



**ARTIS**

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REIT

**Management's Discussion and Analysis  
2013 Annual**

On the TSX: AX.UN AX.PR.A AX.PR.U AX.PR.E AX.PR.G AX.DB.F AX.DB.U

# ARTIS REAL ESTATE INVESTMENT TRUST

Management's Discussion and Analysis - 2013 Annual  
(In thousands of Canadian dollars, unless otherwise noted)

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### FORWARD-LOOKING DISCLAIMER

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

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

### NOTICE RESPECTING NON-GAAP MEASURES

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

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

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

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

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

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## OVERVIEW

Artis is an unincorporated closed-end real estate investment trust, created under, and governed by, the laws of the Province of Manitoba. The REIT was created pursuant to the Declaration of Trust dated November 8, 2004, as most recently amended and restated on August 2, 2012 (the "Declaration of Trust").

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

## PRIMARY OBJECTIVES

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

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

- **Portfolio Diversification.** We build stability into our cash flows through a strategy of diversification. Our commercial properties are well diversified across the industrial, retail and office asset classes. We are also geographically diversified with properties owned across western Canada, as well as Ontario and in select markets in the United States ("U.S.").
- **Portfolio Expansion.** We build growth into our cash flows through the efficient sourcing and deployment of capital into high-quality and accretive acquisition opportunities in our target markets, or into high-yield intensification or (re)development opportunities that exist within our property portfolio.
- **Managing for Value Creation.** We build value through the active management of our portfolio, leveraging off the experience and expertise of our management team. We focus on maximizing property value and cash flows over the long-term, creating additional value through the selective disposition of assets at premium prices, and reinvesting and repositioning the portfolio on an on-going basis in higher growth markets.

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

## U.S. INVESTMENT STRATEGY

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

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

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

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

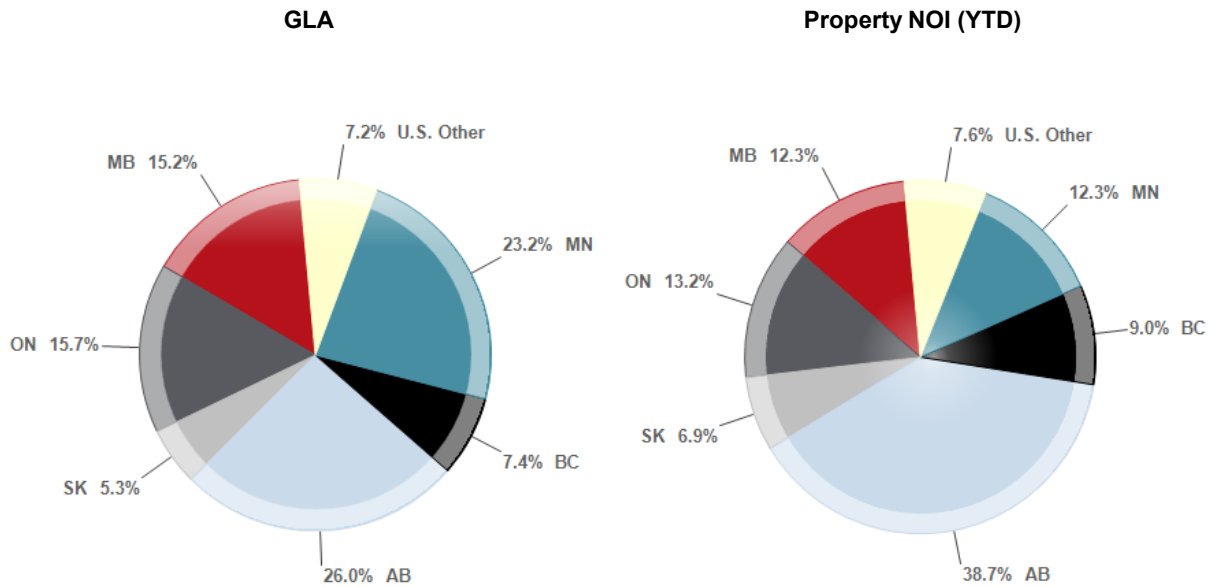
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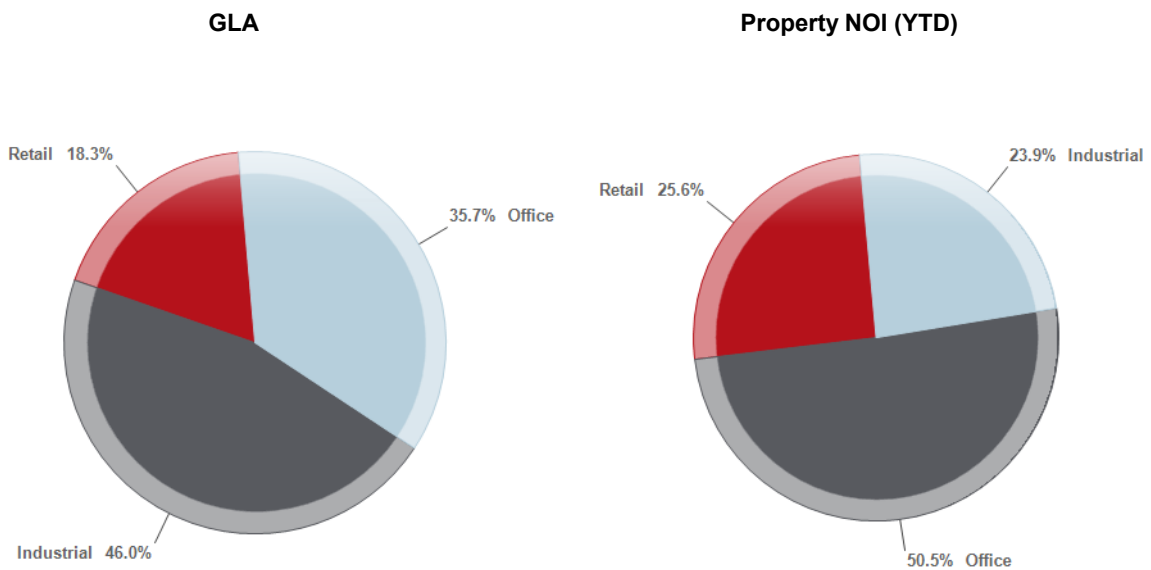
## PORTFOLIO SUMMARY

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

### Diversification by Geographical Region



### Diversification by Asset Class



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

Asset Class	City	Province / State	Number of Properties	Owned Share of Leasable Area	% of Portfolio GLA	Occupancy %	Committed % <sup>(2)</sup>
Industrial	Airdrie	AB	1	27	0.1 %	100.0 %	100.0 %
	Calgary	AB	7	597	2.4 %	100.0 %	100.0 %
	Edmonton Capital Region	AB	10	1,185	4.8 %	95.4 %	95.4 %
	Greater Toronto Area	ON	29	2,531	10.2 %	98.4 %	98.5 %
	Red Deer	AB	1	126	0.5 %	100.0 %	100.0 %
	Regina	SK	1	119	0.5 %	100.0 %	100.0 %
	Saskatoon	SK	2	269	1.1 %	100.0 %	100.0 %
	Winnipeg	MB	26	1,454	5.9 %	96.2 %	96.5 %
<b>Industrial total</b>			<b>77</b>	<b>6,308</b>	<b>25.5 %</b>	<b>97.6 %</b>	<b>97.7 %</b>
Office	Calgary	AB	20	2,528	10.1 %	92.2 %	94.4 %
	Edmonton Capital Region	AB	1	48	0.2 %	86.8 %	88.9 %
	Greater Toronto Area	ON	5	1,081	4.4 %	92.3 %	93.3 %
	Greater Vancouver Regional District	BC	5	611	2.5 %	96.8 %	96.8 %
	Nanaimo	BC	2	68	0.3 %	100.0 %	100.0 %
	Ottawa	ON	2	287	1.2 %	100.0 %	100.0 %
	Red Deer	AB	1	148	0.6 %	96.8 %	96.8 %
	Saskatoon	SK	1	64	0.3 %	100.0 %	100.0 %
Winnipeg	MB	8	1,469	5.9 %	94.5 %	95.5 %	
<b>Office total</b>			<b>45</b>	<b>6,304</b>	<b>25.5 %</b>	<b>93.8 %</b>	<b>95.1 %</b>
Retail	Calgary	AB	6	467	1.9 %	97.7 %	98.3 %
	Cranbrook	BC	1	288	1.2 %	95.3 %	97.8 %
	Edmonton Capital Region	AB	6	504	2.0 %	98.3 %	98.9 %
	Edson	AB	1	20	0.1 %	100.0 %	100.0 %
	Estevan	SK	1	38	0.2 %	100.0 %	100.0 %
	Fort McMurray	AB	8	194	0.8 %	98.2 %	100.0 %
	Grande Prairie	AB	4	378	1.5 %	93.2 %	93.2 %
	Greater Vancouver Regional District	BC	2	247	1.0 %	94.1 %	96.9 %
	Lethbridge	AB	1	53	0.2 %	95.2 %	95.2 %
	Medicine Hat	AB	1	162	0.7 %	97.2 %	100.0 %
	Moose Jaw	SK	1	38	0.2 %	100.0 %	100.0 %
	Nanaimo	BC	3	93	0.4 %	65.7 %	65.7 %
	Regina	SK	7	257	1.0 %	96.0 %	97.4 %
	Saskatoon	SK	3	218	0.9 %	100.0 %	100.0 %
	Westbank / West Kelowna	BC	3	433	1.7 %	99.8 %	99.8 %
	Whistler	BC	1	32	0.1 %	94.5 %	94.5 %
Winnipeg	MB	5	534	2.1 %	96.6 %	96.8 %	
<b>Retail total</b>			<b>54</b>	<b>3,956</b>	<b>16.0 %</b>	<b>96.3 %</b>	<b>97.1 %</b>
<b>Total Canadian portfolio</b>			<b>176</b>	<b>16,568</b>	<b>67.0 %</b>	<b>95.8 %</b>	<b>96.6 %</b>

<sup>(1)</sup> Excluding properties held for re-development.

<sup>(2)</sup> Percentage committed is based on occupancy plus commitments on vacant space as at December 31, 2013.

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## Portfolio by Asset Class as at December 31, 2013 (in 000's of S.F.) continued <sup>(1)</sup>

Asset Class	City	Province / State	Number of Properties	Owned Share of Leasable Area	% of Portfolio GLA	Occupancy %	Committed % <sup>(2)</sup>
Industrial	Phoenix Metropolitan Area	AZ	1	99	0.4 %	100.0 %	100.0 %
	Twin Cities Area	MN	30	4,617	18.6 %	95.4 %	96.2 %
Industrial total			31	4,716	19.0 %	95.5 %	96.3 %
Office	Greater Denver Area	CO	2	454	1.8 %	96.8 %	96.8 %
	New Hartford	NY	1	123	0.5 %	100.0 %	100.0 %
	Phoenix Metropolitan Area	AZ	6	1,001	4.0 %	94.9 %	94.9 %
	Tampa	FL	1	107	0.4 %	100.0 %	100.0 %
	Twin Cities Area	MN	4	863	3.5 %	87.4 %	88.4 %
Office total			14	2,548	10.2 %	93.2 %	93.5 %
Retail	Twin Cities Area	MN	6	275	1.1 %	97.1 %	97.1 %
Total U.S. portfolio			51	7,539	30.3 %	94.8 %	95.4 %
Total Canadian and U.S.			227	24,107	97.3 %	95.5 %	96.2 %

<sup>(1)</sup> Excluding properties held for re-development.

<sup>(2)</sup> Percentage committed is based on occupancy plus commitments on vacant space as at December 31, 2013.

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

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

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

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

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

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

## New Developments In Process

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

Artis is nearing completion of construction of an approximately 87,000 square foot retail development on excess lands at Linden Ridge Shopping Centre, located in Winnipeg, Manitoba. This new development has been fully leased to Marshalls, PetSmart, SportChek and Dollar Tree. The property is expected to be 100.0% occupied by Q1-14.

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Artis purchased Fourell Business Park located in Edmonton, Alberta in 2010 with an existing 400,000 square foot fully leased building and land potential for future development. Phase I, a 63,757 square foot development on the property has been completed and fully leased while Phase II, an approximately 35,000 square foot development is underway; completion is anticipated in Q3-14.

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

## Development Initiatives

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

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

## 2013 – ANNUAL HIGHLIGHTS

### PORTFOLIO GROWTH

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

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

<sup>(1)</sup> Based on owned share of total leasable area.



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## Property Acquisitions

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

<sup>(1)</sup> Artis closed the first part of this two-part acquisition on February 11, 2013 and the second part on June 28, 2013.

<sup>(2)</sup> Artis acquired a 50% interest in this joint venture.

<sup>(3)</sup> Artis acquired the remaining 50% interest in this property for a total of 100,398 square feet.

<sup>(4)</sup> Artis acquired a parcel of land adjacent to the PTI Building on October 1, 2013.

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

## Property Dispositions

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

## Completed Property Under Construction

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

## FINANCING ACTIVITIES

### Short Form Base Shelf Prospectus

On June 15, 2012, the REIT filed a short form base shelf prospectus. The REIT may from time to time during the 25-month period that this short form base shelf prospectus is valid, offer and issue the following securities up to a maximum of \$2,000,000 of initial offering price: (i) trust units of the REIT; (ii) preferred trust units, which may be issuable in series; (iii) debt securities, which may consist of debentures, notes or other types of debt and may be issuable in series; (iv) unit purchase warrants; and (v) subscription receipts to purchase trust securities. As at December 31, 2013, the REIT has issued common units under two offerings of \$241,610 and preferred units under four offerings for a total of \$266,250 and US\$75,000 under this short form base shelf prospectus.

### Common Unit Equity Offering

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

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## Preferred Unit Equity Offerings

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

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

## Convertible Debenture Redemption

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

## Debt Financing and Repayments

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

## DISTRIBUTIONS

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

## SELECTED FINANCIAL INFORMATION

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

<sup>(1)</sup> Calculated after adjustments for transaction costs.

<sup>(2)</sup> AFFO figures are not available for 2011.

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

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

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

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

## ANALYSIS OF OPERATING RESULTS

### REVENUE AND PROPERTY NOI

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

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

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

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

### Lease Termination Income

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

### SAME PROPERTY NOI ANALYSIS

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

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

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

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

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

## Same Property NOI Less Revenue Adjustments by Asset Class

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

## Same Property NOI Less Revenue Adjustments by Geographical Region

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

## Same Property NOI Less Revenue Adjustments by Country

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

## Same Property Occupancy Comparisons

Geographical Region	As at December 31,		Asset Class	As at December 31,	
	2013	2012		2013	2012
Alberta	95.5 %	96.5 %	Retail	96.1 %	96.0 %
British Columbia	94.8 %	92.9 %	Office	93.0 %	94.9 %
Manitoba	95.6 %	95.0 %	Industrial	96.1 %	94.9 %
Ontario	95.7 %	96.8 %	<b>Total</b>	<b>94.9 %</b>	<b>95.1 %</b>
Saskatchewan	98.4 %	97.6 %			
Minnesota	92.4 %	92.0 %			
U.S. - Other	93.7 %	98.9 %			
<b>Total</b>	<b>94.9 %</b>	<b>95.1 %</b>			

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## PROPERTY NOI BY ASSET CLASS

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

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

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

## PROPERTY NOI BY GEOGRAPHICAL REGION

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

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

	Three month period ended December 31, 2012							
	Canada					U.S.		
	AB	BC	MB	ON	SK	MN	Other	
Revenue	\$ 38,160	\$ 10,351	\$ 16,307	\$ 14,015	\$ 6,105	\$ 13,465	\$ 6,581	
Property operating expenses	12,561	3,797	7,643	5,591	2,098	5,274	1,415	
Property NOI	\$ 25,599	\$ 6,554	\$ 8,664	\$ 8,424	\$ 4,007	\$ 8,191	\$ 5,166	
<i>Share of Property NOI</i>	38.4 %	9.8 %	13.1 %	12.6 %	6.0 %	12.3 %	7.8 %	

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

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

## PORTFOLIO OCCUPANCY

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

### Occupancy Report by Asset Class

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

### Occupancy Report by Geographical Region

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

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

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## PORTFOLIO LEASING ACTIVITY AND LEASE EXPIRIES

### Renewal Summary

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

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

### Lease Expiries by Asset Class (in S.F.) <sup>(1)</sup>

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

<sup>(1)</sup> Based on owned share of total leasable area.

<sup>(2)</sup> Includes holdovers and renewals where term has not been negotiated.

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## In-Place Rents

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

## Market Rents

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

### Market Rents by Asset Class <sup>(1)</sup>

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

<sup>(1)</sup> Based on owned share of total leasable area.

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

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



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## Lease Expiries by Geographical Region (in S.F.) <sup>(1)</sup>

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

<sup>(1)</sup> Based on owned share of total leasable area.

<sup>(2)</sup> Includes holdovers and renewals where term has not been negotiated.

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(In thousands of Canadian dollars, unless otherwise noted)

## Market Rents by Geographical Region <sup>(1)</sup>

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

<sup>(1)</sup> Based on owned share of total leasable area.

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

Artis' real estate is diversified across five Canadian provinces and five U.S. states, and across the office, retail and industrial asset classes. At December 31, 2013, the three largest segments of the REIT's portfolio (by Property NOI) are Calgary office properties, Winnipeg office properties and the Twin Cities Area industrial properties.

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

## Lease Expiries for Calgary Office Segment (in S.F.) <sup>(1)</sup>

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

<sup>(1)</sup> Based on owned share of total leasable area.

<sup>(2)</sup> Includes holdovers and renewals where term has not been negotiated.

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

## Market Rents for Calgary Office Segment <sup>(1)</sup>

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

<sup>(1)</sup> Based on owned share of total leasable area.

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

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

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

## CORPORATE EXPENSES

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

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

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

## INTEREST EXPENSE

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

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

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

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

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## INCOME FROM INVESTMENTS IN JOINT VENTURES

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

## FAIR VALUE GAIN ON INVESTMENT PROPERTIES

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

## FOREIGN CURRENCY TRANSLATION (LOSS) GAIN

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

## TRANSACTION COSTS

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

## GAIN (LOSS) ON FINANCIAL INSTRUMENTS

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

## OTHER COMPREHENSIVE INCOME (LOSS)

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

## INCOME TAX

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

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

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

The SIFT Rules do not apply to a REIT that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the SIFT Rules and has assessed their interpretation and application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the year ended December 31, 2012 and the year ended December 31, 2013. As a result, the REIT does not recognize any deferred income tax assets or liabilities for income tax purposes.

The REIT's U.S. subsidiary is a REIT for U.S. income tax purposes. The subsidiary intends to distribute all of its U.S. taxable income to Canada and is entitled to deduct such distributions for U.S. income tax purposes. As a result, the REIT does not record a provision for current U.S. income taxes. The U.S. subsidiary is subject to a 30% to 35% withholding tax on distributions to Canada. Any withholding taxes paid are recorded with the related distributions.

## DISTRIBUTIONS

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

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

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

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

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## FUNDS FROM OPERATIONS ("FFO")

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

### Reconciliation of Cash Flows from Operations to FFO

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

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

<sup>(2)</sup> Options and convertible debentures are factored into the diluted weighted-average calculation used for FFO, to the extent that their impact is dilutive.

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

## Diluted Common Units Reconciliation

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

## Diluted FFO Reconciliation

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

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

## Diluted Common Units Reconciliation

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

## Diluted FFO Reconciliation

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

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



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## Reconciliation of GAAP Income to FFO

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

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

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

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

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

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## ADJUSTED FUNDS FROM OPERATIONS ("AFFO")

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

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

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

### Reconciliation of FFO to AFFO

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

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

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

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## ANALYSIS OF FINANCIAL POSITION

### ASSETS

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

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

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

	Investment properties	Investment properties under development	Investment properties held for sale	Total
Balance, December 31, 2012	\$ 4,206,126	\$ 4,234	\$ 58,963	\$ 4,269,323
Additions:				
Acquisitions	497,964	-	-	497,964
Capital expenditures	19,015	40,549	65	59,629
Leasing costs	8,145	226	101	8,472
Dispositions	(5,358)	-	(6,080)	(11,438)
Reclassification of investment properties under development	3,079	(3,079)	-	-
Reclassification of investment properties held for sale	51,849	-	(51,849)	-
Foreign currency translation gain (loss)	56,073	201	(134)	56,140
Straight-line rent adjustment	5,496	-	47	5,543
Tenant inducements, net of amortization	8,953	(20)	207	9,140
Fair value gain (loss)	535	5,170	(1,320)	4,385
Balance, December 31, 2013	<b>\$ 4,851,877</b>	<b>\$ 47,281</b>	<b>\$ -</b>	<b>\$ 4,899,158</b>

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## Acquisitions:

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

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

## Capital expenditures:

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

## Leasing costs and tenant inducements:

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

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

## Dispositions:

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

## Foreign currency translation gain:

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

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## Fair value gain (loss) on investment properties:

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

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

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

Artis determines the fair value of investment properties, including investment properties held for sale, based upon either the discounted cash flow method or the overall capitalization method, which are generally accepted appraisal methodologies. Capitalization rates are estimated using market surveys, available appraisals and market comparables. Under the overall capitalization method, year one income is stabilized and capitalized at a rate deemed appropriate for each investment property. Individual properties were valued using capitalization rates in the range of 5.25% to 8.75%. Additional information on the average capitalization rates and ranges used for the portfolio properties, assuming all properties were valued using an overall capitalization method, broken out by asset class and country are set out in the table below.

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

## Investments in Joint Ventures

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

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## Notes Receivable

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

## Cash and Cash Equivalents

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

## LIABILITIES

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

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

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

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

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

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

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## Mortgages and Loans Payable

### *Mortgage financing:*

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

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

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

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

### *Variable rate mortgage debt:*

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

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

At December 31, 2013, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$323,489 of variable rate mortgage debt (December 31, 2012, \$173,472). The variable rate mortgage debt less the portion protected by interest rate swaps is \$251,974 or 10.2% of total debt.

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

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

## Convertible Debentures

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

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

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

## Other Current Liabilities

Included in other current liabilities are accounts payable and accrued liabilities, security deposits and prepaid rent, as well as the December 31, 2013 distributions payable to unitholders of \$12,088, subsequently paid on January 15, 2014 and January 31, 2014. At December 31, 2013, there is no balance drawn on the REIT's revolving term credit facility. Amounts drawn on the facility bear interest at prime plus 1.00% or at the bankers' acceptance rate plus 2.00%. The credit facility is secured by a first charge on certain investment properties with a carrying value of \$138,171 at December 31, 2013.

## UNITHOLDERS' EQUITY

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

## LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

## CONTRACTUAL OBLIGATIONS

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Bank indebtedness	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable and other liabilities	59,061	59,061	-	-	-
Convertible debentures <sup>(1)</sup>	183,767	4,000	-	93,597	86,170
Mortgages and loans payable <sup>(2)</sup>	2,323,072	282,284	768,691	713,176	558,921
<b>Total</b>	<b>\$ 2,565,900</b>	<b>\$ 345,345</b>	<b>\$ 768,691</b>	<b>\$ 806,773</b>	<b>\$ 645,091</b>

<sup>(1)</sup> It is assumed that none of the convertible debentures are converted or redeemed prior to maturity and that they are paid out in cash on maturity.

<sup>(2)</sup> This includes mortgages and loans payable included in the REIT's investments in joint ventures.

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



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## SUMMARIZED QUARTERLY INFORMATION

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

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

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## Reconciliation of GAAP Income to FFO and AFFO

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

<sup>(1)</sup> Transaction costs added back in Q1-12 are one time professional fees related to internalization and corporate matters.

<sup>(2)</sup> Options, convertible debentures and restricted units are factored into the diluted weighted-average calculation, to the extent that their impact is dilutive.

<sup>(3)</sup> This includes straight-line rent adjustments included in the REIT's investments in joint ventures.

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

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## RELATED PARTY TRANSACTIONS

	Three month period ended December 31,		Year ended December 31,	
	2013	2012	2013	2012
Acquisition fees	\$ -	\$ -	\$ -	552
Property management fees	81	79	323	317
Capitalized office furniture and fixtures	47	163	513	1,554
Capitalized office equipment	-	-	-	343
Capitalized leasing commissions	15	492	49	1,351
Capitalized building improvements	5,466	2,366	29,492	11,059
Capitalized tenant inducements	346	628	1,109	1,451
Disposition of surplus land	-	-	-	(750)
Property tax assessment consulting fees	183	3	274	191
Rental revenues	(42)	(40)	(168)	(163)

The REIT incurred property management fees, leasing commission fees and tenant improvement fees under property management agreements with Marwest Management Canada Ltd. ("Marwest Management"), a company related to certain trustees and officers of the REIT, for three properties owned by the REIT. The amount payable at December 31, 2013 is \$27 (December 31, 2012, \$26).

On January 1, 2012, the REIT entered into a one-year leasing services agreement with Marwest Management, which expired on December 31, 2012. The amount payable at December 31, 2013 is \$nil (December 31, 2012, \$756).

The REIT incurred costs of \$20 (2012, \$54) for building improvements and tenant inducements paid to Nova 3 Engineering, a company related to a trustee of the REIT. The amount payable at December 31, 2013 is \$nil (December 31, 2012, \$nil).

The REIT incurred costs of \$30,581 (2012, \$12,456) for building improvements and tenant inducements paid to Marwest Construction Ltd. and Marwest Development Corporation, companies related to certain trustees and officers of the REIT. The increase in these costs is primarily due to the Linden Ridge Shopping Centre development project. The amount payable at December 31, 2013 is \$1,161 (December 31, 2012, \$1,137).

The REIT incurred costs for office furniture and fixtures paid to Marwest Construction Ltd. The amount payable at December 31, 2013 is \$nil (December 31, 2012, \$42). During 2012, the REIT purchased \$1,297 of office furniture and fixtures and \$343 of office equipment from Marwest Management as a result of the internalization of the asset and property management functions.

The REIT sold surplus land at an investment property to a company controlled by a trustee of the REIT in 2012.

The REIT incurred costs for property tax assessment consulting paid to Fairtax Realty Advocates, a company under control of close family members of key management personnel. The amount payable at December 31, 2013 is \$7 (December 31, 2012, \$nil).

The REIT collects office rents from Marwest Management.

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

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## OUTSTANDING UNIT DATA

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

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

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

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

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

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

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## OUTLOOK

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

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

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

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

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

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

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

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

## SUBSEQUENT EVENTS

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

- On January 3, 2014, the REIT repaid a maturing mortgage on a retail property in the amount of \$1,634.
- On January 15, 2014, the REIT redeemed \$2,500 of the Series D convertible debentures for cash.
- On January 16, 2014, the REIT entered into two interest rate swaps in the total amount of US\$37,228, effectively locking the interest rate at a weighted-average rate of 3.91%, for a weighted-average term of 6.3 years.
- On January 16, 2014, the REIT declared a monthly distribution of \$0.09 per unit for January 2014.

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- On January 16, 2014, the REIT declared a quarterly cash distribution of \$0.3125 per Series G Unit for the quarter ending January 31, 2014.
- On January 23, 2014, the REIT entered into a forward contract to sell \$10,000 for US\$8,959 on March 4, 2014.
- On January 31, 2014, the REIT issued 320,000 units under its Equity Distribution Agreement for gross proceeds of \$4,830.
- On February 13, 2014, the REIT entered into a forward contract to sell \$10,999 for US\$10,000 on April 1, 2014.
- On February 14, 2014, the REIT declared a monthly distribution of \$0.09 per unit for February 2014.

## RISKS AND UNCERTAINTIES

### REAL ESTATE OWNERSHIP

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

### INTEREST RATE AND DEBT FINANCING

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

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

Artis is also subject to interest rate risk associated with the REIT's revolving term credit facility, mortgages and unsecured debentures payable due to the expected requirement to refinance such debts in the year of maturity. The REIT minimizes the risk by restricting debt to 70% of gross book value and by carefully monitoring the amount of variable rate debt. The REIT has the majority of its mortgage payable and debentures in fixed rate terms. At December 31, 2013, the REIT is a party to \$575,463 of variable rate debt, (December 31, 2012, \$529,660). At December 31, 2013, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$323,489 of variable rate debt (December 31, 2012, \$173,472). The REIT has the ability to place interest rate swaps on top of variable rate debt at any time in order to effectively fix the interest rate.

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

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## CREDIT RISK AND TENANT CONCENTRATION

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

### Top Twenty Tenants by Gross Revenue

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

### Government Tenants by Gross Revenue

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

Weighted-average term to maturity (entire portfolio)

4.7

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## LEASE ROLLOVER RISK

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

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

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

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

## TAX RISK

On June 22, 2007, the SIFT Rules (discussed in more detail above under the heading "Income Tax") were enacted. Under the SIFT Rules, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as returns of capital should generally not be subject to the tax.

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

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



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

## FOREIGN CURRENCY RISK

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

## OTHER RISKS

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

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

## CRITICAL ACCOUNTING ESTIMATES

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

## VALUATION OF INVESTMENT PROPERTIES

Investment properties include properties held to earn rental income and properties that are being constructed or developed for future use as investment properties. Investment properties are measured at fair value with any changes therein recognized in income or loss for the period. Artis determines the fair value of investment properties based upon either the discounted cash flow method or the overall capitalization method. Under the discounted cash flow method, expected future cash flows for each investment property were discounted, generally over a term of 10 years, using weighted-average rates of approximately 7.68% at December 31, 2012 and 7.60% at December 31, 2013. Expected future cash flows for each investment property have been based upon, but not limited to, rental income from current leases, budgeted and actual expenses, and assumptions about rental income from future leases. Under the overall capitalization method, year one income was stabilized and capped at weighted-average capitalization rates of approximately 6.46% at December 31, 2012 and 6.41% at December 31, 2013.

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

## VALUATION OF DEFERRED TAX ASSETS AND LIABILITIES

The REIT currently qualifies as a mutual fund trust for Canadian income tax purposes. On June 22, 2007, new legislation relating to, among other things, the federal income taxation of a specified investment flow-through trust or partnership (a "SIFT") was enacted (the "SIFT Rules"). The REIT has reviewed the SIFT Rules and has assessed their interpretation and application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the year ended December 31, 2012 and the year ended December 31, 2013.

## ALLOCATION OF CONVERTIBLE DEBENTURES

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

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## CHANGES IN ACCOUNTING POLICIES

In December 2011, the IASB amended IAS 32 - *Offsetting Financial Assets and Liabilities*. The amendment clarifies certain aspects of offsetting and net and gross settlement, and is effective for annual periods beginning on or after January 1, 2014. The REIT does not expect that this standard will result in a material impact on the consolidated financial statements.

In May 2013, the IASB issued IFRIC interpretation 21 - *Levies*. The interpretation considers the guidance in IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets* for the recognition of a levy liability due to an obligating event described in the legislation that brings about payment of the levy. It is effective for annual periods beginning on or after January 1, 2014. The REIT is currently evaluating the impact of this new interpretation.

In November 2013, the IASB amended IAS 19 - *Employee Benefits*. The amendment clarifies the requirements that relate to how contributions should be attributed to periods of service, and is effective for annual periods beginning on or after July 1, 2014. The REIT does not expect that this standard will result in a material impact on the consolidated financial statements.

## CONTROLS AND PROCEDURES

### INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

### DISCLOSURE CONTROLS AND PROCEDURES

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

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