



# Management's Discussion and Analysis 2016 Annual

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

# Management's Discussion and Analysis - 2016 Annual

(In thousands of Canadian dollars, unless otherwise noted)

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Artis Real Estate Investment Trust should be read in conjunction with the REIT's audited annual consolidated financial statements for the years ended December 31, 2016 and 2015, and the notes thereto. Except where otherwise noted, "Artis", the "REIT", "we", "us" and "our" refers to Artis Real Estate Investment Trust and its consolidated operations. This MD&A has been prepared taking into account material transactions and events up to and including March 1, 2017. Additional information about Artis, including the REIT's most recent Annual Information Form, has been filed with applicable Canadian securities regulatory authorities and is available at [www.sedar.com](http://www.sedar.com) or on our website at [www.artisreit.com](http://www.artisreit.com).

The REIT has properties held in its investment in joint ventures, which are accounted for using the equity method. This MD&A is prepared including Artis' ownership of all its properties on a proportionate share basis ("Proportionate Share"). Management is of the view that presentation on a proportionate share basis is representative of Artis' performance, financial position and other operating metrics. Artis provides a reconciliation to its consolidated financial statements in the Analysis of Operating Results and Analysis of Financial Position sections of this MD&A. All figures presented are on a proportionate share basis except where otherwise noted. Refer to the Proportionate Share commentary under the Notice with Respect to Non-GAAP Measures below.

## FORWARD-LOOKING DISCLAIMER

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

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

## NOTICE WITH RESPECT TO NON-GAAP MEASURES

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

### Property Net Operating Income ("Property NOI")

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

### Same Property NOI

Artis calculates Same Property NOI by including Property NOI for investment properties that were owned for a full quarterly reporting period in both the current and comparative year. Adjustments are made to this measure to exclude non-cash revenue items and other non-recurring revenue amounts such as lease termination income. Management considers Same Property NOI to be a valuable measure for evaluating the operating performance of the REIT's properties. Refer to the Same Property NOI Analysis section of this MD&A for further discussion and calculation of this measure.

### Funds from Operations ("FFO")

Artis calculates FFO substantially in accordance with the guidelines set out by the Real Property Association of Canada ("REALpac"), as issued in April 2014. These guidelines include certain additional adjustments to FFO under IFRS from the previous definition of FFO. Management considers FFO to be a valuable measure for evaluating the REIT's operating performance in achieving its objectives. Refer to the FFO section of this MD&A for further discussion and calculation of this measure.

### **Adjusted Funds from Operations ("AFFO")**

Artis calculates AFFO based on FFO for the period, net of allowances for normalized capital expenditures and leasing costs and excluding straight-line rent adjustments and unit-based compensation expense. Management considers AFFO to be a valuable measure for evaluating the REIT's operating performance in achieving its objectives. Refer to the AFFO section of this MD&A for further discussion and calculation of this measure.

### **Proportionate Share**

Artis accounts for its joint ventures using the equity method in its consolidated financial statements in accordance with IFRS. Proportionate Share includes Artis' interest in properties held in its joint ventures based on its percentage of ownership in these properties in addition to the amounts per its consolidated financial statements. Management considers Proportionate Share to be representative of how Artis manages its properties. Refer to the Analysis of Operating Results and Analysis of Financial Position sections of this MD&A for calculation of this measure.

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

Artis calculates EBITDA as Property NOI less corporate expenses and excluding all non-cash revenue and expense items. Management considers this ratio to be a valuable measure of Artis' ability to service the interest requirements on its outstanding debt. Refer to the Interest Expense section of this MD&A for further discussion and calculation of this measure.

### **Debt to Gross Book Value ("GBV")**

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

### **Debt to EBITDA Ratio**

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

## TABLE OF CONTENTS

<b>OVERVIEW</b>	<b>4</b>
Primary Objective	4
2016 Overview	4
Portfolio Summary	5
<b>2016 ANNUAL HIGHLIGHTS</b>	<b>9</b>
Portfolio Activity	9
Financing Activities	10
Distributions	11
<b>SELECTED FINANCIAL INFORMATION</b>	<b>12</b>
<b>ANALYSIS OF OPERATING RESULTS</b>	<b>13</b>
Revenue and Property NOI	15
Same Property NOI Analysis	15
Property NOI by Asset Class	17
Property NOI by Geographical Region	19
Portfolio Occupancy	20
Portfolio Leasing Activity and Lease Expiries	21
Corporate Expenses	29
Interest Expense	29
Fair Value Loss on Investment Properties	31
Foreign Currency Translation Loss	31
Transaction Costs	31
Gain (Loss) on Financial Instruments	31
Income Tax	31
Other Comprehensive (Loss) Income	31
Funds from Operations	32
Adjusted Funds from Operations	34
<b>ANALYSIS OF FINANCIAL POSITION</b>	<b>35</b>
Assets	36
Liabilities	39
Unitholders' Equity	41
<b>LIQUIDITY AND CAPITAL RESOURCES</b>	<b>41</b>
Distributions	41
Capital Resources	42
Contractual Obligations	42
<b>SUMMARIZED QUARTERLY INFORMATION</b>	<b>44</b>
<b>RELATED PARTY TRANSACTIONS</b>	<b>46</b>
<b>OUTSTANDING UNIT DATA</b>	<b>47</b>
<b>OUTLOOK</b>	<b>47</b>
Subsequent Events	48
<b>RISKS AND UNCERTAINTIES</b>	<b>48</b>
Real Estate Ownership	48
Interest Rate and Debt Financing	48
Credit Risk and Tenant Concentration	49
Lease Rollover Risk	50
Tax Risk	50
Foreign Currency Risk	51
Other Risks	51
<b>CRITICAL ACCOUNTING ESTIMATES</b>	<b>51</b>
Valuation of Investment Properties	51
Valuation of Deferred Tax Assets and Liabilities	51
Allocation of Convertible Debentures	51
<b>CHANGES IN ACCOUNTING STANDARDS</b>	<b>52</b>
<b>CONTROLS AND PROCEDURES</b>	<b>52</b>
Internal Controls Over Financial Reporting	52
Disclosure Controls and Procedures	53

## OVERVIEW

Artis is one of the largest diversified commercial real estate investment trusts in Canada and is an unincorporated closed-end real estate investment trust, created under, and governed by, the laws of the Province of Manitoba. The REIT was created pursuant to the Declaration of Trust dated November 8, 2004, as most recently amended and restated on July 20, 2016 (the "Declaration of Trust").

Certain of the REIT's securities are listed on the Toronto Stock Exchange ("TSX"). The REIT's trust units ("units") trade under the symbol AX.UN, the REIT's preferred units trade under the symbols AX.PR.A, AX.PR.U, AX.PR.E and AX.PR.G and the REIT's Series G convertible debentures trade under the symbol AX.DB.U. As at March 1, 2017, there were 150,578,389 units, 13,650,000 preferred units, 1,410,000 options, 350,733 restricted units and 50,987 deferred units of Artis outstanding (refer to the Outstanding Unit Data section of this MD&A for further details).

## PRIMARY OBJECTIVE

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

Since its inception, Artis has provided a steady stream of monthly cash distributions to its unitholders. The amount distributed annually is currently \$1.08 per unit and is set by the Trustees in accordance with the Declaration of Trust.

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

- **Strategic Asset Ownership.** Artis' portfolio of office, retail and industrial real estate is strategically and diversely located in select primary and secondary markets in Canada and the United States ("U.S."). Artis' management conducts on-going analysis of the performance of its assets and the relevant economic fundamentals of its target markets, identifying opportunities to make accretive acquisitions, develop new generation real estate and dispose of assets that are not aligned with its long-term strategy.
- **Prudent Financial Management.** Artis has a long-term conservative approach to financial management, characterized by diligent management of its balance sheet, and prudent management of financial metrics, such as debt ratios, interest coverage ratios, payout ratios, and per unit metrics. Artis minimizes its risk related to interest rates by utilizing various sources of capital and staggering debt maturities. Ample access to cash is required to fulfill distribution obligations and for on-going operations, which includes re-investing in the portfolio, making accretive acquisitions and funding development projects.
- **Disciplined Growth.** Artis' management strives to extract maximum value from its portfolio through effective management of assets, including leasing initiatives that focus on maintaining strong occupancy levels and realizing the gain between in-place rental rates and market rental rates. Artis' management creates value through strategic asset redevelopment and property intensification initiatives, and through new development projects. New developments provide Artis an opportunity to build and own new generation real estate, and are considered in circumstances where the return on a development project is higher than that of acquiring an existing property.

## 2016 OVERVIEW

Our primary focus for 2016 has been on steadily improving our balance sheet and key financial metrics, effective management of our assets with a dedicated focus on leasing and tenant retention, and improving the overall quality of our portfolio through capital recycling initiatives, redevelopment and new development projects.

Accordingly, we made numerous notable improvements to our financial metrics during the year. Our total long-term debt and bank indebtedness to GBV decreased to 51.0% at year-end, and secured mortgages and loans to GBV decreased to 40.6%. Additionally, our total debt to EBITDA ratio decreased to 8.4 at December 31, 2016, and weighted-average effective interest rate decreased to 3.74%. On July 25, 2016, we completed the early redemption of all the outstanding 10-year 6.00% Series F convertible debentures which had an aggregate principal amount of \$86,160. Also noteworthy during the year, we increased our unsecured revolving term credit facilities to an aggregate amount of \$500,000, which provides us with access to a flexible source of capital at a low interest rate.

In 2016, we completed 1.4 million square feet of new lease transactions and 2.8 million square feet of lease renewal transactions. The weighted-average increase on renewal rents achieved was 3.3%. Our Calgary office properties continue to present a leasing challenge, due to overbuilding in this market and commodity price instability. Increases in leasing costs and commissions are required as part of negotiations, and market rents have decreased substantially over the last 12 to 24 months. CBRE reports that the decline in net rental rates in Calgary's downtown office properties has decelerated significantly, and there are signs that a slow and steady rebound has begun. Accordingly, we have seen a modest increase in leasing activity. In Q4, we successfully negotiated a new 12-year lease for approximately 50,000 square feet at one of our beltline office properties in Calgary. Also noteworthy in Alberta, we negotiated a new 10-year lease at an office property in Red Deer for nearly 16,000 square feet and a

new 15-year lease at an industrial property in Calgary for approximately 62,000 square feet. We are cautiously optimistic that this new leasing activity is an early indication of a shift to a more positive outlook for the Alberta market. In any case, we will continue with our aggressive leasing program and considering options to reduce our exposure to this market.

During the year, we acquired a portfolio of 16 Class A office properties in the U.S. for US\$260,000, while disposing of 18 non-core assets in both Canada and the U.S. for aggregate sale prices of \$349,412 and US\$16,632. We also made substantial progress on our new development and redevelopment projects, as further described in the Portfolio Summary section.

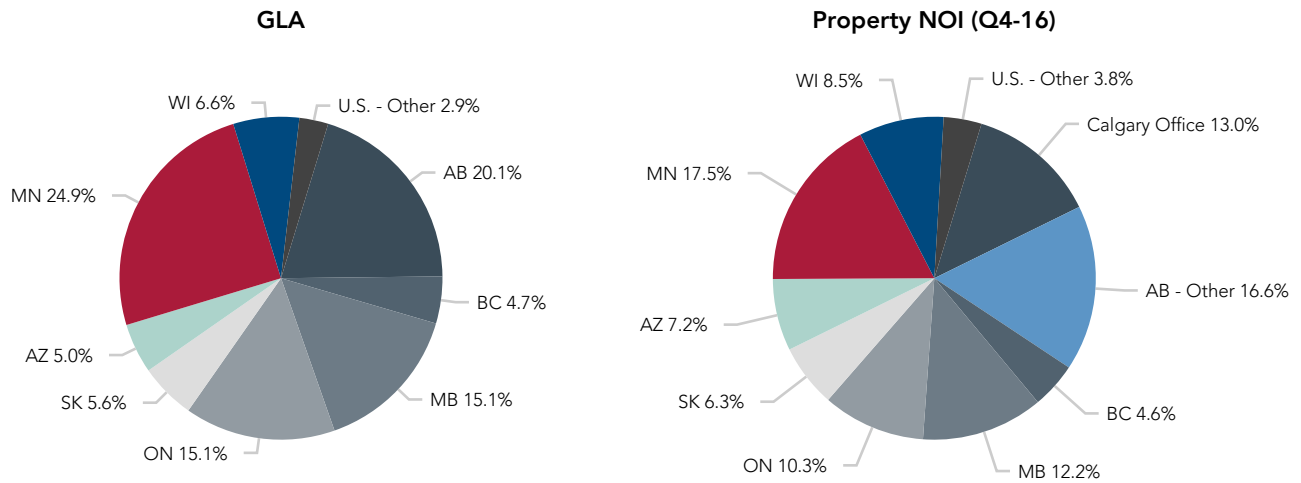
**Corporate Sustainability Progress**

Corporate sustainability is a high priority for Artis. We are committed to improving the energy efficiency of our properties and reducing our environmental footprint. As of December 31, 2016, we have 21 properties with a LEED certification, 45 properties with a Building Owners and Managers Association (BOMA) Building Environmental Standards (BEST) certification, and 22 properties with an Energy Star certification.

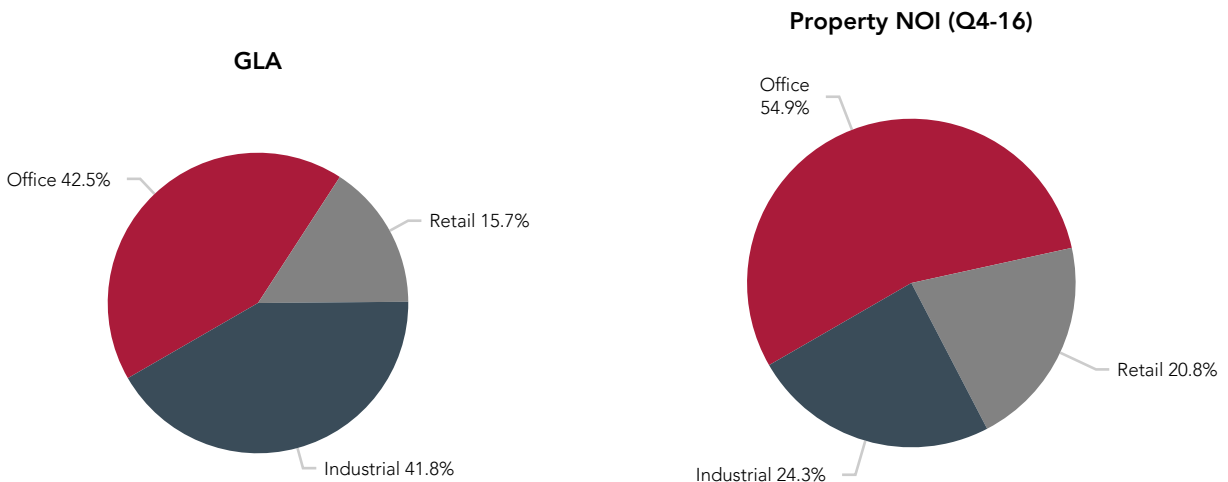
**PORTFOLIO SUMMARY**

At December 31, 2016, the REIT's portfolio was comprised of 250 commercial properties totaling approximately 25.7 million square feet ("S.F.") of gross leasable area ("GLA").

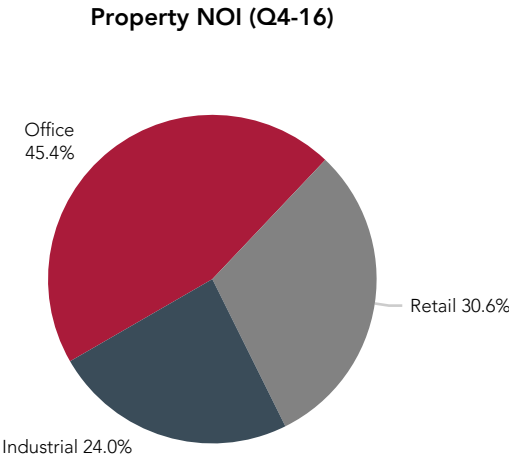
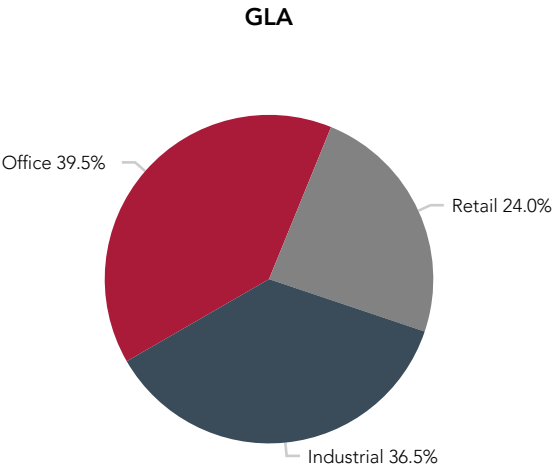
**Diversification by Geographical Region**



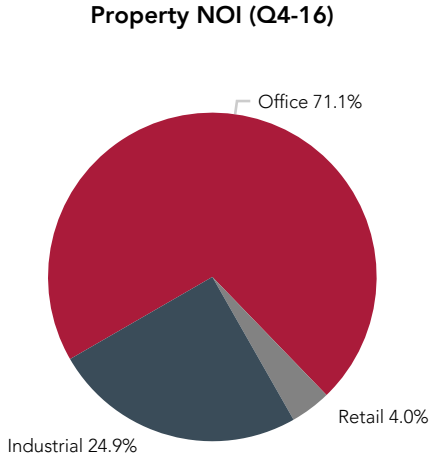
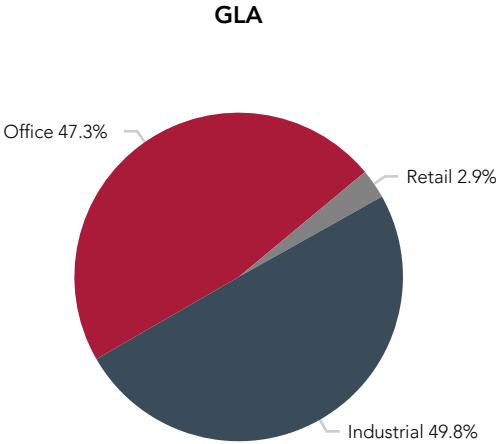
**Diversification by Asset Class - Total Canadian and U.S. Portfolio**



Diversification by Asset Class - Canadian Portfolio



Diversification by Asset Class - U.S. Portfolio



Portfolio by Asset Class as at December 31, 2016 (in 000's of S.F.)<sup>(1)</sup>

Asset class	City	Province / State	Property count	Owned share of GLA	% of portfolio GLA	% Occupied	% Committed <sup>(2)</sup>
Canadian portfolio:							
Office	Calgary	AB	19	2,461	9.6%	82.4%	84.8%
	Greater Edmonton Area	AB	1	48	0.2%	91.7%	91.7%
	Greater Toronto Area	ON	7	1,085	4.2%	85.9%	87.3%
	Greater Vancouver Area	BC	3	462	1.8%	91.0%	94.5%
	Nanaimo	BC	2	68	0.3%	100.0%	100.0%
	Ottawa	ON	2	287	1.1%	95.2%	96.7%
	Red Deer	AB	1	148	0.6%	75.3%	90.8%
	Saskatoon	SK	1	64	0.2%	100.0%	100.0%
	Winnipeg	MB	9	1,345	5.2%	90.1%	91.9%
Office total			45	5,968	23.2%	86.3%	88.7%
Retail	Calgary	AB	6	418	1.6%	85.8%	86.7%
	Edson	AB	1	21	0.1%	100.0%	100.0%
	Estevan	SK	2	175	0.7%	94.9%	94.9%
	Fort McMurray	AB	8	194	0.8%	93.9%	96.2%
	Grande Prairie	AB	5	362	1.4%	89.9%	98.0%
	Greater Edmonton Area	AB	5	440	1.7%	97.3%	99.0%
	Greater Vancouver Area	BC	1	165	0.6%	97.6%	98.2%
	Medicine Hat	AB	1	162	0.6%	100.0%	100.0%
	Nanaimo	BC	3	74	0.3%	52.4%	52.4%
	Regina	SK	8	533	2.1%	95.5%	96.0%
	Saskatoon	SK	3	219	0.9%	99.2%	100.0%
	Westbank / West Kelowna	BC	2	327	1.3%	96.7%	96.7%
	Winnipeg	MB	6	649	2.5%	95.4%	96.1%
Retail total			51	3,739	14.6%	93.7%	95.2%
Industrial	Airdrie	AB	1	28	0.1%	100.0%	100.0%
	Calgary	AB	6	337	1.3%	81.6%	100.0%
	Greater Edmonton Area	AB	4	319	1.2%	89.7%	89.7%
	Greater Toronto Area	ON	30	2,503	9.7%	96.2%	98.0%
	Greater Vancouver Area	BC	2	98	0.4%	100.0%	100.0%
	Red Deer	AB	1	126	0.5%	100.0%	100.0%
	Regina	SK	2	143	0.6%	100.0%	100.0%
	Saskatoon	SK	5	327	1.3%	100.0%	100.0%
	Winnipeg	MB	28	1,660	6.5%	96.3%	96.5%
Industrial total			79	5,541	21.6%	95.5%	97.4%
Total Canadian portfolio			175	15,248	59.4%	91.5%	93.5%
U.S. portfolio:							
Office	Greater Denver Area	CO	4	634	2.4%	92.7%	92.7%
	Greater Phoenix Area	AZ	6	1,002	3.9%	96.8%	99.4%
	Madison	WI	16	1,697	6.6%	89.7%	94.5%
	New Hartford	NY	1	123	0.5%	100.0%	100.0%
	Twin Cities Area	MN	5	1,336	5.2%	92.7%	92.7%
Office total			32	4,792	18.6%	92.6%	94.9%
Retail	Twin Cities Area	MN	7	298	1.2%	84.4%	84.4%
Industrial	Greater Phoenix Area	AZ	2	286	1.1%	81.9%	81.9%
	Twin Cities Area	MN	30	4,546	17.7%	93.5%	93.7%
Industrial total			32	4,832	18.8%	92.8%	93.0%
Total U.S. portfolio			71	9,922	38.6%	92.5%	93.7%
Total Canadian and U.S. portfolio			246	25,170	98.0%	91.9%	93.5%

(1) Excluding properties held for redevelopment and new developments in process.

(2) Percentage committed is based on occupancy at December 31, 2016, plus commitments on vacant space.



## Properties Held for Redevelopment (in 000's of S.F.)

Asset class	City	Province / State	Property count	Owned share of GLA	% of portfolio GLA	Property	% Committed <sup>(1)</sup>
Industrial	Calgary	AB	1	91	0.4%	McCall Lake Industrial	67.5%
Industrial	Twin Cities Area	MN	1	208	0.8%	Northpoint Industrial Building	41.2%
Office	Winnipeg	MB	1	170	0.6%	220 Portage Avenue	66.0%
Industrial	Winnipeg	MB	1	52	0.2%	2110-2130 Notre Dame Avenue	84.6%
Total properties held for redevelopment			4	521	2.0%		58.3%

(1) Percentage committed is based on occupancy at December 31, 2016, plus commitments on vacant space.

McCall Lake Industrial, an industrial property in Calgary, Alberta, is undergoing a significant redevelopment to upgrade mechanical and electrical components and improve the loading and functionality of the building to prepare for a multi-tenant use.

Northpoint Industrial Building, an industrial property in the Twin Cities Area, Minnesota, was vacated by a large tenant, providing Artis with an opportunity to redevelop and reconfigure this older generation property to accommodate a single tenant or multiple tenants. Preliminary work is complete and architectural plans have been drawn for various tenant configurations. Leasing efforts are under way and the remainder of the redevelopment plans for this property will be decided based on future tenant requirements.

220 Portage Avenue, an office property in Winnipeg, Manitoba, is undergoing an extensive redevelopment to modernize both the exterior and interior of the building. Some of the upgrades include new exterior LED lighting, new building signage, new finishes to the exterior podium, revitalization of the main floor and lower level common areas (new elevator cabs and controls, flooring, wall tile, lighting), as well as considerable upgrades to office space throughout the building (new ceiling grid and tile, new mechanical systems ducted to multiple zones, new LED lighting with daylight harvesting). These upgrades will improve the energy efficiency, functionality and aesthetics of the property.

2110-2130 Notre Dame Avenue, an industrial property in Winnipeg, Manitoba, is undergoing an extensive redevelopment to modernize the building and improve parking, loading and general functionality of the property.

## New Developments in Process (in 000's of S.F.)

Asset class	City	Province / State	Property count	Owned share of GLA <sup>(1)</sup>	% of portfolio GLA	Property	% Completed	% Committed <sup>(2)</sup>
Office	Minneapolis	MN	—	—	—	Millwright Building	77.0%	35.0%
Industrial	Greater Phoenix Area	AZ	—	—	—	Park Lucero Phase II	36.0%	—%
Industrial	Greater Phoenix Area	AZ	—	—	—	Park Lucero Phase III	1.0%	100.0%
Industrial	Greater Toronto Area	ON	—	—	—	175 Westcreek Boulevard	70.0%	40.6%
Industrial	Houston	TX	—	—	—	Park 8Ninety Phase I	54.0%	37.0%
Office	Greater Denver Area	CO	—	—	—	169 Inverness Drive West Phase I	10.0%	—%
Total new developments in process			—	—	—			

(1) Owned share of GLA includes only properties where construction is 100% completed.

(2) Percentage committed is based on occupancy at December 31, 2016, plus commitments on vacant space.

During Q3-16, Artis entered into a joint venture arrangement for an 80% ownership interest in the Millwright Building, an office development project located in Minneapolis, Minnesota. This project, a new best-in-class mid-rise office building, is located in close proximity to the new US Bank Stadium, home of the Minnesota Vikings, in the Downtown East office market. The building is expected to comprise approximately 174,000 square feet and base-building construction is expected to be complete in Q1-17.

Artis has a 90% ownership interest (in the form of joint venture arrangements) in Park Lucero, a four-phase industrial development on a 48 acre parcel of land in the Greater Phoenix Area, Arizona. Phase I of this development is complete and consists of three industrial buildings totaling 208,000 square feet. Construction of Park Lucero Phase II and Park Lucero Phase III is underway. Phase II is expected to be complete in Q1-17 and will comprise approximately 132,000 square feet. Phase III is expected to be complete in Q2-17 and will comprise approximately 147,000 square feet. The entire project is anticipated to total approximately 580,000 square feet.

In 2011, Artis acquired 201 Westcreek Boulevard, a 300,000 square foot industrial building with 10 acres of excess land available for future development in the Greater Toronto Area, Ontario. Construction of 175 Westcreek Boulevard, a new 130,000 square foot building on this land, which can accommodate one to three tenants, has commenced and is expected to be complete in Q2-17. Artis has negotiated a new lease with a national tenant for 40.6% of the building.

Artis owns a 127 acre parcel of development land called Park 8Ninety located in the Southwest industrial submarket in Houston, Texas, which is expected to be developed in several phases into 1,800,000 square feet of new generation industrial buildings. Artis has a 95% ownership interest in Park 8Ninety Phase I (in the form of a joint venture arrangement), which is under construction and expected to comprise four buildings totaling approximately 440,000 square feet. Construction of Park 8Ninety Phase I is anticipated to be complete in Q3-17.

Artis has begun construction of 169 Inverness Drive West Phase I, an office development situated on a 10 acre parcel of land adjacent to the AT&T Building in the Greater Denver Area, Colorado. Phase I of this project includes the development of a Class A office building expected to comprise approximately 120,000 square feet. The site can accommodate a total development of 320,000 square feet and is located on the I-25 with immediate connectivity to the light rail transit system. Construction of 169 Inverness Drive West Phase I is expected to be complete in Q4-17. Leasing at this project is underway.

### New Development Initiatives

Development plans are under way for a 40-storey mixed-use commercial/residential building near the corner of Portage Avenue and Main Street in Winnipeg, Manitoba. This densification opportunity is located at 300 Main Street, which is adjacent to Artis' head office located at 360 Main Street. Additional information about this development is expected to be released in 2017.

Artis owns a 12 acre parcel of land in Winnipeg, Manitoba called Linden Ridge Shopping Centre II, which is located adjacent to Linden Ridge Shopping Centre, a retail property also owned by Artis. A land lease has been negotiated with a national tenant for nine acres at the site. The site can accommodate an additional 35,000 square foot development on the remaining three acres of land.

Artis is exploring opportunities for a densification project at 415 Yonge Street in Toronto, Ontario. 415 Yonge Street is in a prime location in downtown Toronto, across from the College Park station and in close proximity to the University of Toronto and Ryerson University. Preliminary plans to build an additional 50 floors of apartment units above this 19-storey office building are under way. Additional information about this development will be released at a later date.

Artis has a 90% ownership interest (in the form of a joint venture arrangement) in an office development project located along the I-10 on the west side of Houston, Texas. This project is expected to be developed in several phases, totaling approximately 1,600,000 square feet, with the first phase anticipated to comprise approximately 300,000 square feet. The commencement date for the construction of this project has not been determined at this time.

## 2016 ANNUAL HIGHLIGHTS

### PORTFOLIO ACTIVITY

During 2016, Artis acquired 16 commercial properties and disposed of 18 commercial properties.

	Office		Retail		Industrial		Total	
	Property count	S.F. (000's) <sup>(1)</sup>	Property count	S.F. (000's) <sup>(1)</sup>	Property count	S.F. (000's) <sup>(1)</sup>	Property count	S.F. (000's) <sup>(1)</sup>
Portfolio properties, December 31, 2015	63	9,311	64	4,690	125	12,167	252	26,168
Acquisitions	16	1,697	—	—	—	—	16	1,697
Dispositions	(1)	(78)	(6)	(653)	(11)	(1,443)	(18)	(2,174)
Portfolio properties, December 31, 2016	78	10,930	58	4,037	114	10,724	250	25,691

(1) Based on owned share of total leasable area.

## Property Acquisitions

Property	Property count	Acquisition date	Location	Asset class	Owned share of GLA	Purchase price	Capitalization rate
Madison Lifestyle Office Portfolio	16	June 13, 2016, August 1, 2016	Madison, WI	Office	1,696,672	US \$ 260,000	7.75%

Artis acquired the Madison Lifestyle Office Portfolio for a purchase price of US\$260,000, which was financed with cash on hand, new variable rate mortgage financing of US\$106,700 bearing interest at USD LIBOR plus 2.10% and new swapped mortgage financing in the amount of US\$40,000, effectively bearing interest at 3.43%.

## Property Dispositions

Property	Property count	Disposition date	Location	Asset class	Owned share of GLA	Sale price	Capitalization rate
Tamarack Centre	1	April 28, 2016	Cranbrook, BC	Retail	287,696	\$ 41,500	6.67%
Whistler Hilton Retail Plaza <sup>(1)</sup>	1	May 2, 2016	Whistler, BC	Retail	30,062	28,730	6.53%
Crosstown North	1	May 19, 2016	Twin Cities Area, MN	Industrial	120,000	US\$7,380	n/a <sup>(2)</sup>
Lunar Pointe	1	August 5, 2016	Twin Cities Area, MN	Industrial	117,298	US\$9,252	6.08%
Uplands Common	1	August 16, 2016	Lethbridge, AB	Retail	53,392	15,200	5.90%
Clareview Town Centre	1	August 17, 2016	Edmonton, AB	Retail	63,818	20,000	6.33%
Southwood Corner	1	October 28, 2016	Calgary, AB	Retail	112,406	40,200	5.72%
Mayfield Industrial Plaza	1	October 31, 2016	Edmonton, AB	Industrial	23,517	3,200	5.99%
Alberta Industrial Portfolio	8	November 1, 2016	Various cities in AB	Industrial	1,181,990	171,082	6.17%
3571 Old Okanagan Road	1	November 17, 2016	Westbank, BC	Retail	105,670	5,000	n/a <sup>(2)</sup>
Northwest Centre I & II	1	December 6, 2016	Calgary, AB	Office	77,624	24,500	8.04%

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

(2) Property was vacant at time of disposition.

During 2016, Artis repaid \$57,391 and US\$10,487 of mortgage debt related to the disposition of the above properties.

## FINANCING ACTIVITIES

### Short Form Base Shelf Prospectuses

On July 17, 2014, 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. At the date of expiry, the REIT had issued senior unsecured debentures under one offering in the amount of \$75,000 and common units under one offering in the amount of \$115,004 under this short form base shelf prospectus.

On August 8, 2016, 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, 2016, the REIT had not issued any securities under this short form base shelf prospectus.

### Equity Offering

On June 17, 2016, under the July 17, 2014 short form base shelf prospectus, Artis issued 8,712,400 trust units at a price of \$13.20 per unit for gross proceeds of \$115,004. This included 1,136,400 units issued pursuant to the exercise of the underwriters' over-allotment option.

### **Redemption of Series F Convertible Debentures**

On July 25, 2016, Artis completed the early redemption of the outstanding Series F convertible debentures with a face value of \$86,160.

### **Unsecured Revolving Term Credit Facilities**

During 2016, Artis increased the aggregate amount of its revolving term credit facilities from \$300,000 to \$500,000. The maturity date of the additional \$200,000 is April 29, 2021. Artis drew a net balance of \$44,000 on its revolving term credit facilities during the year.

### **Debt Financing and Repayment Activity**

In 2016, Artis repaid 14 mortgages for a total of \$221,975. Artis refinanced 12 maturing mortgages, received upward financing on three maturing mortgages and received new financing on three previously unencumbered properties, net of financing costs, for a total of \$125,853. In 2016, Artis drew on development loans, net of financing costs, in the amount of \$27,674.

### **DISTRIBUTIONS**

Artis declared distributions of \$175,450 to unitholders in 2016, of which \$33,079 was paid by way of distribution reinvestment, pursuant to Artis' Distribution Reinvestment and Unit Purchase Plan ("DRIP").

## SELECTED FINANCIAL INFORMATION

000's, except per unit amounts	2016	Year ended December 31, 2015	Change	% Change	Year ended December 31, 2014
Revenue	\$ 572,515	\$ 552,502	\$ 20,013	3.6 %	\$ 508,639
Property NOI	348,714	341,952	6,762	2.0 %	317,382
Net income (loss)	115,935	(175,699)	291,634	(166.0)%	197,886
Basic income (loss) per common unit	0.67	(1.41)	2.08	(147.5)%	1.36
Diluted income (loss) per common unit	0.67	(1.41)	2.08	(147.5)%	1.33
Distributions to common unitholders	\$ 157,018	\$ 148,709	\$ 8,309	5.6 %	\$ 143,668
Distributions per common unit	1.08	1.08	—	— %	1.08
FFO	\$ 225,909	\$ 215,881	\$ 10,028	4.6 %	\$ 193,461
FFO per unit	1.55	1.53	0.02	1.3 %	1.42
FFO after adjustments <sup>(1)</sup>	219,492	210,564	8,928	4.2 %	193,285
FFO per unit after adjustments <sup>(1)</sup>	1.50	1.49	0.01	0.7 %	1.42
FFO payout ratio after adjustments <sup>(1)</sup>	72.0%	72.5%		(0.5)%	76.1%
AFFO	\$ 183,318	\$ 186,450	\$ (3,132)	(1.7)%	\$ 164,761
AFFO per unit	1.26	1.34	(0.08)	(6.0)%	1.23
AFFO after adjustments <sup>(1)</sup>	176,901	180,321	(3,420)	(1.9)%	164,585
AFFO per unit after adjustments <sup>(1)</sup>	1.22	1.30	(0.08)	(6.2)%	1.23
AFFO payout ratio after adjustments <sup>(1)</sup>	88.5%	83.1%		5.4 %	87.8%

(1) Calculated after adjustments for lease terminations and non-recurring other income.

Revenue, Property NOI, FFO and AFFO were impacted by acquisitions, dispositions, completed (re)developments, lease termination income received from tenants, non-recurring other income and the impact of foreign exchange in 2015 and 2016. In 2016, AFFO was also impacted by increases to Artis' leasing costs reserve.

	December 31, 2016	December 31, 2015	% Change	December 31, 2014
Consolidated financial statements debt to GBV:				
Secured mortgages and loans to GBV	39.1%	39.9%	(0.8)%	41.3%
Total long-term debt and bank indebtedness to GBV	49.8%	51.4%	(1.6)%	48.4%
Proportionate Share debt to GBV:				
Secured mortgages and loans to GBV	40.6%	41.2%	(0.6)%	41.9%
Total long-term debt and bank indebtedness to GBV	51.0%	52.4%	(1.4)%	48.9%
Total long-term debt and bank indebtedness to EBITDA	8.4	8.7	(3.4)%	8.4
Total assets	\$ 5,664,907	\$ 5,651,280	0.2 %	\$ 5,546,000
Total non-current financial liabilities	1,962,023	2,227,769	(11.9)%	2,305,588

## ANALYSIS OF OPERATING RESULTS

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

	Three months ended December 31,					
	2016			2015		
	Per consolidated financial statements	Adjustment <sup>(1)</sup>	Total Proportionate Share	Per consolidated financial statements	Adjustment <sup>(1)</sup>	Total Proportionate Share
Revenue	\$ 140,663	\$ 5,715	\$ 146,378	\$ 136,829	\$ 6,044	\$ 142,873
Expenses:						
Property operating	36,334	1,957	38,291	33,456	1,702	35,158
Realty taxes	21,249	892	22,141	21,180	1,202	22,382
	57,583	2,849	60,432	54,636	2,904	57,540
Net operating income	83,080	2,866	85,946	82,193	3,140	85,333
Other income (expenses):						
Corporate expenses	(3,234)	—	(3,234)	(3,089)	—	(3,089)
Interest expense	(26,340)	(1,223)	(27,563)	(27,591)	(1,093)	(28,684)
Interest income	286	1	287	286	2	288
Net income (loss) from investments in joint ventures	6,081	(6,081)	—	(4,987)	4,987	—
Fair value (loss) gain on investment properties	(97,291)	4,437	(92,854)	(245,022)	(7,036)	(252,058)
Foreign currency translation (loss) gain	(4,695)	—	(4,695)	410	—	410
Transaction costs	(9)	—	(9)	(521)	—	(521)
Gain on financial instruments	12,513	—	12,513	2,426	—	2,426
Loss before income taxes	(29,609)	—	(29,609)	(195,895)	—	(195,895)
Income tax expense	(683)	—	(683)	—	—	—
Net loss	(30,292)	—	(30,292)	(195,895)	—	(195,895)
Other comprehensive income:						
Unrealized foreign currency translation gain	14,527	11,409	25,936	21,701	5,721	27,422
Unrealized foreign currency translation gain on joint ventures	11,409	(11,409)	—	5,721	(5,721)	—
Unrealized (loss) gain from remeasurements of net pension obligation	(4)	—	(4)	1	—	1
	25,932	—	25,932	27,423	—	27,423
Total comprehensive loss	\$ (4,360)	\$ —	\$ (4,360)	\$ (168,472)	\$ —	\$ (168,472)

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

	Year ended December 31,						
	2016			2015			
	Per consolidated financial statements	Adjustment <sup>(1)</sup>	Total Proportionate Share	Per consolidated financial statements	Adjustment <sup>(1)</sup>	Total Proportionate Share	
Revenue	\$ 549,151	\$ 23,364	\$ 572,515	\$ 535,574	\$ 16,928	\$ 552,502	
Expenses:							
Property operating	126,098	7,026	133,124	120,188	4,916	125,104	
Realty taxes	86,937	3,740	90,677	82,990	2,456	85,446	
	213,035	10,766	223,801	203,178	7,372	210,550	
Net operating income	336,116	12,598	348,714	332,396	9,556	341,952	
Other income (expenses):							
Corporate expenses	(13,322)	—	(13,322)	(11,510)	—	(11,510)	
Interest expense	(108,138)	(4,579)	(112,717)	(110,482)	(2,982)	(113,464)	
Interest income	1,210	5	1,215	1,319	2	1,321	
Net income from investments in joint ventures	13,367	(13,367)	—	297	(297)	—	
Fair value (loss) gain on investment properties	(114,757)	5,343	(109,414)	(365,626)	(6,279)	(371,905)	
Foreign currency translation loss	(2,345)	—	(2,345)	(16,413)	—	(16,413)	
Transaction costs	(1,105)	—	(1,105)	(2,136)	—	(2,136)	
Gain (loss) on financial instruments	5,592	—	5,592	(3,544)	—	(3,544)	
Income (loss) before income taxes	116,618	—	116,618	(175,699)	—	(175,699)	
Income tax expense	(683)	—	(683)	—	—	—	
Net income (loss)	115,935	—	115,935	(175,699)	—	(175,699)	
Other comprehensive (loss) income:							
Unrealized foreign currency translation (loss) gain	(25,508)	4,863	(20,645)	123,592	24,135	147,727	
Unrealized foreign currency translation gain on joint ventures	4,863	(4,863)	—	24,135	(24,135)	—	
Unrealized (loss) gain from remeasurements of net pension obligation	(34)	—	(34)	2	—	2	
	(20,679)	—	(20,679)	147,729	—	147,729	
Total comprehensive income (loss)	\$ 95,256	\$ —	\$ 95,256	\$ (27,970)	\$ —	\$ (27,970)	

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

## REVENUE AND PROPERTY NOI

	Three months ended			% Change	Year ended			% Change
	December 31,		Change		December 31,		Change	
	2016	2015			2016	2015		
Revenue:								
Basic rent, parking and other revenue	\$ 98,189	\$ 94,258	\$ 3,931		\$ 388,379	\$ 375,590	\$ 12,789	
Operating cost and realty tax recoveries	50,751	50,909	(158)		189,277	182,928	6,349	
Amortization of tenant inducements	(4,873)	(3,694)	(1,179)		(17,752)	(14,008)	(3,744)	
Straight-line rent adjustments	1,743	1,227	516		6,194	3,499	2,695	
Lease termination income	568	173	395		6,417	4,493	1,924	
	146,378	142,873	3,505	2.5%	572,515	552,502	20,013	3.6%
Expenses:								
Property operating	38,291	35,158	3,133		133,124	125,104	8,020	
Realty taxes	22,141	22,382	(241)		90,677	85,446	5,231	
	60,432	57,540	2,892	5.0%	223,801	210,550	13,251	6.3%
Property NOI	\$ 85,946	\$ 85,333	\$ 613	0.7%	\$ 348,714	\$ 341,952	\$ 6,762	2.0%

Basic rent, parking, other revenue, operating cost and realty tax recoveries are revenues earned from tenants primarily related to lease agreements.

Artis accounts for tenant inducements by amortizing the cost over the term of the tenant's lease.

Artis accounts for rent steps by straight-lining the incremental increases over the entire non-cancelable lease term.

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

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

## SAME PROPERTY NOI ANALYSIS

Same property comparison includes investment properties that were owned for a full quarterly reporting period in both the current and comparative year, and excludes properties held for redevelopment.

	Three months ended			% Change	Year ended			% Change
	December 31,		Change		December 31,		Change	
	2016	2015			2016	2015		
Revenue <sup>(1)</sup>	\$ 127,051	\$ 130,197			\$ 513,915	\$ 517,514		
Add (deduct) non-cash revenue adjustments:								
Amortization of tenant inducements	4,464	3,321			16,910	13,043		
Straight-line rent adjustments	(1,027)	(1,047)			(3,828)	(3,013)		
	130,488	132,471			526,997	527,544		
Property operating and realty tax expenses	52,132	53,661			203,876	202,544		
Same Property NOI	\$ 78,356	\$ 78,810	\$ (454)	(0.6)%	\$ 323,121	\$ 325,000	\$ (1,879)	(0.6)%

(1) Adjusted for the impact of lease termination income.

Lease termination income related to significant tenants of \$6,197 (Q4-16 - \$459) in 2016, compared to \$1,479 (Q4-15 - \$63) in 2015, has been excluded, other than the portion that covers lost revenue due to vacancy, for purposes of the Same Property NOI calculation.



## Same Property NOI by Asset Class

	Three months ended				Year ended			
	December 31,		Change	% Change	December 31,		Change	% Change
2016	2015	2016			2015			
Office	\$ 40,102	\$ 40,892	\$ (790)	(1.9)%	\$ 162,892	\$ 169,843	\$ (6,951)	(4.1)%
Retail	18,059	18,785	(726)	(3.9)%	77,224	77,001	223	0.3 %
Industrial	20,195	19,133	1,062	5.6 %	83,005	78,156	4,849	6.2 %
<b>Total</b>	<b>\$ 78,356</b>	<b>\$ 78,810</b>	<b>\$ (454)</b>	<b>(0.6)%</b>	<b>\$ 323,121</b>	<b>\$ 325,000</b>	<b>\$ (1,879)</b>	<b>(0.6)%</b>

## Same Property NOI by Geographical Region

	Three months ended				Year ended			
	December 31,		Change	% Change	December 31,		Change	% Change
2016	2015	2016			2015			
Alberta	\$ 24,173	\$ 25,205	\$ (1,032)	(4.1)%	\$ 108,646	\$ 116,476	\$ (7,830)	(6.7)%
British Columbia	4,582	4,628	(46)	(1.0)%	19,490	19,711	(221)	(1.1)%
Manitoba	10,516	10,148	368	3.6 %	43,449	41,457	1,992	4.8 %
Ontario	9,050	9,042	8	0.1 %	36,446	35,856	590	1.6 %
Saskatchewan	5,280	5,468	(188)	(3.4)%	19,681	19,426	255	1.3 %
Arizona	6,713	6,497	216	3.3 %	26,022	24,552	1,470	6.0 %
Minnesota	14,012	14,019	(7)	— %	55,047	53,624	1,423	2.7 %
U.S. - Other	4,030	3,803	227	6.0 %	14,340	13,898	442	3.2 %
<b>Total</b>	<b>\$ 78,356</b>	<b>\$ 78,810</b>	<b>\$ (454)</b>	<b>(0.6)%</b>	<b>\$ 323,121</b>	<b>\$ 325,000</b>	<b>\$ (1,879)</b>	<b>(0.6)%</b>
<i>Calgary office segment</i>	<i>11,406</i>	<i>12,577</i>	<i>(1,171)</i>	<i>(9.3)%</i>	<i>48,731</i>	<i>56,215</i>	<i>(7,484)</i>	<i>(13.3)%</i>
<i>Total excluding Calgary office segment</i>	<i>\$ 66,950</i>	<i>\$ 66,233</i>	<i>\$ 717</i>	<i>1.1 %</i>	<i>\$ 274,390</i>	<i>\$ 268,785</i>	<i>\$ 5,605</i>	<i>2.1 %</i>

## Same Property NOI by Country

	Three months ended				Year ended			
	December 31,		Change	% Change	December 31,		Change	% Change
2016	2015	2016			2015			
Canada	\$ 53,601	\$ 54,491	\$ (890)	(1.6)%	\$ 227,712	\$ 232,926	\$ (5,214)	(2.2)%
U.S.	24,755	24,319	436	1.8 %	95,409	92,074	3,335	3.6 %
<b>Total</b>	<b>\$ 78,356</b>	<b>\$ 78,810</b>	<b>\$ (454)</b>	<b>(0.6)%</b>	<b>\$ 323,121</b>	<b>\$ 325,000</b>	<b>\$ (1,879)</b>	<b>(0.6)%</b>

Artis' U.S. portfolio decreased US\$48 (Q4-16 - increased US\$348), or decreased 0.1% (Q4-16 - increased 1.9%) in 2016 before the impact of foreign exchange. In Q4-16, the U.S. office segment has increased US\$371 and the U.S. industrial segment has increased US\$271 in comparison to Q4-15. The retail segment has decreased US\$294 primarily due to a tenant bankruptcy at Oakdale Village.

## Same Property Occupancy Report

Geographical Region	As at December 31,		Asset Class	As at December 31,	
	2016	2015		2016	2015
Alberta	86.4%	88.3%	Office	88.8%	89.8%
British Columbia	92.4%	92.6%	Retail	92.4%	96.6%
Manitoba	93.8%	91.1%	Industrial	94.2%	92.1%
Ontario	93.2%	91.9%			
Saskatchewan	97.6%	98.2%	<b>Total</b>	<b>92.0%</b>	<b>92.1%</b>
Arizona	93.4%	87.3%			
Minnesota	92.7%	95.0%			
U.S. - Other	93.8%	96.2%			
<b>Total</b>	<b>92.0%</b>	<b>92.1%</b>			

## PROPERTY NOI BY ASSET CLASS

## Canadian Portfolio:

In Q4-16, Property NOI in the office segment decreased primarily due to increased vacancy and lower rents in the Calgary office segment, partially offset by an increase in occupancy at Heritage Square. The retail and industrial segments decreased primarily due to dispositions in 2016.

	Three months ended December 31,					
	2016			2015		
	Office	Retail	Industrial	Office	Retail	Industrial
Revenue	\$ 46,657	\$ 25,297	\$ 18,715	\$ 49,976	\$ 29,504	\$ 20,522
Property operating and realty tax expenses	22,032	8,752	5,733	23,367	10,035	6,610
Property NOI	\$ 24,625	\$ 16,545	\$ 12,982	\$ 26,609	\$ 19,469	\$ 13,912
Share of Property NOI	45.4%	30.6%	24.0%	44.3%	32.5%	23.2%

## U. S. Portfolio:

In Q4-16, Property NOI in the U.S. portfolio increased in the office asset class in comparison to Q4-15. The growth is primarily attributable to acquisitions in 2015 and 2016, partially offset by dispositions in 2015. The retail segment has decreased primarily due to a tenant bankruptcy at Oakdale Village.

	Three months ended December 31,					
	2016			2015		
	Office	Retail	Industrial	Office	Retail	Industrial
Revenue	\$ 40,645	\$ 2,231	\$ 12,785	\$ 27,059	\$ 2,499	\$ 13,270
Property operating and realty tax expenses	18,070	951	4,894	11,292	805	5,431
Property NOI	\$ 22,575	\$ 1,280	\$ 7,891	\$ 15,767	\$ 1,694	\$ 7,839
Share of Property NOI	71.1%	4.0%	24.9%	62.3%	6.7%	31.0%

## Total Canadian and U.S. Portfolio:

	Three months ended December 31,					
	2016			2015		
	Office	Retail	Industrial	Office	Retail	Industrial
Revenue	\$ 87,302	\$ 27,528	\$ 31,500	\$ 77,035	\$ 32,003	\$ 33,792
Property operating and realty tax expenses	40,102	9,703	10,627	34,659	10,840	12,041
Property NOI	\$ 47,200	\$ 17,825	\$ 20,873	\$ 42,376	\$ 21,163	\$ 21,751
Share of Property NOI	54.9%	20.8%	24.3%	49.7%	24.8%	25.5%

## Canadian Portfolio:

In 2016, Property NOI in the Canadian portfolio decreased in the office and retail asset classes in comparison to 2015. The decrease in the office segment is primarily attributable to dispositions during 2015 and 2016 and increased vacancy and lower rents in the Calgary office segment. The retail segment decreased primarily due to dispositions in 2015 and 2016 and non-recurring other income received in 2015. The industrial segment increased primarily due to acquisitions and (re)developments during 2015, partially offset by dispositions in 2016.

	Year ended December 31,					
	2016			2015		
	Office	Retail	Industrial	Office	Retail	Industrial
Revenue	\$ 186,332	\$ 110,172	\$ 80,876	\$ 200,933	\$ 118,345	\$ 75,675
Property operating and realty tax expenses	83,333	34,094	25,113	85,946	37,597	24,199
Property NOI	\$ 102,999	\$ 76,078	\$ 55,763	\$ 114,987	\$ 80,748	\$ 51,476
Share of Property NOI	43.9%	32.4%	23.7%	46.5%	32.7%	20.8%

## U.S. Portfolio:

	Year ended December 31,					
	2016			2015		
	Office	Retail	Industrial	Office	Retail	Industrial
Revenue	\$ 135,389	\$ 9,741	\$ 49,770	\$ 99,063	\$ 9,957	\$ 48,353
Property operating and realty tax expenses	58,487	3,835	18,939	39,768	3,547	19,493
Property NOI	\$ 76,902	\$ 5,906	\$ 30,831	\$ 59,295	\$ 6,410	\$ 28,860
Share of Property NOI	67.7%	5.2%	27.1%	62.7%	6.8%	30.5%

## Total Canadian and U.S. Portfolio:

	Year ended December 31,					
	2016			2015		
	Office	Retail	Industrial	Office	Retail	Industrial
Revenue	\$ 321,721	\$ 119,913	\$ 130,646	\$ 299,996	\$ 128,302	\$ 124,028
Property operating and realty tax expenses	141,820	37,929	44,052	125,714	41,144	43,692
Property NOI	\$ 179,901	\$ 81,984	\$ 86,594	\$ 174,282	\$ 87,158	\$ 80,336
Share of Property NOI	51.7%	23.5%	24.8%	51.0%	25.5%	23.5%

## PROPERTY NOI BY GEOGRAPHICAL REGION

In Q4-16, Property NOI increased in Minnesota in comparison to Q4-15 due to an acquisition in 2015, partially offset by dispositions in 2015 and 2016. In Q4-16, Property NOI decreased in Alberta, British Columbia and U.S. - Other due to dispositions during 2015 and 2016. Alberta was also impacted by increased vacancy and lower rents in the Calgary office segment which was partially offset by increased occupancy at Heritage Square. During 2016, Artis entered into the Wisconsin region through a two-phased acquisition of the Madison Lifestyle Office Portfolio.

	Three months ended December 31, 2016									
	Canada					U.S.				
	AB	BC	MB	ON	SK	AZ	MN	WI	Other	
Revenue	\$ 40,218	\$ 6,805	\$ 20,327	\$ 15,369	\$ 7,950	\$ 9,547	\$ 26,859	\$ 13,509	\$ 5,746	
Property operating and realty tax expenses	14,819	2,776	9,870	6,526	2,526	3,349	11,816	6,242	2,508	
Property NOI	\$ 25,399	\$ 4,029	\$ 10,457	\$ 8,843	\$ 5,424	\$ 6,198	\$ 15,043	\$ 7,267	\$ 3,238	
Share of Property NOI	29.6%	4.6%	12.2%	10.3%	6.3%	7.2%	17.5%	8.5%	3.8%	

	Three months ended December 31, 2015									
	Canada					U.S.				
	AB	BC	MB	ON	SK	AZ	MN	WI	Other	
Revenue	\$ 46,648	\$ 9,135	\$ 20,301	\$ 15,515	\$ 8,403	\$ 9,626	\$ 26,044	\$ —	\$ 7,158	
Property operating and realty tax expenses	17,155	3,488	10,121	6,507	2,741	3,232	11,467	—	2,829	
Property NOI	\$ 29,493	\$ 5,647	\$ 10,180	\$ 9,008	\$ 5,662	\$ 6,394	\$ 14,577	\$ —	\$ 4,329	
Share of Property NOI	34.6%	6.6%	11.9%	10.6%	6.6%	7.5%	17.1%	—%	5.1%	

In 2016, Property NOI increased in Manitoba, Ontario, Arizona and Minnesota in comparison to 2015. The growth is primarily attributable to acquisitions and completed (re)developments during 2015, partially offset by dispositions in 2015 and 2016. Property NOI decreased in Alberta, British Columbia and U.S. - Other primarily due to dispositions during 2015 and 2016. Alberta was also impacted by increased vacancy and lower rents in the Calgary office segment. Non-recurring other income received in 2015 also contributed to the decline in British Columbia. Property NOI in Saskatchewan was impacted by lease termination income received in 2015. During 2016, Artis entered into the Wisconsin region through a two-phased acquisition of the Madison Lifestyle Office Portfolio.

Year ended December 31, 2016									
	Canada					U.S.			
	AB	BC	MB	ON	SK	AZ	MN	WI	Other
Revenue	\$ 173,383	\$ 33,539	\$ 77,812	\$ 61,750	\$ 30,896	\$ 38,382	\$ 105,686	\$ 26,515	\$ 24,317
Property operating and realty tax expenses	61,732	11,198	34,330	25,562	9,718	13,002	46,353	11,737	10,169
Property NOI	\$ 111,651	\$ 22,341	\$ 43,482	\$ 36,188	\$ 21,178	\$ 25,380	\$ 59,333	\$ 14,778	\$ 14,148
Share of Property NOI	32.0%	6.4%	12.5%	10.4%	6.1%	7.3%	17.0%	4.2%	4.1%

Year ended December 31, 2015									
	Canada					U.S.			
	AB	BC	MB	ON	SK	AZ	MN	WI	Other
Revenue	\$ 186,093	\$ 41,020	\$ 74,186	\$ 60,977	\$ 32,677	\$ 36,169	\$ 94,963	\$ —	\$ 26,241
Property operating and realty tax expenses	63,701	14,960	33,556	25,835	9,690	11,904	41,484	—	9,420
Property NOI	\$ 122,392	\$ 26,060	\$ 40,630	\$ 35,142	\$ 22,987	\$ 24,265	\$ 53,479	\$ —	\$ 16,821
Share of Property NOI	35.8%	7.7%	11.9%	10.3%	6.7%	7.1%	15.6%	—%	4.9%

## PORTFOLIO OCCUPANCY

Occupancy levels impact the REIT's revenues and Property NOI. Occupancy and commitments at December 31, 2016, (excluding properties held for redevelopment and new developments in process), and the previous four periods, were as follows:

### Occupancy Report by Asset Class

	Q4-16 % Committed <sup>(1)</sup>	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15
Office	91.5%	89.1%	90.0%	90.0%	89.7%	89.7%
Retail	94.4%	93.0%	94.9%	95.6%	96.8%	96.1%
Industrial	95.4%	94.2%	95.0%	96.0%	94.8%	93.8%
Total portfolio	93.5%	91.9%	92.9%	93.5%	93.3%	92.7%

(1) Percentage committed is based on occupancy at December 31, 2016, plus commitments on vacant space.

## Occupancy Report by Geographical Region

	Q4-16 % Committed <sup>(1)</sup>	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15
Canada:						
Alberta	90.1%	86.4%	90.9%	91.9%	90.4%	90.2%
British Columbia	93.8%	92.4%	92.7%	92.1%	94.6%	94.1%
Manitoba	94.7%	93.8%	92.7%	93.1%	91.1%	89.1%
Ontario	94.9%	93.2%	93.5%	92.7%	92.8%	91.9%
Saskatchewan	97.9%	97.6%	96.8%	97.5%	98.0%	98.2%
U.S.:						
Arizona	95.5%	93.4%	99.5%	99.6%	99.6%	99.6%
Minnesota	93.0%	92.9%	93.4%	95.4%	95.2%	94.9%
Wisconsin	94.5%	89.7%	89.6%	87.0%	n/a	n/a
Other	93.8%	93.8%	94.8%	95.7%	96.7%	96.2%
<b>Total portfolio</b>	<b>93.5%</b>	<b>91.9%</b>	<b>92.9%</b>	<b>93.5%</b>	<b>93.3%</b>	<b>92.7%</b>

(1) Percentage committed is based on occupancy at December 31, 2016, plus commitments on vacant space.

## PORTFOLIO LEASING ACTIVITY AND LEASE EXPIRIES

## Renewal Summary

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Leasable area renewed	627,649	675,856	2,807,867	2,301,433
Increase in weighted-average rental rate	2.6%	(0.1)%	3.3%	3.7%

Excluding the impact of Calgary office segment lease renewals, Artis' increase in the weighted-average rental rate year-to-date was 4.5% (Q4-16 - increase of 4.6%).

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

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

	Current vacancy	Monthly tenants <sup>(2)</sup>	2017	2018	2019	2020	2021 & later	Total
Office - uncommitted	974,796	65,545	923,548	996,242	1,240,066	1,096,697	4,564,293	9,861,187
Office - committed	295,559	—	466,466	60,704	117,156	20,410	108,525	1,068,820
<b>Total office</b>	<b>1,270,355</b>	<b>65,545</b>	<b>1,390,014</b>	<b>1,056,946</b>	<b>1,357,222</b>	<b>1,117,107</b>	<b>4,672,818</b>	<b>10,930,007</b>
Retail - uncommitted	226,197	16,742	237,454	497,688	331,135	521,337	1,978,682	3,809,235
Retail - committed	54,481	—	134,409	12,927	2,638	2,148	21,056	227,659
<b>Total retail</b>	<b>280,678</b>	<b>16,742</b>	<b>371,863</b>	<b>510,615</b>	<b>333,773</b>	<b>523,485</b>	<b>1,999,738</b>	<b>4,036,894</b>
Industrial - uncommitted	641,312	170,116	1,291,281	1,150,570	938,546	1,243,788	4,165,837	9,601,450
Industrial - committed	117,464	—	936,406	48,748	—	19,868	—	1,122,486
<b>Total industrial</b>	<b>758,776</b>	<b>170,116</b>	<b>2,227,687</b>	<b>1,199,318</b>	<b>938,546</b>	<b>1,263,656</b>	<b>4,165,837</b>	<b>10,723,936</b>
<b>Total - uncommitted</b>	<b>1,842,305</b>	<b>252,403</b>	<b>2,452,283</b>	<b>2,644,500</b>	<b>2,509,747</b>	<b>2,861,822</b>	<b>10,708,812</b>	<b>23,271,872</b>
<b>Total - committed</b>	<b>467,504</b>	<b>—</b>	<b>1,537,281</b>	<b>122,379</b>	<b>119,794</b>	<b>42,426</b>	<b>129,581</b>	<b>2,418,965</b>
<b>Total portfolio</b>	<b>2,309,809</b>	<b>252,403</b>	<b>3,989,564</b>	<b>2,766,879</b>	<b>2,629,541</b>	<b>2,904,248</b>	<b>10,838,393</b>	<b>25,690,837</b>

(1) Based on owned share of total leasable area.

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

### In-Place Rents

In-place rents reflect the weighted-average net annual rental rate per square foot as at December 31, 2016, for the leasable area expiring in the year indicated. In-place rents do not reflect either the average rate over the term of the lease or the rate in place in the year of expiry.

### Market Rents

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

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

## Canadian Portfolio:

	2017	2018	2019	2020	2021 & later	Total
Office						
In-place rents	\$ 19.17	\$ 18.59	\$ 16.63	\$ 15.71	\$ 18.59	\$ 18.10
Market rents	13.93	14.47	15.76	15.75	19.58	17.27
Change	(27.3)%	(22.2)%	(5.2)%	0.2%	5.3%	(4.5)%
Revenue impact <sup>(2)</sup>	\$ (3,581)	\$ (2,501)	\$ (732)	\$ 16	\$ 2,552	\$ (4,246)
Retail						
In-place rents	\$ 19.42	\$ 22.43	\$ 25.21	\$ 19.32	\$ 18.98	\$ 20.14
Market rents	20.12	23.31	25.47	19.47	19.82	20.83
Change	3.6 %	3.9 %	1.0 %	0.8%	4.4%	3.4 %
Revenue impact <sup>(2)</sup>	\$ 226	\$ 438	\$ 82	\$ 70	\$ 1,585	\$ 2,401
Industrial						
In-place rents	\$ 6.95	\$ 5.47	\$ 7.43	\$ 7.65	\$ 10.20	\$ 8.20
Market rents	6.98	5.62	7.37	7.72	10.27	8.26
Change	0.4 %	2.6 %	(0.8)%	0.8%	0.6%	0.7 %
Revenue impact <sup>(2)</sup>	\$ 39	\$ 104	\$ (17)	\$ 51	\$ 137	\$ 314
Total Canadian portfolio						
In-place rents	\$ 12.22	\$ 14.46	\$ 16.77	\$ 12.86	\$ 15.99	\$ 14.85
Market rents	10.80	13.39	16.31	12.94	16.63	14.74
Change	(11.6)%	(7.4)%	(2.8)%	0.6%	4.0%	(0.7)%
Revenue impact <sup>(2)</sup>	\$ (3,316)	\$ (1,959)	\$ (667)	\$ 137	\$ 4,274	\$ (1,531)

## U.S. Portfolio:

	2017	2018	2019	2020	2021 & later	Total
Office						
In-place rents	\$ 16.28	\$ 16.61	\$ 21.01	\$ 18.43	\$ 17.83	\$ 17.92
Market rents	17.69	16.65	22.24	18.75	18.82	18.81
Change	8.7%	0.3 %	5.8 %	1.7%	5.6%	5.0%
Revenue impact <sup>(2)</sup>	\$ 996	\$ 20	\$ 636	\$ 208	\$ 2,072	\$ 3,932
Retail						
In-place rents	\$ 13.51	\$ 21.35	\$ 18.74	\$ 14.05	\$ 15.63	\$ 15.19
Market rents	15.22	20.43	19.78	14.49	15.83	15.74
Change	12.7%	(4.3)%	5.6 %	3.1%	1.3%	3.7%
Revenue impact <sup>(2)</sup>	\$ 87	\$ (10)	\$ 12	\$ 28	\$ 23	\$ 140
Industrial						
In-place rents	\$ 4.65	\$ 4.84	\$ 5.42	\$ 5.39	\$ 6.19	\$ 5.55
Market rents	4.99	4.95	5.29	5.43	6.19	5.62
Change	7.5%	2.1 %	(2.4)%	0.7%	—%	1.2%
Revenue impact <sup>(2)</sup>	\$ 307	\$ 48	\$ (84)	\$ 18	\$ 6	\$ 295
Total U.S. portfolio						
In-place rents	\$ 9.93	\$ 10.68	\$ 12.34	\$ 13.23	\$ 12.20	\$ 11.79
Market rents	10.77	10.74	12.82	13.44	12.69	12.26
Change	8.5%	0.6 %	3.8 %	1.6%	4.1%	4.0%
Revenue impact <sup>(2)</sup>	\$ 1,390	\$ 58	\$ 564	\$ 254	\$ 2,101	\$ 4,367

(1) Based on owned share of total leasable area.

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



Total Canadian and U.S. Portfolio <sup>(1)</sup>:

	2017	2018	2019	2020	2021 & later	Total
<b>Office</b>						
In-place rents	\$ 17.70	\$ 17.75	\$ 18.30	\$ 17.33	\$ 18.25	\$ 18.02
Market rents	15.84	15.40	18.23	17.53	19.24	17.98
Change	(10.5)%	(13.2)%	(0.4)%	1.2%	5.4%	(0.2)%
Revenue impact <sup>(2)</sup>	\$ (2,585)	\$ (2,481)	\$ (96)	\$ 224	\$ 4,624	\$ (314)
<b>Retail</b>						
In-place rents	\$ 18.62	\$ 22.41	\$ 24.98	\$ 18.66	\$ 18.79	\$ 19.80
Market rents	19.46	23.25	25.27	18.85	19.60	20.48
Change	4.5 %	3.7 %	1.1 %	1.0%	4.3%	3.4 %
Revenue impact <sup>(2)</sup>	\$ 313	\$ 428	\$ 94	\$ 98	\$ 1,608	\$ 2,541
<b>Industrial</b>						
In-place rents	\$ 6.04	\$ 5.22	\$ 6.02	\$ 6.85	\$ 8.25	\$ 6.98
Market rents	6.19	5.35	5.91	6.91	8.29	7.04
Change	2.6 %	2.4 %	(1.8)%	0.8%	0.4%	0.9 %
Revenue impact <sup>(2)</sup>	\$ 346	\$ 152	\$ (101)	\$ 69	\$ 143	\$ 609
<b>Total Canadian and U.S. portfolio</b>						
In-place rents	\$ 11.27	\$ 13.18	\$ 14.77	\$ 13.01	\$ 14.51	\$ 13.63
Market rents	10.79	12.49	14.73	13.15	15.10	13.75
Change	(4.3)%	(5.2)%	(0.3)%	1.0%	4.1%	0.9 %
Revenue impact <sup>(2)</sup>	\$ (1,926)	\$ (1,901)	\$ (103)	\$ 391	\$ 6,375	\$ 2,836
<b>Total Canadian and U.S. portfolio excluding Calgary office segment</b>						
In-place rents	\$ 10.37	\$ 12.25	\$ 13.90	\$ 12.84	\$ 13.92	\$ 12.95
Market rents	10.86	12.59	14.18	12.99	14.27	13.29
Change	4.8 %	2.8 %	2.0 %	1.2%	2.5%	2.6 %
Revenue impact <sup>(2)</sup>	\$ 1,839	\$ 873	\$ 682	\$ 437	\$ 3,332	\$ 7,163

(1) Based on owned share of total leasable area.

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

Market rents at December 31, 2016, were estimated to be 0.9% above in-place rents across the portfolio, compared to 1.6% at September 30, 2016 and 2.6% at December 31, 2015. Today's market rents for the 2017 and 2018 lease expiries are estimated to be 4.3% and 5.2% below in-place rents, respectively. The retail portfolio is expected to be the strongest contributor to incremental rental revenue over the long-term.

Market rents in certain years are estimated to be below in-place rents due to the impact of the Calgary office segment. Excluding the Calgary office segment, today's market rents for the 2017 and 2018 lease expiries are estimated to be 4.8% and 2.8% above in-place rents, respectively.

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

	Current vacancy	Monthly tenants <sup>(2)</sup>	2017	2018	2019	2020	2021 & later	Total
AB - uncommitted	529,663	106,810	524,601	541,828	452,677	416,079	2,295,117	4,866,775
AB - committed	189,259	—	79,336	12,870	2,638	1,080	2,218	287,401
<b>Total Alberta</b>	<b>718,922</b>	<b>106,810</b>	<b>603,937</b>	<b>554,698</b>	<b>455,315</b>	<b>417,159</b>	<b>2,297,335</b>	<b>5,154,176</b>
BC - uncommitted	74,223	3,384	84,696	111,077	207,134	49,946	614,804	1,145,264
BC - committed	17,112	—	18,215	1,534	5,271	8,037	—	50,169
<b>Total British Columbia</b>	<b>91,335</b>	<b>3,384</b>	<b>102,911</b>	<b>112,611</b>	<b>212,405</b>	<b>57,983</b>	<b>614,804</b>	<b>1,195,433</b>
MB - uncommitted	258,300	10,387	399,589	651,676	249,389	435,014	1,528,856	3,533,211
MB - committed	76,141	—	210,415	32,296	7,454	9,211	8,383	343,900
<b>Total Manitoba</b>	<b>334,441</b>	<b>10,387</b>	<b>610,004</b>	<b>683,972</b>	<b>256,843</b>	<b>444,225</b>	<b>1,537,239</b>	<b>3,877,111</b>
ON - uncommitted	197,724	41,445	289,938	258,293	334,980	748,407	1,402,153	3,272,940
ON - committed	64,452	—	389,762	43,847	104,431	—	—	602,492
<b>Total Ontario</b>	<b>262,176</b>	<b>41,445</b>	<b>679,700</b>	<b>302,140</b>	<b>439,411</b>	<b>748,407</b>	<b>1,402,153</b>	<b>3,875,432</b>
SK - uncommitted	30,363	6,171	174,865	163,661	75,652	60,931	735,690	1,247,333
SK - committed	4,172	—	177,680	11,393	—	—	18,838	212,083
<b>Total Saskatchewan</b>	<b>34,535</b>	<b>6,171</b>	<b>352,545</b>	<b>175,054</b>	<b>75,652</b>	<b>60,931</b>	<b>754,528</b>	<b>1,459,416</b>
AZ - uncommitted	57,709	1,500	130,211	17,106	128,921	192,947	608,837	1,137,231
AZ - committed	26,700	—	124,106	—	—	—	—	150,806
<b>Total Arizona</b>	<b>84,409</b>	<b>1,500</b>	<b>254,317</b>	<b>17,106</b>	<b>128,921</b>	<b>192,947</b>	<b>608,837</b>	<b>1,288,037</b>
MN - uncommitted	554,507	75,231	636,939	539,291	724,590	731,276	2,575,638	5,837,472
MN - committed	7,351	—	500,541	18,536	—	24,098	—	550,526
<b>Total Minnesota</b>	<b>561,858</b>	<b>75,231</b>	<b>1,137,480</b>	<b>557,827</b>	<b>724,590</b>	<b>755,374</b>	<b>2,575,638</b>	<b>6,387,998</b>
WI - uncommitted	93,243	6,176	169,717	209,891	181,162	189,816	630,590	1,480,595
WI - committed	82,317	—	33,618	—	—	—	100,142	216,077
<b>Total Wisconsin</b>	<b>175,560</b>	<b>6,176</b>	<b>203,335</b>	<b>209,891</b>	<b>181,162</b>	<b>189,816</b>	<b>730,732</b>	<b>1,696,672</b>
U.S. - Other - uncommitted	46,573	1,299	41,727	151,677	155,242	37,406	317,127	751,051
U.S. - Other - committed	—	—	3,608	1,903	—	—	—	5,511
<b>Total U.S. - Other</b>	<b>46,573</b>	<b>1,299</b>	<b>45,335</b>	<b>153,580</b>	<b>155,242</b>	<b>37,406</b>	<b>317,127</b>	<b>756,562</b>
<b>Total - uncommitted</b>	<b>1,842,305</b>	<b>252,403</b>	<b>2,452,283</b>	<b>2,644,500</b>	<b>2,509,747</b>	<b>2,861,822</b>	<b>10,708,812</b>	<b>23,271,872</b>
<b>Total - committed</b>	<b>467,504</b>	<b>—</b>	<b>1,537,281</b>	<b>122,379</b>	<b>119,794</b>	<b>42,426</b>	<b>129,581</b>	<b>2,418,965</b>
<b>Total portfolio</b>	<b>2,309,809</b>	<b>252,403</b>	<b>3,989,564</b>	<b>2,766,879</b>	<b>2,629,541</b>	<b>2,904,248</b>	<b>10,838,393</b>	<b>25,690,837</b>

(1) Based on owned share of total leasable area.

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

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

	2017	2018	2019	2020	2021 & later	Total
<b>Alberta</b>						
In-place rents	\$ 19.08	\$ 22.25	\$ 25.14	\$ 18.34	\$ 20.15	\$ 20.62
Market rents	13.04	18.13	23.44	18.34	22.06	20.08
Change	(31.7)%	(18.5)%	(6.7)%	— %	9.5 %	(2.6)%
Revenue impact <sup>(2)</sup>	\$ (3,647)	\$ (2,286)	\$ (770)	\$ (3)	\$ 4,381	\$ (2,325)
<b>British Columbia</b>						
In-place rents	\$ 19.48	\$ 23.30	\$ 17.75	\$ 17.80	\$ 13.62	\$ 16.17
Market rents	20.26	23.28	18.07	19.04	13.75	16.45
Change	4.0 %	(0.1)%	1.8 %	6.9 %	1.0 %	1.7 %
Revenue impact <sup>(2)</sup>	\$ 80	\$ (3)	\$ 69	\$ 72	\$ 84	\$ 302
<b>Manitoba</b>						
In-place rents	\$ 11.85	\$ 7.47	\$ 9.66	\$ 12.10	\$ 15.12	\$ 12.30
Market rents	12.21	8.08	9.92	12.43	14.90	12.44
Change	3.0 %	8.1 %	2.6 %	2.7 %	(1.4)%	1.2 %
Revenue impact <sup>(2)</sup>	\$ 218	\$ 414	\$ 65	\$ 144	\$ (334)	\$ 507
<b>Ontario</b>						
In-place rents	\$ 6.79	\$ 9.45	\$ 10.95	\$ 9.13	\$ 11.29	\$ 9.78
Market rents	6.76	9.43	11.01	8.95	11.18	9.70
Change	(0.5)%	(0.3)%	0.5 %	(2.0)%	(1.0)%	(0.9)%
Revenue impact <sup>(2)</sup>	\$ (22)	\$ (8)	\$ 26	\$ (137)	\$ (161)	\$ (302)
<b>Saskatchewan</b>						
In-place rents	\$ 9.44	\$ 20.03	\$ 21.64	\$ 22.00	\$ 15.73	\$ 15.28
Market rents	9.59	19.59	20.88	23.01	16.14	15.49
Change	1.7 %	(2.2)%	(3.5)%	4.6 %	2.6 %	1.3 %
Revenue impact <sup>(2)</sup>	\$ 55	\$ (76)	\$ (57)	\$ 61	\$ 304	\$ 287
<b>Arizona</b>						
In-place rents	\$ 19.40	\$ 34.39	\$ 25.58	\$ 20.86	\$ 23.13	\$ 22.40
Market rents	21.92	34.50	28.38	23.38	23.67	23.91
Change	13.0 %	0.3 %	11.0 %	12.1 %	2.4 %	6.8 %
Revenue impact <sup>(2)</sup>	\$ 641	\$ 2	\$ 362	\$ 486	\$ 334	\$ 1,825
<b>Minnesota</b>						
In-place rents	\$ 6.37	\$ 6.70	\$ 6.69	\$ 10.11	\$ 8.45	\$ 7.87
Market rents	6.95	6.87	6.56	9.89	8.44	7.95
Change	9.1 %	2.6 %	(1.9)%	(2.2)%	(0.1)%	1.0 %
Revenue impact <sup>(2)</sup>	\$ 659	\$ 97	\$ (94)	\$ (170)	\$ (32)	\$ 460
<b>Wisconsin</b>						
In-place rents	\$ 15.43	\$ 15.69	\$ 15.43	\$ 16.07	\$ 14.01	\$ 14.86
Market rents	15.83	15.20	16.01	15.84	16.01	15.85
Change	2.6 %	(3.1)%	3.7 %	(1.4)%	14.3 %	6.7 %
Revenue impact <sup>(2)</sup>	\$ 80	\$ (101)	\$ 104	\$ (44)	\$ 1,460	\$ 1,499
<b>U.S. - Other</b>						
In-place rents	\$ 21.26	\$ 15.67	\$ 24.11	\$ 22.33	\$ 17.46	\$ 19.03
Market rents	21.48	16.07	25.35	21.83	18.53	19.85
Change	1.0 %	2.5 %	5.1 %	(2.2)%	6.1 %	4.3 %
Revenue impact <sup>(2)</sup>	\$ 10	\$ 60	\$ 192	\$ (18)	\$ 339	\$ 583
<b>Total portfolio</b>						
In-place rents	\$ 11.27	\$ 13.18	\$ 14.77	\$ 13.01	\$ 14.51	\$ 13.63
Market rents	10.79	12.49	14.73	13.15	15.10	13.75
Change	(4.3)%	(5.2)%	(0.3)%	1.0 %	4.1 %	0.9 %
Revenue impact <sup>(2)</sup>	\$ (1,926)	\$ (1,901)	\$ (103)	\$ 391	\$ 6,375	\$ 2,836

(1) Based on owned share of total leasable area.

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

Artis' real estate is diversified across five Canadian provinces and six U.S. states, and across the office, retail and industrial asset classes. At December 31, 2016, the five largest segments of the REIT's portfolio (by Property NOI) were Calgary office, Twin Cities industrial, Madison office, Twin Cities office and Greater Phoenix Area office.

The Calgary office segment represents 13.0% of the Q4-16 Property NOI and 9.6% of the overall portfolio by GLA. 42.6% of the Calgary office GLA is located downtown, 23.3% is beltline and 34.1% is suburban. Overall direct vacancy in the Calgary office market, as reported by CBRE, was 14.7% at December 31, 2016, compared to 14.1% at September 30, 2016. At December 31, 2016, the Calgary office segment of Artis' portfolio was 82.4% occupied, compared to 85.4% at September 30, 2016. In 2017, 307,606 square feet comes up for renewal, which represents 1.2% of the total portfolio GLA; 7.8% was renewed or committed to new leases at December 31, 2016. Of Artis' total Calgary office GLA, 47.1% expires in 2021 or later. Artis' largest 10 Calgary office tenants by GLA lease nearly half of Artis' Calgary office space with a weighted-average lease term of 5.2 years. The average size of Artis' Calgary office tenants is approximately 9,100 square feet.

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

	Current vacancy	Monthly tenants <sup>(2)</sup>	2017	2018	2019	2020	2021 & later	Total
Downtown - uncommitted	308,439	20,511	237,678	110,113	124,270	25,141	207,934	1,034,086
Downtown - committed	6,645	—	7,868	—	—	—	—	14,513
<b>Total downtown</b>	<b>315,084</b>	<b>20,511</b>	<b>245,546</b>	<b>110,113</b>	<b>124,270</b>	<b>25,141</b>	<b>207,934</b>	<b>1,048,599</b>
Beltline - uncommitted	11,139	—	11,957	96,685	35,586	11,758	350,161	517,286
Beltline - committed	44,408	—	—	12,870	—	—	—	57,278
<b>Total beltline</b>	<b>55,547</b>	<b>—</b>	<b>11,957</b>	<b>109,555</b>	<b>35,586</b>	<b>11,758</b>	<b>350,161</b>	<b>574,564</b>
Suburban - uncommitted	55,153	4,762	33,874	33,414	53,098	30,781	602,147	813,229
Suburban - committed	8,443	—	16,229	—	—	—	—	24,672
<b>Total suburban</b>	<b>63,596</b>	<b>4,762</b>	<b>50,103</b>	<b>33,414</b>	<b>53,098</b>	<b>30,781</b>	<b>602,147</b>	<b>837,901</b>
<b>Total - uncommitted</b>	<b>374,731</b>	<b>25,273</b>	<b>283,509</b>	<b>240,212</b>	<b>212,954</b>	<b>67,680</b>	<b>1,160,242</b>	<b>2,364,601</b>
<b>Total - committed</b>	<b>59,496</b>	<b>—</b>	<b>24,097</b>	<b>12,870</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>96,463</b>
<b>Total Calgary office</b>	<b>434,227</b>	<b>25,273</b>	<b>307,606</b>	<b>253,082</b>	<b>212,954</b>	<b>67,680</b>	<b>1,160,242</b>	<b>2,461,064</b>

(1) Based on owned share of total leasable area.

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

**Lease Expiries for the Office Segment excluding Calgary (in S.F.) <sup>(1)</sup>:**

	Current vacancy	Monthly tenants <sup>(2)</sup>	2017	2018	2019	2020	2021 & later	Total
Other - uncommitted	600,065	40,272	640,039	756,030	1,027,112	1,029,017	3,404,051	7,496,586
Other - committed	236,063	—	442,369	47,834	117,156	20,410	108,525	972,357
<b>Total other office</b>	<b>836,128</b>	<b>40,272</b>	<b>1,082,408</b>	<b>803,864</b>	<b>1,144,268</b>	<b>1,049,427</b>	<b>3,512,576</b>	<b>8,468,943</b>

(1) Based on owned share of total leasable area.

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

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

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

	2017	2018	2019	2020	2021 & later	Total
<b>Downtown</b>						
In-place rents	\$ 22.99	\$ 18.50	\$ 24.35	\$ 18.52	\$ 21.33	\$ 21.89
Market rents	8.98	9.81	20.37	19.23	22.52	15.41
Change	(61.0)%	(47.0)%	(16.3)%	3.8 %	5.6 %	(29.6)%
Revenue impact <sup>(2)</sup>	\$ (3,441)	\$ (956)	\$ (495)	\$ 18	\$ 248	\$ (4,626)
<b>Beltline</b>						
In-place rents	\$ 28.99	\$ 27.91	\$ 34.06	\$ 18.50	\$ 14.22	\$ 18.91
Market rents	16.35	12.55	26.12	17.00	22.44	20.34
Change	(43.6)%	(55.0)%	(23.3)%	(8.1)%	57.7 %	7.6 %
Revenue impact <sup>(2)</sup>	\$ (151)	\$ (1,683)	\$ (282)	\$ (18)	\$ 2,875	\$ 741
<b>Suburban</b>						
In-place rents	\$ 16.44	\$ 17.60	\$ 19.02	\$ 22.58	\$ 21.70	\$ 21.03
Market rents	12.99	13.54	18.88	21.08	21.56	20.45
Change	(21.0)%	(23.0)%	(0.7)%	(6.6)%	(0.6)%	(2.7)%
Revenue impact <sup>(2)</sup>	\$ (173)	\$ (135)	\$ (8)	\$ (46)	\$ (80)	\$ (442)
<b>Total Calgary Office</b>						
In-place rents	\$ 22.16	\$ 22.46	\$ 24.64	\$ 20.36	\$ 19.38	\$ 20.79
Market rents	9.92	11.49	20.96	19.68	22.00	18.62
Change	(55.2)%	(48.8)%	(14.9)%	(3.3)%	13.5 %	(10.4)%
Revenue impact <sup>(2)</sup>	\$ (3,765)	\$ (2,774)	\$ (785)	\$ (46)	\$ 3,043	\$ (4,327)

(1) Based on owned share of total leasable area.

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

**Market Rents for the Office Segment excluding Calgary <sup>(1)</sup>:**

	2017	2018	2019	2020	2021 & later	Total
<b>Other office</b>						
In-place rents	\$ 16.43	\$ 16.27	\$ 17.12	\$ 17.13	\$ 17.88	\$ 17.28
Market rents	17.52	16.63	17.73	17.39	18.33	17.81
Change	6.6%	2.2%	3.5%	1.5%	2.5%	3.1%
Revenue impact <sup>(2)</sup>	\$ 1,180	\$ 293	\$ 689	\$ 270	\$ 1,581	\$ 4,013

(1) Based on owned share of total leasable area.

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

The Twin Cities industrial segment represents 8.6% of the Q4-16 Property NOI and 18.5% of the overall portfolio by GLA. Direct vacancy in this industrial market, as reported by CBRE, decreased from 4.8% at September 30, 2016, to 4.6% at December 31, 2016, with 1,008,094 square feet of positive absorption reported for the quarter. The average asking market lease rate was \$5.83 per square foot at December 31, 2016, compared to \$5.78 per square foot at September 30, 2016. Occupancy in this segment of the portfolio, excluding properties held for redevelopment, was 93.5% at December 31, 2016, consistent with occupancy of 93.5% reported at September 30, 2016. In 2017, 884,028 square feet comes up for renewal, which represents 3.4% of the total portfolio GLA; 36.7% was renewed or committed to new leases at December 31, 2016. Of Artis' total Twin Cities industrial GLA, 38.9% expires in 2021 or later.

The Madison office segment represents 8.5% of the Q4-16 Property NOI and 6.6% of the overall portfolio by GLA. Overall direct vacancy in this office market, as most recently reported by Xceligent, was 7.7% at December 31, 2016, a decrease from 8.5% at September 30, 2016. At December 31, 2016, the Madison office segment of Artis' portfolio was 89.7% occupied, an increase from 89.6% at September 30, 2016. In 2017, 203,335 square feet comes up for renewal, which represents 0.8% of the total portfolio GLA; 16.5% was renewed or committed to new leases at December 31, 2016. Of the total Madison office GLA, 43.1% expires in 2021 or later.

The Twin Cities office segment represents 7.9% of the Q4-16 Property NOI and 5.2% of the overall portfolio by GLA. Overall direct vacancy in the Twin Cities office market, as reported by CBRE, was 15.8% at December 31, 2016, increased from 15.4% at September 30, 2016. Occupancy in this segment of the portfolio was 92.7% at December 31, 2016, increased from 92.1% at September 30, 2016. In 2017, 203,017 square feet comes up for renewal, which represents 0.8% of the total portfolio GLA; 70.5% had been renewed or committed to new leases at December 31, 2016. Of Artis' total Twin Cities office GLA, 46.0% expires in 2021 or later.

The Greater Phoenix Area office segment represents 6.5% of the Q4-16 Property NOI and 3.9% of the overall portfolio by GLA. Overall direct vacancy in the Greater Phoenix Area office market, as reported by CBRE, was 17.4% at December 31, 2016, decreased from 17.8% at September 30, 2016. At December 31, 2016, the Greater Phoenix Area office segment of Artis' portfolio was 96.8% occupied, compared to 99.5% at September 30, 2016. In 2017, 254,317 square feet comes up for renewal, which represents 1.0% of the total portfolio GLA; 48.8% had been renewed or committed to new leases at December 31, 2016. Of Artis' Greater Phoenix Area office GLA, 43.0% expires in 2021 or later.

## CORPORATE EXPENSES

	Three months ended				Year ended			
	December 31,		Change	%	December 31,		Change	%
2016	2015	2016			2015			
Accounting, legal and consulting	\$ 476	\$ 488	\$ (12)	(2.5)%	\$ 2,310	\$ 2,120	\$ 190	9.0%
Public company costs	308	404	(96)	(23.8)%	1,592	1,444	148	10.2%
Unit-based compensation	671	618	53	8.6 %	2,421	1,760	661	37.6%
Salaries and benefits	1,027	986	41	4.2 %	3,912	3,629	283	7.8%
Depreciation of property and equipment	215	196	19	9.7 %	859	755	104	13.8%
General and administrative	537	397	140	35.3 %	2,228	1,802	426	23.6%
<b>Total corporate expenses</b>	<b>\$ 3,234</b>	<b>\$ 3,089</b>	<b>\$ 145</b>	<b>4.7 %</b>	<b>\$ 13,322</b>	<b>\$ 11,510</b>	<b>\$ 1,812</b>	<b>15.7%</b>

Corporate expenses in 2016 were \$13,322 (Q4-16 - \$3,234), or 2.3% (Q4-16 - 2.2%) of total revenues compared to \$11,510 (Q4-15 - \$3,089), or 2.1% (Q4-15 - 2.2%) of total revenues in 2015.

The unit-based compensation expense recorded in 2016 was \$2,421 (Q4-16- \$671) compared to \$1,760 (Q4-15 - \$618) in 2015. A liability for unit-based compensation related to restricted and deferred units is recognized and measured initially at fair value. The liability is remeasured to fair value at each reporting date and at each settlement date. Any change in the fair value of the liability is recognized as compensation expense for the period. Additional restricted and deferred units issued has caused an increase in the compensation expense for the year.

## INTEREST EXPENSE

	Three months ended				Year ended			
	December 31,		Change	%	December 31,		Change	%
2016	2015	2016			2015			
Mortgages and other loans <sup>(1)</sup>	\$ 20,008	\$ 20,739	\$ (731)		\$ 81,188	\$ 85,151	\$ (3,963)	
Debentures <sup>(1)</sup>	3,059	4,386	(1,327)		15,157	17,453	(2,296)	
Other <sup>(1)</sup>	2,025	1,447	578		7,631	4,076	3,555	
	25,092	26,572	(1,480)	(5.6)%	103,976	106,680	(2,704)	(2.5)%
Foreign exchange	2,471	2,112	359		8,741	6,784	1,957	
<b>Total interest expense</b>	<b>\$ 27,563</b>	<b>\$ 28,684</b>	<b>\$ (1,121)</b>	<b>(3.9)%</b>	<b>\$ 112,717</b>	<b>\$ 113,464</b>	<b>\$ (747)</b>	<b>(0.7)%</b>

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

Interest expense on mortgages and other loans has decreased primarily due to the repayment of maturing mortgages in 2015 and 2016. Interest expense on debentures has decreased due to the redemption of the Series F convertible debentures in 2016. The majority of other interest expense relates to the unsecured revolving term credit facilities. Financing costs on mortgages, other loans and debentures are netted against the related debt, and amortized on an effective interest basis over the expected term of the debt.

The REIT's weighted-average effective rate at December 31, 2016, on mortgages and other loans secured by properties was 3.74%, decreased from 3.93% at December 31, 2015. The weighted-average nominal interest rate on mortgages and other loans secured by properties at December 31, 2016, decreased to 3.69% from 3.86% at December 31, 2015.

The REIT's interest coverage ratio, as calculated in the below table, was 2.99 times (Q4-16 - 3.01 times) for 2016, compared to 2.92 times (Q4-15 - 2.88 times) for 2015.

	Three months ended			% Change	Year ended			% Change
	December 31,		Change		December 31,		Change	
	2016	2015			2016	2015		
Property NOI	\$ 85,946	\$ 85,333	\$ 613		\$ 348,714	\$ 341,952	\$ 6,762	
Interest income	287	288	(1)		1,215	1,321	(106)	
Corporate expenses	(3,234)	(3,089)	(145)		(13,322)	(11,510)	(1,812)	
	82,999	82,532	467	0.6 %	336,607	331,763	4,844	1.5 %
Interest expense	27,563	28,684	(1,121)	(3.9)%	112,717	113,464	(747)	(0.7)%
Interest coverage ratio	3.01	2.88	0.13	4.5 %	2.99	2.92	0.07	2.4 %

The REIT's EBITDA interest coverage ratio was 3.11 times (Q4-16 - 3.17 times) for 2016, compared to 3.04 times (Q4-15 - 2.98 times) for 2015.

	Three months ended			% Change	Year ended			% Change
	December 31,		Change		December 31,		Change	
	2016	2015			2016	2015		
Property NOI	\$ 85,946	\$ 85,333	\$ 613		\$ 348,714	\$ 341,952	\$ 6,762	
Add (deduct):								
Tenant inducements amortized to revenue	4,873	3,694	1,179		17,752	14,008	3,744	
Straight-line rent adjustment	(1,743)	(1,227)	(516)		(6,194)	(3,499)	(2,695)	
Interest income	287	288	(1)		1,215	1,321	(106)	
Corporate expenses	(3,234)	(3,089)	(145)		(13,322)	(11,510)	(1,812)	
Depreciation of property and equipment	215	196	19		859	755	104	
EBITDA	86,344	85,195	1,149	1.3 %	349,024	343,027	5,997	1.7 %
Interest expense	27,563	28,684	(1,121)		112,717	113,464	(747)	
Add (deduct):								
Amortization of financing costs	(1,115)	(777)	(338)		(3,675)	(3,127)	(548)	
Amortization of above- and below-market mortgages, net	584	474	110		2,194	1,603	591	
Accretion on liability component of debentures	241	191	50		851	720	131	
Adjusted interest expense	27,273	28,572	(1,299)	(4.5)%	112,087	112,660	(573)	(0.5)%
EBITDA interest coverage ratio	3.17	2.98	0.19	6.4 %	3.11	3.04	0.07	2.3 %

## FAIR VALUE LOSS ON INVESTMENT PROPERTIES

The changes in fair value of investment properties, year-over-year, are recognized as fair value gains and losses in the consolidated statement of operations. Fair values of the investment properties are determined through either the discounted cash flow method or the overall capitalization method which are generally accepted appraisal methodologies. External valuations are performed for a selection of properties representing various geographical regions and asset classes across the REIT's portfolio. In 2016, the fair value loss on investment properties was \$109,414 (Q4-16 - loss of \$92,854), compared to a loss of \$371,905 (Q4-15 - loss of \$252,058) in 2015. Fair value changes in individual properties result from changes in the projected income and cash flow projections of those properties, as well as from changes in capitalization rates and discount rates applied. The fair value loss in 2016 was largely the result of the prolonged economic downturn in Alberta and continued downward pressure on market rents, most notably in the Calgary office market. As reported by CBRE, capitalization rates for Class A and B Calgary office assets increased by an average of 34 basis points from December 31, 2015 to December 31, 2016, and net asking rents in the Calgary downtown office segment decreased by \$4.37 per square foot from December 31, 2015 to December 31, 2016.

## FOREIGN CURRENCY TRANSLATION LOSS

In 2016, Artis held cash, deposits and the Series G debentures in US dollars. These assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. This translation along with the settlement of foreign exchange forward contracts in 2016, resulted in a foreign currency translation loss of \$2,345 (Q4-16 - loss of \$4,695), compared to a loss of \$16,413 (Q4-15 - gain of \$410) in 2015.

## TRANSACTION COSTS

During 2016, \$1,105 (Q4-16 - \$9) of transaction costs were expensed compared to \$2,136 (Q4-15 - \$521) in 2015. The transaction costs were attributable to the acquisitions of investment properties and joint ventures.

## GAIN (LOSS) ON FINANCIAL INSTRUMENTS

Artis holds a number of interest rate swaps to effectively lock the interest rate on a portion of variable rate debt. The REIT recorded an unrealized gain on the fair value adjustment of the interest rate swaps outstanding of \$5,624 (Q4-16 - gain of \$9,852) in 2016, compared to an unrealized loss of \$3,544 (Q4-15 - gain of \$2,426) in 2015. The REIT anticipates holding the mortgages and interest rate swap contracts until maturity.

Artis recorded an unrealized gain of \$709 (Q4-16 - gain of \$2,661) in 2016 on the fair value of outstanding foreign currency contracts.

## INCOME TAX

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

The REIT is subject to taxation in the U.S. on the taxable income earned by its new U.S. management subsidiary in 2016. The REIT has recorded an income tax expense of \$683 (Q4-16 - \$683) in relation to this subsidiary for the year ended December 31, 2016.

The REIT's U.S. properties are owned by subsidiaries that are REITs for U.S. income tax purposes. These subsidiaries intend to distribute all of their U.S. taxable income to Canada and are entitled to deduct such distributions for U.S. income tax purposes. As a result, the REIT does not record a provision for current U.S. income taxes on the taxable income earned by these subsidiaries. These 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.

## OTHER COMPREHENSIVE (LOSS) INCOME

Other comprehensive (loss) income includes the unrealized foreign currency translation loss in 2016 of \$20,645 (Q4-16 - gain of \$25,936) compared to a gain of \$147,727 (Q4-15 - gain of \$27,422) in 2015. Foreign currency translation gains and losses relate to the REIT's net investments in its U.S. subsidiaries.



## FUNDS FROM OPERATIONS

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

### Reconciliation of Cash Flows from Operations to FFO

The following table reconciles cash flow from operations as found in the REIT's consolidated financial statements to FFO:

000's, except per unit amounts	Three months ended			Year ended		
	December 31, 2016	December 31, 2015	% Change	December 31, 2016	December 31, 2015	% Change
Cash flow from operations	\$ 69,358	\$ 47,556		\$ 251,820	\$ 220,601	
Add (deduct):						
Depreciation of property and equipment	(215)	(196)		(859)	(755)	
Amortization of above- and below-market mortgages, net	584	474		2,194	1,603	
Straight-line rent adjustment	1,614	1,011		5,446	2,970	
Adjustment for investments in joint ventures	1,326	822		4,968	4,564	
Realized foreign currency translation (gain) loss	(7,107)	(579)		437	3,569	
Unrealized foreign currency gain (loss) from U.S. operations	6,267	2,827		(4,066)	1,019	
Unit-based compensation	795	(618)		(955)	(1,760)	
Accretion on liability component of debentures	241	191		851	720	
Amortization of financing costs included in interest	(970)	(762)		(3,465)	(3,077)	
Other long-term employee benefits	(465)	(498)		(1,819)	(1,702)	
Transaction costs on acquisitions	9	521		1,105	2,136	
Changes in non-cash operating items	(11,811)	6,793		(14,698)	2,419	
Incremental leasing costs	1,406	579		3,382	2,009	
Preferred unit distributions	(4,641)	(4,682)		(18,432)	(18,435)	
<b>FFO</b>	<b>\$ 56,391</b>	<b>\$ 53,439</b>	<b>5.5 %</b>	<b>\$ 225,909</b>	<b>\$ 215,881</b>	<b>4.6 %</b>
Add (deduct):						
Lease termination income	(568)	(173)		(6,417)	(4,493)	
Non-recurring other income	—	—		—	(1,636)	
Straight-line rent reversals due to lease terminations	—	—		—	812	
<b>FFO after adjustments</b>	<b>\$ 55,823</b>	<b>\$ 53,266</b>	<b>4.8 %</b>	<b>\$ 219,492</b>	<b>\$ 210,564</b>	<b>4.2 %</b>
FFO per unit:						
Basic	\$ 0.38	\$ 0.39	(2.6)%	\$ 1.56	\$ 1.57	(0.6)%
Diluted	0.37	0.38	(2.6)%	1.55	1.53	1.3 %
FFO per unit after adjustments:						
Basic	\$ 0.37	\$ 0.38	(2.6)%	\$ 1.51	\$ 1.53	(1.3)%
Diluted	0.37	0.38	(2.6)%	1.50	1.49	0.7 %
Weighted-average number of common units outstanding:						
Basic	149,937	138,566		144,918	137,601	
Diluted <sup>(1)</sup>	154,878	149,089		149,849	148,082	

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

In 2016, FFO after adjustments was impacted by acquisitions, dispositions, completed (re)developments and the impact of foreign exchange in 2015 and 2016.

As a result of units issued under the DRIP and units issued from public offerings, basic units outstanding for the calculation of FFO has increased. This increase has diluted the impact of growth in FFO on per unit results.

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

	Diluted Common Units Reconciliation		Diluted FFO Reconciliation		
	Three months ended December 31,		Three months ended December 31,		
	2016	2015		2016	2015
Basic units	149,937	138,566	FFO	\$ 56,391	\$ 53,439
Add:			Add:		
Options <sup>(1)</sup>	—	—	Options <sup>(1)</sup>	—	—
Debentures <sup>(1)</sup>	4,641	10,200	Debentures <sup>(1)</sup>	1,506	2,861
Restricted units <sup>(1)</sup>	300	310	Restricted units <sup>(1)</sup>	(138)	(73)
Deferred units <sup>(1)</sup>	—	13	Deferred units <sup>(1)</sup>	—	5
Diluted units	154,878	149,089	Diluted FFO	\$ 57,759	\$ 56,232

(1) All convertible debenture series and restricted units were dilutive in Q4-16. All convertible debenture series, restricted units and deferred units were dilutive in Q4-15.

	Diluted Common Units Reconciliation		Diluted FFO Reconciliation		
	Year ended December 31,		Year ended December 31,		
	2016	2015		2016	2015
Basic units	144,918	137,601	FFO	\$ 225,909	\$ 215,881
Add:			Add:		
Options <sup>(1)</sup>	—	—	Options <sup>(1)</sup>	—	—
Debentures <sup>(1)</sup>	4,641	10,200	Debentures <sup>(1)</sup>	5,938	11,098
Restricted units <sup>(1)</sup>	258	274	Restricted units <sup>(1)</sup>	(219)	(350)
Deferred units <sup>(1)</sup>	32	7	Deferred units <sup>(1)</sup>	(3)	(2)
Diluted units	149,849	148,082	Diluted FFO	\$ 231,625	\$ 226,627

(1) All convertible debenture series, restricted units and deferred units were dilutive in 2016 and 2015.

### Reconciliation of Net Income to FFO

	Three months ended December 31,			Year ended December 31,		
	2016	2015	% Change	2016	2015	% Change
Net (loss) income	\$ (30,292)	\$ (195,895)		\$ 115,935	\$ (175,699)	
Add (deduct):						
Tenant inducements amortized to revenue	4,873	3,694		17,752	14,008	
Fair value loss on investment properties	92,854	252,058		109,414	371,905	
Foreign currency translation loss (gain)	4,695	(410)		2,345	16,413	
Transaction costs on acquisitions	9	521		1,105	2,136	
Unrealized (gain) loss on financial instruments	(12,513)	(2,426)		(5,592)	3,544	
Incremental leasing costs	1,406	579		3,382	2,009	
Preferred unit distributions	(4,641)	(4,682)		(18,432)	(18,435)	
FFO	\$ 56,391	\$ 53,439	5.5%	\$ 225,909	\$ 215,881	4.6%
Add (deduct):						
Lease termination income	(568)	(173)		(6,417)	(4,493)	
Non-recurring other income	—	—		—	(1,636)	
Straight-line rent reversals due to lease terminations	—	—		—	812	
FFO after adjustments	\$ 55,823	\$ 53,266	4.8%	\$ 219,492	\$ 210,564	4.2%

## ADJUSTED FUNDS FROM OPERATIONS

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

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

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

### Reconciliation of FFO to AFFO

000's, except per unit amounts	Three months ended			Year ended		
	December 31, 2016	December 31, 2015	% Change	December 31, 2016	December 31, 2015	% Change
FFO	\$ 56,391	\$ 53,439		\$ 225,909	\$ 215,881	
Add (deduct):						
Capital expenditures reserve	(1,464)	(1,432)		(5,731)	(5,539)	
Leasing costs reserve	(9,515)	(5,727)		(33,087)	(22,153)	
Straight-line rent adjustment	(1,743)	(1,227)		(6,194)	(3,499)	
Unit-based compensation expense	671	618		2,421	1,760	
<b>AFFO</b>	<b>\$ 44,340</b>	<b>\$ 45,671</b>	<b>(2.9)%</b>	<b>\$ 183,318</b>	<b>\$ 186,450</b>	<b>(1.7)%</b>
Deduct:						
Lease termination income	(568)	(173)		(6,417)	(4,493)	
Non-recurring other income	—	—		—	(1,636)	
<b>AFFO after adjustments</b>	<b>\$ 43,772</b>	<b>\$ 45,498</b>	<b>(3.8)%</b>	<b>\$ 176,901</b>	<b>\$ 180,321</b>	<b>(1.9)%</b>
AFFO per unit:						
Basic	\$ 0.30	\$ 0.33	(9.1)%	\$ 1.26	\$ 1.36	(7.4)%
Diluted	0.30	0.33	(9.1)%	1.26	1.34	(6.0)%
AFFO per unit after adjustments:						
Basic	\$ 0.29	\$ 0.33	(12.1)%	\$ 1.22	\$ 1.31	(6.9)%
Diluted	0.29	0.33	(12.1)%	1.22	1.30	(6.2)%
Weighted-average number of common units outstanding:						
Basic	149,937	138,566		144,918	137,601	
Diluted <sup>(1)</sup>	149,937	148,766		144,918	147,801	

(1) Convertible debentures are factored into the diluted weighted-average calculation, to the extent that their impact is dilutive.

In 2016, AFFO was impacted by acquisitions, dispositions, completed (re)developments and the impact of foreign exchange in 2015 and 2016, and by increases to Artis' leasing costs reserve in 2016.

## ANALYSIS OF FINANCIAL POSITION

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

	December 31, 2016			December 31, 2015		
	Per consolidated financial statements	Adjustment <sup>(1)</sup>	Total Proportionate Share	Per consolidated financial statements	Adjustment <sup>(1)</sup>	Total Proportionate Share
<b>ASSETS</b>						
Non-current assets:						
Investment properties	\$ 4,991,825	\$ 284,249	\$ 5,276,074	\$ 5,078,021	\$ 246,144	\$ 5,324,165
Investment properties under development	65,199	92,305	157,504	26,892	61,465	88,357
Investments in joint ventures	213,565	(213,565)	—	173,066	(173,066)	—
Property and equipment	3,351	—	3,351	3,586	—	3,586
Notes receivable	12,972	—	12,972	15,776	—	15,776
	5,286,912	162,989	5,449,901	5,297,341	134,543	5,431,884
Current assets:						
Investment properties held for sale	119,178	—	119,178	115,504	—	115,504
Deposits on investment properties	369	—	369	50	—	50
Prepaid expenses and other assets	11,728	292	12,020	7,872	351	8,223
Notes receivable	2,815	—	2,815	2,744	—	2,744
Accounts receivable and other receivables	13,173	559	13,732	11,757	1,069	12,826
Cash held in trust	7,851	—	7,851	8,605	—	8,605
Cash	50,729	8,312	59,041	66,449	4,995	71,444
	205,843	9,163	215,006	212,981	6,415	219,396
	\$ 5,492,755	\$ 172,152	\$ 5,664,907	\$ 5,510,322	\$ 140,958	\$ 5,651,280
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>						
Non-current liabilities:						
Mortgages and loans payable	\$ 1,520,124	\$ 117,804	\$ 1,637,928	\$ 1,703,553	\$ 112,535	\$ 1,816,088
Senior unsecured debentures	199,740	—	199,740	199,631	—	199,631
Convertible debentures	119,358	—	119,358	209,140	—	209,140
Other long-term liabilities	4,997	—	4,997	2,910	—	2,910
	1,844,219	117,804	1,962,023	2,115,234	112,535	2,227,769
Current liabilities:						
Mortgages and loans payable	627,838	34,709	662,547	494,766	19,663	514,429
Security deposits and prepaid rent	35,213	2,094	37,307	32,049	1,424	33,473
Accounts payable and other liabilities	88,439	17,545	105,984	75,512	7,336	82,848
Bank indebtedness	269,680	—	269,680	225,000	—	225,000
	1,021,170	54,348	1,075,518	827,327	28,423	855,750
	2,865,389	172,152	3,037,541	2,942,561	140,958	3,083,519
Unitholders' equity	2,627,366	—	2,627,366	2,567,761	—	2,567,761
	\$ 5,492,755	\$ 172,152	\$ 5,664,907	\$ 5,510,322	\$ 140,958	\$ 5,651,280

(1) Adjustment to reflect investments in joint ventures on a proportionate share basis.

**ASSETS**

	December 31, 2016	December 31, 2015	Change
Non-current assets:			
Investment properties and investment properties under development	\$ 5,433,578	\$ 5,412,522	\$ 21,056
Other non-current assets	16,323	19,362	(3,039)
Current assets:			
Investment properties held for sale	119,178	115,504	3,674
Other current assets	28,936	23,843	5,093
Cash and cash held in trust	66,892	80,049	(13,157)
	\$ 5,664,907	\$ 5,651,280	\$ 13,627

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

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

	Investment properties	Investment properties under development	Investment properties held for sale	Total
Balance, December 31, 2015	\$ 5,324,165	\$ 88,357	\$ 115,504	\$ 5,528,026
Additions:				
Acquisitions	340,115	10,601	—	350,716
Capital expenditures	58,846	73,814	40	132,700
Leasing commissions	16,804	1,201	53	18,058
Capitalized interest	—	565	—	565
Dispositions	(35,134)	—	(326,196)	(361,330)
Reclassification of investment properties under development	24,363	(24,363)	—	—
Reclassification of investment properties held for sale	(337,836)	—	337,836	—
Foreign currency translation (loss) gain	(41,188)	453	28	(40,707)
Straight-line rent adjustments	6,220	4	(30)	6,194
Tenant inducement additions, net of amortization	27,988	354	(394)	27,948
Fair value (loss) gain	(108,269)	6,518	(7,663)	(109,414)
Balance, December 31, 2016	\$ 5,276,074	\$ 157,504	\$ 119,178	\$ 5,552,756

**Acquisitions:**

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

	Three months ended December 31,			% Change	Year ended December 31,			% Change
	2016	2015	Change		2016	2015	Change	
Cash consideration	\$ 1,168	\$ 32,437	\$ (31,269)		\$ 161,258	\$ 92,146	\$ 69,112	
Long-term debt, including acquired above- and below-market mortgages, net of financing costs	—	62,436	(62,436)		189,132	111,642	77,490	
Other accrued liabilities	—	—	—		326	—	326	
Total acquisitions	\$ 1,168	\$ 94,873	\$ (93,705)	(98.8)%	\$ 350,716	\$ 203,788	\$ 146,928	72.1%

**Capital expenditures:**

Revenue enhancing capital expenditures include new and (re)development costs and building improvements that increase the revenue generating potential of the property. Recoverable capital expenditures are recoverable from tenants in future periods. In 2016, non-recoverable capital expenditures primarily related to roof replacements, parking lot upgrades and exterior upgrades, including \$14,627 for the 360 Main Street curtain wall renewal and US\$3,751 for a parking structure expansion at Two MarketPointe.

	Three months ended December 31,				Year ended December 31,			
	2016	2015	Change	% Change	2016	2015	Change	% Change
Revenue enhancing	\$ 34,219	\$ 17,942	\$ 16,277	90.7%	\$ 77,552	\$ 56,951	\$ 20,601	36.2%
Recoverable from tenants	5,318	3,843	1,475	38.4%	22,578	14,916	7,662	51.4%
Non-recoverable	5,720	1,339	4,381	327.2%	32,570	8,709	23,861	274.0%
<b>Total capital expenditures</b>	<b>\$ 45,257</b>	<b>\$ 23,124</b>	<b>\$ 22,133</b>	<b>95.7%</b>	<b>\$ 132,700</b>	<b>\$ 80,576</b>	<b>\$ 52,124</b>	<b>64.7%</b>

**Leasing costs:**

Tenant inducements included costs incurred to improve the space that primarily benefit the tenant, as well as allowances paid to tenants. Leasing commissions are fees primarily paid to brokers. Tenant inducements during the year included \$6,916 for a significant tenant at Concorde Corporate Centre, \$5,313 for tenants at the recently (re)developed properties, Park Lucero Phase I, Victoria Square Shopping Centre and 201 Westcreek Boulevard, and \$9,788 for tenants in Calgary office properties.

	Three months ended December 31,				Year ended December 31,			
	2016	2015	Change	% Change	2016	2015	Change	% Change
Tenant inducements	\$ 8,987	\$ 11,558	\$ (2,571)	(22.2)%	\$ 45,700	\$ 32,974	\$ 12,726	38.6%
Leasing commissions	6,038	2,945	3,093	105.0 %	18,058	14,555	3,503	24.1%
<b>Total leasing costs</b>	<b>\$ 15,025</b>	<b>\$ 14,503</b>	<b>\$ 522</b>	<b>3.6 %</b>	<b>\$ 63,758</b>	<b>\$ 47,529</b>	<b>\$ 16,229</b>	<b>34.1%</b>

**Dispositions:**

During 2016, Artis sold one office, six retail and nine industrial properties in Canada and two industrial properties in the U.S. for an aggregate sale price of \$371,148. The aggregate sale proceeds, net of costs of \$9,643 and related debt of \$71,093, were \$290,412.

**Investment properties held for sale:**

At December 31, 2016, the REIT had one industrial and four retail properties with an aggregate fair value of \$119,178 classified as held for sale. These properties were either listed for sale with an external broker or held under unconditional sale agreements.

**Foreign currency translation (loss) gain on investment properties:**

In 2016, the foreign currency translation loss on investment properties was \$40,707 (Q4-16 - gain of \$49,118) due to the change in the year end US dollar to Canadian dollar exchange rate from 1.3840 at December 31, 2015, to 1.3427 at December 31, 2016.

**Fair value loss on investment properties:**

In 2016, the REIT recorded a loss on the fair value of investment properties of \$109,414 (Q4-16 - loss of \$92,854), compared to a loss of \$371,905 (Q4-15 - loss of \$252,058) in 2015. The fair value losses for 2016 and 2015 were largely due to capitalization rate expansion and lowered expected market rents in the Calgary office market. The REIT has noted deterioration in leasing volume as well as operating metrics such as market rents and vacancy rates in the Calgary office market since the economic downturn began in late 2014. Since Q4-14, the fair value of the REIT's Calgary office properties, excluding disposed properties, has decreased by an aggregate amount of \$381,032 (41.6%). At December 31, 2016, the fair value of the REIT's Calgary office properties totaled \$535,425, at an average of \$218 per square foot. This fair value represents the REIT's best estimate based on both external and internal information available, using capitalization rates in the range of 6.50% to 8.75% (weighted-average of 7.80%). The REIT will continue to closely monitor these assets in future periods. The REIT anticipates that the Calgary office market will continue to remain challenging in the short-term but is cautiously optimistic that the latter part of 2018 will give rise to modest economic recovery in Alberta.

Artis determines 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. Capitalization rates are estimated using market surveys, available appraisals and market comparables. Under the overall capitalization method, year one income is stabilized and capitalized at a rate deemed appropriate for each investment property. Individual properties were valued using capitalization rates in the range of 4.50% to 8.75%. Additional information on the average capitalization rates and ranges used for the portfolio properties, assuming all properties were valued using an overall capitalization method, broken out by asset class and country are set out in the table below.

	December 31, 2016			December 31, 2015		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Office:						
Canada	8.75%	5.00%	6.60%	8.75%	5.25%	6.71%
U.S.	8.25%	5.50%	6.79%	8.25%	5.75%	6.52%
Total office	8.75%	5.00%	6.68%	8.75%	5.25%	6.65%
Retail:						
Canada	8.50%	5.25%	6.38%	8.50%	5.50%	6.43%
U.S.	8.50%	5.75%	6.87%	8.75%	6.00%	6.81%
Total retail	8.50%	5.25%	6.41%	8.75%	5.50%	6.45%
Industrial:						
Canada	7.75%	4.50%	6.41%	7.75%	4.50%	6.47%
U.S.	7.75%	5.75%	6.89%	8.00%	6.00%	6.92%
Total industrial	7.75%	4.50%	6.58%	8.00%	4.50%	6.61%
Total:						
Canadian portfolio	8.75%	4.50%	6.49%	8.75%	4.50%	6.56%
U.S. portfolio	8.50%	5.50%	6.82%	8.75%	5.75%	6.67%
Total portfolio	8.75%	4.50%	6.59%	8.75%	4.50%	6.59%

**Notes Receivable**

In conjunction with the 2007 acquisition of TransAlta Place, the REIT acquired a note receivable in the amount of \$31,000. The note bears interest at 5.89% per annum and is repayable in varying blended monthly installments of principal and interest. The note is transferable at the option of the REIT and matures in May 2023. The balance outstanding on all notes receivable at December 31, 2016 was \$15,787, compared to \$18,520 at December 31, 2015.

**Cash**

At December 31, 2016, the REIT had \$59,041 of cash on hand, compared to \$71,444 at December 31, 2015. The balance is anticipated to be invested in investment properties in subsequent periods, used for working capital purposes or for debt repayment. All of the REIT's cash is held in current accounts.

**LIABILITIES**

	December 31, 2016	December 31, 2015	Change
Non-current liabilities:			
Mortgages and loans payable	\$ 1,637,928	\$ 1,816,088	\$ (178,160)
Senior unsecured debentures	199,740	199,631	109
Convertible debentures	119,358	209,140	(89,782)
Other non-current liabilities	4,997	2,910	2,087
Current liabilities:			
Mortgages and loans payable	662,547	514,429	148,118
Other current liabilities	143,291	116,321	26,970
Bank indebtedness	269,680	225,000	44,680
	<b>\$ 3,037,541</b>	<b>\$ 3,083,519</b>	<b>\$ (45,978)</b>

Under the terms of the REIT's Declaration of Trust, the total indebtedness of the REIT (excluding indebtedness related to the convertible debentures) is limited to 70% of GBV.

Artis' secured mortgages and loans to GBV ratio at December 31, 2016 was 40.6%, compared to 41.2% at December 31, 2015.

	December 31, 2016	December 31, 2015	Change
GBV	\$ 5,668,337	\$ 5,653,827	\$ 14,510
Secured mortgages and loans	2,300,475	2,330,517	(30,042)
Secured mortgages and loans to GBV	40.6%	41.2%	(0.6)%
Preferred shares liability	\$ 599	\$ 365	\$ 234
Carrying value of debentures	319,098	408,771	(89,673)
Bank indebtedness	269,680	225,000	44,680
Total long-term debt and bank indebtedness	\$ 2,889,852	\$ 2,964,653	\$ (74,801)
Total long-term debt and bank indebtedness to GBV	51.0%	52.4%	(1.4)%

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



Artis' total long-term debt and bank indebtedness to EBITDA ratio at December 31, 2016 was 8.4, compared to 8.7 at December 31, 2015.

	December 31, 2016	December 31, 2015	Change
Total long-term debt and bank indebtedness	\$ 2,889,852	\$ 2,964,653	\$ (74,801)
EBITDA <sup>(1)</sup>	345,376	340,780	4,596
Total long-term debt and bank indebtedness to EBITDA	8.4	8.7	(0.3)

(1) EBITDA for Q4-16, as calculated under the Interest Expense section of this MD&A, has been annualized for purposes of this ratio calculation.

Artis' unencumbered assets to unsecured debt ratio was 2.1 times at December 31, 2016, compared to 2.5 times at December 31, 2015.

	December 31, 2016	December 31, 2015	Change
Unencumbered assets	\$ 998,770	\$ 1,059,792	\$ (61,022)
Senior unsecured debentures	199,740	199,631	109
Unsecured credit facilities	269,680	225,000	44,680
Total unsecured debt	\$ 469,420	\$ 424,631	\$ 44,789
Unencumbered assets to unsecured debt	2.1	2.5	(0.4)

## Mortgages and Loans Payable

### Mortgage financing:

Artis finances acquisitions in part through the arrangement or assumption of mortgage financing and consequently, the majority of the REIT's investment properties are pledged as security under mortgages and other loans. In 2016, \$61,974 (Q4-16 - \$16,143) of principal repayments were made compared to \$60,984 in 2015 (Q4-15 - \$15,394).

In 2016, Artis repaid 14 mortgages for a total of \$221,975. Artis refinanced 12 maturing mortgages, received upward financing on three maturing mortgages and received new financing on three previously unencumbered properties, net of financing costs, for a total of \$125,853. The weighted-average nominal interest rate on these mortgages was 3.21% and the weighted-average term to maturity was 3.9 years. In 2016, Artis drew on development loans, net of financing costs, in the amount of \$27,674.

The weighted-average term to maturity on all mortgages and loans payable at December 31, 2016 was 3.8 years, unchanged from December 31, 2015.

### Unhedged variable rate mortgage debt:

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

At December 31, 2016, the REIT was a party to \$550,545 of unhedged variable rate mortgage debt, compared to \$342,758 at December 31, 2015. The increase is primarily due to new mortgage financing of \$206,131, and draws on construction loans of \$29,064, partially offset by repayment on two mortgages of \$13,702, mortgage repayments of \$8,857 and the impact of foreign exchange of \$4,849. The unhedged variable rate mortgage debt is 19.0% of total debt including bank indebtedness at December 31, 2016, compared to 11.6% at December 31, 2015.

### Senior Unsecured Debentures

Artis had one series of senior unsecured debentures outstanding, as follows:

	December 31, 2016				December 31, 2015			
	Issued	Maturity	Interest rate	Carrying value	Face value	Carrying value	Face value	
Series A	27-Mar-14 10-Sept-14	27-Mar-19	3.753%	\$ 199,740	\$ 200,000	\$ 199,631	\$ 200,000	

### Convertible Debentures

Artis had one series of convertible debentures outstanding at December 31, 2016, as follows:

	December 31, 2016				December 31, 2015			
	Issued	Maturity	Interest rate	Carrying value	Face value	Carrying value	Face value	
Series F	22-Apr-10	30-June-20	6.00%	\$ —	\$ —	\$ 85,336	\$ 86,170	
Series G	21-Apr-11	30-June-18	5.75%	119,358	118,158	123,804	121,792	
				\$ 119,358	\$ 118,158	\$ 209,140	\$ 207,962	

The carrying value of convertible debentures decreased by \$89,782 from December 31, 2015. This decrease is primarily due to the early redemption of all outstanding Series F debentures, effective July 25, 2016, as well as the impact of foreign exchange on the Series G debentures.

### Other Current Liabilities

Included in other current liabilities were accounts payable and other liabilities and security deposits and prepaid rent. Included in accounts payable and other liabilities was accrued distributions payable to unitholders of \$14,193, which was paid subsequent to the end of the year.

### Bank Indebtedness

The REIT has unsecured revolving term credit facilities in the aggregate amount of \$500,000. The REIT can draw on the facilities in Canadian or US dollars. The first tranche of the credit facilities in the amount of \$300,000 matures on December 15, 2018. The second tranche of the credit facilities matures on April 29, 2021. Amounts drawn on the facilities bear interest at prime plus 0.70% or at the bankers' acceptance rate plus 1.70%. At December 31, 2016, there was \$269,680 drawn on the facilities (December 31, 2015, \$225,000).

### UNITHOLDERS' EQUITY

Unitholders' equity increased overall by \$59,605 between December 31, 2015 and December 31, 2016. The increase was primarily due to the issuance of new units for \$143,272 and net income of \$115,935. This increase was partially offset by distributions made to unitholders of \$179,051 and by an unrealized foreign currency translation loss included in other comprehensive income of \$20,645.

## LIQUIDITY AND CAPITAL RESOURCES

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

### DISTRIBUTIONS

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

The following amounts are presented consistent with Artis' consolidated financial statements:

	Three months ended December 31, 2016	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Cash flow from operations	\$ 69,358	\$ 251,820	\$ 220,601	\$ 204,705
Net (loss) income	(30,292)	115,935	(175,699)	197,886
Distributions declared	45,156	175,450	167,144	161,330
Excess of cash flow from operations over distributions declared	24,202	76,370	53,457	43,375
(Shortfall) excess of net (loss) income over distributions declared	(75,448)	(59,515)	(342,843)	36,556

Artis' primary objective is to provide stable, reliable and tax-efficient monthly cash distributions. Cash flow from operations has exceeded distributions declared for the past 18 consecutive quarters. The shortfall of \$59,515 in 2016 (Q4-16 - \$75,448) is primarily due to the non-cash impact of fair value losses on investment properties.

Artis paid \$33,079 (Q4-16 - \$8,548) of the \$175,450 (Q4-16 - \$45,156) distributions declared to unitholders in 2016 through the issuance of units under the DRIP.

### CAPITAL RESOURCES

At December 31, 2016, Artis had \$59,041 of cash on hand. Management anticipates that the cash on hand will be invested in investment properties in subsequent periods, used for working capital purposes or for debt repayment.

The REIT has two unsecured revolving term credit facilities in the aggregate amount of \$500,000, which can be utilized for general corporate and working capital purposes, short term financing of investment property acquisitions and the issuance of letters of credit. At December 31, 2016, the REIT had \$269,680 drawn on the facilities.

At December 31, 2016, the REIT had 58 unencumbered properties and 6 unencumbered parcels of development land, representing a fair value of \$998,770.

Artis is not in default or arrears on any of its obligations, including distributions to unitholders, interest or principal payments on debt or any debt covenants at December 31, 2016, except for the debt service coverage ratio on a vacant retail property located in Canada. This mortgage payable matures in Q1-17 and the REIT has included the balance in the current portion of its mortgage and loans payable balance. The lender has not called this mortgage payable at December 31, 2016.

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

### CONTRACTUAL OBLIGATIONS

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Bank indebtedness	\$ 269,680	\$ 269,680	\$ —	\$ —	\$ —
Accounts payable and other liabilities	105,984	105,984	—	—	—
Convertible debentures <sup>(1)</sup>	118,158	—	118,158	—	—
Senior unsecured debentures <sup>(1)</sup>	200,000	—	200,000	—	—
Mortgages and loans payable	2,304,481	642,964	485,821	671,267	504,429
Total contractual obligations	\$ 2,998,303	\$ 1,018,628	\$ 803,979	\$ 671,267	\$ 504,429

(1) It is assumed that the outstanding debentures are not converted nor redeemed prior to maturity and that they are paid out in cash on maturity.

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

<b>Year ended December 31,</b>	<b>Debt maturities</b>	<b>% of total principal</b>	<b>Scheduled principal repayments on non-matured debt</b>	<b>Total annual principal repayments</b>	<b>Weighted-average nominal interest rate on balance due at maturity</b>
2017	\$ 587,458	29.3%	\$ 55,506	\$ 642,964	3.89%
2018	213,827	10.7%	43,959	257,786	3.46%
2019	185,619	9.2%	42,416	228,035	3.61%
2020	166,464	8.3%	36,434	202,898	3.59%
2021	442,566	22.1%	25,803	468,369	3.25%
2022 & later	411,161	20.4%	93,268	504,429	3.92%
<b>Total</b>	<b>\$ 2,007,095</b>	<b>100.0%</b>	<b>\$ 297,386</b>	<b>\$ 2,304,481</b>	<b>3.66%</b>

## SUMMARIZED QUARTERLY INFORMATION

\$000's, except per unit amounts	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15	Q3-15	Q2-15	Q1-15
Revenue	\$ 146,378	\$ 148,925	\$ 138,159	\$ 139,053	\$ 142,873	\$ 140,254	\$ 134,629	\$ 134,746
Expenses:								
Property operating	38,291	34,298	30,098	30,437	35,158	32,160	28,336	29,450
Realty taxes	22,141	22,772	22,444	23,320	22,382	21,667	20,633	20,764
	60,432	57,070	52,542	53,757	57,540	53,827	48,969	50,214
Net operating income	85,946	91,855	85,617	85,296	85,333	86,427	85,660	84,532
Other income (expenses):								
Corporate expenses	(3,234)	(2,929)	(3,521)	(3,638)	(3,089)	(2,728)	(2,831)	(2,862)
Interest expense	(27,563)	(28,521)	(28,260)	(28,373)	(28,684)	(28,365)	(28,148)	(28,267)
Interest income	287	298	332	298	288	335	335	363
Fair value (loss) gain on investment properties	(92,854)	20,201	(21,640)	(15,121)	(252,058)	(64,343)	(5,252)	(50,252)
Foreign currency translation (loss) gain	(4,695)	206	(4,010)	6,154	410	(9,913)	3,637	(10,547)
Transaction costs	(9)	(195)	(862)	(39)	(521)	(1,248)	68	(435)
Gain (loss) on financial instruments	12,513	(4,039)	2,921	(5,803)	2,426	(3,612)	3,271	(5,629)
(Loss) income before income taxes	(29,609)	76,876	30,577	38,774	(195,895)	(23,447)	56,740	(13,097)
Income tax expense	(683)	—	—	—	—	—	—	—
Net (loss) income	(30,292)	76,876	30,577	38,774	(195,895)	(23,447)	56,740	(13,097)
Other comprehensive income (loss):								
Unrealized foreign currency translation gain (loss)	25,936	9,877	4,066	(60,524)	27,422	65,039	(14,853)	70,119
Unrealized (loss) gain from remeasurements of net pension obligation	(4)	(4)	(35)	9	1	—	43	(42)
	25,932	9,873	4,031	(60,515)	27,423	65,039	(14,810)	70,077
Total comprehensive (loss) income	\$ (4,360)	\$ 86,749	\$ 34,608	\$ (21,741)	\$ (168,472)	\$ 41,592	\$ 41,930	\$ 56,980
Net (loss) income per unit attributable to common unitholders:								
Basic	\$ (0.23)	\$ 0.48	\$ 0.18	\$ 0.25	\$ (1.45)	\$ (0.20)	\$ 0.38	\$ (0.13)
Diluted	(0.23)	0.48	0.18	0.24	(1.45)	(0.20)	0.37	(0.13)
Secured mortgages and loans to GBV	40.6%	40.4%	40.9%	41.3%	41.2%	40.2%	39.9%	41.4%

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

## Reconciliation of Net Income (Loss) to FFO

000's, except per unit amounts	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15	Q3-15	Q2-15	Q1-15
Net (loss) income	\$ (30,292)	\$ 76,876	\$ 30,577	\$ 38,774	\$ (195,895)	\$ (23,447)	\$ 56,740	\$ (13,097)
Add (deduct):								
Tenant inducements amortized to revenue	4,873	4,456	4,349	4,074	3,694	3,693	3,465	3,156
Fair value loss (gain) on investment properties	92,854	(20,201)	21,640	15,121	252,058	64,343	5,252	50,252
Foreign currency translation loss (gain)	4,695	(206)	4,010	(6,154)	(410)	9,913	(3,637)	10,547
Transaction costs on acquisitions	9	195	862	39	521	1,248	(68)	435
Unrealized (gain) loss on financial instruments	(12,513)	4,039	(2,921)	5,803	(2,426)	3,612	(3,271)	5,629
Incremental leasing costs	1,406	806	623	547	579	442	544	444
Preferred unit distributions	(4,641)	(4,611)	(4,584)	(4,596)	(4,682)	(4,638)	(4,547)	(4,568)
FFO	\$ 56,391	\$ 61,354	\$ 54,556	\$ 53,608	\$ 53,439	\$ 55,166	\$ 54,478	\$ 52,798
Add (deduct):								
Lease termination income	(568)	(3,891)	(1,958)	—	(173)	(170)	(3,340)	(810)
Non-recurring other income	—	—	—	—	—	(1,636)	—	—
Straight-line rent reversals due to lease terminations	—	—	—	—	—	—	812	—
FFO after adjustments	\$ 55,823	\$ 57,463	\$ 52,598	\$ 53,608	\$ 53,266	\$ 53,360	\$ 51,950	\$ 51,988
FFO per unit:								
Basic	\$ 0.38	\$ 0.41	\$ 0.39	\$ 0.39	\$ 0.39	\$ 0.40	\$ 0.40	\$ 0.39
Diluted	0.37	0.41	0.38	0.38	0.38	0.39	0.39	0.38
FFO per unit after adjustments:								
Basic	\$ 0.37	\$ 0.39	\$ 0.37	\$ 0.39	\$ 0.38	\$ 0.39	\$ 0.38	\$ 0.38
Diluted	0.37	0.38	0.37	0.38	0.38	0.38	0.37	0.37
Weighted-average number of common units outstanding:								
Basic	149,937	149,227	141,191	139,215	138,566	137,919	137,275	136,618
Diluted <sup>(1)</sup>	154,878	154,326	151,752	149,785	149,089	148,455	147,799	147,192

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

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

## Reconciliation of FFO to AFFO

000's, except per unit amounts	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15	Q3-15	Q2-15	Q1-15
FFO after adjustments	\$ 55,823	\$ 57,463	\$ 52,598	\$ 53,608	\$ 53,266	\$ 53,360	\$ 51,950	\$ 51,988
Add (deduct):								
Capital expenditures reserve	(1,464)	(1,489)	(1,384)	(1,394)	(1,432)	(1,406)	(1,350)	(1,351)
Leasing costs reserve	(9,515)	(9,680)	(6,924)	(6,968)	(5,727)	(5,623)	(5,399)	(5,404)
Straight-line rent adjustment	(1,743)	(1,979)	(1,276)	(1,196)	(1,227)	(1,231)	(905)	(948)
Unit-based compensation expense	671	319	777	654	618	302	298	542
<b>AFFO after adjustments</b>	<b>\$ 43,772</b>	<b>\$ 44,634</b>	<b>\$ 43,791</b>	<b>\$ 44,704</b>	<b>\$ 45,498</b>	<b>\$ 45,402</b>	<b>\$ 44,594</b>	<b>\$ 44,827</b>
AFFO per unit after adjustments:								
Basic	\$ 0.29	\$ 0.30	\$ 0.31	\$ 0.32	\$ 0.33	\$ 0.33	\$ 0.32	\$ 0.33
Diluted	0.29	0.30	0.31	0.32	0.33	0.33	0.32	0.32
Weighted-average number of common units outstanding:								
Basic	149,937	149,227	141,191	139,215	138,566	137,919	137,275	136,618
Diluted <sup>(1)</sup>	149,937	153,868	151,391	144,744	148,766	148,119	147,475	146,819

(1) Convertible debentures are factored into the diluted weighted-average calculation, to the extent that their impact is dilutive.

Adjusted AFFO and per unit results are impacted by acquisition, disposition and (re)development activity, foreign exchange and changes to the leasing costs reserve during the period.

## RELATED PARTY TRANSACTIONS

	Three months ended		Year ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Property management fees	\$ 82	\$ 82	\$ 327	\$ 328
Capitalized leasing commissions	1	5	12	93
Capitalized project management fees	4	—	83	—
Capitalized building improvements	7,812	1,736	30,425	7,887
Capitalized development projects	3,649	6,666	6,236	15,552
Capitalized tenant inducements	885	524	2,418	1,288
Capitalized office furniture and fixtures	—	240	150	580
Realty tax assessment consulting fees	74	36	648	1,312
Rental revenues	(89)	(72)	(354)	(227)

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, 2016, was \$28 (December 31, 2015, \$44).

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 increase in these costs is primarily due to the 360 Main Street curtain wall renewal project. The amount payable at December 31, 2016, was \$8,680 (December 31, 2015, \$1,724).

The REIT incurred costs for office furniture and fixtures paid to Marwest Construction. The amount payable at December 31, 2016, was \$nil (December 31, 2015, \$nil).

The REIT incurred costs for realty 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, 2016, was \$68 (December 31, 2015, \$194).

The REIT collected office rents and other related service fees from Marwest Management and Fairtax Realty Advocates.

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

## OUTSTANDING UNIT DATA

The balance of units outstanding as of March 1, 2017, is as follows:

Units outstanding at December 31, 2016	150,333,077
Units issued (DRIP)	242,312
Units issued on conversion of debentures	1,318
Units issued on redemption of restricted units	1,682
Units outstanding at March 1, 2017	<u>150,578,389</u>

As of March 1, 2017, the balance of Series A preferred units outstanding is 3,450,000, the balance of Series C preferred units outstanding is 3,000,000, the balance of Series E preferred units outstanding is 4,000,000 and the balance of Series G preferred units outstanding is 3,200,000.

The balance of \$16.36 options outstanding as of March 1, 2017 is 1,410,000. All of these options have vested.

The balance of restricted units outstanding as of March 1, 2017 is 350,733, none of which have vested.

The balance of deferred units outstanding as of March 1, 2017 is 50,987. All of these deferred units have vested, but are not yet redeemable.

## OUTLOOK

After a year of GDP contraction in Saskatchewan and Alberta in 2016, Scotiabank's Global Outlook report dated January 17, 2017, is forecasting that GDP in these provinces will grow by 1.7% and 2.1%, respectively, in 2017, and greater GDP and job growth is predicted for 2018. This predicted growth reflects higher oil production and a gradual pick-up in energy investment, particularly on conventional projects. Scotiabank further reports that the possibility of the Keystone and Trans Mountain pipelines proceeding supports their growth predictions. Accordingly, we have experienced a modest increase in leasing activity in our Alberta portfolio, and are cautiously optimistic that this new activity is indicative of a shift to a more positive outlook for the Alberta market. In the meantime, we continue to monitor both the Alberta and Saskatchewan markets closely and work diligently to maximize occupancy and rental rates. Scotiabank predicts that real GDP in Canada will grow by 2.0% in 2017. GDP in British Columbia, Manitoba and Ontario in 2017 is forecast to grow by 2.3%, 2.0% and 2.3%, respectively, which are all consistent with or above the 2017 national forecast.

The above-mentioned Scotiabank Global Outlook report predicts that U.S. real GDP will grow at a rate of 2.3% in 2017. According to the United States Department of Labor, U.S. unemployment decreased nationally from 5.0% to 4.7% year-over-year in December. Unemployment rates in our U.S. target markets are generally well below the national average. We continue to monitor this and other key economic indicators in our target U.S. markets on a continuous basis. Given the health of the U.S. economy, strength of the US dollar, positive GDP growth expectations and decline in unemployment rates, we anticipate that there is further growth potential to be realized in 2017 and beyond. We will continue to pursue accretive acquisition opportunities in both Canada and the U.S., but anticipate that the majority of near- to mid-term acquisitions will be in primary and secondary markets in the U.S. As such, the Board of Trustees has increased our target U.S. weighting from 40.0% to 50.0% of total Property NOI. We will also continue to seek and invest in high-yield development opportunities in our target U.S. markets.

We continue to maintain our Investment Grade Credit Rating, BBB(low) with a Stable trend, from DBRS Limited. Additionally, DBRS Limited has assigned a rating of Pfd-3(low) with a Stable trend to Artis' preferred units. We anticipate that with this Investment Grade Credit Rating, the debt and equity markets will continue to be receptive to new financing in 2017. We further predict that interest rates will remain low in the short to medium term, with long-term interest rate increases coming at a slow, methodical pace and well-communicated by the central banks.

During 2016, we acquired a portfolio of 16 Class A office properties in the U.S. for US\$260,000, while disposing of 18 non-core assets in both Canada and the U.S. for aggregate sale prices of \$349,412 and US\$16,632. Subsequent to the end of the year, we completed or announced the sale of two office, one industrial and one retail property located in Alberta, and two retail properties located in British Columbia. The aggregate sale price of these dispositions is \$151,132. Proceeds from these sales will be used to pay down debt. Also, subsequent to the end of the year, we completed the early redemption of the Series G convertible debentures that had a face value outstanding of US\$88,000 at December 31, 2016.

Overall, we anticipate that real estate fundamentals in Canada and the U.S. will remain stable during the remainder of 2017 and that our properties will perform in line with the moderate growth expectations of our target markets. We will continue to focus on organic growth and value creation opportunities by extracting maximum value from our portfolio, selective redevelopment and repositioning of well-located assets in primary markets through property improvement projects, expansion of existing portfolio properties, selective recycling of capital and capitalizing on new development opportunities.



## SUBSEQUENT EVENTS

As at December 31, 2016, Artis had \$59,041 of cash on hand and \$230,320 available on its revolving term credit facilities. Subsequent to December 31, 2016, the following transactions took place:

- The REIT completed the early redemption of the Series G convertible debentures that had a face value outstanding of US \$88,000 at December 31, 2016.
- The REIT disposed of Airdrie Flex Industrial, an industrial property located in Airdrie, Alberta. The property was sold for \$5,432.
- The REIT repaid a maturing variable rate mortgage on a retail property in the amount of \$17,000.
- The REIT drew a net balance on its revolving term credit facilities in the amount of \$150,000.
- The REIT settled forward contracts to sell \$114,894 for US\$88,000.
- The REIT entered into unconditional sale agreements for two retail properties located in British Columbia. The aggregate sale price of these properties is \$80,100. The REIT anticipates that the dispositions will close in March 2017.
- The REIT entered into unconditional sale agreements for one retail and two office properties located in Alberta. The aggregate sale price of these properties is \$65,600. The REIT anticipates that the dispositions will close in March and April of 2017.
- The REIT declared a monthly cash distribution of \$0.09 per unit for the months of January and February 2017.
- The REIT declared a quarterly cash distribution of \$0.3125 per Series G preferred unit for the quarter ending January 31, 2017.
- The REIT announced the suspension of its DRIP program until further notice.

## RISKS AND UNCERTAINTIES

### REAL ESTATE OWNERSHIP

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

### INTEREST RATE AND DEBT FINANCING

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

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

Artis is also subject to interest rate risk associated with the REIT's revolving term credit facilities, mortgages and debentures payable due to the expected requirement to refinance such debts in the year of maturity. The REIT minimizes the risk by restricting debt to 70% of gross book value and by carefully monitoring the amount of variable rate debt. At December 31, 2016, 54.9% of the REIT's mortgages and loans payable bear interest at fixed rates, and a further 21.2% of the REIT's mortgages and loans payable bear interest at variable rates with interest rate swaps in place. At December 31, 2016, the REIT is a party to \$1,309,535 of variable rate debt, including bank indebtedness (December 31, 2015, \$935,647). At December 31, 2016, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$489,310 of variable rate debt (December 31, 2015, \$367,889). The REIT has the ability to place interest rate swaps on top of variable rate debt at any time in order to effectively fix the interest rate.

At December 31, 2016, the REIT's ratio of secured mortgages and loans to GBV was 40.6%, compared to 41.2% at December 31, 2015. The REIT's ratio of total long-term debt and bank indebtedness to GBV was 51.0%, compared to 52.4% at December 31, 2015. Approximately 29.3% of Artis' maturing mortgage debt comes up for renewal in 2017, and 10.7% in 2018. Management is in discussion with various lenders with respect to the renewal or refinancing of the 2017 mortgage maturities.

## CREDIT RISK AND TENANT CONCENTRATION

Artis is exposed to risks relating to tenants that may be unable to pay their contracted rents. Management mitigates this risk by seeking to acquire properties across several asset classes and geographical regions. As well, management seeks to acquire properties with strong tenant covenants in place. Artis' portfolio includes 2,131 tenant leases with a weighted-average term to maturity of 4.2 years. Approximately 56.8% of the REIT's gross revenue is derived from national or government tenants. As indicated below, the largest tenant by gross revenue is MTS Inc. which is one of Canada's leading national communication companies providing voice services, internet and data services, and television. MTS Inc. is a TSX listed entity with 2015 annual revenues in excess of \$1 billion. The second largest tenant by gross revenue is AT&T, a multinational telecommunications conglomerate with over \$160 billion in revenue annually. AT&T is one of the world's largest communications companies with infrastructure that reaches 99% of the world economy. AT&T provides mobile phone, fixed phone, broadband subscription television and internet services with a large presence in the U.S. market. AT&T is headquartered in Dallas, Texas and has over 250,000 employees worldwide.

Top 20 Tenants by Gross Revenue <sup>(1)</sup>

Tenant	% of total gross revenue <sup>(2)</sup>	Owned share of GLA (in 000's of S.F.)	% of total GLA	Weighted-average remaining lease term
MTS Inc.	2.0%	322	1.3%	6.2
Graham Group Ltd.	1.6%	243	1.0%	17.6
AT&T	1.4%	257	1.0%	8.5
Worleyparsons Canada	1.3%	211	0.8%	4.7
Stantec Consulting Ltd.	1.2%	132	0.5%	6.6
TransAlta Corp	1.0%	336	1.4%	6.4
Schneider Electric Software Canada Inc.	1.0%	98	0.4%	6.7
TDS Telecommunications Corporation	1.0%	195	0.8%	8.0
Bellatrix Exploration Ltd.	1.0%	94	0.4%	7.1
TD Canada Trust	1.0%	134	0.5%	3.5
Shoppers Drug Mart	1.0%	153	0.6%	8.3
IHS Global Canada Limited	0.9%	78	0.3%	2.0
Home Depot	0.9%	186	0.7%	6.4
Canada Institute for Health Info.	0.8%	92	0.4%	8.7
CB Richard Ellis, Inc.	0.8%	108	0.4%	10.0
Fairview Health Services	0.8%	179	0.7%	6.7
Bell Canada	0.8%	80	0.3%	13.8
Birchcliff Energy	0.7%	59	0.2%	0.9
3M Canada Company	0.7%	319	1.3%	3.2
Cara Operations Limited	0.7%	100	0.4%	12.0
<b>Total</b>	<b>20.6%</b>	<b>3,376</b>	<b>13.4%</b>	<b>7.4</b>

(1) Excluding properties held for redevelopment.

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

Government Tenants by Gross Revenue <sup>(1)</sup>

Tenant	% of total gross revenue <sup>(2)</sup>	Owned share of GLA (in 000's of S.F.)	% of total GLA	Weighted-average remaining lease term
Federal Government	3.2%	494	2.0%	7.5
Provincial Government	2.2%	352	1.4%	3.3
Civic or Municipal Government	0.5%	106	0.4%	13.6
<b>Total</b>	<b>5.9%</b>	<b>952</b>	<b>3.8%</b>	<b>6.6</b>
Weighted-average term to maturity (entire portfolio)				4.2

(1) Excluding properties held for redevelopment.

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

## LEASE ROLLOVER RISK

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

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

Expiry Year	Canada						U.S.					Total
	AB	BC	MB	SK	ON	Calgary office only	AZ	MN	WI	Other		
2017	2.2%	0.4%	2.3%	1.4%	2.6%	1.2%	1.0%	4.3%	0.8%	0.2%	15.2%	
2018	2.1%	0.4%	2.6%	0.7%	1.2%	1.0%	0.1%	2.1%	0.8%	0.6%	10.6%	
2019	1.8%	0.8%	1.0%	0.3%	1.7%	0.8%	0.5%	2.8%	0.7%	0.6%	10.2%	
2020	1.6%	0.2%	1.7%	0.2%	2.9%	0.3%	0.8%	2.9%	0.8%	0.1%	11.2%	
2021	3.1%	0.2%	2.0%	0.4%	1.4%	1.8%	0.7%	4.3%	0.5%	0.1%	12.7%	
2022	1.0%	0.1%	0.2%	0.5%	0.4%	0.5%	0.1%	1.4%	0.2%	0.1%	4.0%	
2023 & later	4.8%	2.2%	3.5%	2.0%	3.7%	2.2%	1.5%	4.3%	2.1%	1.0%	25.1%	
Month-to-month	0.4%	—%	0.1%	—%	0.2%	0.1%	—%	0.3%	—%	—%	1.0%	
Vacant	2.7%	0.4%	0.9%	0.1%	1.0%	1.7%	0.3%	1.7%	0.7%	0.2%	8.0%	
New development/ redevelopment	0.4%	—%	0.8%	—%	—%	—%	—%	0.8%	—%	—%	2.0%	
<b>Total</b>	<b>20.1%</b>	<b>4.7%</b>	<b>15.1%</b>	<b>5.6%</b>	<b>15.1%</b>	<b>9.6%</b>	<b>5.0%</b>	<b>24.9%</b>	<b>6.6%</b>	<b>2.9%</b>	<b>100.0%</b>	

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

## TAX RISK

The Tax Act contains the SIFT Rules, which are applicable to publicly traded income trusts unless the trust satisfies the REIT Exception. The REIT Exception to the SIFT Rules is comprised of a number of technical tests and the determination as to whether the REIT qualifies for the REIT Exception in any particular taxation year can only be made with certainty at the end of the taxation year. Management believes that the REIT has met the requirements of the REIT Exception in each taxation year since 2009 and that it has met the REIT Exception throughout the years ended December 31, 2016 and 2015. There can be no assurances, however, that the REIT will continue to be able to satisfy the REIT Exception in the future such that the REIT will not be subject to the tax imposed by the SIFT Rules.

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

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

### **FOREIGN CURRENCY RISK**

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

### **OTHER RISKS**

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

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

### **CRITICAL ACCOUNTING ESTIMATES**

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

#### **VALUATION OF INVESTMENT PROPERTIES**

Investment properties include properties held to earn rental income and properties that are being constructed or developed for future use as investment properties. Investment properties are measured at fair value with any changes therein recognized in net income or loss for the year. Artis determines the fair value of investment properties based upon either the discounted cash flow method or the overall capitalization method. Under the discounted cash flow method, expected future cash flows for each investment property were discounted, generally over a term of approximately 10 years, using weighted-average rates of approximately 7.68% at December 31, 2015 and 7.71% at December 31, 2016. Expected future cash flows for each investment property have been based upon, but not limited to, rental income from current leases, budgeted and actual expenses, and assumptions about rental income from future leases. Under the overall capitalization method, year one income was stabilized and capped at weighted-average capitalization rates of approximately 6.59% at December 31, 2015 and 6.59% at December 31, 2016.

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

#### **VALUATION OF DEFERRED TAX ASSETS AND LIABILITIES**

The REIT has reviewed the SIFT Rules (see discussion under the Tax Risk section of this MD&A) and has assessed their interpretation and application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the SIFT Rules, the REIT believes it has met the REIT Exception throughout the year ended December 31, 2015 and the year ended December 31, 2016.

#### **ALLOCATION OF CONVERTIBLE DEBENTURES**

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

## CHANGES IN ACCOUNTING STANDARDS

### New or Revised Accounting Standards Adopted During the Year

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

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

In December 2014, the IASB amended IAS 1 – *Presentation of Financial Statements*. The amendments were done under the IASB's Disclosure Initiative to improve presentation and disclosure requirements, and are effective for annual periods beginning on or after January 1, 2016. This amendment did not result in a material impact to the consolidated financial statements.

### Future Changes in Accounting Standards

The IASB issued IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15") in May 2014. IFRS 15 provides a single, principles based five-step model to be applied to the recognition of revenue from contracts with customers. IFRS 15 replaces IAS 11 – *Construction Contracts*, IAS 18 – *Revenue*, IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate* and SIC 31 – *Revenue - Barter Transactions Involving Advertising Services*. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The REIT does not expect a material impact to its consolidated financial statements from the adoption of this new standard.

A revised version of IFRS 9 – *Financial Instruments* ("IFRS 9") was issued by the IASB in July 2014 and will replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 establishes principles for the recognition, classification and measurement of financial assets and liabilities. IFRS 9 sets out a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. This approach is based on how an entity manages its financial instruments and the contractual cash flow characteristics of its financial assets. IFRS 9 retains most of the IAS 39 requirements for financial liabilities. The most significant change is when an entity elects to measure a financial liability at fair value, 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 does not expect a material impact to its consolidated financial statements from the adoption of this new standard.

The IASB issued IFRS 16 – *Leases* ("IFRS 16") in January 2016 which replaces IAS 17 – *Leases* and IFRIC 4 – *Determining whether an Arrangement contains a Lease*. The most significant change introduced by IFRS 16 is a single lessee accounting model, bringing leases on-balance sheet for lessees. The changes do not materially impact the lessor accounting model. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The REIT is currently evaluating the impact of this new standard.

In June 2016, the IASB amended IFRS 2 – *Share-based Payment*. The amendment clarifies the classification and measurement of share-based payment transactions, and is effective for annual periods beginning on or after January 1, 2018. The REIT is currently evaluating the impact of this amendment.

## CONTROLS AND PROCEDURES

### INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

The Chief Executive Officer and Chief Financial Officer evaluated, or caused to be evaluated, the effective design of the REIT's internal controls over financial reporting (as defined in NI 52-109). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as at December 31, 2016, the design of our internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. No material weaknesses in our internal control over financial reporting were identified.

## **DISCLOSURE CONTROLS AND PROCEDURES**

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

As of December 31, 2016, an evaluation was carried out, under the supervision of and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the REIT's disclosure controls and procedures (as defined in NI 52-109). Based on the evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the REIT's disclosure controls and procedures were effective for the year ended December 31, 2016.