss) gain on cash held in foreign currency		(2,203)	5,757
(Decrease) increase in cash		(23,688)	30,311
Cash, beginning of year		66,143	35,832
Cash, end of year		$ 42,455	$ 66,143

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2019 and 2018

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 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.

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:

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 receivable, 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.

(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.

Right-of-use assets, held under leases, that are investment properties 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 lives which are 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.

As a lessee of office premises, office equipment and vehicles, the REIT recognizes right-of-use assets and the related lease liabilities at the commencement date of the leases, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The recognized right-of-use assets are depreciated on a straight-line basis over the lease term. The related lease liabilities are included other payables and liabilities and other long-term liabilities.

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

The total amount of 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 cost and realty tax 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 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 as a lessor 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.

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

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

- Classification of joint arrangements - The REIT's accounting policy relating to joint arrangements is described in note 2 (g) and note 5. Judgment is applied in determining whether joint arrangements constitute a joint venture or a joint operation.

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

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

- Valuation of deferred tax liabilities and assets - The critical estimates and assumptions underlying the valuation of deferred tax liabilities and assets are described in note 23.

- Allowance for doubtful accounts - The critical estimates and assumptions underlying the valuation of 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 16 – *Leases* ("IFRS 16") on its effective date of January 1, 2019. IFRS 16 replaces IAS 17 – *Leases* ("IAS 17") and IFRIC 4 – *Determining whether an Arrangement Contains a Lease* ("IFRIC 4"). The most significant change introduced by IFRS 16 is a single lessee accounting model, bringing leases on-balance sheet for lessees. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17 and the REIT will continue to classify leases with its tenants as operating leases. For leases in which the REIT is a lessee, at the commencement date of the lease, the REIT recognizes right-of-use assets and lease liabilities measured at the present value of lease payments to be made over the lease term. After the commencement date, the lease liabilities are increased to reflect the accretion of interest and reduced for the lease payments made. The recognized right-of-use assets are depreciated on a straight-line basis over the lease term. The REIT applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less and leases of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The REIT adopted IFRS 16 using the modified retrospective method. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The REIT elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The REIT also elected to use the recognition exemptions for lease contracts for which the lease term ends within 12 months as of the date of initial application and leases for which the underlying asset is of low value. The REIT has reviewed all lease contracts in which it is a lessee. The REIT has one land lease and the fair value has been included in investment properties prior to initial application. No adjustment is required on initial application for the land lease. The REIT also has lease contracts for vehicles and office equipment. The REIT recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets, resulting in an increase of property and equipment of $133 and increase in other long-term liabilities of $133 as at January 1, 2019.

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 adoption of this interpretation did not result in a material impact to the consolidated financial statements.

In October 2017, the IASB amended IFRS 9 – *Financial Instruments* ("IFRS 9"). 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. This amendment did not result in a material impact to the consolidated financial statements.

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

In December 2017, the IASB amended IFRS 3 – *Business Combinations* ("IFRS 3"). The amendments clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. The amendments apply to business combinations for which the acquisition date is on or after January 1, 2019. The REIT applies the amendments to acquisitions completed on or after January 1, 2019.

Note 3. Acquisitions and dispositions of investment properties

Acquisitions:

The REIT acquired the following property during the year ended December 31, 2019:

Property	Property count	Location	Acquisition date	Asset class
Boulder Lakes Business Park II	1	Twin Cities Area, MN	October 25, 2019	Office

On May 15, 2019, the REIT acquired an additional 15% interest in the Centre 70 Building, an office property located in Calgary, Alberta for total consideration of $3,023. Prior to the acquisition date, the REIT owned 85% of this investment property as a joint operation and recorded its proportionate share of the assets, liabilities, revenues, expenses and cash flows in its consolidated financial statements. As a result of this acquisition, the REIT owns 100% of the property and accounts for it on a 100% consolidated basis. The REIT accounted for this acquisition as step acquisition and recorded a bargain purchase gain of $1,106.

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

On May 16, 2019, the REIT acquired an additional 5% interest in Park 8Ninety I, an industrial property located in the Greater Houston Area, Texas for total consideration of $6,261. Prior to the acquisition date, the REIT owned 95% 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 95% interests to fair value at the acquisition date.

On August 8, 2019, the REIT acquired a surface parking lot ancillary to an existing office property in Winnipeg, Manitoba.

On November 1, 2019, the REIT acquired a parcel of industrial development land adjacent to an existing industrial property in the Greater Houston Area, Texas.

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 acquired a surface parking lot ancillary to an existing office property in Winnipeg, Manitoba.

In addition, 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.

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:

	2019	Year ended December 31, 2018
Investment properties (note 4)	$ 71,635	$ 252,680
Long-term debt, including acquired above- and below-market mortgages, net of financing costs	(34,109)	(83,803)
Other net liabilities	(71)	(92)
	37,455	168,785
Consideration was comprised of the following:		
Common units (note 15(a)(ii))	—	43,651
Cash consideration	36,349	118,782
Bargain purchase gains	1,106	5,384
Foreign currency translation gain	—	968
Total consideration	$ 37,455	$ 168,785
Transaction costs expensed (note 21)	$ 301	$ 1,393

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

Dispositions:

The REIT disposed of the following properties during the year ended December 31, 2019:

Property	Property count	Location	Disposition date	Asset class
169 Inverness Drive West I & II [1]	1	Greater Denver Area, CO	April 9, 2019	Office
Reenders Square	1	Winnipeg, MB	May 21, 2019	Retail
Britannia Building	1	Calgary, AB	May 22, 2019	Office
Nanaimo Portfolio	4	Nanaimo, BC	June 17, 2019	Office & Retail
1700 Broadway	1	Greater Denver Area, CO	June 27, 2019	Office
GSA Professional Office Building	1	Greater Phoenix Area, AZ	July 26, 2019	Office
415 Yonge Street	1	Greater Toronto Area, ON	September 27, 2019	Office
Estevan Retail Portfolio	2	Estevan, SK	October 30, 2019	Retail
495 Richmond Road	1	Ottawa, ON	November 27, 2019	Office
Centre 70 Building	1	Calgary, AB	December 16, 2019	Office
Minnesota Retail Portfolio [1]	6	Twin Cities Area, MN	December 19, 2019	Retail

(1) These dispositions also include a parcel of development land.

The cash proceeds from the sale of the above properties, net of costs and related debt, were $247,819. The REIT also received a note receivable, secured by the disposed property, in the amount of $79,000 in conjunction with the sale of 415 Yonge Street (note 8). The assets and liabilities associated with the properties were derecognized.

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 cash 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.

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

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

				Year ended December 31, 2019
	Investment properties		Investment properties under development		Investment properties held for sale
Balance, beginning of year	$ 4,941,825	$ 119,604	$ 320,465
Additions:			
Acquisitions (note 3)	71,635	—	—
Reclassification from investments in joint ventures [1]	66,765	—	—
Capital expenditures	42,116	82,994	3,650
Capitalized interest [2]	—	3,740	—
Leasing commissions	14,415	1,168	1,158
Straight-line rent adjustments	5,446	—	631
Tenant inducement additions, net of amortization	16,133	2,762	1,532
Dispositions	(162,475)	—	(385,289)
Foreign currency translation loss	(106,548)	(1,964)	(1,812)
Fair value gain (loss)	19,400	2,601	(116,728)
Reclassification of investment properties under development	95,827	(95,827)	—
Reclassification of investment properties held for sale	(385,820)	(12,488)	398,308
Balance, end of year	$ 4,618,719	$ 102,590	$ 221,915

(1) On May 16, 2019, the REIT increased its ownership interest in Park 8Ninety I to 100%. See note 3 for further information.
(2) During the year ended December 31, 2019, interest was capitalized to investment properties under development at a weighted average effective interest rate of 3.81%.

	Investment properties	Investment properties under development	Year ended December 31, 2018 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 [5]	—	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 3 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.
(5) During the year ended December 31, 2018, interest was capitalized to investment properties under development at a weighted average effective interest rate of 3.84%.

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

During the year ended December 31, 2019, the REIT reclassified three industrial properties and one office densification project from investment properties under development to investment properties.

The REIT had one retail property, seven office properties and one parcel of development land classified as investment properties held for sale that were listed with external brokers or under unconditional sale agreements at December 31, 2019 (December 31, 2018, 10 retail properties and six office properties). The properties held for sale had an aggregate mortgage payable balance of $66,587 at December 31, 2019 (December 31, 2018, $114,935). This balance is not accounted for as held for sale but is included in current liabilities as the REIT intends to repay or have the purchaser assume the mortgages upon disposition of the related investment properties.

At December 31, 2019, included in investment properties was $47,933 (December 31, 2018, $44,709) of net straight-line rent receivables arising from the recognition of rental income on a straight-line basis over the lease term.

Investment properties include right-of-use assets held under a lease with an aggregate fair value of $13,997 at December 31, 2019 (December 31, 2018, $12,978). The lease payments required under this lease were fully paid at the time of acquisition of the property.

At December 31, 2019, investment properties with a fair value of $3,031,195 (December 31, 2018, $3,587,739) 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, 2019, properties (including the REIT's ownership interest in properties held in joint venture arrangements) with an appraised value of $563,870 (2018, $977,379), 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, 2019 and 2018.

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.

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

	December 31, 2019			December 31, 2018		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Canada:						
Discount rate	9.50 %	5.00 %	7.38 %	9.50%	5.25%	7.43%
Terminal capitalization rate	9.00 %	3.75 %	6.34 %	9.00%	3.75%	6.36%
Capitalization rate	9.00 %	3.75 %	6.23 %	8.75%	3.75%	6.30%
Investment horizon (years)	11.0	10.0	10.3	12.0	10.0	10.3
U.S.:						
Discount rate	9.00 %	6.25 %	7.86 %	9.00%	6.50%	7.94%
Terminal capitalization rate	8.00 %	5.25 %	6.86 %	8.75%	5.50%	6.92%
Capitalization rate	8.00 %	5.00 %	6.73 %	8.50%	5.25%	6.77%
Investment horizon (years)	12.0	10.0	10.4	15.0	10.0	10.6
Total portfolio:						
Discount rate	9.50 %	5.00 %	7.55 %	9.50%	5.25%	7.62%
Terminal capitalization rate	9.00 %	3.75 %	6.53 %	9.00%	3.75%	6.57%
Capitalization rate	9.00 %	3.75 %	6.41 %	8.75%	3.75%	6.47%
Investment horizon (years)	12.0	10.0	10.3	15.0	10.0	10.4

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

The 2018 comparative information for rates and investment horizons has been restated to reflect the 2019 presentation.

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

The following sensitivity table outlines the impact of a 0.25% change in the weighted-average capitalization rate on investment properties at December 31, 2019:

	Change to fair value if capitalization rate increased by 0.25%	Change to fair value if capitalization rate decreased by 0.25%
Canada	$ (110,436)	$ 120,471
U.S.	(74,905)	80,844
	$ (185,341)	$ 201,315

Note 5. Joint arrangements

The REIT has interests in the following joint arrangements:

			Ownership interest	
Property	Principal purpose	Type of arrangement	December 31, 2019	December 31, 2018
Park 8Ninety I (1)	Investment property	Joint venture	— %	95 %
Park 8Ninety II	Investment property	Joint venture	95 %	95 %
Park 8Ninety IV	Investment property	Joint venture	95 %	— %
Corridor Park	Investment property	Joint venture	90 %	90 %
Millwright Building	Investment property	Joint venture	80 %	80 %
Tower Business Center	Investment property	Joint venture	80 %	80 %
Graham Portfolio	Investment property	Joint venture	75 %	75 %
The Point at Inverness	Investment property	Joint venture	50 %	50 %
Centre 70 Building (1)	Investment property	Joint operation	— %	85 %
Cliveden Building	Investment property	Joint operation	50 %	50 %
Kincaid Building	Investment property	Joint operation	50 %	50 %

(1) During 2019, 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, 2019, the REIT entered into a new joint venture arrangement for Park 8Ninety IV, an industrial development project in the Greater Houston Area, Texas.

During the year ended December 31, 2019, the REIT contributed $17,087 to Tower Business Center, Park 8Ninety I, Park 8Ninety II, Corridor Park and the Millwright Building 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, 2019, the co-owners' share of mortgage liabilities was $40,816 (December 31, 2018, $37,642). Management believes that the assets available from its joint arrangements are sufficient for the purpose of satisfying such obligations.

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

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

		December 31, 2019		December 31, 2018
Non-current assets:				
Investment properties	$	306,051	$	255,661
Investment properties under development		—		40,635
Current assets:				
Prepaid expenses and other assets		86		244
Accounts receivable and other receivables		1,281		822
Cash		9,207		3,808
Total assets		316,625		301,170
Non-current liabilities:				
Mortgages and loans payable		93,977		44,017
Current liabilities:				
Mortgages and loans payable		27,598		59,068
Security deposits and prepaid rent		3,483		3,264
Accounts payable and other liabilities		4,957		18,320
Total liabilities		130,015		124,669
Investments in joint ventures	$	186,610	$	176,501

				Year ended December 31,
		2019		2018
Revenue	$	17,958	$	21,195
Expenses:				
Property operating		4,938		5,560
Realty taxes		3,513		4,422
Total operating expenses		8,451		9,982
Net operating income		9,507		11,213
Other income (expenses):				
Interest expense		(4,372)		(5,592)
Interest income		7		8
Fair value gain on investment properties		31,701		1,428
Fair value gain on business combinations (1)		—		1,697
Net income from investments in joint ventures	$	36,843	$	8,754

(1) The 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 unit and per unit amounts)

Note 6. Property and equipment

		December 31, 2019		December 31, 2018
Office furniture and fixtures	$	12,262	$	10,582
Office equipment and software		1,423		1,354
Right-of-use leased assets		611		—
Accumulated depreciation		(6,510)		(5,403)
	$	7,786	$	6,533

Note 7. Inventory properties

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

		December 31, 2019		December 31, 2018
Balance, beginning of year	$	11,227	$	—
Transfers from investment properties		—		8,800
Transfers from investment properties under development		—		1,816
Capital expenditures		3,268		611
Capitalized interest		137		—
Balance, end of year	$	14,632	$	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 $284 for the year ended December 31, 2019 (2018, $99).

Note 8. Notes receivable

		December 31, 2019		December 31, 2018
Note receivable, maturing in July 2022, bearing interest at 5.05% per annum, interest-only monthly payment until maturity, secured by an office property.	$	79,000	$	—
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.		8,554		10,814
Note receivable from tenant, maturing in November 2031, bearing interest at 8.50% per annum, repayable in blended monthly installments of US$50.		5,856		3,710
Note receivable from tenant maturing in September 2021, bearing interest at 1.00% per annum, repayable in blended monthly installments of $64.		1,326		2,075
Other notes receivable		3,092		4,160
		97,828		20,759
Current portion		3,996		4,543
Non-current portion	$	93,832	$	16,216

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

Note 9. Prepaid expenses and other assets

		December 31, 2019		December 31, 2018
Prepaid insurance	$	3,499	$	3,234
Prepaid realty taxes		1,029		1,165
Prepaid acquisition, disposition and development costs		1,176		593
Derivative instruments (note 31)		1,303		12,322
Other prepaid expenses		3,526		3,268
	$	10,533	$	20,582

Note 10. Accounts receivable and other receivables

		December 31, 2019		December 31, 2018
Rents receivable (note 30 (b))	$	8,108	$	8,970
Allowance for doubtful accounts (note 30 (b))		(406)		(471)
Accrued recovery income		5,352		4,019
Other receivables		7,959		8,583
	$	21,013	$	21,101

Note 11. Mortgages and loans payable

		December 31, 2019		December 31, 2018
Mortgages and loans payable	$	1,403,401	$	1,690,671
Net above- and below-market mortgage adjustments		3,170		1,175
Financing costs		(5,223)		(6,836)
		1,401,348		1,685,010
Current portion		396,152		412,558
Non-current portion	$	1,005,196	$	1,272,452

The majority of the REIT's investment properties have been pledged as security under mortgages and other security agreements. As at December 31, 2019, 32.1% of the REIT's mortgages and loans payable bear interest at fixed rates (December 31, 2018, 40.0%), and a further 27.1% of the REIT's mortgages and loans payable bear interest at variable rates with interest rate swaps in place (December 31, 2018, 31.6%). The weighted-average effective rate on all mortgages and loans payable was 3.94% and the weighted-average nominal rate was 3.77% at December 31, 2019 (December 31, 2018, 4.27% and 4.07%, respectively). Maturity dates range from January 1, 2020 to June 1, 2031.

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, 2019 and 2018.

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

Note 12. Senior unsecured debentures

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.

On February 22, 2019, under the August 23, 2018 short form base shelf prospectus, the REIT issued 3.674% Series C senior unsecured debentures for gross proceeds of $250,000. Interest is payable semi-annually on February 22 and August 22 in each year. These debentures are not redeemable by the REIT prior to maturity and rank equally with all other indebtedness of the REIT.

On March 27, 2019, upon maturity, the REIT repaid the outstanding face value of the 3.753% Series A senior unsecured debentures in the amount of $200,000.

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	Applicable interest rates (1)
Series B	February 7, 2018	February 7, 2020	3.354 %
Series C	February 22, 2019	February 22, 2021	3.674 %

(1) The REIT has entered into an interest rate swap agreement on the Series B senior unsecured debentures.

	Face value	Unamortized accretion	Unamortized financing costs	Carrying value	Current portion	Non-current portion
Series B	$ 200,000	$ —	$ (41)	$ 199,959	$ 199,959	$ —
Series C	250,000	—	(628)	249,372	—	249,372
December 31, 2019	$ 450,000	$ —	$ (669)	$ 449,331	$ 199,959	$ 249,372
December 31, 2018	400,000	51	(515)	399,536	199,971	199,565

During the year ended December 31, 2019, accretion to the liability of $51 and financing cost amortization of $901 (2018, $216 and $682, respectively) were recorded.

In accordance with the Series B and Series C 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, 2019 and 2018, the REIT was in compliance with these requirements.

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.

The REIT also has 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.

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

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

	December 31, 2019			December 31, 2018		
	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	$ 341,117	$ 58,883	$ 283,907	$ 116,093	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	246,994	53,006	190,800	109,200	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		(1,589)		(2,169)		
Total credit facilities	$ 1,000,000	$ 886,522	$ 111,889	$ 772,538	$ 225,293	

(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, 2019 and 2018, the REIT was in compliance with these requirements.

Note 14. Accounts payable and other liabilities

	December 31, 2019	December 31, 2018
Accounts payable and accrued liabilities	$ 39,018	$ 33,988
Distributions payable	7,458	8,674
Accrued interest	8,694	8,744
Accrued realty taxes	11,136	14,189
Tenant installments payable	2,939	4,152
Derivative instruments (note 31)	8,187	4,006
Cash-settled unit-based payments liability	9,205	2,942
Other payables and liabilities	1,594	1,192
	$ 88,231	$ 77,887

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.

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

(ii) Issued and outstanding:

	Number of units		Amount
Balance at 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 at December 31, 2018	150,282,829		1,959,647
Restricted units redeemed	51,981		606
Deferred units redeemed	39,546		470
Units acquired and cancelled through normal course issuer bid	(12,417,833)		(161,976)
Balance at December 31, 2019	137,956,523	$	1,798,747

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

(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, 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
Units acquired and cancelled through normal course issuer bid	(58,100)	—	(162,300)	(57,700)	—	(278,100)
Preferred units redeemed	—	—	—	(3,138,500)	—	(3,138,500)
Number of units outstanding at December 31, 2019	3,387,300	—	3,833,900	—	5,000,000	12,221,200

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

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

	Series A	Series C	Series E	Series G	Series I	Total
Annual distribution rate	5.662 %	5.250 %	5.472 %	5.000 %	6.000 %	
Distribution rate reset date	September 30, 2022	—	September 30, 2023	—	April 30, 2023	
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
Units acquired and cancelled through normal course issuer bid	(1,383)	—	(3,916)	(1,388)	—	(6,687)
Preferred units redeemed	—	—	—	(75,710)	—	(75,710)
Carrying value at December 31, 2019	$ 80,651	$ —	$ 92,529	$ —	$ 121,304	$ 294,484
Face value at December 31, 2019	$ 84,683	$ —	$ 95,847	$ —	$ 125,000	$ 305,530
Face value at December 31, 2018	86,135	—	99,905	79,905	125,000	390,945

(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 paid 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 ended 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 paid 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 ended 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%.

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 paid 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 ended July 31, 2019. On July 31, 2019, the REIT redeemed all 3,138,500 outstanding Series G Units with an aggregate face value of $78,463.

(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.

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

The Series A Units, Series E Units and Series I Units rank equally with each other and with the outstanding Series B Units, Series F 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, 2019, 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, 2019 as follows:

	Public float	10% of public float
Common units	119,019,978	11,901,997
Preferred unit series:		
Series A	3,387,300	338,730
Series E	3,835,700	383,570
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, 2020, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the year ended December 31, 2019, the REIT acquired 12,417,833 common units at market prices aggregating $138,403, resulting in contributed surplus of $23,573, which was the excess of stated capital over redemption proceeds. During the year ended December 31, 2019, the REIT also acquired 58,100, 162,300 and 57,700 Series A, E and G Units, respectively, at market prices aggregating $5,866, resulting in contributed surplus of $821, which was the excess of stated capital over redemption proceeds.

During the year ended December 31, 2018, the REIT acquired 3,541,927 common units 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, at market prices aggregating $242, resulting in contributed surplus of $51, which was the excess of stated capital over redemption proceeds.

(d) Short form base shelf prospectus:

On August 23, 2018, the REIT issued a short form base shelf prospectus. The REIT may from time to time during the 25-month period that this short form base shelf prospectus is valid, offer and issue the following securities up to a maximum of $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, 2019, the REIT had issued senior unsecured debentures under one offering in the amount of $250,000 under this short form base shelf prospectus.

(e) Weighted-average common units:

				Year ended December 31,
		2019		2018
Net income	$	122,737	$	158,636
Adjustment for distributions to preferred unitholders (note 17)		(19,936)		(21,948)
Net income attributable to common unitholders		102,801		136,688
Adjustment for restricted units		—		(1,140)
Adjustment for deferred units		—		(403)
Diluted net income attributable to common unitholders	$	102,801	$	135,145
The weighted-average number of common units outstanding was as follows:				
Basic common units		142,434,694		153,069,303
Effect of dilutive securities:				
Restricted units		—		427,187
Deferred units		—		72,582
Diluted common units		142,434,694		153,569,072
Net income per unit attributable to common unitholders:				
Basic	$	0.72	$	0.89
Diluted		0.72		0.88

The computation of diluted net income per unit attributable to common unitholders includes restricted units and deferred units when these instruments are dilutive. For the year ended December 31, 2019, restricted and deferred units were anti-dilutive, for an aggregate total of 535,557 and 280,942 units, respectively. For the year ended December 31, 2018, there were no anti-dilutive units.

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

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, 2019 amounted to $2,981 (2018, $1,136). 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 are redeemed. 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,
	2019	2018
	Units	Units
Balance, beginning of year	546,573	394,040
Granted	287,195	260,920
Accrued	26,356	42,447
Redeemed	(145,129)	(129,621)
Expired	(20,961)	(21,213)
Balance, end of year	694,034	546,573
Restricted units vested at end of year	19,130	25,389

(b) Deferred units:

Unit-based compensation expense related to deferred units outstanding under the equity incentive plan for the year ended December 31, 2019 amounted to $1,282 (2018, $340). 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,
	2019	2018
	Units	Units
Balance, beginning of year	92,673	81,635
Granted	409,128	47,027
Accrued	12,594	7,560
Redeemed	(41,944)	(43,549)
Balance, end of year	472,451	92,673
Deferred units vested at end of year	472,451	92,673

(c) Unit options:

At December 31, 2019 and 2018, no unit options had been granted under the REIT's equity incentive plan.

(d) Installment units:

At December 31, 2019 and 2018, no installment units had been granted under the REIT's equity incentive plan.

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

Note 17. Distributions to unitholders

Total distributions declared to unitholders were as follows:

		Year ended December 31, 2019				Year ended December 31, 2018
		Total distributions		Distributions per unit		Total distributions		Distributions per unit
Common unitholders	$	76,396	$	0.54	$	151,460	$	0.99
Preferred unitholders - Series A		4,806		1.42		4,882		1.42
Preferred unitholders - Series C		—		—		1,269		0.42
Preferred unitholders - Series E		5,329		1.37		4,929		1.23
Preferred unitholders - Series G		2,301		0.73		4,000		1.25
Preferred unitholders - Series I		7,500		1.50		6,868		1.38

Note 18. Revenue

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

		2019		Year ended December 31, 2018
Base rent	$	322,554	$	314,743
Operating cost and realty tax recoveries		194,579		187,967
Parking and other revenue		20,736		20,648
Tenant inducements amortized to revenue		(23,385)		(19,761)
Straight-line rent adjustments		6,077		5,491
Lease termination income		1,099		3,782
	$	521,660	$	512,870

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, 2019		December 31, 2018
Not later than one year	$	315,977	$	349,873
One to two years		286,806		300,858
Two to three years		243,841		264,309
Three to four years		209,760		221,482
Four to five years		170,768		176,285
Later than five years		670,120		696,545
	$	1,897,272	$	2,009,352

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

Note 19. Corporate expenses

				Year ended December 31,
		2019		2018
Accounting, legal and consulting	$	4,754	$	2,214
Public company costs		1,545		1,599
Unit-based compensation		4,264		1,476
Salaries and benefits		2,688		6,247
Depreciation of property and equipment		1,130		1,049
General and administrative		1,429		1,851
	$	15,810	$	14,436

Note 20. Interest expense

				Year ended December 31,
		2019		2018
Interest on mortgages and loans payable	$	62,445	$	63,745
Interest on senior unsecured debentures		16,352		12,762
Interest on credit facilities		26,640		21,542
Net amortization of above- and below-market mortgages fair value adjustments		(434)		(271)
Amortization of financing costs		3,857		3,602
Accretion on liability component of debentures		(51)		(216)
	$	108,809	$	101,164

Note 21. Transaction costs

The REIT incurred transaction costs in relation to the following:

				Year ended December 31,
		2019		2018
Acquisitions of investment properties	$	301	$	1,393
Termination of property management agreements		—		5,025
	$	301	$	6,418

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.

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

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

The REIT recorded (losses) gains on the following:

		Year ended December 31, 2019		Year ended December 31, 2018
Interest rate swaps	$	(11,892)	$	221
Foreign currency contracts		(5,978)		5,562
Other derivatives		385		175
Bargain purchase gains [(1)]		1,106		5,384
	$	(16,379)	$	11,342

(1) The REIT realized bargain purchase gains related to the step acquisition of the Centre 70 Building during the year ended December 31, 2019 and the step acquisitions of 1700 Broadway and Hudson's Bay Centre during the year ended December 31, 2018. 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, 2019 and 2018. 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.

Note 24. Supplemental cash flow information

(a) Other items not affecting cash:

		Year ended December 31, 2019		Year ended December 31, 2018
Tenant inducements amortized to revenue	$	23,385	$	19,761
Straight-line rent adjustments		(6,077)		(5,491)
Depreciation of property and equipment		1,130		1,049
Unit-based compensation		3,182		(122)
Other long-term employee benefits		888		1,427
Amortization of above- and below-market mortgages, net		(434)		(271)
Amortization of financing costs included in interest expense		3,857		3,602
Accretion on liability component of debentures		(51)		(216)
	$	25,880	$	19,739

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

(b) Changes in non-cash operating items:

		Year ended December 31, 2019		2018
Inventory properties	$	(3,405)	$	(611)
Prepaid expenses and other assets		(1,497)		1,588
Accounts receivable and other receivables		(1,335)		(3,703)
Security deposits and prepaid rent		(2,225)		3,384
Accounts payable and other liabilities		(3,478)		6,731
	$	(11,940)	$	7,389

(c) Other supplemental cash flow information:

		Year ended December 31, 2019		2018
Interest paid	$	114,500	$	103,550
Interest received		3,220		2,172
Income taxes paid		995		13

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, 2019	December 31, 2018
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. (1)	Canada	— %	50 %
AX Longboat L.P. (1)	Canada	— %	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 (2)	U.S.	100 %	95 %
Park 8Ninety Phase II, LP	U.S.	95 %	95 %
Park 8Ninety Phase IV, LP	U.S.	95 %	— %
Artis/Core Park West Land, Ltd.	U.S.	90 %	90 %
Tower Business Center L.P.	U.S.	80 %	80 %
Artis/Ryan Millwright, LP	U.S.	80 %	80 %
ARTIS HRA Inverness Point GP, LLC	U.S.	50 %	50 %
ARTIS HRA Inverness Point, LP	U.S.	50 %	50 %

(1) These entities disposed of their interest in the Centrepoint joint venture in 2018 and were dissolved in 2019.

(2) On May 16, 2019, the REIT increased its ownership interest in this property to 100%. Effective as of May 16, 2019, the REIT no longer discloses its interests in this property as a joint venture. See note 3 for further information.

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

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, 2019	Year ended December 31, 2018
Short-term benefits	$ 8,128	$ 7,892
Post-employment benefits	1,199	4,684
Other long-term benefits	379	1,382
Unit-based compensation	3,060	945
	$ 12,766	$ 14,903

(a) Short-term benefits:

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

(b) Post-employment benefits and other long-term benefits:

The REIT had defined benefit plans providing pension benefits to certain key management personnel. The ultimate retirement benefit was defined by a formula that provides a unit of benefit for each year of service. The REIT also had an obligation for future retirement payments to certain key management personnel upon completion of a defined service period. During the year ended December 31, 2019, the REIT settled the defined benefit plans and the obligation for future retirement payments.

(c) Unit-based compensation:

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

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

Note 27. Segmented information

The REIT owns and operates various properties located in Canada and the U.S. These properties are managed and reported internally by country. 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.

Prior to 2019, Canada was separated into Western Canada, Central Canada and Eastern Canada reportable segments. As a result of portfolio and staff realignment in 2019 and 2018, the properties in Canada are now managed and reported internally as one segment. The comparative 2018 segmented information for Canada has been aggregated in this note.

					Year ended December 31, 2019
	Canada	U.S.	REIT	Joint ventures adjustment	Total
Revenue	$ 289,050	$ 250,257	$ 311	$ (17,958)	$ 521,660
Expenses:					
Property operating	74,587	60,450	—	(4,938)	130,099
Realty taxes	44,442	40,776	—	(3,513)	81,705
	119,029	101,226	—	(8,451)	211,804
Net operating income	170,021	149,031	311	(9,507)	309,856
Other income (expenses):					
Corporate expenses	—	—	(15,810)	—	(15,810)
Interest expense	(24,782)	(43,500)	(44,899)	4,372	(108,809)
Interest income	747	526	1,946	(7)	3,212
Net income from investments in joint ventures	—	—	—	36,843	36,843
Fair value gain (loss) on investment properties	4,811	(67,837)	—	(31,701)	(94,727)
Foreign currency translation gain	—	—	10,668	—	10,668
Transaction costs	(120)	(181)	—	—	(301)
Fair value gain (loss) on derivative instruments and other transactions	1,106	—	(17,485)	—	(16,379)
Income (loss) before income taxes	151,783	38,039	(65,269)	—	124,553
Income tax expense	—	(1,816)	—	—	(1,816)
Net income (loss)	$ 151,783	$ 36,223	$ (65,269)	$ —	$ 122,737
Acquisitions of investment properties	$ 7,929	$ 63,706	$ —	$ —	$ 71,635
Additions to investment properties, investment properties under development and investment properties held for sale	82,932	89,817	—	(43,989)	128,760
Additions to tenant inducements	19,267	29,892	—	(5,347)	43,812
Additions to leasing commissions	6,310	14,069	—	(3,638)	16,741

					December 31, 2019
	Canada	U.S.	REIT	Joint ventures adjustment	Total
Total assets	$ 2,987,331	$ 2,360,066	$ 112,637	$ (130,015)	$ 5,330,019
Total liabilities	640,100	979,670	1,369,511	(130,015)	2,859,266

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

									Year ended December 31, 2018	
		Canada		U.S.		REIT		Joint ventures adjustment		Total
Revenue	$	300,216	$	233,568	$	281	$	(21,195)	$	512,870
Expenses:										
Property operating		75,700		57,557		—		(5,560)		127,697
Realty taxes		47,043		38,229		—		(4,422)		80,850
		122,743		95,786		—		(9,982)		208,547
Net operating income		177,473		137,782		281		(11,213)		304,323
Other income (expenses):										
Corporate expenses		—		—		(14,436)		—		(14,436)
Interest expense		(29,424)		(41,651)		(35,681)		5,592		(101,164)
Interest income		954		351		677		(8)		1,974
Net income from investments in joint ventures		—		—		—		8,754		8,754
Fair value gain (loss) on investment properties		8,005		(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		156,893		54,959		(52,689)		—		159,163
Income tax expense		—		(527)		—		—		(527)
Net income (loss)	$	156,893	$	54,432	$	(52,689)	$	—	$	158,636
Acquisitions of investment properties	$	—	$	256,404	$	—	$	(3,724)	$	252,680
Additions to investment properties, investment properties under development and investment properties held for sale		41,941		79,503		—		(29,239)		92,205
Additions to tenant inducements		32,341		21,459		—		(7,255)		46,545
Additions to leasing commissions		6,027		9,954		—		(2,941)		13,040

									December 31, 2018	
		Canada		U.S.		REIT		Joint ventures adjustment		Total
Total assets	$	3,138,072	$	2,644,707	$	59,067	$	(124,669)	$	5,717,177
Total liabilities		726,942		1,174,199		1,202,660		(124,669)		2,979,132

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

Note 28. Commitments, contingencies and guarantees

(a) Unconditional sale agreement:

The REIT has an unconditional sale agreement for an office property located in Ottawa, Ontario for a sale price of $22,500 with expected closing in the first quarter of 2020.

(b) Letters of credit:

As at December 31, 2019, the REIT had issued letters of credit in the amount of $3,574 (December 31, 2018, $4,574).

(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, 2019, the REIT has guaranteed certain debt assumed by purchasers in connection with the dispositions of three properties (December 31, 2018, three 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, 2019 was $56,025 (December 31, 2018, $58,161), with an estimated weighted-average remaining term of 3.1 years (December 31, 2018, 4.1 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, 2019, the ratio of such indebtedness to gross book value was 51.3% (December 31, 2018, 49.9%), 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, 2019		December 31, 2018
Mortgages and loans payable	11	$	1,401,348	$	1,685,010
Senior unsecured debentures	12		449,331		399,536
Credit facilities	13		886,522		772,538
Total debt			2,737,201		2,857,084
Unitholders' equity			2,470,753		2,738,045
		$	5,207,954	$	5,595,129

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 debt financing 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, 2019, the REIT was a party to $2,041,647 of variable rate debt, including credit facilities and debentures (December 31, 2018, $1,989,356). At December 31, 2019, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with $880,729 of variable rate debt, including swaps on credit facilities and debentures (December 31, 2018, $834,241).

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

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	$ 11,609
Fixed rate debt due within one year	4,014
	$ 15,623

(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 1.3266 for the year ended December 31, 2019, and the year end exchange rate of 1.2988 at December 31, 2019, would have increased net income by approximately $8,346 for the year ended December 31, 2019. A $0.10 weakening in the US dollar against the Canadian dollar would have decreased other comprehensive income by approximately $112,689 for the year ended December 31, 2019. 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 $589 during the year ended December 31, 2019 (2018, $1,000). 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, 2019	December 31, 2018
Past due 0 - 30 days	$ 5,110	$ 6,413
Past due 31 - 90 days	935	935
Past due more than 91 days	2,063	1,622
	8,108	8,970
Allowance for doubtful accounts	(406)	(471)
	$ 7,702	$ 8,499

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, and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

(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 unit and per unit amounts)

The following are the estimated maturities of the REIT's financial liabilities at December 31, 2019 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	$ 88,231	$ 88,231	$ —	$ —	$ —
Credit facilities	888,111	—	641,117	246,994	—
Senior unsecured debentures	450,000	200,000	250,000	—	—
Mortgages and loans payable	1,403,401	371,223	530,300	485,840	16,038
	$ 2,829,743	$ 659,454	$ 1,421,417	$ 732,834	$ 16,038

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 year ended December 31, 2019 and 2018.

		December 31, 2019		December 31, 2018	
	Fair value hierarchy	Carrying value	Fair value	Carrying value	Fair value
Assets:					
Investment properties	Level 3	$ 4,618,719	$ 4,618,719	$ 4,941,825	$ 4,941,825
Investment properties under development	Level 3	102,590	102,590	119,604	119,604
Notes receivable	Level 2	97,828	98,485	20,759	21,317
Investment properties held for sale	Level 3	221,915	221,915	320,465	320,465
Derivative instruments	Level 2	1,303	1,303	12,322	12,322
		5,042,355	5,043,012	5,414,975	5,415,533
Liabilities:					
Mortgages and loans payable	Level 2	1,401,348	1,412,899	1,685,010	1,693,090
Senior unsecured debentures	Level 2	449,331	453,086	399,536	400,741
Credit facilities	Level 2	886,522	888,111	772,538	774,707
Derivative instruments	Level 2	8,187	8,187	4,006	4,006
		2,745,388	2,762,283	2,861,090	2,872,544
		$ 2,296,967	$ 2,280,729	$ 2,553,885	$ 2,542,989

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

The fair values of notes receivable, derivative instruments, mortgages and loans payable, senior unsecured debentures and credit facilities have been determined by discounting the cash flows of these financial instruments using period end market rates for instruments of similar terms and credit risks.

Derivative instruments primarily consist of interest rate and foreign currency swaps. The REIT entered into interest rate swaps on a number of mortgages, the non-revolving credit facilities and the Series B senior unsecured debentures. The swaps are not designated in a hedge relationship.

Note 32. Subsequent events

The following events occurred subsequent to December 31, 2019:

- The REIT disposed of four office properties and a parcel of development land located in Calgary, Alberta, for an aggregate sale price of $117,826. The REIT received a note receivable of $10,000 as partial consideration for one of the disposed investment properties. In addition, the REIT sold a note receivable from a tenant in one of the disposed investment properties in the amount of $8,359. A portion of the proceeds was used to repay the outstanding mortgage financing in the amount of $30,475.
- The REIT entered into an unconditional purchase agreement for a parcel of development land adjacent to existing industrial properties located in the Greater Phoenix Area, Arizona for a purchase price of US$9,700. The acquisition is expected to close in January 2021.
- The REIT made an interest payment for the Series C senior unsecured debentures in the amount of $4,593 for the six months ended February 22, 2020.
- The REIT made an interest payment of $1,533 and repaid the outstanding face value of $200,000 for the Series B senior unsecured debentures.
- The REIT entered into a two-year senior unsecured non-revolving term credit facility agreement in the amount of $200,000, bearing interest at prime plus 0.60% or the bankers' acceptance rate plus 1.60%. The REIT drew $200,000 on this credit facility.
- The REIT repaid a net balance of $55,500 and US$5,900 on its revolving term credit facilities.
- The REIT declared a monthly cash distribution of $0.045 per common unit for the months of January and February 2020.
- The REIT declared a quarterly cash distribution of $0.3750 per Series I Unit for the three months ended January 31, 2020.

Note 33. Approval of financial statements

These consolidated financial statements were approved by the Board of Trustees and authorized for issue on February 27, 2020.

ARTIS
REIT

WINNIPEG HEAD OFFICE

600 - 220 PORTAGE AVENUE
WINNIPEG, MANITOBA R3C 0A5
T 204-947-1250
F 204-947-0453

WWW.ARTISREIT.COM
AX.UN - TSX

CALGARY

SUITE 410
1331 MACLEOD TRAIL SE
CALGARY, ALBERTA T2G 0K3
T 403-705-3535
F 403-444-5053

EDMONTON

SUITE 101
13245-140TH AVENUE NW
EDMONTON, ALBERTA T6V 0E4
T 780-702-3066
F 780-702-3070

TORONTO

SUITE 1803
415 YONGE STREET
TORONTO, ONTARIO M5B 2E7
T 647-955-3755
F 647-977-9072

PHOENIX

SUITE 280
16220 N. SCOTTSDALE ROAD
SCOTTSDALE, ARIZONA 85254
T 480-483-4111
F 480-556-9987

MADISON

SUITE 160
8215 GREENWAY BLVD
MIDDLETON, WISCONSIN 53562
T 608-830-6300
F 608-662-0500

MINNEAPOLIS

SUITE 150
120 SOUTH 6TH STREET
MINNEAPOLIS, MINNESOTA 55402
T 612-843-3900
F 612-217-6409