

Consolidated Financial Statements of

**ARTIS REAL ESTATE
INVESTMENT TRUST**

Years ended December 31, 2014 and 2013

(In Canadian dollars)



Management's Responsibility for Financial Statements

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

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

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

"Armin Martens"

Armin Martens, P.Eng., MBA
President and Chief Executive Officer
February 26, 2015

"Jim Green"

Jim Green, CA
Chief Financial Officer
February 26, 2015

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Artis Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Artis Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013, and the consolidated statements of operations, consolidated statements of changes in unitholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Artis Real Estate Investment Trust as at December 31, 2014 and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

The signature of Deloitte LLP is written in a cursive, handwritten style.

Chartered Accountants

February 26, 2015
Winnipeg, Manitoba

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets

(In thousands of Canadian dollars)

| | December 31, 2014 | December 31, 2013 |
|--|----------------------|----------------------|
| ASSETS | | |
| Non-current assets: | | |
| Investment properties (note 4) | \$ 5,201,489 | \$ 4,851,877 |
| Investment properties under development (note 4) | 81,682 | 47,281 |
| Investments in joint ventures (note 23) | 98,072 | 42,434 |
| Property and equipment (note 5) | 3,405 | 2,872 |
| Notes receivable (note 6) | 18,239 | 18,741 |
| | 5,402,887 | 4,963,205 |
| Current assets: | | |
| Deposits on investment properties | 50 | 103 |
| Prepaid expenses and other assets (note 7) | 6,671 | 10,694 |
| Notes receivable (note 6) | 2,509 | 1,723 |
| Accounts receivable and other receivables (note 8) | 10,955 | 12,537 |
| Cash held in trust | 5,973 | 5,553 |
| Cash and cash equivalents | 49,807 | 48,222 |
| | 75,965 | 78,832 |
| | \$ 5,478,852 | \$ 5,042,037 |
| LIABILITIES AND UNITHOLDERS' EQUITY | | |
| Non-current liabilities: | | |
| Mortgages and loans payable (note 9) | \$ 1,868,857 | \$ 2,006,614 |
| Senior unsecured debentures (note 10) | 199,527 | - |
| Convertible debentures (note 11) | 189,573 | 181,282 |
| Other long-term liabilities | 1,144 | 81 |
| | 2,259,101 | 2,187,977 |
| Current liabilities: | | |
| Mortgages and loans payable (note 9) | 393,197 | 280,983 |
| Convertible debentures (note 11) | - | 3,982 |
| Security deposits and prepaid rent | 30,546 | 25,787 |
| Accounts payable and other liabilities (note 12) | 66,703 | 59,061 |
| Bank indebtedness (note 13) | 300 | - |
| | 490,746 | 369,813 |
| | 2,749,847 | 2,557,790 |
| Unitholders' equity | 2,729,005 | 2,484,247 |
| Commitments and guarantees (note 25) | | |
| Subsequent events (note 28) | | |
| | \$ 5,478,852 | \$ 5,042,037 |

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Operations
Years ended December 31, 2014 and 2013

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

| | 2014 | 2013 |
|--|-------------|-------------|
| Revenue (note 16) | \$ 500,558 | \$ 463,418 |
| Property operating expenses | 187,710 | 166,536 |
| Net operating income | 312,848 | 296,882 |
| Other income (expenses): | | |
| Corporate expenses | (10,261) | (9,713) |
| Interest expense | (108,546) | (102,615) |
| Interest income | 1,818 | 2,026 |
| Net (loss) income from investments in joint ventures (note 23) | (3,987) | 7,456 |
| Fair value gain on investment properties (note 4) | 38,831 | 4,385 |
| Foreign currency translation loss | (21,890) | (7,569) |
| Transaction costs (note 17) | (2,490) | (5,685) |
| (Loss) gain on financial instruments (note 18) | (8,437) | 5,988 |
| Net income | 197,886 | 191,155 |
| Other comprehensive income that may be reclassified to net income in subsequent periods: | | |
| Unrealized foreign currency translation gain | 66,844 | 27,100 |
| Comprehensive income | \$ 264,730 | \$ 218,255 |
| Basic income per unit attributable to common unitholders (note 14 (d)) | \$ 1.36 | \$ 1.45 |
| Diluted income per unit attributable to common unitholders (note 14 (d)) | \$ 1.33 | \$ 1.41 |
| Weighted-average number of common units outstanding (note 14 (d)): | | |
| Basic | 132,553,521 | 122,405,907 |
| Diluted | 143,115,933 | 133,070,507 |

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Changes in Unitholders' Equity
Years ended December 31, 2014 and 2013

(In thousands of Canadian dollars)

| | Common units capital contributions (note 14) | Equity component of convertible debentures | Equity | Accumulated other comprehensive (loss) income | Contributed surplus | Total common equity | Total preferred equity | Total |
|--|---|--|------------|--|------------------------|---------------------------|------------------------------|--------------|
| Unitholders' equity, December 31, 2012 | \$ 1,449,301 | \$ 11,253 | \$ 434,864 | \$ (1,783) | \$ 4,354 | \$1,897,989 | \$ 151,867 | \$ 2,049,856 |
| Changes for the year: | | | | | | | | |
| Issuance of units, net of issue costs | 188,918 | - | - | - | (619) | 188,299 | 173,756 | 362,055 |
| Unit-based compensation (note 20 (c)(i)) | - | - | - | - | 1,481 | 1,481 | - | 1,481 |
| Redemption of convertible debentures | - | (99) | - | - | - | (99) | - | (99) |
| Net income | - | - | 191,155 | - | - | 191,155 | - | 191,155 |
| Other comprehensive income | - | - | - | 27,100 | - | 27,100 | - | 27,100 |
| Distributions | - | - | (147,301) | - | - | (147,301) | - | (147,301) |
| Unitholders' equity, December 31, 2013 | 1,638,219 | 11,154 | 478,718 | 25,317 | 5,216 | 2,158,624 | 325,623 | 2,484,247 |
| Changes for the year: | | | | | | | | |
| Issuance of units, net of issue costs | 142,455 | - | - | - | (600) | 141,855 | - | 141,855 |
| Unit-based compensation (note 20 (c)(i)) | - | - | - | - | 609 | 609 | - | 609 |
| Redemption of convertible debentures | - | (131) | - | - | - | (131) | - | (131) |
| Net income | - | - | 197,886 | - | - | 197,886 | - | 197,886 |
| Other comprehensive income | - | - | - | 66,844 | - | 66,844 | - | 66,844 |
| Distributions | - | - | (162,305) | - | - | (162,305) | - | (162,305) |
| Unitholders' equity, December 31 2014 | \$ 1,780,674 | \$ 11,023 | \$ 514,299 | \$ 92,161 | \$ 5,225 | \$2,403,382 | \$ 325,623 | \$ 2,729,005 |

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows
Years ended December 31, 2014 and 2013

(In thousands of Canadian dollars)

| | 2014 | 2013 |
|---|------------------|------------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Net income | \$ 197,886 | \$ 191,155 |
| Adjustments for non-cash items: | | |
| Fair value gain on investment properties (note 4) | (38,831) | (4,385) |
| Depreciation of property and equipment | 575 | 511 |
| Net loss (income) from investments in joint ventures (note 23) | 3,987 | (7,456) |
| Distributions from joint ventures | 396 | - |
| Tenant inducements amortized to revenue | 10,412 | 9,291 |
| Amortization of above- and below-market mortgages, net | (1,787) | (1,801) |
| Accretion on liability component of debentures | (475) | (327) |
| Straight-line rent adjustment (note 4) | (4,677) | (5,543) |
| Unrealized foreign currency translation loss | 20,028 | 9,951 |
| Loss (gain) on financial instruments (note 18) | 8,437 | (5,988) |
| Unit-based compensation expense (note 20 (c)) | 1,640 | 1,827 |
| Amortization of financing costs included in interest | 3,018 | 3,143 |
| Other long-term employee benefits (note 20 (b)(ii)) | 844 | - |
| Changes in non-cash operating items (note 19) | 3,252 | 6,863 |
| | <u>204,705</u> | <u>197,241</u> |
| Investing activities: | | |
| Acquisitions of investment properties, net of related debt (note 3) | (141,205) | (274,485) |
| Proceeds from dispositions of investment properties, net of costs and related debt (note 3) | 18,096 | 11,438 |
| Additions to investment properties (note 4) | (21,522) | (19,080) |
| Additions to investment properties under development (note 4) | (21,178) | (40,549) |
| Additions to joint ventures (note 23) | (52,993) | (26,787) |
| Additions to tenant inducements | (19,738) | (18,431) |
| Additions to leasing costs (note 4) | (9,386) | (8,472) |
| Notes receivable principal repayments | 2,937 | 3,411 |
| Additions to property and equipment | (1,108) | (986) |
| Change in deposits on investment properties | 50 | 2,297 |
| Change in cash held in trust | (165) | (2,734) |
| | <u>(246,212)</u> | <u>(374,378)</u> |
| Financing activities: | | |
| Issuance of common units, net of issue costs | 141,855 | 188,299 |
| Issuance of preferred units, net of issue costs | - | 173,756 |
| Issuance of senior unsecured debentures, net of financing costs | 199,421 | - |
| Repayment of convertible debentures (note 11) | (4,000) | (3,000) |
| Change in bank indebtedness | 300 | - |
| Distributions paid on common units | (143,801) | (132,211) |
| Distributions paid on preferred units | (17,662) | (13,342) |
| Mortgages and loans principal repayments | (58,603) | (54,705) |
| Repayment of mortgages and loans payable | (113,506) | (70,004) |
| Advance of mortgages and loans payable, net of financing costs | 37,139 | 80,984 |
| Issuance of preferred shares, net of costs | 211 | - |
| | <u>41,354</u> | <u>169,777</u> |
| Foreign exchange gain on cash held in foreign currency | 1,738 | 1,088 |
| Increase (decrease) in cash and cash equivalents | 1,585 | (6,272) |
| Cash and cash equivalents at beginning of year | 48,222 | 54,494 |
| Cash and cash equivalents at end of year | <u>\$ 49,807</u> | <u>\$ 48,222</u> |
| Supplemental cash flow information: | | |
| Interest paid | \$ 107,047 | \$ 101,403 |
| Interest received | 1,817 | 2,026 |

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2014 and 2013

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

1. Organization:

Artis Real Estate Investment Trust (the "REIT") is an unincorporated closed-end real estate investment trust created under, and governed by, the laws of the Province of Manitoba. The REIT was created pursuant to the Declaration of Trust dated November 8, 2004, as most recently amended and restated on August 2, 2012 (the "Declaration of Trust"). The purpose of the REIT is to directly, or indirectly, own, manage, lease and (where appropriate) develop retail, industrial and office properties in Canada and the United States (the "U.S."). The registered office of the REIT is 360 Main Street, Suite 300, Winnipeg, Manitoba, R3C 3Z3.

The Declaration of Trust provides that the REIT may make cash distributions to unitholders of the REIT. The amount distributed annually (currently \$1.08 per common unit, \$1.3125 per Series A preferred unit, US\$1.3125 per Series C preferred unit, \$1.1875 per Series E preferred unit and \$1.25 per Series G preferred unit) will be set by the Board of Trustees.

2. Significant accounting policies:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(b) Basis of presentation and measurement:

The consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars rounded to the nearest thousand unless otherwise indicated. The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements. Standards issued but not yet effective for the current accounting year are described in note 2 (u).

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

(c) Principles of consolidation:

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

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

(d) Translation of foreign currencies:

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the REIT.

Assets and liabilities of foreign operations are translated at the rate of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rate for the period. Gains or losses on translation are included in other comprehensive income as foreign currency translation gains or losses. When there is a reduction in the net investment as a result of dilution or sale, or reduction in the equity of the foreign operation as a result of a capital transaction, amounts previously recognized in accumulated other comprehensive income are reclassified into net income.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2014 and 2013

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

2. Significant accounting policies (continued):

(d) Translation of foreign currencies (continued):

For assets, liabilities, revenues and expenses that do not form part of the net investment in foreign operations, foreign currency translation gains or losses are included in net income. Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expense items are translated at the rate in effect at the date of the transaction.

(e) Financial instruments:

Initially, all financial assets and liabilities are recorded on the consolidated balance sheet at fair value. Subsequent measurement is determined by the classification of each financial asset and liability. All financial assets are classified as one of: (a) at fair value through profit or loss; (b) held-to-maturity; (c) loans and receivables; or (d) available-for-sale. Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. All financial liabilities are classified as either: (a) at fair value through profit or loss; or (b) other liabilities. Financial assets and liabilities classified as at fair value through profit or loss are measured at fair value, with gains and losses recognized in net income. Financial instruments classified as held-to-maturity, loans and receivables, and other liabilities are measured at amortized cost. Available-for-sale financial assets are measured at fair value, with unrealized gains and losses recognized in other comprehensive income.

The REIT designated its notes receivables, accounts receivable and other receivables, cash held in trust and cash and cash equivalents as loans and receivables; its mortgages and loans payable, senior unsecured debentures, the liability component of its convertible debentures, preferred shares liability, accounts payable and other liabilities and bank indebtedness as other liabilities. The REIT does not hold any financial instruments classified as fair value through profit or loss, held-to-maturity or available-for-sale.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, with the exception of those classified as at fair value through profit or loss, are accounted for as part of the respective asset or liability's carrying value at inception and amortized over the expected life of the financial instrument using the effective interest method. Transaction costs directly attributable to the acquisition or issuance of financial assets or liabilities classified as at fair value through profit or loss are recognized immediately in net income.

All derivative instruments, including embedded derivatives, are classified as at fair value through profit or loss and are recorded on the consolidated balance sheet at fair value.

Financial assets, other than those classified as at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

(f) Investment properties:

Investment properties include properties held to earn rental income and properties that are being constructed or developed for future use as investment properties. Investment properties are measured at fair value with any changes therein recognized in profit or loss for the period.

Investment properties are classified as investment properties under development once construction at the property has commenced. Investment properties under development include initial acquisition costs and other direct costs during the period of development. Borrowing costs associated with direct expenditures on properties under development are capitalized from the commencement of the construction until the date of practical completion. The REIT considers practical completion to have occurred when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2014 and 2013

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

2. Significant accounting policies (continued):

(f) Investment properties (continued):

A property acquisition is accounted for as a business combination using the acquisition method if the assets acquired and liabilities assumed constitute a business, and the REIT obtains control of the business. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities assumed at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition. The REIT recognizes assets or liabilities, if any, resulting from a contingent consideration arrangement at their acquisition date fair value and such amounts form part of the cost of the business combination. Changes in the fair value of contingent consideration arrangements that qualify as measurement period adjustments, adjustments arising from additional information obtained about an acquisition within one year of its date, are adjusted retrospectively. All other changes in fair value are recognized in profit or loss for the period.

Leasing costs, such as commissions, and straight-line rent receivable are included in the carrying amount of investment properties.

Payments to tenants under lease obligations are included in the carrying amount of investment properties. Payments that are determined to primarily benefit the tenant are treated as tenant inducements that reduce revenue. Tenant inducements are amortized on a straight-line basis over the term of the lease.

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

Investment properties are reclassified to assets held for sale when the criteria set out in IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations* are met.

(g) Property and equipment:

Office furniture and fixtures and office equipment and software are carried at cost less accumulated depreciation, and are depreciated on a straight-line basis over their useful life which is estimated to be five years. The estimated useful life, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimates accounted for on a prospective basis.

(h) Assets held for sale:

Non-current assets, or disposal groups comprising assets and liabilities, are categorized as held for sale at the point in time when the asset or disposal group is available for immediate sale, management has committed to a plan to sell and is actively locating a buyer at a sales price that is reasonable in relation to the current fair value of the asset, and the sale is highly probable and expected to be completed within a one-year period. Investment properties measured under the fair value model and held for sale continue to be measured by the guidelines of IAS 40 - *Investment Property*. All other assets held for sale are stated at the lower of their carrying amount and fair value less selling costs. An asset that is subsequently reclassified as held and in use, with the exception of an investment property measured under the fair value model, is measured at the lower of its recoverable amount and the carrying amount that would have been recognized had the asset never been classified as held for sale.

The results of operations associated with disposal groups sold or classified as held for sale are reported separately as profit or loss from discontinued operations.

(i) Cash held in trust:

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

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2014 and 2013

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

2. Significant accounting policies (continued):

(j) Cash and cash equivalents:

Cash and cash equivalents consist of cash with financial institutions and include short-term investments with maturities of three months or less.

(k) Provisions:

A provision is recognized if, as a result of a past event, the REIT has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are remeasured at each balance sheet date using the current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the REIT has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

(l) Revenue recognition:

The REIT has retained substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases. Rental revenue from investment properties includes all amounts earned from tenants related to lease agreements, including base rent, realty tax and operating cost recoveries and other incidental income. The total amount of contractual base rent in lease agreements is accounted for on a straight-line basis over the term of the respective leases; a straight-line rent receivable, which is included in the carrying amount of investment properties, is recorded for the difference between the rental revenue recorded and the contractual rent received. Realty tax and operating cost recoveries are accrued and recognized as revenue in the period that the recoverable costs are incurred and become chargeable to tenants.

(m) Joint arrangements:

Joint arrangements are arrangements where the owning parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The REIT accounts for its joint arrangements as either joint ventures or joint operations.

A joint venture is an arrangement where the REIT jointly owns an investment property with another party and has rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method. The investment in the joint venture is initially measured at cost at the date of acquisition and adjusted thereafter for the REIT's share of changes in its net assets, less any identified impairment loss. The REIT's share of the profit or loss from its investments in joint ventures is recognized in profit or loss for the period.

A joint operation is an arrangement where the REIT jointly owns an investment property with another party and has rights to the assets, and obligations for the liabilities, relating to the arrangement. The REIT accounts for joint operations by recording its proportionate share of their assets, liabilities, revenues, expenses and cash flows in its consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2014 and 2013

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

2. Significant accounting policies (continued):

(n) Earnings per unit:

Basic earnings per REIT unit is computed by dividing net income for the year attributable to common unitholders by the weighted-average common units outstanding during the reporting period. Diluted earnings per unit is calculated based on the weighted-average number of common units outstanding during the period, plus the effect of dilutive unit equivalents. The diluted per unit amounts for unit-based compensation are calculated using the treasury stock method, as if all the unit equivalents where the average market price exceeds the issue price had been exercised at the beginning of the reporting period, or the date of issue, as the case may be, and that the funds obtained thereby were used to purchase units of the REIT at the average trading price of the common units during the period. The dilution impact of convertible debentures is calculated using the if-converted method, whereby conversion is not assumed for the purposes of computing diluted earnings per unit if the effect is antidilutive.

(o) Discontinued operations:

A discontinued operation is a component of the REIT's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(p) Unit-based compensation:

The REIT may issue unit-based awards to trustees, officers, employees and consultants. For cash-settled unit-based payment transactions, a liability is recognized and remeasured to fair value at each reporting date and at settlement date. Any change in the fair value of the liability is recognized as compensation expense for the period.

For equity-settled unit-based payment transactions, the REIT measures compensation expense using the fair value at the grant date, recognized over the vesting period.

(q) Long-term employee benefits:

The cost of the REIT's defined benefit pension plans are accrued based on estimates, using actuarial techniques, of the amount of benefits employees have earned in return for their services in the current and prior periods. The present value of the defined benefit liability and current service cost is determined by discounting the estimated benefits using the projected unit credit method to determine the fair value of the plan assets and total actuarial gains and losses and the proportion thereof which will be recognized. The fair value of the plan assets is based on current market values. The present value of the defined benefit liability is based on the discount rate determined by reference to the yield of high quality corporate bonds of similar currency, having terms of maturity which align closely with the period of maturity of the liability.

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

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2014 and 2013

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

2. Significant accounting policies (continued):

(r) Use of estimates and judgments:

The preparation of the consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts reported in the consolidated financial statements are as follows:

- Accounting for business combinations - The REIT's accounting policy relating to business combinations is described in note 2 (f). Judgment is applied in determining whether property acquisitions constitute the purchase of a business or the purchase of assets.
- Accounting for tenant inducements - The REIT's accounting policy relating to tenant inducements is described in note 2 (f). The REIT makes judgments with respect to whether tenant inducements provided in connection with a lease enhance the value of the leased property which determines whether such amounts are treated as capital expenditures.
- Capitalized cost of investment properties under development - The REIT's accounting policy relating to investment properties under development is described in note 2 (f). Judgment is applied in identifying the point at which practical completion of the investment property under development occurs.
- Classification of leases - The REIT's accounting policy for revenue recognition is described in note 2 (l). The REIT makes judgments in determining whether certain leases are operating or finance leases. The REIT determined that all of its leases are operating leases.
- Classification of joint arrangements - The REIT's accounting policy relating to joint arrangements is described in note 2 (m) and note 23. Judgment is applied in determining whether joint arrangements constitute a joint venture or a joint operation.

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

- Valuation of investment properties - The fair value of investment properties represents an estimate of the price that would be agreed upon between knowledgeable, willing parties in an arm's length transaction. The critical estimates and assumptions underlying the valuation of investment properties are described in note 4.
- Valuation of deferred tax liabilities and assets - The critical estimates and assumptions underlying the valuation of deferred tax liabilities and assets are described in note 22.
- Allowance for doubtful accounts - The critical estimates and assumptions underlying the value of the allowance for doubtful accounts are described in note 27 (a)(ii).

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
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(In thousands of Canadian dollars, except unit and per unit amounts)

2. Significant accounting policies (continued):

(r) Use of estimates and judgments (continued):

- Fair value of financial instruments - The fair value of financial instruments is estimated as the amount for which an instrument could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. The critical estimates and assumptions underlying the fair value of financial instruments are described in note 27 (b).
- Allocation of convertible debentures - The critical estimates and assumptions underlying the allocation of convertible debentures are described in note 11.

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

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

IFRIC interpretation 21 - *Levies* was issued by the IASB in May 2013. 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 adoption of this interpretation did not result in a material impact on the consolidated financial statements.

(t) Future changes in accounting policies:

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 amendment will result in a material impact on the consolidated financial statements.

In May 2014, the IASB amended IFRS 11 - *Joint Arrangements*. The amendment clarifies the accounting for acquisitions of interests in joint operations, and is effective for annual periods beginning on or after January 1, 2016. The REIT is currently evaluating the impact of this amendment.

The IASB issued IFRS 15 - *Revenue from Contracts with Customers* ("IFRS 15") in May 2014. IFRS 15 provides a single, principles based five-step model to be applied to the recognition of revenue from contracts with customers. IFRS 15 replaces IAS 11 - *Construction Contracts*, IAS 18 - *Revenue*, IFRIC 13 - *Customer Loyalty Programmes*, IFRIC 15 - *Agreements for the Construction of Real Estate* and SIC 31 - *Revenue - Barter Transactions Involving Advertising Services*. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The REIT is currently evaluating the impact of this new standard.

In May 2014, the IASB amended IAS 16 - *Property, Plant and Equipment*. The amendment clarifies acceptable methods of depreciation and amortization, and is effective for annual periods beginning on or after January 1, 2016. The REIT is currently evaluating the impact of this amendment.

The final version of IFRS 9 - *Financial Instruments* ("IFRS 9") was issued by the IASB in July 2014 and will replace IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 establishes principles for the recognition, classification and measurement of financial assets and liabilities. IFRS 9 sets out a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. This approach is based on how an entity manages its financial instruments and the contractual cash flow characteristics of its financial assets. IFRS 9 retains most of the IAS 39 requirements for financial liabilities. The most significant change is when an entity elects to measure a financial liability at fair value, gains or losses due to changes in the credit risk of the instrument must be recognized in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The REIT is currently evaluating the impact of this new standard.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
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(In thousands of Canadian dollars, except unit and per unit amounts)

3. Acquisitions and dispositions of investment properties:

Acquisitions:

The REIT acquired the following properties during the year ended December 31, 2014:

| Property | Property count | Location | Acquisition date | Type |
|---|----------------|----------------------|-------------------|------------|
| Hudson's Bay Centre ⁽¹⁾ | 1 | Denver, CO | April 15, 2014 | Office |
| Estevan Shoppers Mall | 1 | Estevan, SK | May 1, 2014 | Retail |
| 601 Tower at Carlson | 1 | Twin Cities Area, MN | June 11, 2014 | Office |
| Crosstown North Business Center II & VI | 2 | Twin Cities Area, MN | June 16, 2014 | Industrial |
| Shoppes of St. Vital | 1 | Winnipeg, MB | September 9, 2014 | Retail |
| Crowfoot Village | 1 | Calgary, AB | November 17, 2014 | Retail |
| Cargill R&D | 1 | Twin Cities Area, MN | December 16, 2014 | Industrial |
| Union Crossings II | 1 | Twin Cities Area, MN | December 31, 2014 | Retail |

⁽¹⁾ The REIT acquired a 50% interest in this joint venture (see note 23).

The REIT acquired the following parcels of development land during the year ended December 31, 2014:

| Property | Location | Acquisition date | Type |
|------------------------------|-------------------------------|--------------------|------------|
| Park Lucero ⁽¹⁾ | Phoenix Metropolitan Area, AZ | March 7, 2014 | Industrial |
| Corridor Park ⁽¹⁾ | Houston, TX | June 17, 2014 | Office |
| Park 8Ninety | Houston, TX | September 18, 2014 | Industrial |
| Stampede Station II | Calgary, AB | October 8, 2014 | Office |
| 801 Carlson | Twin Cities Area, MN | October 20, 2014 | Office |
| Union Crossings III | Twin Cities Area, MN | December 31, 2014 | Retail |

⁽¹⁾ The REIT acquired a 90% interest in this joint venture (see note 23).

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3. Acquisitions and dispositions of investment properties (continued):

Acquisitions (continued):

The REIT acquired the following properties during the year ended December 31, 2013:

| Property | Property count | Location | Acquisition date | Type |
|--------------------------------------|----------------|-------------------------------|-------------------------------------|------------|
| 1110 Pettigrew Avenue | 1 | Regina, SK | January 15, 2013 | Industrial |
| Century Crossing III ⁽¹⁾ | 1 | Edmonton Capital Region, AB | February 11, 2013, June 28, 2013 | Retail |
| 495 Richmond Road | 1 | Ottawa, ON | March 15, 2013 | Office |
| 220 Portage Avenue | 1 | Winnipeg, MB | April 30, 2013 | Office |
| Quarry Park Portfolio | 3 | Calgary, AB | May 15, 2013 | Office |
| 1700 Broadway ⁽²⁾ | 1 | Denver, CO | May 22, 2013 | Office |
| ASM America Headquarters Building | 1 | Phoenix, AZ | June 4, 2013 | Office |
| Cara Foods Building ⁽³⁾ | - | Greater Toronto Area, ON | June 5, 2013 | Office |
| Oakdale Village | 1 | Twin Cities Area, MN | June 10, 2013 | Retail |
| PTI Building ⁽⁴⁾ | 1 | Edmonton Capital Region, AB | June 28, 2013 | Industrial |
| DirectTV Building | 1 | Greater Denver Area, CO | July 31, 2013 | Office |
| North Scottsdale Corporate Center II | 1 | Phoenix Metropolitan Area, AZ | September 10, 2013 | Office |

⁽¹⁾ The REIT closed the first part of this two-part acquisition on February 11, 2013 and the second part on June 28, 2013.

⁽²⁾ The REIT acquired a 50% interest in this joint venture.

⁽³⁾ The REIT acquired the remaining 50% interest in this property.

⁽⁴⁾ The REIT acquired a parcel of land adjacent to the PTI Building on October 1, 2013.

The REIT also acquired development land located in Winnipeg, Manitoba and in the Twin Cities Area, Minnesota during the year ended December 31, 2013.

These acquisitions have been accounted for using the acquisition method, with the results of operations included in the REIT's accounts from the date of acquisition. The net assets acquired, excluding joint ventures, were as follows:

| | 2014 | Year ended December 31, 2013 |
|---|------------|------------------------------------|
| Investment properties (note 4) | \$ 201,588 | \$ 497,964 |
| Long-term debt, including acquired above- and below-market mortgages, net of financing costs | (60,383) | (223,479) |
| Cash consideration | \$ 141,205 | \$ 274,485 |
| Transaction costs expensed (note 17) | \$ 2,077 | \$ 4,929 |

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
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3. Acquisitions and dispositions of investment properties (continued):

Dispositions:

The REIT disposed of the following properties during the year ended December 31, 2014:

| Property | Location | Disposition date | Type |
|--------------------|---|------------------|------------|
| 15 Blair Drive | Greater Toronto Area, ON | March 31, 2014 | Industrial |
| King Edward Centre | Greater Vancouver Regional District, BC | May 22, 2014 | Retail |
| Shady Oak | Twin Cities Area, MN | December 1, 2014 | Industrial |

The proceeds from the sale of the above properties, net of costs and related debt, were \$18,096. The assets and liabilities associated with the properties were derecognized.

The REIT disposed of the following properties during the year ended December 31, 2013:

| Property | Location | Disposition date | Type |
|---------------------------|----------------------|--------------------|------------|
| 1301 Industrial Boulevard | Twin Cities Area, MN | July 15, 2013 | Industrial |
| Delta Centre | Edmonton, AB | September 30, 2013 | Industrial |

The proceeds from the sale of the above properties, net of costs, were \$11,438. The assets and liabilities associated with these properties were derecognized.

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

| | Year ended December 31, 2014 | |
|---|---------------------------------|--|
| | Investment properties | Investment properties under development |
| Balance, beginning of year | \$ 4,851,877 | \$ 47,281 |
| Additions: | | |
| Acquisitions (note 3) | 187,028 | 14,560 |
| Capital expenditures | 21,522 | 21,178 |
| Leasing costs | 8,240 | 1,146 |
| Dispositions | (20,407) | - |
| Reclassification of investment properties under development | 2,338 | (2,338) |
| Foreign currency translation gain | 97,707 | 1,089 |
| Straight-line rent adjustment | 4,655 | 22 |
| Tenant inducement additions, net of amortization | 8,816 | 510 |
| Contingent consideration adjustment | (884) | - |
| Fair value gain (loss) | 40,597 | (1,766) |
| Balance, end of year | \$ 5,201,489 | \$ 81,682 |

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
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4. Investment properties, investment properties under development and investment properties held for sale (continued):

| | Year ended December 31, 2013 | | |
|---|---------------------------------|--|---|
| | Investment properties | Investment properties under development | Investment properties held for sale |
| Balance, beginning of year | \$ 4,206,126 | \$ 4,234 | \$ 58,963 |
| Additions: | | | |
| Acquisitions (note 3) | 497,964 | - | - |
| Capital expenditures | 19,015 | 40,549 | 65 |
| Leasing costs | 8,145 | 226 | 101 |
| Dispositions | (5,358) | - | (6,080) |
| 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) |
| Straight-line rent adjustment | 5,496 | - | 47 |
| Tenant inducement additions, net of amortization | 8,953 | (20) | 207 |
| Fair value gain (loss) | 535 | 5,170 | (1,320) |
| Balance, end of year | \$ 4,851,877 | \$ 47,281 | \$ - |

External valuations are performed quarterly on a rotational basis over a four year cycle. For the year ended December 31, 2014, 61 investment properties of the total portfolio of 246 properties at December 31, 2014 (24.80%) were appraised by qualified external valuation professionals. For the year ended December 31, 2013, 56 investment properties of the total portfolio of 232 properties at December 31, 2013 (24.14%) were appraised by qualified external valuation professionals. The REIT uses similar assumptions and valuation techniques in its internal valuations as used by the external valuation professionals.

The REIT determined the fair value of investment properties based upon either the discounted cash flow method or the overall capitalization method, which are generally accepted appraisal methodologies. There were no changes to the REIT's internal valuation methodology during the years ended December 31, 2014 and 2013.

Under the discounted cash flow method, expected future cash flows are discounted using an appropriate rate based on the risk of the property. Expected future cash flows for each investment property are based upon, but not limited to, rental income from current leases, budgeted and actual expenses, and assumptions about rental income from future leases. The REIT uses leasing history, market reports, tenant profiles and building assessments, among other things, in determining the most appropriate assumptions. Discount and capitalization rates are estimated using market surveys, available appraisals and market comparables. Under the overall capitalization method, year one net income is stabilized and capitalized at a rate appropriate for each investment property. The stabilized net income incorporates allowances for vacancy, management fees and structural repair reserves. The resulting capitalized value is further adjusted, where appropriate, for costs to stabilize the net income and non-recoverable capital expenditures.

A change in the discount or capitalization rates used could have a material impact on the fair value of the REIT's investment properties. When discount or capitalization rates compress, the estimated fair values of investment properties increase. When discount or capitalization rates expand, the estimated fair values of investment properties decrease.

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4. Investment properties, investment properties under development and investment properties held for sale (continued):

A change in estimated future rental income and expenses could have a material impact on the fair value of the REIT's investment properties. Estimated rental income and expenses are affected by, but not limited to, changes in rent and expense growth and occupancy rates.

Under the fair value hierarchy, the fair value of the REIT's investment properties is considered a Level 3, as described in note 27 (b).

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

| | December 31, 2014 | | | December 31, 2013 | | |
|------------------------------|-------------------|---------|------------------|-------------------|---------|------------------|
| | Maximum | Minimum | Weighted-average | Maximum | Minimum | Weighted-average |
| Western Canada: | | | | | | |
| Discount rate | 9.00% | 6.25% | 7.34% | 9.25% | 6.50% | 7.43% |
| Terminal capitalization rate | 8.50% | 4.50% | 6.45% | 8.00% | 5.50% | 6.47% |
| Capitalization rate | 8.25% | 4.50% | 6.18% | 7.50% | 5.25% | 6.18% |
| Investment horizon (years) | 17.0 | 10.0 | 10.6 | 18.0 | 10.0 | 10.8 |
| Central Canada: | | | | | | |
| Discount rate | 8.50% | 7.25% | 7.68% | 8.75% | 7.50% | 7.89% |
| Terminal capitalization rate | 8.00% | 6.00% | 6.61% | 8.00% | 6.00% | 6.75% |
| Capitalization rate | 8.00% | 5.75% | 6.40% | 7.75% | 6.00% | 6.58% |
| Investment horizon (years) | 13.0 | 10.0 | 10.1 | 15.0 | 10.0 | 10.3 |
| Eastern Canada: | | | | | | |
| Discount rate | 7.75% | 6.75% | 7.28% | 8.00% | 6.75% | 7.27% |
| Terminal capitalization rate | 7.00% | 5.75% | 6.55% | 7.00% | 5.75% | 6.51% |
| Capitalization rate | 7.00% | 5.50% | 6.30% | 7.00% | 5.50% | 6.29% |
| Investment horizon (years) | 14.0 | 10.0 | 10.6 | 15.0 | 10.0 | 11.2 |
| U.S.: | | | | | | |
| Discount rate | 9.50% | 7.00% | 8.15% | 9.50% | 7.00% | 8.16% |
| Terminal capitalization rate | 9.00% | 6.00% | 7.13% | 9.00% | 6.00% | 7.29% |
| Capitalization rate | 8.75% | 6.00% | 6.88% | 8.75% | 6.00% | 7.06% |
| Investment horizon (years) | 20.0 | 9.0 | 11.2 | 20.0 | 10.0 | 11.1 |
| Overall: | | | | | | |
| Discount rate | 9.50% | 6.25% | 7.55% | 9.50% | 6.50% | 7.60% |
| Terminal capitalization rate | 9.00% | 4.50% | 6.63% | 9.00% | 5.50% | 6.66% |
| Capitalization rate | 8.75% | 4.50% | 6.37% | 8.75% | 5.25% | 6.41% |
| Investment horizon (years) | 20.0 | 9.0 | 10.7 | 20.0 | 10.0 | 10.8 |

The above information represents the REIT's entire portfolio of investment properties.

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4. Investment properties, investment properties under development and investment properties held for sale (continued):

The following sensitivity table outlines the impact of a 0.25% change in the weighted-average capitalization rate on investment properties at December 31, 2014:

| | Change to fair value if capitalization rate increases by 0.25% | Change to fair value if capitalization rate decreases by 0.25% |
|----------------|--|--|
| Western Canada | \$ (107,703) | \$ 116,923 |
| Central Canada | (25,580) | 27,690 |
| Eastern Canada | (22,736) | 24,632 |
| U.S. | (37,455) | 40,345 |
| | \$ (193,474) | \$ 209,590 |

At December 31, 2014, included in investment properties is \$30,587 (December 31, 2013, \$25,438) of net straight-line rent receivables arising from the recognition of rental income on a straight-line basis over the lease term in accordance with IAS 17 - *Leases*.

Investment properties include properties held under operating leases with an aggregate fair value of \$93,275 at December 31, 2014 (December 31, 2013, \$90,606).

At December 31, 2014, investment properties with a fair value of \$4,653,391 (December 31, 2013, \$4,671,490) are pledged as security under mortgage agreements and a credit facility.

5. Property and equipment:

| | December 31, 2014 | December 31, 2013 |
|-------------------------------|-------------------|-------------------|
| Office furniture and fixtures | \$ 4,045 | \$ 3,026 |
| Office equipment and software | 1,152 | 1,063 |
| Accumulated depreciation | (1,792) | (1,217) |
| | \$ 3,405 | \$ 2,872 |

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6. Notes receivable:

| | December 31, 2014 | December 31, 2013 |
|---|----------------------|----------------------|
| Note receivable from tenant maturing in May 2023, bearing interest at 5.89% per annum, repayable in varying blended monthly installments of principal and interest. A default under the terms of the note constitutes a default of the lease of the tenant. | \$ 18,672 | \$ 20,385 |
| Other notes receivable | 2,076 | 79 |
| | 20,748 | 20,464 |
| Current portion | 2,509 | 1,723 |
| Non-current portion | \$ 18,239 | \$ 18,741 |

7. Prepaid expenses and other assets:

| | December 31, 2014 | December 31, 2013 |
|--|----------------------|----------------------|
| Prepaid insurance | \$ 2,667 | \$ 2,283 |
| Prepaid taxes | 1,717 | 1,965 |
| Derivative instruments swaps (note 27 (b)) | 172 | 4,279 |
| Other | 2,115 | 2,167 |
| | \$ 6,671 | \$ 10,694 |

8. Accounts receivable and other receivables:

| | December 31, 2014 | December 31, 2013 |
|---|----------------------|----------------------|
| Rents receivable (note 27 (a)(ii)) | \$ 5,072 | \$ 3,335 |
| Allowance for doubtful accounts (note 27 (a)(ii)) | (627) | (139) |
| Accrued recovery income | 3,518 | 4,114 |
| Other amounts receivable | 2,992 | 5,227 |
| | \$ 10,955 | \$ 12,537 |

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9. Mortgages and loans payable:

| | December 31, 2014 | December 31, 2013 |
|--|----------------------|----------------------|
| Mortgages and loans payable | \$ 2,267,285 | \$ 2,291,636 |
| Net above- and below-market mortgage adjustments | 3,186 | 4,972 |
| Financing costs | (8,417) | (9,011) |
| | 2,262,054 | 2,287,597 |
| Current portion | 393,197 | 280,983 |
| Non-current portion | \$ 1,868,857 | \$ 2,006,614 |

The majority of the REIT's assets have been pledged as security under mortgages and other security agreements. 71.9% of the REIT's mortgages and loans payable bear interest at fixed rates, and a further 17.4% of the REIT's mortgages and loans payable bear interest at variable rates with interest rate swaps in place. The weighted-average effective rate on all mortgages and loans payable is 4.18% and the weighted-average nominal rate is 4.04% at December 31, 2014 (December 31, 2013, 4.27% and 4.10%, respectively). Maturity dates range from January 31, 2015 to February 14, 2032.

The REIT's mortgage providers have various financial covenants. The REIT monitors these covenants, which are primarily debt service coverage ratios, and is in compliance with these requirements at December 31, 2014.

10. Senior unsecured debentures:

On March 27, 2014, under the June 15, 2012 short form base shelf prospectus, the REIT issued 3.753% Series A senior unsecured debentures at par for gross proceeds of \$125,000. On September 10, 2014, under the July 17, 2014 short form base shelf prospectus, the REIT issued additional 3.753% Series A senior unsecured debentures at a price of \$101.24 with a face value of \$75,000, for gross proceeds of \$75,932. Interest is payable semi-annually on March 27 and September 27. The REIT may redeem the debentures at any time on a minimum of 30 days notice, in whole or in part, at a price equal to the greater of (i) the price of the debentures calculated to provide a yield to maturity equal to the then Government of Canada bond yield plus 0.50% and (ii) par, together in each case with accrued and unpaid interest to the date fixed for redemption.

In accordance with the Series A senior unsecured debenture supplemental indenture, the REIT must maintain a consolidated EBITDA to consolidated interest expense ratio of not less than 1.65, consolidated indebtedness to aggregate assets of not less than 65% and minimum adjusted unitholders' equity of \$300,000. As at December 31, 2014, the REIT was in compliance with these requirements.

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

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

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10. Senior unsecured debentures (continued):

| Senior unsecured debenture issue | Face value | Unamortized accretion | Unamortized financing costs | Carrying value | Current portion | Non-current portion |
|----------------------------------|------------|-----------------------|-----------------------------|----------------|-----------------|---------------------|
| Series A | \$ 200,000 | \$ 872 | \$ (1,345) | \$ 199,527 | \$ - | \$ 199,527 |
| December 31, 2014 | \$ 200,000 | \$ 872 | \$ (1,345) | \$ 199,527 | \$ - | \$ 199,527 |
| December 31, 2013 | - | - | - | - | - | - |

During the year ended December 31, 2014, accretion to the liability of \$59 and financing cost amortization of \$165 were recorded (2013, \$nil and \$nil, respectively).

11. Convertible debentures:

In conjunction with the purchase of the Fort McMurray portfolio effective November 30, 2007, the REIT issued a Series D convertible redeemable 5.00% debenture totaling \$20,000. None of the Series D convertible debentures were converted into units of the REIT in fiscal 2014 or 2013. On December 31, 2013, the REIT redeemed \$3,000 of the Series D convertible debentures for cash. On January 15, 2014, the REIT redeemed \$2,500 of the Series D convertible debentures for cash. On December 1, 2014, the REIT redeemed the remaining balance of the Series D convertible debentures of \$1,500 for cash.

In conjunction with the prospectus that closed on April 22, 2010, the REIT issued Series F convertible redeemable 6.00% debentures totaling \$75,000. An additional \$11,250 of the Series F convertible debentures were issued pursuant to the exercise of the underwriters' overallotment option. Interest is paid semi-annually on June 30 and December 31. The convertible debentures are convertible into units of the REIT by the holder at any time prior to maturity, being June 30, 2020, at a price of \$15.50 per unit. The debentures will not be redeemable by Artis prior to March 31, 2014. On or after March 31, 2014, but prior to March 31, 2016, the Series F debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice, provided that the weighted-average trading price of the units is not less than 125% of the conversion price. On and after March 31, 2016, the Series F convertible debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice. None of the Series F convertible debentures were converted into units of the REIT in fiscal 2014 and 2013.

In conjunction with the prospectus that closed on April 21, 2011, the REIT issued Series G convertible redeemable 5.75% debentures totaling US\$80,000. An additional US\$8,000 of the Series G convertible debentures were issued pursuant to the exercise of the underwriters' overallotment option. Interest is paid semi-annually on June 30 and December 31. The convertible debentures are convertible into units of the REIT by the holder at any time prior to maturity, being June 30, 2018, at a price of US\$18.96 per unit. The debentures will not be redeemable by Artis prior to June 30, 2014. On or after June 30, 2014, but prior to June 30, 2016, the Series G debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice, provided that the weighted-average trading price of the units is not less than 125% of the conversion price. On and after June 30, 2016, the Series G convertible debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice. The debentures rank pari passu with the convertible debentures issued on April 22, 2010. None of the Series G convertible debentures were converted into units of the REIT in fiscal 2014 or 2013.

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11. Convertible debentures (continued):

The REIT's convertible debentures are classified as compound financial instruments. The fair values of the convertible debentures were estimated in whole and separated into liability and equity components when the convertible debentures were reclassified from financial liabilities on August 2, 2012, when the REIT amended its Declaration of Trust to become a closed-end trust. The fair value of each convertible debentures series was estimated using the market price of the debentures, or if no market price existed, an estimate based on the present value of future interest and principal payments due under the terms of the convertible debenture using a discount rate for similar debt instruments.

The Series F convertible debentures were separated into liability and equity components based on the estimated fair value of the liability component. The fair value of the liability component was estimated based on the present value of future interest and principal payments due under the terms of the convertible debenture using a discount rate for similar debt instruments without a conversion feature. The value assigned to the equity component is the residual of the fair value of the liability component and the fair value of the whole financial instrument. Interest expense on the Series F convertible debentures is determined by applying an effective interest rate of 6.25% to the outstanding liability component. The difference between actual cash interest payments and interest expense recorded on the convertible debentures is accreted to the liability component.

The fair value of the Series G convertible debentures in whole was recorded as a liability with no value assigned to equity as these convertible debentures are denominated in US dollars with no fixed conversion rate to Canadian dollars. Interest expense on the Series G convertible debentures is determined by applying an effective rate of 5.04% to the outstanding liability balance. The difference between actual cash interest payments and interest expense recorded on the convertible debentures is accreted to the liability.

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

| Convertible redeemable debenture issue | Issue date | Maturity date | Interest rate |
|--|----------------|---------------|---------------|
| Series F | April 22, 2010 | June 30, 2020 | 6.00% |
| Series G | April 21, 2011 | June 30, 2018 | 5.75% |

| Convertible redeemable debenture issue | Face value | Equity portion | Liability portion | Accretion | Carrying value | Current portion | Non-current portion |
|--|------------|----------------|-------------------|------------|----------------|-----------------|---------------------|
| Series F | \$ 86,170 | \$ 11,023 | \$ 84,841 | \$ 339 | \$ 85,180 | \$ - | \$ 85,180 |
| Series G | 102,089 | - | 105,764 | (1,371) | 104,393 | - | 104,393 |
| December 31, 2014 | \$ 188,259 | \$ 11,023 | \$ 190,605 | \$ (1,032) | \$ 189,573 | \$ - | \$ 189,573 |
| December 31, 2013 | 183,767 | 11,154 | 185,764 | (500) | 185,264 | 3,982 | 181,282 |

During the year ended December 31, 2014, accretion of \$416 reduced the carrying value of the liability component (2013, \$327).

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12. Accounts payable and other liabilities:

| | December 31, 2014 | December 31, 2013 |
|--|----------------------|----------------------|
| Accounts payable and accrued liabilities | \$ 28,309 | \$ 30,420 |
| Distributions payable | 12,929 | 12,088 |
| Accrued interest | 8,985 | 7,019 |
| Accrued property taxes | 3,415 | 2,899 |
| Tenant installments payable | 3,631 | 2,932 |
| Derivative instruments swaps (note 27 (b)) | 6,852 | 2,395 |
| Cash-settled unit-based payments liability | 1,354 | 355 |
| Other | 1,228 | 953 |
| | \$ 66,703 | \$ 59,061 |

13. Bank indebtedness:

On September 6, 2012, the REIT entered into a revolving term credit facility in the amount of \$80,000, which could be utilized for general corporate operating purposes, including the acquisition of commercial properties and the issuance of letters of credit. The credit facility matured on September 12, 2014.

On December 17, 2014, the REIT entered into two unsecured revolving term credit facilities in the aggregate amount of \$125,000, which can be utilized for general corporate and working capital purposes, short term financing of investment property acquisitions and the issuance of letters of credit. The credit facilities mature on December 15, 2017. Amounts drawn on the facilities bear interest at prime plus 0.70% or at the bankers' acceptance rate plus 1.70%. At December 31, 2014, the REIT had no balance drawn on the facilities.

For purposes of the credit facilities, the REIT must maintain a consolidated indebtedness to consolidated gross book value ratio of not more than 65%, a consolidated secured indebtedness to consolidated gross book value ratio of not more than 50%, a minimum consolidated EBITDA to debt service ratio of 1.4, a minimum unitholders' equity of not less than the sum of \$1,700,000 and 75% of net proceeds received in connection with any equity offerings made after the date of the credit facilities agreement, a minimum unencumbered property assets value to consolidated unsecured indebtedness ratio of 1.4, and a minimum consolidated EBITDA to consolidated interest expense ratio of 1.65. As at December 31, 2014, the REIT was in compliance with these requirements.

On April 10, 2014, the REIT entered into a revolving term credit facility in the amount of \$15,000 to finance tenant improvement work at an industrial property under a joint operation arrangement. Amounts drawn on the facility bear interest at prime plus 0.20%. At December 31, 2014, the REIT's share of the balance drawn on the facility is \$300.

14. Unitholders' equity:

(a) Common units:

(i) Authorized:

In accordance with the Declaration of Trust, the REIT may issue an unlimited number of common units, with each unit representing an equal undivided interest in any distributions from the REIT, and in the net assets in the event of termination or wind-up of the REIT. All units are of the same class with equal rights and restrictions.

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14. Unitholders' equity (continued):

(a) Common units (continued):

(ii) Issued and outstanding:

| | Number of units | Amount |
|--|-----------------|--------------|
| Balance at December 31, 2012 | 114,884,469 | \$ 1,449,301 |
| Public offerings, net of issue costs of \$7,297 | 10,424,750 | 165,232 |
| Options exercised | 220,912 | 3,469 |
| Distribution Reinvestment and Unit Purchase Plan | 1,408,345 | 20,217 |
| Balance at December 31, 2013 | 126,938,476 | 1,638,219 |
| Public offering, net of issue costs of \$5,028 | 7,147,250 | 110,043 |
| Options and restricted units exercised | 200,164 | 2,986 |
| Distribution Reinvestment and Unit Purchase Plan | 1,678,573 | 24,957 |
| At-the-market equity financing | 320,000 | 4,469 |
| Balance at December 31, 2014 | 136,284,463 | \$ 1,780,674 |

The REIT has a Distribution Reinvestment and Unit Purchase Plan which allows unitholders the option to elect to receive all or a portion of their regular monthly distributions in additional REIT units.

(iii) Normal course issuer bid:

On December 12, 2014, the REIT announced that the Toronto Stock Exchange (the "Exchange") had approved the renewal of its normal course issuer bid. Under the renewed bid, the REIT will have the ability to purchase for cancellation up to a maximum of 13,503,435 units, representing 10% of the REIT's float of 135,034,350 units on November 30, 2014. Purchases will be made at market prices through the facilities of the Exchange. This bid will remain in effect until the earlier of December 16, 2015, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the years ended December 31, 2014 and 2013, the REIT did not acquire units through the normal course issuer bid.

(iv) At-the-market equity financing:

The REIT has entered into an Equity Distribution Agreement dated September 17, 2010, as most recently amended and restated on September 15, 2014, with an exclusive agent for the issuance and sale, from time to time, until August 17, 2016 of up to 4,980,000 units of the REIT by way of "at-the-market distributions". The timing of any sale of units and the number of units actually sold during such period are at the discretion of the REIT. Sales of units, if any, pursuant to the Equity Distribution Agreement will be made in transactions that are deemed to be "at-the-market distributions", including sales made directly on the Exchange. On January 31, 2014, 320,000 units were issued pursuant to this arrangement at an average price per unit of \$15.09 for gross proceeds of \$4,830. Net proceeds were \$4,469, which included commission costs of \$145.

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14. Unitholders' equity (continued):

(b) Preferred units:

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

(i) Series A:

On August 2, 2012, the REIT issued 3,000,000 Cumulative Rate Reset Preferred Trust Units, Series A (the "Series A Units") for aggregate gross proceeds of \$75,000. On August 10, 2012, the underwriting syndicate exercised in full its over-allotment option and a further 450,000 Series A Units were issued for gross proceeds of \$11,250. The Series A Units pay a cumulative distribution yield of 5.25% per annum, payable quarterly, as and when declared by the Board of Trustees of the REIT, for the initial five-year period ending September 30, 2017. The distribution rate will be reset on September 30, 2017 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 4.06%.

The REIT may redeem the Series A Units on September 30, 2017 and on September 30 every five years thereafter. The holders of Series A Units have the right to reclassify their Series A Units to Preferred Units, Series B (the "Series B Units"), subject to certain conditions, on September 30, 2017 and on September 30 every five years thereafter. The Series B Units pay floating rate cumulative preferential distributions on a quarterly basis, at the discretion of the Board of Trustees. The holders of Series B Units have the right to reclassify their Series B Units to Series A Units on September 30, 2022 and on September 30 every five years thereafter.

(ii) Series C:

On September 18, 2012, the REIT issued 3,000,000 Cumulative Rate Reset Preferred Trust Units, Series C (the "Series C Units") for aggregate gross proceeds of US\$75,000. The Series C Units pay a fixed cumulative distribution yield of 5.25% per annum, payable quarterly, as and when declared by the Board of Trustees of the REIT, for the initial approximately five and a half-year period ending March 31, 2018. The distribution rate will be reset on March 31, 2018 and every five years thereafter at a rate equal to the sum of the then five-year United States Government bond yield and 4.46%.

The REIT may redeem the Series C Units on March 31, 2018 and on March 31 every five years thereafter. The holders of Series C Units have the right to reclassify their Series C Units to Preferred Units, Series D ("the Series D Units"), subject to certain conditions, on March 31, 2018 and on March 31 every five years thereafter. The Series D Units pay floating rate cumulative preferential distributions on a quarterly basis, at the discretion of the Board of Trustees. The holders of Series D Units have the right to reclassify their Series D Units to Series C Units on March 31, 2023 and on March 31 every five years thereafter.

(iii) Series E:

On March 21, 2013, the REIT issued 4,000,000 Cumulative Rate Reset Preferred Trust Units, Series E (the "Series E Units") for aggregate gross proceeds of \$100,000. The Series E Units pay a cumulative distribution yield of 4.75% per annum, payable quarterly, as and when declared by the Board of Trustees of the REIT, for the initial period ending September 30, 2018. The distribution rate will be reset on September 30, 2018 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 3.30%.

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14. Unitholders' equity (continued):

(b) Preferred units (continued):

(iii) Series E (continued):

The REIT may redeem the Series E Units on September 30, 2018 and on September 30 every five years thereafter. The holders of Series E Units have the right to reclassify their Series E Units to Preferred Units, Series F (the "Series F Units"), subject to certain conditions, on September 30, 2018 and on September 30 every five years thereafter. The Series F Units pay floating rate cumulative preferential distributions on a quarterly basis, at the discretion of the Board of Trustees. The holders of Series F Units have the right to reclassify their Series F Units to Series E Units on September 30, 2023 and on September 30 every five years thereafter.

(iv) Series G:

On July 29, 2013, the REIT issued 3,200,000 Cumulative Rate Reset Preferred Trust Units, Series G (the "Series G Units") for aggregate gross proceeds of \$80,000. This included 200,000 Series G Units issued pursuant to the partial exercise of the Underwriters' option. The Series G Units pay a cumulative distribution yield of 5.00% per annum, payable quarterly, as and when declared by the Board of Trustees of the REIT, for the initial period ending July 31, 2019. The distribution rate will be reset on July 31, 2019 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 3.13%.

The REIT may redeem the Series G Units on July 31, 2019 and on July 31 every five years thereafter. The holders of Series G Units have the right to reclassify their Series G Units to Preferred Units, Series H (the "Series H Units"), subject to certain conditions, on July 31, 2019 and on July 31 every five years thereafter. The Series H Units pay floating rate cumulative preferential distributions on a quarterly basis, at the discretion of the Board of Trustees. The holders of Series H Units have the right to reclassify their Series H Units to Series G Units on July 31, 2024 and on July 31 every five years thereafter.

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

(c) Short form base shelf prospectuses:

On June 15, 2012, the REIT issued a short form base shelf prospectus. The REIT may from time to time during the 25-month period that this short form base shelf prospectus is valid, offer and issue the following securities up to a maximum of \$2,000,000 of initial offering price: (i) trust units of the REIT; (ii) preferred trust units, which may be issuable in series; (iii) debt securities, which may consist of debentures, notes or other types of debt and may be issuable in series; (iv) unit purchase warrants; and (v) subscription receipts to purchase trust securities. This base shelf expired on July 15, 2014. The REIT had issued common units under three offerings in the amount of \$356,680, preferred units under four offerings in the amount of \$266,250 and US\$75,000 and senior unsecured debentures under one offering in the amount of \$125,000 under this short form base shelf prospectus.

On July 17, 2014, the REIT issued a new short form base shelf prospectus. The REIT may from time to time during the 25-month period that this short form base shelf prospectus is valid, offer and issue the following securities up to a maximum of \$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, 2014, the REIT has issued senior unsecured debentures under one offering in the amount of \$75,000 under this short form base shelf prospectus.

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

14. Unitholders' equity (continued):

(d) Weighted-average common units:

| | Year ended December 31, | |
|---|----------------------------|-------------------|
| | 2014 | 2013 |
| Net income | \$ 197,886 | \$ 191,155 |
| Adjustment for distributions to preferred unitholders (note 15) | (17,662) | (14,005) |
| Net income attributable to common unitholders | 180,224 | 177,150 |
| Adjustment for convertible debentures | 10,333 | 10,231 |
| Adjustment for restricted units | (51) | (11) |
| Adjustment for deferred units | (2) | - |
| Diluted net income attributable to common unitholders | \$ 190,504 | \$ 187,370 |

The weighted-average number of common units outstanding was as follows:

| | | |
|---|--------------------|--------------------|
| Basic common units | 132,553,521 | 122,405,907 |
| Effect of dilutive securities: | | |
| Unit options | 144,975 | 173,083 |
| Convertible debentures | 10,200,277 | 10,425,629 |
| Restricted units | 216,721 | 65,888 |
| Deferred units | 439 | - |
| Diluted common units | 143,115,933 | 133,070,507 |
| Net income per unit attributable to common unitholders: | | |
| Basic | \$ 1.36 | \$ 1.45 |
| Diluted | \$ 1.33 | \$ 1.41 |

The computation of diluted net income per unit attributable to common unitholders only includes unit options, convertible debentures and restricted units when these instruments are dilutive. For the years ended December 31, 2014 and 2013, out-of-the-money options are the only anti-dilutive instruments.

15. Distributions to unitholders:

Total distributions declared to unitholders are as follows:

| | Year ended December 31, 2014 | | Year ended December 31, 2013 | |
|----------------------------------|---------------------------------|---------------------------|---------------------------------|---------------------------|
| | Total distributions | Distributions per unit | Total distributions | Distributions per unit |
| Common unitholders | \$ 143,668 | \$ 1.08 | \$ 132,454 | \$ 1.08 |
| Preferred unitholders - Series A | 4,528 | 1.31 | 4,528 | 1.31 |
| Preferred unitholders - Series C | 4,384 | 1.46 | 4,094 | 1.36 |
| Preferred unitholders - Series E | 4,750 | 1.19 | 3,690 | 0.92 |
| Preferred unitholders - Series G | 4,000 | 1.25 | 1,693 | 0.53 |

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16. Revenue:

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

Minimum rental commitments on non-cancellable tenant operating leases over their remaining terms are as follows:

| | December 31, 2014 | December 31, 2013 |
|---|----------------------|----------------------|
| Not later than one year | \$ 321,426 | \$ 301,393 |
| Later than one year and not later than five years | 901,866 | 866,471 |
| Later than five years | 620,300 | 630,048 |
| | <u>\$ 1,843,592</u> | <u>\$ 1,797,912</u> |

17. Transaction costs:

The REIT incurred transaction costs in relation to the following:

| | 2014 | Year ended December 31, 2013 |
|---------------------------------------|-----------------|------------------------------------|
| Acquisitions of investment properties | \$ 2,077 | \$ 4,929 |
| Acquisitions of joint ventures | 413 | 756 |
| | <u>\$ 2,490</u> | <u>\$ 5,685</u> |

18. (Loss) gain on financial instruments:

The components of the (loss) gain on financial instruments are as follows:

| | 2014 | Year ended December 31, 2013 |
|---|-------------------|------------------------------------|
| Convertible debentures | \$ 121 | \$ 85 |
| Interest rate swaps | (8,558) | 5,981 |
| Forward and swap foreign exchange contracts | - | (78) |
| | <u>\$ (8,437)</u> | <u>\$ 5,988</u> |

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19. Changes in non-cash operating items:

| | 2014 | Year ended December 31, 2013 |
|---|-----------------|------------------------------------|
| Prepaid expenses and other assets | \$ (293) | \$ (1,079) |
| Accounts receivable and other receivables | (907) | (921) |
| Security deposits and prepaid rent | 4,062 | 1,896 |
| Accounts payable and other liabilities | 390 | 6,967 |
| | \$ 3,252 | \$ 6,863 |

20. Employee benefits:

(a) Short-term employee benefits:

| | 2014 | Year ended December 31, 2013 |
|--------------------------|------------------|------------------------------------|
| Trustees | \$ 734 | \$ 666 |
| Key management personnel | 4,231 | 4,209 |
| Other employees | 12,115 | 10,415 |
| | \$ 17,080 | \$ 15,290 |

Short-term employee benefits include salaries, bonuses and other short-term benefits. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the REIT, directly or indirectly.

(b) Long-term employee benefits:

(i) Defined benefit pension plans:

The REIT has defined benefit plans providing pension benefits to certain key management personnel. The ultimate retirement benefit is defined by a formula that provides a unit of benefit for each year of service. Employer contributions are not specified or defined within the plan text; they are based on the result of actuarial valuations which determine the level of funding required to meet the total obligation as estimated at the time of valuation. The REIT uses December 31 as a measurement date for accounting purposes for its defined benefit pension plans.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

| | 2014 | Year ended December 31, 2013 |
|--------------------------|--------|------------------------------------|
| Discount rate | 6.00 % | 6.00 % |
| Rate of salary increases | 2.00 % | 2.00 % |

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20. Employee benefits (continued):

(b) Long-term employee benefits (continued):

(i) Defined benefit pension plans (continued):

The amounts included in the consolidated balance sheets in respect of the employee benefit plans are as follows:

| | Year ended December 31, | |
|---|----------------------------|-----------------|
| | 2014 | 2013 |
| Accrued defined benefit obligation | \$ 4,104 | \$ 2,795 |
| Fair value of plan assets | 4,325 | 2,937 |
| Funded status | (221) | (142) |
| Assets not recognized due to asset ceiling | 221 | 142 |
| Net liability arising from defined benefit obligation | \$ - | \$ - |
| Movements in the present value of the defined benefit obligation: | | |
| Opening defined benefit obligation | \$ 2,795 | \$ 1,696 |
| Current service cost | 1,173 | 998 |
| Interest cost | 136 | 101 |
| Closing defined benefit obligation | \$ 4,104 | \$ 2,795 |
| Movements in the fair value of plan assets: | | |
| Opening fair value of plan assets | \$ 2,937 | \$ 1,696 |
| Expected return on plan assets | 142 | 99 |
| Interest income (above expected return) | 57 | 61 |
| Contributions | 1,189 | 1,081 |
| Closing fair value of plan assets | \$ 4,325 | \$ 2,937 |

The net expense for the defined benefit plans for the year ended December 31, 2014 is \$1,189 (2013, \$1,081), and is included in corporate expenses.

(ii) Other long-term employee benefits:

The REIT has an obligation for future retirement payments to certain key management personnel upon completion of a defined service period. The REIT has recorded an expense of \$844 related to these benefits for the year ended December 31, 2014 (2013, \$nil), which is included in corporate expenses.

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20. Employee benefits (continued):

(c) Unit-based compensation:

| | Year ended December 31, | |
|--------------------------|----------------------------|----------|
| | 2014 | 2013 |
| Trustees | \$ 139 | \$ 292 |
| Key management personnel | 1,137 | 1,135 |
| Other employees | 364 | 400 |
| | \$ 1,640 | \$ 1,827 |

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

(i) Unit options:

Unit-based compensation expense related to unit options outstanding under the equity incentive plan for the year ended December 31, 2014 amounted to \$609 (2013, \$1,481). These unit options vest equally over a four-year period from the grant date.

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

| | Year ended December 31, 2014 | | Year ended December 31, 2013 | |
|------------------------------------|---------------------------------|---|---------------------------------|---|
| | Units | Weighted- average exercise price | Units | Weighted- average exercise price |
| Balance, beginning of year | 3,365,213 | \$ 15.03 | 3,689,875 | \$ 14.92 |
| Exercised | (199,713) | 12.62 | (220,912) | 12.95 |
| Expired | (302,250) | 15.34 | (103,750) | 15.42 |
| Balance, end of year | 2,863,250 | \$ 15.17 | 3,365,213 | \$ 15.03 |
| Options exercisable at end of year | 1,868,250 | | 1,329,151 | |

The weighted-average unit price at the date of exercise for unit options exercised during the year ended December 31, 2014 was \$15.80 (2013, \$15.05).

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20. Employee benefits (continued):

(c) Unit-based compensation (continued):

(i) Unit options (continued):

Options outstanding at December 31, 2014 consist of the following:

| Exercise price | Number outstanding | Weighted-average remaining contractual life | Options outstanding weighted-average exercise price | Number exercisable |
|----------------|--------------------|---|---|--------------------|
| \$ 11.28 | 33,500 | 0.25 years | \$ 11.28 | 33,500 |
| \$ 13.30 | 195,500 | 0.75 years | \$ 13.30 | 195,500 |
| \$ 13.44 | 237,750 | 1.00 years | \$ 13.44 | 237,750 |
| \$ 14.10 | 864,000 | 1.50 years | \$ 14.10 | 635,250 |
| \$ 16.36 | 1,532,500 | 2.25 years | \$ 16.36 | 766,250 |
| | 2,863,250 | | \$ 15.17 | 1,868,250 |

(ii) Restricted units:

Unit-based compensation expense related to restricted units outstanding under the equity incentive plan for the year ended December 31, 2014 amounted to \$1,006 (2013, \$346). Restricted units vest on and after the third anniversary of the date of grant. The restricted units accrue additional restricted units during the vesting period, and are credited when the restricted units vest. Each restricted unit is valued at the closing price of the REIT's common units on the balance sheet date.

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

| | Year ended December 31, 2014 | Year ended December 31, 2013 |
|--|---------------------------------|---------------------------------|
| | Units | Units |
| Balance, beginning of year | 203,957 | 45,060 |
| Granted | 75,300 | 155,741 |
| Accrued | 15,016 | 4,322 |
| Exercised | (1,586) | (457) |
| Expired | (16,203) | (709) |
| Balance, end of year | 276,484 | 203,957 |
| Restricted units vested at end of year | - | - |

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20. Employee benefits (continued):

(c) Unit-based compensation (continued):

(iii) Deferred units:

Unit-based compensation expense related to deferred units outstanding under the equity incentive plan for the year ended December 31, 2014 amounted to \$25 (2013, \$nil). Deferred units can only be granted to trustees of the REIT and vest immediately. Deferred units are redeemable within a specified time frame after a trustee ceases to be a trustee. The deferred units accrue additional deferred units after the grant date. Each deferred unit is valued at the closing price of the REIT's common units on the balance sheet date.

| | Year ended December 31, 2014 | Year ended December 31, 2013 |
|--------------------------------------|---------------------------------|---------------------------------|
| | Units | Units |
| Balance, beginning of year | - | - |
| Granted | 1,723 | - |
| Accrued | 21 | - |
| Balance, end of year | 1,744 | - |
| Deferred units vested at end of year | 1,744 | - |

At December 31, 2014, no installment units have been granted under the REIT's equity incentive plan.

21. Related party transactions:

The REIT may issue unit-based awards to trustees, officers, employees and consultants (note 20).

Other related party transactions are outlined as follows:

| | 2014 | Year ended December 31, 2013 |
|---|--------|------------------------------------|
| Property management fees | \$ 331 | \$ 323 |
| Capitalized leasing commissions | 96 | 49 |
| Capitalized project management fees | 15 | 27 |
| Capitalized building improvements | 7,881 | 3,656 |
| Capitalized development projects | 13,263 | 25,809 |
| Capitalized office furniture and fixtures | 758 | 513 |
| Capitalized tenant inducements | 498 | 1,109 |
| Property tax assessment consulting fees | 385 | 274 |
| Rental revenues | (168) | (168) |

The REIT incurred property management fees, leasing commission fees and project management fees under property management agreements with Marwest Management Canada Ltd. ("Marwest Management"), a company related to certain trustees and officers of the REIT, for three properties owned by the REIT. The amount payable at December 31, 2014 is \$29 (December 31, 2013, \$27).

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21. Related party transactions (continued):

The REIT incurred costs for building improvements, development projects and tenant inducements paid to Marwest Construction Ltd. ("Marwest Construction") and Marwest Development Corporation, companies related to certain trustees and officers of the REIT. The amount payable at December 31, 2014 is \$3,253 (December 31, 2013, \$1,161).

The REIT incurred costs for office furniture and fixtures paid to Marwest Construction. The amount payable at December 31, 2014 is \$45 (December 31, 2013, \$nil).

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, 2014 is \$nil (December 31, 2013, \$7).

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.

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

| Name of entity | Country | Ownership interest | |
|--|---------|--------------------|-------------------|
| | | December 31, 2014 | December 31, 2013 |
| Artis General Partner Ltd. | Canada | 100% | 100% |
| AX L.P. | Canada | 100% | 100% |
| Artis Property Management General Partner Ltd. | Canada | 100% | 100% |
| AX Property Management L.P. | Canada | 100% | 100% |
| Winnipeg Square Leaseco, Inc. | Canada | 100% | 100% |
| AX Longboat G.P. Inc. | Canada | 50% | 50% |
| AX Longboat L.P. | Canada | 50% | 50% |
| Artis US Holdings, Inc. | U.S. | 100% | 100% |
| Artis US Holdings II GP, Inc. | U.S. | 100% | - |
| Artis US Holdings II, LLC | U.S. | 100% | - |
| Artis US Holdings II L.P. | U.S. | 100% | - |
| Artis Core Park West Land, Ltd. | U.S. | 90% | - |
| Park Lucero I L.P. | U.S. | 90% | - |
| Park Lucero II L.P. | U.S. | 90% | - |
| Artis HRA 1700 Broadway GP, LLC | U.S. | 50% | 50% |
| Artis HRA 1700 Broadway L.P. | U.S. | 50% | 50% |
| Artis HRA Hudsons Bay GP, LLC | U.S. | 50% | - |
| Artis HRA Hudsons Bay L.P. | U.S. | 50% | - |

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22. Income taxes:

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

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

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

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

The SIFT Rules do not apply to a REIT that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the SIFT Rules and has assessed their interpretation and application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the years ended December 31, 2014 and December 31, 2013. As a result, the REIT does not recognize any deferred income tax assets or liabilities for income tax purposes.

23. Joint arrangements:

The REIT had interests in the following joint arrangements:

| Property | Principal purpose | Type of arrangement | Ownership interest | |
|------------------------------|---------------------|---------------------|--------------------|-------------------|
| | | | December 31, 2014 | December 31, 2013 |
| Corridor Park | Investment property | Joint venture | 90% | - |
| Park Lucero I | Investment property | Joint venture | 90% | - |
| Park Lucero II | Investment property | Joint venture | 90% | - |
| 1700 Broadway | Investment property | Joint venture | 50% | 50% |
| Centrepoint | Investment property | Joint venture | 50% | 50% |
| Hudson's Bay Centre | Investment property | Joint venture | 50% | - |
| Centre 70 Building | Investment property | Joint operation | 85% | 85% |
| Whistler Hilton Retail Plaza | Investment property | Joint operation | 85% | 85% |
| Westbank Hub Centre North | Investment property | Joint operation | 75% | 75% |
| Westbank Hub Shopping Centre | Investment property | Joint operation | 75% | 75% |
| Cliveden Building | Investment property | Joint operation | 50% | 50% |
| Kincaid Building | Investment property | Joint operation | 50% | 50% |

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

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23. Joint arrangements (continued):

During the year ended December 31, 2014, the REIT entered into four joint venture arrangements. Park Lucero I and Park Lucero II are a development project located in the Phoenix Metropolitan Area, Arizona, Hudson's Bay Centre is an office property in Denver, Colorado and Corridor Park is a development project located in Houston, Texas. The REIT contributed \$53,406 to these joint venture arrangements, inclusive of transaction costs of \$413 (note 17) which were expensed during the year ended December 31, 2014.

The REIT is contingently liable for the obligations of certain joint arrangements. As at December 31, 2014, the co-owners' share of mortgage liabilities is \$82,376 (December 31, 2013, \$57,485). Management believes that the assets available from its joint arrangements are sufficient for the purpose of satisfying such obligations.

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

| | December 31, 2014 | December 31, 2013 |
|---|----------------------|------------------------------------|
| Non-current assets: | | |
| Investment properties | \$ 87,746 | \$ 56,913 |
| Investment properties under development | 72,262 | 17,690 |
| Current assets: | | |
| Prepaid expenses and other assets | 230 | 26 |
| Accounts receivable and other receivables | 620 | 305 |
| Cash held in trust | 1,337 | 736 |
| Cash and cash equivalents | 3,025 | 1,201 |
| | 165,220 | 76,871 |
| Non-current liabilities: | | |
| Mortgages and loans payable | 46,487 | 30,706 |
| Current liabilities: | | |
| Mortgages and loans payable | 15,116 | 520 |
| Security deposits and prepaid rent | 497 | 158 |
| Accounts payable and other liabilities | 5,048 | 3,053 |
| | 67,148 | 34,437 |
| Investments in joint ventures | \$ 98,072 | \$ 42,434 |
| | 2014 | Year ended December 31, 2013 |
| Revenue | \$ 8,081 | \$ 3,617 |
| Property operating expenses | 3,547 | 1,560 |
| Net operating income | 4,534 | 2,057 |
| Other income (expenses): | | |
| Interest expense | (1,166) | (494) |
| Fair value (loss) gain on investment properties | (7,355) | 5,893 |
| Net (loss) income from investments in joint ventures | \$ (3,987) | \$ 7,456 |

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24. Segmented information:

The REIT owns and operates various properties located in Canada and the U.S. Information related to these geographical locations is presented below. Western Canada includes British Columbia, Alberta and Saskatchewan; Central Canada includes Manitoba; and Eastern Canada includes Ontario. REIT expenses, as well as interest relating to debentures, have not been allocated to the segments.

| Year ended December 31, 2014 | | | | | | |
|--|-------------------|-------------------|-------------------|--------------|-------------|--------------|
| | Western Canada | Central Canada | Eastern Canada | U.S. | REIT | Total |
| Revenue | \$ 247,295 | \$ 71,232 | \$ 62,657 | \$ 119,120 | \$ 254 | \$ 500,558 |
| Property operating expenses | 82,675 | 32,856 | 24,776 | 47,403 | - | 187,710 |
| Net operating income | 164,620 | 38,376 | 37,881 | 71,717 | 254 | 312,848 |
| Other income (expenses): | | | | | | |
| Corporate expenses | - | - | - | - | (10,261) | (10,261) |
| Interest expense | (46,937) | (13,690) | (12,043) | (20,369) | (15,507) | (108,546) |
| Interest income | 1,250 | 36 | 36 | 55 | 441 | 1,818 |
| Net (loss) income from investments in joint ventures | - | (6,966) | - | 2,979 | - | (3,987) |
| Fair value gain (loss) on investment properties | 19,744 | 5,816 | (7,535) | 20,806 | - | 38,831 |
| Foreign currency translation loss | - | - | - | - | (21,890) | (21,890) |
| Transaction costs | (647) | (228) | - | (1,615) | - | (2,490) |
| Loss on financial instruments | - | - | - | - | (8,437) | (8,437) |
| Net income (loss) | \$ 138,030 | \$ 23,344 | \$ 18,339 | \$ 73,573 | \$ (55,400) | \$ 197,886 |
| Acquisitions of investment properties | \$ 58,035 | \$ 12,425 | \$ - | \$ 131,128 | \$ - | \$ 201,588 |
| Additions to investment properties and investment properties under development | 16,034 | 16,852 | 2,997 | 6,817 | - | 42,700 |
| Additions to leasing costs | 3,908 | 227 | 2,449 | 2,802 | - | 9,386 |
| Additions to tenant inducements | 11,248 | 2,293 | 530 | 5,667 | - | 19,738 |
| December 31, 2014 | | | | | | |
| | Western Canada | Central Canada | Eastern Canada | U.S. | REIT | Total |
| Total assets | \$ 2,794,101 | \$ 699,155 | \$ 596,876 | \$ 1,361,790 | \$ 26,930 | \$ 5,478,852 |
| Total liabilities | 1,126,486 | 300,567 | 282,158 | 625,860 | 414,776 | 2,749,847 |

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24. Segmented information (continued):

| Year ended December 31, 2013 | | | | | | |
|--|-------------------|-------------------|-------------------|------------------|--------------------|-------------------|
| | Western Canada | Central Canada | Eastern Canada | U.S. | REIT | Total |
| Revenue | \$ 238,417 | \$ 66,899 | \$ 62,945 | \$ 95,058 | \$ 99 | \$ 463,418 |
| Property operating expenses | 76,407 | 30,318 | 23,765 | 36,046 | - | 166,536 |
| Net operating income | 162,010 | 36,581 | 39,180 | 59,012 | 99 | 296,882 |
| Other income (expenses): | | | | | | |
| Corporate expenses | - | - | - | - | (9,713) | (9,713) |
| Interest expense | (48,069) | (13,729) | (12,260) | (17,242) | (11,315) | (102,615) |
| Interest income | 1,323 | 67 | 73 | 46 | 517 | 2,026 |
| Net income from investments in joint ventures | - | 1,741 | - | 5,715 | - | 7,456 |
| Fair value (loss) gain on investment properties | (5,380) | 21,892 | (14,601) | 2,474 | - | 4,385 |
| Foreign currency translation loss | - | - | - | - | (7,569) | (7,569) |
| Transaction costs | (1,126) | (1,445) | (1,524) | (1,590) | - | (5,685) |
| Gain on financial instruments | - | - | - | - | 5,988 | 5,988 |
| Net income (loss) | \$ 108,758 | \$ 45,107 | \$ 10,868 | \$ 48,415 | \$ (21,993) | \$ 191,155 |
| Acquisitions of investment properties | \$ 221,012 | \$ 48,158 | \$ 59,080 | \$ 169,714 | \$ - | \$ 497,964 |
| Additions to investment properties and investment properties under development | 19,961 | 28,736 | 2,017 | 8,915 | - | 59,629 |
| Additions to leasing costs | 3,765 | 1,365 | 830 | 2,512 | - | 8,472 |
| Additions to tenant inducements | 5,875 | 4,321 | 2,916 | 5,319 | - | 18,431 |
| December 31, 2013 | | | | | | |
| | Western Canada | Central Canada | Eastern Canada | U.S. | REIT | Total |
| Total assets | \$ 2,705,378 | \$ 672,699 | \$ 602,903 | \$ 1,035,970 | \$ 25,087 | \$ 5,042,037 |
| Total liabilities | 1,168,121 | 296,084 | 311,168 | 581,004 | 201,413 | 2,557,790 |

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25. Commitments and guarantees:

(a) Letters of credit:

As of December 31, 2014, the REIT had issued letters of credit in the amount of \$821 (December 31, 2013, \$851).

(b) Guarantees:

AX L.P. has guaranteed certain debt assumed by a purchaser in connection with the disposition of a property. This guarantee will remain until the debt is modified, refinanced or extinguished. Credit risk arises in the event that the purchaser defaults on repayment of their debt since it is guaranteed by the REIT. This credit risk is mitigated as the REIT has recourse under this guarantee in the event of default by the purchaser, in which case the REIT would have a claim against the underlying property. The estimated amount of debt subject to the guarantee at December 31, 2014 is \$5,262 (December 31, 2013, \$5,427), with an estimated weighted-average remaining term of 2.9 years (December 31, 2013, 3.9 years). No liability in excess of the fair value of the guarantee has been recognized in these consolidated financial statements as the estimated fair value of the borrower's interests in the underlying property is greater than the mortgage payable for which the REIT provided the guarantee.

26. Capital management:

The REIT's objectives when managing capital are to safeguard the ability to continue as a going concern, and to generate sufficient returns to provide unitholders with stable cash distributions. The REIT defines capital as mortgages and loans payable, senior unsecured debentures, convertible debentures, bank indebtedness and unitholders' equity.

The REIT's Declaration of Trust permits the REIT to incur indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of such indebtedness of the REIT is not more than 70% of the gross book value of the REIT's total assets. Gross book value as defined in the Declaration of Trust includes the consolidated book value of the assets of the REIT, plus the amount of accumulated depreciation and amortization recorded in the books and records of the REIT, plus the amount of any deferred tax liability arising out of any indirect acquisitions, calculated in accordance with generally accepted accounting principles. As at December 31, 2014, the ratio of such indebtedness to gross book value was 44.9% (December 31, 2013, 45.4%), which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

The total managed capital for the REIT is summarized below:

| | December 31, 2014 | December 31, 2013 |
|---------------------------------------|----------------------|----------------------|
| Mortgages and loans payable (note 9) | \$ 2,262,054 | \$ 2,287,597 |
| Senior unsecured debentures (note 10) | 199,527 | - |
| Convertible debentures (note 11) | 189,573 | 185,264 |
| Bank indebtedness (note 13) | 300 | - |
| Total debt | 2,651,454 | 2,472,861 |
| Unitholders' equity | 2,729,005 | 2,484,247 |
| | \$ 5,380,459 | \$ 4,957,108 |

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27. Risk management and fair values:

(a) Risk management:

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

(i) Market risk:

(a) Interest rate risk:

The REIT is exposed to interest rate risk on its borrowings. It minimizes the risk by restricting debt to 70% of the gross book value of the REIT's total assets and by monitoring the amount of variable rate debt. The REIT has the majority of its mortgage payable and debentures in fixed rate terms. In addition, management considers the weighted-average term to maturity of long-term debt relative to the remaining average lease terms. At December 31, 2014, the REIT is a party to \$637,842 of variable rate debt, including bank indebtedness (December 31, 2013, \$575,463). At December 31, 2014, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$394,960 of variable rate debt (December 31, 2013, \$323,489).

The following table outlines the impact on interest expense of a 100 basis point increase or decrease in interest rates on the REIT's variable rate debt and fixed rate debt maturing within one year:

| | Impact on interest expense | |
|-------------------------------------|----------------------------|-------|
| Variable rate debt | \$ | 2,090 |
| Fixed rate debt due within one year | | 3,428 |
| | \$ | 5,518 |

(b) Foreign currency risk:

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

A \$0.10 weakening in the US dollar against the average Canadian dollar exchange rate of 1.1080 for the year ended December 31, 2014, and the year end exchange rate of 1.1601 at December 31, 2014 would have increased net income by approximately \$1,689 for the year ended December 31, 2014. A \$0.10 weakening in the US dollar against the Canadian dollar would have decreased other comprehensive income by approximately \$56,441 for the year ended December 31, 2014. Conversely, a \$0.10 strengthening in the US dollar against the Canadian dollar would have had an equal but opposite effect. This analysis assumes that all variables, in particular interest rates, remain constant.

(c) Other price risk:

The REIT periodically enters into derivative transactions in regards to non-financial items, primarily natural gas and electrical contracts, to manage the price risk arising from fluctuations in these commodities.

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27. Risk management and fair values (continued):

(a) Risk management (continued):

(ii) Credit risk:

The REIT's maximum exposure to credit risk is equivalent to the carrying value of each class of financial asset as separately presented in cash and cash equivalents, cash held in trust, accounts receivable and other receivables, deposits on investment properties and notes receivable.

The REIT is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. The REIT's properties are diversified across the industrial, retail and office asset classes, and geographically diversified with properties owned across five Canadian provinces and six U.S. states. Included in property operating expenses is an impairment loss on accounts receivable and other receivables of \$861 during the year ended December 31, 2014 (2013, \$213). The credit quality of the accounts receivable and other receivables amount is considered adequate.

| | December 31, 2014 | December 31, 2013 |
|---------------------------------|----------------------|----------------------|
| Past due 0 - 30 days | \$ 2,964 | \$ 2,315 |
| Past due 31 - 90 days | 424 | 456 |
| Past due more than 91 days | 1,684 | 564 |
| | 5,072 | 3,335 |
| Allowance for doubtful accounts | (627) | (139) |
| | \$ 4,445 | \$ 3,196 |

The REIT is also exposed to credit risk as a holder of notes receivable. Management mitigates this risk by carrying out credit checks and related due diligence on the borrowers.

(iii) Liquidity risk:

Liquidity risk is the risk that the REIT will not be able to meet its financial obligations as they come due. The REIT manages liquidity by maintaining adequate cash and by having appropriate lines of credit available. In addition, the REIT continuously monitors and reviews both actual and forecasted cash flows.

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27. Risk management and fair values (continued):

(a) Risk management (continued):

(iii) Liquidity risk (continued):

The following are the estimated maturities of the REIT's non-derivative financial liabilities at December 31, 2014 including bank indebtedness, accounts payable and other liabilities, convertible debentures, senior unsecured debentures and mortgages and loans payable. All debentures are disclosed at their face value.

| | Total | Less than 1 year | 1 - 3 years | 4 - 5 years | After 5 years |
|---|---------------------|---------------------|-------------------|-------------------|-------------------|
| Bank indebtedness | \$ 300 | \$ 300 | \$ - | \$ - | \$ - |
| Accounts payable and other liabilities ⁽¹⁾ | 71,751 | 71,751 | - | - | - |
| Convertible debentures | 188,259 | - | - | 102,089 | 86,170 |
| Senior unsecured debentures | 200,000 | - | - | 200,000 | - |
| Mortgages and loans payable ⁽¹⁾ | 2,329,164 | 408,963 | 989,401 | 346,594 | 584,206 |
| | \$ 2,789,474 | \$ 481,014 | \$ 989,401 | \$ 648,683 | \$ 670,376 |

(1) This includes balances included in the REIT's investments in joint ventures.

(b) Fair values:

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

There were no transfers of assets or liabilities between hierarchy levels during the years ended December 31, 2014 and 2013.

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27. Risk management and fair values (continued):

(b) Fair values (continued):

| | Fair value hierarchy | December 31, 2014 | | December 31, 2013 | |
|---|---------------------------|-------------------|--------------|-------------------|--------------|
| | | Carrying value | Fair value | Carrying value | Fair value |
| Assets: | | | | | |
| Investment properties | Level 3 | \$ 5,201,489 | \$ 5,201,489 | \$ 4,851,877 | \$ 4,851,877 |
| Investment properties under development | Level 3 | 81,682 | 81,682 | 47,281 | 47,281 |
| Notes receivable | Level 2 | 20,748 | 22,277 | 20,464 | 21,181 |
| Mortgage interest rate swaps | Level 2 | 172 | 172 | 4,279 | 4,279 |
| | | 5,304,091 | 5,305,620 | 4,923,901 | 4,924,618 |
| Liabilities: | | | | | |
| Mortgages and loans payable | Level 2 | 2,262,054 | 2,312,929 | 2,287,597 | 2,307,518 |
| Senior unsecured debentures | Level 2 | 199,527 | 202,750 | - | - |
| Convertible debentures | Level 1, 2 ⁽¹⁾ | 189,573 | 193,827 | 185,264 | 190,206 |
| Mortgage interest rate swaps | Level 2 | 6,852 | 6,852 | 2,395 | 2,395 |
| | | 2,658,006 | 2,716,358 | 2,475,256 | 2,500,119 |
| | | \$ 2,646,085 | \$ 2,589,262 | \$ 2,448,645 | \$ 2,424,499 |

(1) Convertible debentures excluding Series D are measured using a Level 1 methodology and Series D convertible debentures are valued using a Level 2 methodology.

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

The fair value of notes receivable has been determined by discounting the cash flows of these financial assets using period end market rates for assets of similar terms and credit risks.

The fair value of mortgages and loans payable has been determined by discounting the cash flows of these financial obligations using period end market rates for debt of similar terms and credit risks.

The fair values of the senior unsecured debentures and the convertible debentures are based on the market price of the debentures, or if no market price exists, the fair values are determined by discounting the cash flows of these financial obligations using period end market rates for debt of similar terms and credit risks.

The REIT entered into interest rate swaps on a number of mortgages. The swaps are not designated in a hedge relationship. An unrealized loss of \$8,558 was recorded for the year ended December 31, 2014 (2013, gain of \$5,981) in relation to the fair value of these interest rate swaps.

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28. Subsequent events:

On January 14, 2015, the REIT refinanced a maturing mortgage on an industrial property, obtaining additional financing of \$2,107.

On January 15, 2015, the REIT declared a monthly distribution of \$0.09 per unit for January 2015.

On January 15, 2015, the REIT declared a quarterly cash distribution of \$0.3125 per Series G Unit for the quarter ending January 31, 2015.

On January 29, 2015, the REIT drew \$10,000 on its revolving term credit facility.

On February 2, 2015, the REIT repaid two maturing mortgages in the amount of \$12,166.

On February 15, 2015, the REIT declared a monthly distribution of \$0.09 per unit for February 2015.

On February 23, 2015, the REIT refinanced a maturing mortgage on an industrial property, obtaining additional financing of \$6,401.

29. Approval of financial statements:

The consolidated financial statements were approved by the Board of Trustees and authorized for issue on February 26, 2015.