Consolidated Financial Statements of

ARTIS REAL ESTATE INVESTMENT TRUST

December 31, 2009 and 2008

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
As at December 31, 2009 and 2008

(In thousands of dollars)

	2009	2008
ASSETS		
Income-producing properties (note 4)	$ 991,700	$ 1,030,181
Other assets (note 5)	119,874	139,217
Future income taxes (note 18)	-	11,127
Deposits on income-producing properties (note 6)	1,350	6,712
Prepaid expenses	2,613	2,332
Notes receivable (note 7)	29,062	28,830
Rent and other receivables	9,348	10,859
Cash held in trust	355	588
Cash and cash equivalents	35,907	13,847
	$ 1,190,209	$ 1,243,693
LIABILITIES AND UNITHOLDERS' EQUITY		
Liabilities:		
Mortgages and loans payable (note 8)	$ 612,263	$ 676,369
Convertible debentures (note 9)	86,032	44,906
Intangible liabilities (note 10)	81,523	91,186
Security deposits and prepaid rent	4,572	4,822
Accounts payable and other liabilities (note 11)	14,213	25,109
Bank indebtedness (note 12)	30,700	32,500
	829,303	874,892
Non-controlling interest (note 13)	-	10,258
Unitholders' equity	360,906	358,543
Commitments and guarantees (note 22)		
Subsequent events (note 26)		
	$ 1,190,209	$ 1,243,693

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Operations
Years ended December 31, 2009 and 2008

(In thousands of dollars, except per unit amounts)

	2009	2008
Revenue	$ 136,853	$ 131,632
Property operating expenses	43,490	40,551
	93,363	91,081
Interest	40,100	38,551
	53,263	52,530
Expenses (Income):		
Corporate	4,524	4,969
Amortization	54,253	53,812
Unrealized loss (gain) on commodity derivatives	466	(223)
	59,243	58,558
Loss before other items	(5,980)	(6,028)
Loss on termination of Interplex II agreement (note 13)	(7,287)	-
Future income tax expense (note 18)	(10,895)	(580)
Loss before non-controlling interest and discontinued operations	(24,162)	(6,608)
Non-controlling interest (note 13)	40	(268)
Loss from continuing operations	(24,122)	(6,876)
Income (loss) from discontinued operations (note 21)	14,933	(76)
Loss and comprehensive loss for the year	$ (9,189)	$ (6,952)
Basic income (loss) per unit (note 14 (e))		
Continuing operations	$ (0.71)	$ (0.22)
Discontinued operations	$ 0.44	$ 0.00
Diluted income (loss) per unit (note 14 (e))		
Continuing operations	$ (0.71)	$ (0.22)
Discontinued operations	$ 0.44	$ 0.00

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Unitholders' Equity
Years ended December 31, 2009 and 2008

(In thousands of dollars, except unit amounts)

	Number of Units	Capital Contributions	Equity Component of Convertible Debentures	Deficit	Contributed Surplus	Total
Unitholders' equity, December 31, 2007	31,158,068	$ 422,266	$ 11,440	$ (49,724)	$ 1,518	$ 385,500
Adoption of new accounting policies (note 2(b))	-	-	-	(431)	-	(431)
Issuance of units	552,357	7,238	-	-	(47)	7,191
Unit-based compensation	-	-	-	-	567	567
Conversion of convertible debentures	837,341	11,651	(2,172)	-	-	9,479
Units acquired and cancelled through normal course issuer bid	(197,400)	(2,673)	-	(112)	552	(2,233)
Units acquired through normal course issuer bid, not cancelled at year end	(43,600)	(226)	-	-	-	(226)
Loss for the year	-	-	-	(6,952)	-	(6,952)
Distributions for the year	-	-	-	(34,352)	-	(34,352)
Unitholders' equity, December 31, 2008	32,306,766	438,256	9,268	(91,571)	2,590	358,543
Issuance of units	4,761,801	40,564	-	-	-	40,564
Units issued on exchange of Class B units (note 13)	543,781	8,059	-	-	-	8,059
Unit-based compensation	-	-	-	-	160	160
Cancellation of options	-	-	-	-	(484)	(484)
Issuance of convertible debentures	-	-	838	-	-	838
Conversion of convertible debentures	66,233	578	(11)	-	-	567
Repayment on convertible debenture	-	-	(169)	-	-	(169)
Units acquired and cancelled through normal course issuer bid	(156,200)	(2,457)	-	-	1,211	(1,246)
Loss for the year	-	-	-	(9,189)	-	(9,189)
Distributions for the year	-	-	-	(36,737)	-	(36,737)
Unitholders' equity, December 31, 2009	37,522,381	$ 485,000	$ 9,926	$ (137,497)	$ 3,477	$ 360,906

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows
Years ended December 31, 2009 and 2008

(In thousands of dollars)

	2009	2008
Cash provided by (used for):		
Operating activities:		
Loss for the year	$ (9,189)	$ (6,952)
Adjustments for non-cash items:		
Amortization:		
Income-producing properties	26,864	27,468
Office equipment	99	8
Above-market rent	233	339
Acquired in-place leases	26,779	30,618
Customer relationships	7	18
Below-market rent	(12,536)	(14,224)
Tenant inducements and leasing costs	2,723	1,351
Tenant inducements amortized to revenue	340	110
Above- and below-market mortgages, net	(183)	(178)
Accretion on liability component of convertible debentures	1,724	1,464
Straight-line rent adjustment	(1,738)	(1,960)
Loss on termination of Interplex II agreement (note 13)	7,287	-
(Gain) loss on disposal of income-producing properties	(14,442)	197
Unrealized loss (gain) on commodity derivatives	466	(223)
Unit-based compensation expense	160	567
Cancellation of options	(484)	-
Amortization of financing costs included in interest	782	413
Future income tax expense	11,127	548
Non-controlling interest (note 13)	91	265
	40,110	39,829
Changes in non-cash operating items (note 16)	1,003	1,134
	41,113	40,963
Investing activities:		
Acquisition of income-producing properties, net of related debt and issuance of units (note 3)	(35,092)	(46,411)
Disposition of income-producing properties, net of mortgages and costs	41,101	1,139
Additions to income-producing properties	(4,847)	(15,887)
Deposits on income-producing properties held for sale (notes 11 and 21)	(10,000)	10,000
Advance of notes receivable	(1,881)	-
Notes receivable principal repayments	1,649	1,664
Net change to office equipment and software	(2)	(497)
Additions to tenant inducements and leasing costs	(7,178)	(7,255)
Change in deposits on income-producing properties	(1,864)	5,114
	(18,114)	(52,133)
Financing activities:		
Issuance of units, net of issue costs	35,574	5,115
Purchase of units under normal course issuer bid	(1,246)	(2,460)
Issuance of convertible debentures, net of issue costs	43,638	-
Issuance of units on private placement, net of issue costs	4,990	-
Repayment on convertible debenture	(3,000)	-
Bank indebtedness	(1,800)	32,500
Distributions paid on REIT units	(36,737)	(34,352)
Distributions paid on Class B units, charged to non-controlling interest (note 13)	(65)	(189)
Mortgages and loans principal repayments	(12,367)	(12,773)
Repayment of mortgages and loans payable	(41,569)	-
Advance of mortgages payable	11,643	7,790
	(939)	(4,369)
Increase (decrease) in cash and cash equivalents	22,060	(15,539)
Cash and cash equivalents at beginning of year	13,847	29,386
Cash and cash equivalents at end of year	$ 35,907	$ 13,847

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows (continued)
Years ended December 31, 2009 and 2008

(In thousands of dollars)

		2009		2008
Supplemental cash flow information:				
Interest paid, net of interest received	$	38,006	$	37,128
Non-cash investing and financing activities:				
Elimination of non-controlling interest and related exchange of Class B units for REIT units are excluded from investing and financing activities (note 13)		8,059		-
Elimination of non-controlling interest and related cancellation of Class B units are excluded from investing and financing activities (note 13)	$	2,226	$	-

See accompanying notes to consolidated financial statements.

1. Organization:

Artis Real Estate Investment Trust (the "REIT") is an unincorporated open-end real estate investment trust (note 14) created under, and governed by, the laws of the province of Manitoba and was created pursuant to the Declaration of Trust dated November 8, 2004, subsequently amended and restated on October 31, 2006 (the "Declaration of Trust"). The purpose of the REIT is to directly, or indirectly, own, manage, lease and (where appropriate) develop retail, industrial and office properties in Canada.

The Declaration of Trust provides that the REIT makes monthly cash distributions to unitholders of the REIT's units. The amount distributed in each year (currently $1.08 per unit), will be an amount not less than the amount of distributable income in the year set down in a policy by the Trustees.

2. Significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the REIT and its subsidiaries, together with its proportionate share of the assets, liabilities, revenue and expenses of the co-ownerships in which it participates.

(b) Changes in accounting policies:

The Canadian Institute of Chartered Accountants ("CICA") has issued a new accounting standard: Handbook Section 3064, Goodwill and Intangible Assets. CICA Handbook Section 3064 clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset. CICA Handbook Section 1000, Financial Statement Concepts, was also amended to provide consistency with this new standard. The new and amended standards were adopted by the REIT on January 1, 2009, with retrospective adjustments made to the comparative period. The impact of the adoption of these standards was (i) to reclassify recoverable operating costs to components within income-producing properties and (ii) to reclassify the related amortization of the recoverable operating costs from property operating expenses to amortization expense.

As at January 1, 2009, the net book value of recoverable operating costs of $6,174 was reclassified to components of income-producing properties. For the year ended December 31, 2008, operating expenses have been reduced by $464 and amortization expense has been increased by $626, with a resultant increase to the REIT's net loss for the year of $162.

In June 2009, the CICA amended Handbook Section 3862, Financial Instruments - Disclosures. This amendment has expanded disclosure requirements related to fair value measurements of financial instruments, including the relative reliability of the inputs used in those measurements, and liquidity risk, in light of concerns that the nature and extent of liquidity risk requirements were unclear and difficult to apply. The amendment requires using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Level 1 of the fair value hierarchy uses quoted prices in active markets for identical assets or liabilities to determine the fair value of assets and liabilities. Level 2 includes valuations using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 valuations are based on inputs for the asset or liability that are not based on observable market data. These disclosure requirements are effective for the REIT's December 31, 2009 consolidated financial statements.

2. Significant accounting policies (continued):

(c) Financial Instruments - Recognition and Measurement:

CICA Handbook Section 3855 provides guidance on recognizing financial instruments and non-financial derivatives on the consolidated balance sheet. The standard also specifies how financial instrument gains and losses are presented. Initially, all financial assets and liabilities must be recorded on the consolidated balance sheet at fair value. Subsequent measurement is determined by the classification of each financial asset and liability. Under this standard, all financial instruments are classified as one of: (a) held-to-maturity; (b) loans and receivables; (c) held-for-trading; (d) available-for-sale or (e) other liabilities. Financial assets and liabilities held for trading are measured at fair value with gains and losses recognized in net income. Financial instruments classified as held-to-maturity, loans and receivables, and other liabilities are measured at amortized cost. Available-for-sale financial instruments are measured at fair value, with unrealized gains and losses recognized in comprehensive income.

Upon adoption of this standard, the REIT designated its cash and cash equivalents and cash held in trust as held-for-trading; notes receivable and rent and other receivables as loans and receivables; mortgages and loans payable, convertible debentures, accounts payable and other liabilities and bank indebtedness as other liabilities. The REIT has neither available-for-sale, nor held-to-maturity instruments.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception and amortized over the expected life of the financial instrument using the effective interest rate method.

All derivative instruments, including embedded derivatives, are recorded in the consolidated statement of operations at fair value unless the criteria for exemption from such treatment under CICA Handbook Section 3855 is met.

(d) Other Comprehensive Income:

CICA Handbook Section 1530 requires a component of unitholders' equity, other comprehensive income, to be included in the REIT's consolidated financial statements. In addition, the standard requires a statement of other comprehensive income. The major components of the statement of other comprehensive income may include items such as unrealized gains and losses on financial assets classified as available-for-sale, deferred gains and losses arising from the settlement of historic cash flow hedging transactions and changes in the fair value of the effective position of cash flow hedging instruments.

The REIT had no "other comprehensive income or loss" transactions during the years ended December 31, 2009 and 2008, and no opening or closing balances of accumulated other comprehensive income or loss.

(e) Income-producing properties, other assets and intangible liabilities:

Income-producing properties include tangible and intangible assets.

Tangible assets include land, buildings, a leasehold interest, parking lots and improvements. Intangible assets include the value of in-place lease agreements, the value of the differential between original and market rents for in-place leases and the value of customer relationships.

Income-producing properties are carried at cost less accumulated amortization. If events or circumstances indicate that the carrying value of the income-producing property may be impaired, a recoverability analysis is performed based upon estimated undiscounted cash flows to be generated from the income-producing property. If the analysis indicates that the carrying value is not recoverable from future cash flows, the income-producing property is written-down to estimated fair value and an impairment loss is recognized.

2. Significant accounting policies (continued):

(e) Income-producing properties, other assets and intangible liabilities (continued):

Upon acquisition of income-producing properties, the purchase price is allocated based on estimated fair values to land, building, parking lots, tenant improvements and intangibles, including the value of above- and below-market leases, acquired in-place leases, and tenant relationships, if any.

Property under development includes initial acquisition costs, other direct costs and realty taxes, interest, and operating revenue and expenses during the period of development.

Amortization on income-producing properties, other assets and intangible liabilities is provided on the following basis and rates:

Asset	Basis	Rate/years
Buildings	Straight-line	up to 40
Building improvements	Straight-line	up to 20
Tenant improvements	Straight-line	Remaining term of lease agreement and renewal years where applicable
Leasehold interest	Straight-line	40
Parking lots	Straight-line	20
Office equipment	Straight-line	5
Acquired in-place leases	Straight-line	Remaining term of lease agreement and renewal years where applicable
Above-market rent	Straight-line	Remaining term of lease agreement and fixed-rate non-cancelable renewal years
Below-market rent	Straight-line	Remaining term of lease agreement and fixed-rate non-cancelable renewal years
Tenant inducements and leasing costs	Straight-line	Term of lease agreement
Customer relationships	Straight-line	Remaining term of lease agreement and renewal years where applicable

(f) Other assets:

Leasing costs, such as commissions, are amortized on a straight-line basis over the term of the related lease.

Payments to tenants under lease obligations are characterized either as tenant inducements owned by the landlord or as tenant inducements provided to the tenant. When the obligation is determined to be tenant inducements owned by the REIT, the REIT is considered to have acquired an asset. If the REIT determines that for accounting purposes it is not the owner of the tenant inducements, then the obligations under the lease are treated as incentives that reduce revenue. Tenant inducements are amortized on a straight-line basis over the term of the lease.

2. Significant accounting policies (continued):

(g) Disposal of long-lived assets:

A long-lived asset, including income-producing properties and other related assets, is classified as held for sale at the point in time when it is available for immediate sale, management has committed to a plan to sell the asset and is actively locating a buyer for the asset at a sales price that is reasonable in relation to the current fair value of the asset, and the sale is probable and expected to be completed within a one-year period. Properties held for sale are stated at the lower of cost and fair value less selling costs. No further amortization is recorded on these properties once classified as held for sale. A property that is subsequently reclassified as held and in use is measured at the lower of: (i) its carrying amount before it was classified as held for sale, adjusted for any amortization expense that would have been recognized had it been continuously classified as held and in use; and (ii) its estimated fair value at the date of the subsequent decision not to sell.

The results of operations associated with properties disposed of, or classified as held for sale, are reported separately as income from discontinued operations when the REIT will have no continuing involvement with the ongoing cash flow of the assets.

(h) Cash and cash equivalents:

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

(i) Revenue recognition:

Revenue from income-producing properties includes rents earned from tenants under lease agreements, percentage rent, realty tax and operating costs recoveries and other incidental income and is recognized as revenue over the term of the underlying leases. All rent steps in lease agreements are accounted for on a straight-line basis over the term of the respective leases. Percentage rent is not recognized until a tenant is obligated to pay such rent.

(j) Co-ownerships:

The REIT carries out a portion of its activities through co-ownership agreements and records its proportionate share of assets, liabilities, revenues, expenses and cash flows of the co-ownerships in which it participates.

(k) Earnings per unit:

Basic earnings (loss) per REIT unit is computed by dividing net earnings (loss) by the weighted-average units outstanding during the reporting year. Diluted earnings (loss) per unit is calculated based on the weighted-average number of units outstanding during the year, plus the effect of dilutive unit equivalents such as options. The diluted per unit amounts are calculated using the treasury stock method, as if all the unit equivalents where average market price exceeds issue price had been exercised at the beginning of the reporting year, or the year of issue, as the case may be, and that the funds obtained thereby were used to purchase units of the REIT at the average trading price of the units during the year.

2. Significant accounting policies (continued):

(l) Income taxes:

The REIT currently qualifies as a mutual fund trust for Canadian income tax purposes. On June 22, 2007, new legislation relating to, among other things, the federal income taxation of a specified investment flow-through trust or partnership (a "SIFT") was enacted (the "New SIFT Rules"). The REIT has reviewed the New SIFT Rules and has assessed their interpretation and application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the New SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the fiscal year ended December 31, 2009. Accordingly, the future income tax asset recorded in prior periods was reversed and charged to continuing and discontinued operations in 2009.

During 2008, income taxes were accounted for using the asset and liability method. Under this method, future income taxes were recognized for the expected future tax consequences of temporary differences between the carrying amount of balance sheet items and their corresponding tax values. Future income taxes were computed using enacted or substantively enacted income tax rates or laws for the years in which the temporary differences were expected to reverse or settle. When realization of future income tax assets does not meet the more likely than not criterion, a valuation allowance was provided for the difference.

(m) Unit-based compensation:

The REIT accounts for unit options issued under its unit option plan using the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period.

(n) Use of estimates:

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

The significant areas of estimation include:

- Useful life of assets for the purpose of calculating amortization;
- Allocation of purchase price on the acquisition of income-producing properties;
- Valuation of future tax assets;
- Fair value of financial instruments;
- Impairment of assets; and
- Allowance for doubtful accounts.

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

3. Acquisitions and dispositions of income-producing properties:

Acquisitions:

The REIT acquired the following properties during the year ended December 31, 2009:

Property	Location	Acquisition Date	Type
Airdrie Flex Industrial	3 Kingsview Road, Airdrie, AB	October 1, 2009	Industrial
Winnipeg Industrial Portfolio (1)	Various locations in Winnipeg, MB	October 29, 2009	Industrial
Cliveden Building (2)	1608 Cliveden Avenue, Delta, BC	December 15, 2009	Industrial
Kincaid Building (2)	4225 Kincaid Street, Burnaby, BC	December 15, 2009	Office

(1) The Winnipeg Industrial Portfolio is comprised of 13 multi-tenant properties.
(2) The Cliveden Building and the Kincaid Building were acquired as a portfolio. The REIT acquired a 50% interest in this portfolio, which is proportionately consolidated in the accounts of the REIT.

The REIT acquired the following properties during the year ended December 31, 2008:

Property	Location	Acquisition Date	Type
King Edward Centre	15 & 25 King Edward Centre, Coquitlam, BC	January 15, 2008	Retail
Leon's Building	6461 Metral Drive, Nanaimo, BC	February 1, 2008	Retail
Estevan Sobeys (1)	440 King Street, Estevan, SK	March 20, 2008	Retail
Moose Jaw Sobeys (1)	769 Thatcher Drive East, Moose Jaw, SK	March 20, 2008	Retail
Edson Shoppers	303 - 54th Street and 2nd Avenue, Edson, AB	April 15, 2008	Retail
Raleigh Shopping Centre	686 Springfield Road, Winnipeg, MB	April 15, 2008	Retail
Maynard Technology Centre	1930 Maynard Road, Calgary, AB	August 29, 2008	Industrial
Willingdon Green Building	3175/3185 Willingdon Green, Burnaby, BC	September 2, 2008	Office
Bridges Place	736 - 1st Avenue NE, Calgary, AB	December 17, 2008	Office

(1) Estevan Sobeys and Moose Jaw Sobeys were acquired as a portfolio.

These acquisitions have been accounted for by the purchase method, with the results of operations included in the REIT's accounts from the date of acquisition.

The net assets acquired including acquisition costs were as follows:

	Year ended December 31, 2009	Year ended December 31, 2008
Land	$ 19,356	$ 24,010
Buildings	39,873	61,403
Parking lots	1,275	5,587
Tenant improvements	3,180	5,482
Acquired in-place leases	11,657	26,042
Above-market rent	225	238
Below-market rent	(4,052)	(6,130)
Long-term debt including acquired above- and below-market mortgages	(36,422)	(68,121)
Total consideration	35,092	48,511
Issuance of units (note 14)	-	(2,100)
Cash consideration	$ 35,092	$ 46,411
Acquisition costs included above	$ 1,214	$ 1,593

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

3. Acquisitions and dispositions of income-producing properties (continued):

Dispositions:

The REIT disposed of the following properties during the year ended December 31, 2009:

Property	Location	Disposition Date	Type
Plainsman Building	301 Victoria Street, Kamloops, BC	March 31, 2009	Office
Airways Business Plaza (1)	1935 - 32nd Avenue NE, Calgary, AB	April 1, 2009	Office
Glenmore Commerce Court (1)	2880 Glenmore Trail SE, Calgary, AB	April 1, 2009	Office
McKnight Village Mall	5220 Falsbridge Dr. NE, Calgary, AB	May 15, 2009	Retail
Albert Street Mall	111 Albert Street, Regina, SK	July 15, 2009	Retail
Bridges Place	736 - 1st Avenue NE, Calgary, AB	July 27, 2009	Office
Willowglen Business Park	201 - 811 Manning Road, Calgary, AB	October 1, 2009	Office
Franklin Showcase Warehouse	700 - 33rd Street NE, Calgary, AB	November 1, 2009	Industrial
Raleigh Shopping Centre	686 Springfield Road, Winnipeg, MB	December 1, 2009	Retail

(1) Airways Business Plaza and Glenmore Commerce Court were disposed of as a portfolio.

On May 11, 2009, the REIT negotiated the termination of the agreement relating to the joint venture development known as Interplex III in Calgary, Alberta. Under the terms of the settlement, the 177,566 Class B units of a subsidiary of the REIT, AX L.P. ("AXLP"), that were issued for a 50% interest in the Interplex III lands were returned to AXLP for cancellation, and the 50% interest in land was transferred to the vendor. Property under development in the amount of $2,725 was removed from the books, non-controlling interest in the amount of $2,226 (note 13) was eliminated, and a loss on disposition of property in the amount of $499 was recorded as part of discontinued operations.

During 2009, the REIT sold nine commercial properties. The proceeds from the sale of these properties, net of costs, were $100,545. Mortgages in the amount of $52,717 were assumed by the purchasers, and the REIT paid out $6,228 of existing mortgages. Consideration received on the sale of Airways Business Plaza and Glenmore Commerce Court also included a promissory note in the amount of $1,800. The assets, intangible assets and liabilities associated with the property were removed from the books and a net gain on sale of property in the amount of $14,941 was recorded as part of discontinued operations.

During the year ended December 31, 2008, the REIT disposed of land and building, which comprised a portion of an income-producing property. The proceeds from the sale, net of costs, were paid in cash in the amount of $1,139, which were used to reduce the outstanding mortgage. The assets associated with the land and building were removed from the books and a loss on sale of property in the amount of $197 was recorded.

4. Income-producing properties:

	December 31, 2009		
	Cost	Accumulated amortization	Net book value
Land	$ 252,820	$ -	$ 252,820
Buildings and building improvements	727,672	48,303	679,369
Leasehold interest	8,015	885	7,130
Tenant improvements	57,849	25,790	32,059
Parking lots	23,122	2,800	20,322
	$ 1,069,478	$ 77,778	$ 991,700

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

4. Income-producing properties (continued):

				December 31, 2008		
		Cost		Accumulated amortization		Net book value
Land	$	254,501	$	-	$	254,501
Buildings and building improvements		733,090		35,023		698,067
Leasehold interest		8,015		692		7,323
Tenant improvements		51,218		20,227		30,991
Parking lots		22,300		1,906		20,394
Property under development (notes 13 and 21)		2,725		-		2,725
		1,071,849		57,848		1,014,001
Income-producing properties held for sale		16,933		753		16,180
	$	1,088,782	$	58,601	$	1,030,181

5. Other assets:

				December 31, 2009		
		Cost		Accumulated amortization		Net book value
Acquired in-place leases	$	187,416	$	83,125	$	104,291
Above-market rent		1,911		953		958
Customer relationships		105		94		11
Tenant inducements and leasing costs		18,896		4,716		14,180
Office equipment and software		553		119		434
	$	208,881	$	89,007	$	119,874

				December 31, 2008		
		Cost		Accumulated amortization		Net book value
Acquired in-place leases	$	191,242	$	67,437	$	123,805
Above-market rent		1,795		821		974
Customer relationships		105		86		19
Tenant inducements and leasing costs		13,886		2,346		11,540
Office equipment and software		551		20		531
		207,579		70,710		136,869
Other assets held for sale		3,721		1,373		2,348
	$	211,300	$	72,083	$	139,217

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

6. Deposits on income-producing properties:

	Year ended December 31, 2009	Year Ended December 31, 2008
Deposit on income-producing property (note 13):		
Balance, beginning of year	$ 6,712	$ 7,330
Property rent	(300)	(1,200)
Costs incurred	618	-
Distributions on 543,781 Class B units of AX L.P.	196	582
	7,226	6,712
Forfeiture on settlement of Interplex II (note 13)	(7,226)	-
	-	6,712
Deposits on other income-producing properties	1,350	-
	$ 1,350	$ 6,712

7. Notes receivable:

	December 31, 2009	December 31, 2008
Note receivable from tenant maturing in May 2023, bearing interest at 5.894% per annum, repayable in varying blended monthly installments of principal and interest. The note is unsecured and is transferable at the option of the holder. A default under the terms of the note constitutes a default of the lease of the tenant.	$ 26,918	$ 28,536
Notes receivable with maturity dates ranging from November 2010 to September 2017, bearing interest at rates ranging from 5.06% to 9.50% per annum, repayable in blended monthly installments of principal and interest .	2,144	294
	$ 29,062	$ 28,830

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

8. Mortgages and loans payable:

Substantially all of the REIT's assets have been pledged as security under mortgages and other security agreements. The mortgages and loans payable bear interest at fixed rates, with a weighted-average effective rate of 5.56% at December 31, 2009, a weighted-average nominal rate of 5.45% at December 31, 2009 (effective and nominal at December 31, 2008, 5.52% and 5.42%, respectively), and maturity dates ranging from March 1, 2010 to December 1, 2022.

Principal payment requirements on the mortgages and loans payable as at December 31, 2009 are as follows:

2010	$	76,038
2011		46,664
2012		114,030
2013		113,981
2014		20,720
2015 and thereafter		242,185
		613,618
Net above- and below-market mortgage adjustments		598
Financing costs		(1,953)
	$	612,263

9. Convertible debentures:

In conjunction with the private placement offering that closed August 4, 2005, the REIT issued Series A convertible redeemable 7.75% debentures totaling $15,000. Interest is paid semi-annually on February 4 and August 4. The convertible debentures are convertible into units of the REIT by the holder at $12.60 after August 4, 2006, and redeemable for cash at the option of the REIT at any time after August 4, 2007 provided that the market price of the units exceeds 150% of the conversion price, and will be redeemable at the option of the REIT at any time after August 4, 2009 provided that the market price of the units exceeds 125% of the conversion price. Debentures that are not converted into units of the REIT are to be repaid in cash on maturity, being August 4, 2010. The convertible debentures are compound financial instruments and the proceeds of the offering, at the time of issue, were allocated between a liability and equity component in the amount of $12,169 and $2,831, respectively. The equity component reflects the equity value of the conversion option embedded in the convertible debentures. During the prior year, Series A convertible debentures with a face value of $2,550 were converted and the REIT issued 202,379 units at the exercise price of $12.60 per unit. The carrying value of the debt component was reduced by $2,133, the equity component was reduced by $482, future income taxes were increased by $41, with an offsetting increase to capital contributions of $2,656 (note 14(b)). None of the Series A convertible debentures were converted into units of the REIT in fiscal 2009.

9. Convertible debentures (continued):

In conjunction with the private placement offering that closed November 9, 2005, the REIT issued Series B convertible redeemable 7.5% debentures totaling $10,862. Interest is paid semi-annually on May 9 and November 9. The convertible debentures are convertible into units of the REIT by the holder after November 9, 2007 at a price of $13.50 per unit. The debentures are redeemable for cash at the option of the REIT (i) at any time after November 9, 2007 provided that the market price of the units exceeds 150% of the conversion price; and (ii) at any time after November 9, 2009 provided that the market price of the units exceeds 125% of the conversion price. The debentures rank pari passu with the convertible debentures issued August 4, 2005. Debentures that are not converted into units of the REIT are to be repaid in cash on maturity, being November 9, 2010. The convertible debentures are compound financial instruments and the proceeds of the offering, at the time of issue, were allocated between a liability and equity component in the amount of $8,715 and $2,147, respectively. The equity component reflects the equity value of the conversion option embedded in the convertible debentures. During the prior year, Series B convertible debentures with a face value of $8,549 were converted and the REIT issued 634,962 units at the exercise price of $13.50 per unit. The carrying value of the debt component was reduced by $7,157, the equity component was reduced by $1,690, future income taxes were increased by $125, accrued interest was reduced by $23 for units issued in lieu of interest payable, with an offsetting increase to capital contributions of $8,995 (note 14(b)). None of the Series B convertible debentures were converted into units of the REIT in fiscal 2009.

In conjunction with the prospectus that closed May 4, 2006, the REIT issued Series C convertible redeemable 6.25% debentures totaling $30,000. Interest is paid semi-annually on May 31 and November 30. The convertible debentures are convertible into units of the REIT by the holder after May 31, 2009 at a price of $17.25 per unit. The debentures are redeemable for cash at the option of the REIT (i) at any time after May 31, 2009 provided that the market price of the units exceeds 125% of the conversion price; and (ii) at any time after May 31, 2011. The debentures rank pari passu with the convertible debentures issued August 4, 2005 and November 9, 2005. Debentures that are not converted into units of the REIT are to be repaid in cash on maturity, being May 31, 2013. The convertible debentures are compound financial instruments and the proceeds of the offering, at the time of issue, were allocated between a liability and equity component in the amount of $22,410 and $7,590, respectively. The equity component reflects the equity value of the conversion option embedded in the convertible debentures. None of the Series C convertible debentures were converted into units of the REIT in fiscal 2009 or 2008.

In conjunction with the purchase of the Fort McMurray portfolio effective November 30, 2007, the REIT issued a Series D convertible redeemable 5% debenture totaling $20,000. Interest is paid semi-annually on May 31 and November 30. The convertible debenture is convertible into units of the REIT by the holder after November 30, 2009 at a price of $17.75 per unit. The debenture is redeemable for cash at the option of the REIT at any time prior to maturity provided that the market price of the units exceeds 120% of the conversion price. The debenture ranks pari passu with the convertible debentures issued August 4, 2005, November 9, 2005 and May 4, 2006. If the debenture is not converted into units of the REIT it is to be repaid in cash on maturity, being November 30, 2014. The convertible debenture is a compound financial instrument and the proceeds of the offering, at the time of issue, were allocated between a liability and equity component in the amount of $18,875 and $1,125, respectively. The equity component reflects the equity value of the conversion option embedded in the convertible debenture. During the year, the REIT repaid $3,000 of this debenture. The carrying value of the debt component was reduced by $2,861, and the equity component was reduced by $169. None of the Series D convertible debenture were converted into units of the REIT in fiscal 2009 or 2008.

9. Convertible debentures (continued):

In conjunction with the prospectus that closed July 9, 2009, the REIT issued Series E convertible redeemable 7.5% debentures totaling $40,000. On July 15, 2009, an additional $6,000 of the Series E convertible debentures were issued pursuant to the exercise of the underwriters' overallotment option. Interest is paid semi annually on June 30 and December 31. The convertible debentures are convertible into units of the REIT by the holder at any time prior to maturity, being on June 30, 2014, at a price of $9.30 per unit. The debentures will not be redeemable by Artis prior to June 30, 2012. On or after June 30, 2012, but prior to June 30, 2013, the Series E debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice, provided that the weighted average trading price of the units is not less than 125% of the conversion price. On and after June 30, 2013, the Series E convertible debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice. The debentures rank pari passu with the convertible debentures issued August 4, 2005, November 9, 2005, May 4, 2006 and November 30, 2007. The convertible debentures are compound financial instruments and the proceeds of the offering, at the time of issue, were allocated between a liability and equity component in the amount of $45,162 and $838, respectively. The equity component reflects the equity value of the conversion option embedded in the convertible debentures. During the year, Series E convertible debentures with a face value of $616 were converted and the REIT issued 66,233 units at the exercise price of $9.30 per unit. The carrying value of the debt was reduced by $567 and the equity component was reduced by $11, with an offsetting increase to capital contributions of $578 (note 14(b)).

Using a term until maturity, the liability portion of the debentures at the date of issuance represents the present value of the mandatory cash payments of interest plus the present value of the principal amount due under the terms of the debentures discounted at 13%, or in the case of the Series C debentures, 11.75%, being the rate of interest that would be applicable to a debt-only instrument of comparable term and risk. The equity component, which represents the value ascribed to the conversion option issued, is calculated as the difference between the amount issued and the liability component. Interest expense is determined by applying the discount rate against the outstanding liability component of the debentures. The difference between actual interest payments and interest expense is treated as an addition to the liability component of the debentures.

Upon issuance, the Series D and Series E convertible debentures were separated into liability and equity components based on the respective estimated fair values at the date of issuance of the convertible debentures. The fair value of the liability component is estimated based on the present value of future interest and principal payments due under the terms of the convertible debenture using a discount rate for similar debt instruments without a conversion feature. The value assigned to the equity component is the estimated fair value ascribed to the holder's option to convert. Interest expense on the convertible debentures is determined by applying an effective interest rate of 6% on the Series D and 9.3% on the Series E to the outstanding liability component. The difference between actual cash interest payments and interest expense is accreted to the liability component.

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

9. Convertible debentures (continued):

Particulars of the REIT's outstanding convertible debentures as at December 31, 2009 and December 31, 2008 are as follows:

Convertible debenture issue	Series A convertible redeemable	Series B convertible redeemable	Series C convertible redeemable	Series D convertible redeemable	Series E convertible redeemable	2009	2008
Issue date	August 4, 2005	November 9, 2005	May 4, 2006	November 30, 2007	July 9, 2009		
Maturity date	August 4, 2010	November 9, 2010	May 31, 2013	November 30, 2014	June 30, 2014		
Interest rate	7.75%	7.50%	6.25%	5.00%	7.50%		
Face value	$ 620	$ 2,313	$ 29,920	$ 17,000	$ 45,384	$ 95,237	$52,853
Equity portion	116	457	7,570	956	827	9,926	9,268
Liability portion	504	1,856	22,350	16,044	44,557	85,311	43,585
Accretion	130	460	3,104	246	66	4,006	2,590
Financing costs	(39)	(141)	(919)	(33)	(2,153)	(3,285)	(1,269)
Carrying value	$ 595	$ 2,175	$ 24,535	$ 16,257	$ 42,470	$ 86,032	$44,906

Accretion to the carrying value of the debt component was $1,724 (2008, $1,464) during the year ended December 31, 2009. The weighted-average effective rate of the debentures at December 31, 2009 is 10.04% (December 31, 2008, 10.33%).

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

10. Intangible liabilities:

						December 31, 2009
		Cost		Accumulated amortization		Net book value
Below-market rent	$	120,591	$	39,068	$	81,523

						December 31, 2008
		Cost		Accumulated amortization		Net book value
Below-market rent on income-producing properties	$	118,260	$	27,622	$	90,638
Below-market rent on assets held for sale		821		273		548
Below-market rent	$	119,081	$	27,895	$	91,186

11. Accounts payable and other liabilities:

		December 31, 2009		December 31, 2008
Accounts payable and accrued liabilities	$	10,836	$	12,133
Deposits on income-producing properties held for sale		-		10,000
Distributions payable (note 15)		3,377		2,976
	$	14,213	$	25,109

12. Bank indebtedness:

On September 28, 2008, the REIT entered into an amended and restated loan agreement for a revolving term credit facility in the amount of $60,000, which may be utilized to fund acquisitions of office, retail and industrial properties. $7,500 of the credit facility is available to purchase units under the normal course issuer bid, $10,000 may be utilized to provide mezzanine financing, and an additional $10,000 may be used for general corporate purposes. The credit facility matures on September 28, 2010. Amounts drawn on the facility will bear interest at a floating rate equal to Canadian dollar bankers' acceptances with a term to maturity of 30 days, plus 3.40% per annum. The credit facility is secured by a first charge on Delta Centre, Grain Exchange Building, Johnston Terminal and Sears Centre. At December 31, 2009, the REIT had utilized $30,700 (December 31, 2008, $32,500) of the facility.

13. Non-controlling interest:

Non-controlling interest represents the amount of equity related to the Class B units of a subsidiary, AX L.P. ("AXLP."). This non-controlling interest has been accounted for in accordance with EIC-151, Exchangeable Securities Issued by Subsidiaries of Income Trusts. The accounts of AXLP are consolidated in these consolidated financial statements. Class B units of AXLP are only exchangeable on a one-for-one basis, at the option of the holder, into REIT units, and are transferable to third parties with the REIT's consent.

Holders of the Class B units of AXLP are entitled to receive distributions on a per unit amount equal to a per REIT unit amount provided to holders of REIT units.

Effective October 31, 2006, the REIT entered into a purchase and sale agreement with a third party whereby the vendor would develop a Class A office building, known as Interplex II, in Calgary, Alberta. The purchase and sale agreement contained a scheduled closing date of November 1, 2008, with the vendor having the option to extend closing for up to an additional 12 months. The final purchase price of the income-producing property was to be calculated in accordance with a pre-determined formula, based on approved leases in place. In accordance with the agreement, the REIT paid $7,800 as an interim payment towards the purchase price of the income-producing property, and recorded this amount as a deposit on income-producing properties. As consideration, the REIT issued 543,781 Class B units of AXLP at a price of $14.34 per unit, and the REIT issued an equal number of special voting units as consideration. In accordance with the agreement, the REIT received monthly property rent of $100 from the vendor until the closing of the purchase transaction. Distributions paid to the vendor on the Class B units were netted against property rent and any remaining difference was recorded as a reduction to the deposit on the income-producing property.

Effective November 30, 2006, the REIT acquired, through AXLP, an undivided 50% interest in certain lands located in Calgary, Alberta. AXLP entered into a co-ownership agreement with the vendor with respect to a 50% interest in, and the development of, a Class A office building to be known as Interplex III. Both the REIT and the vendor transferred their 50% interest in the lands into the co-ownership. As payment for its interest in the lands, AXLP issued 177,566 Class B units at a price of $14.71 per unit for aggregate consideration of $2,612. The REIT also issued an equal number of special voting units.

On May 11, 2009, Artis reached a settlement with the vendor of the Interplex II and Interplex III projects, and agreed to terminate both agreements. From the inception of the Interplex II agreement to the May 11, 2009 termination date, Artis received $2,800 in Property rent. Under the terms of the settlement, the vendor of Interplex II retained the 543,781 Class B units of AXLP that were issued as a deposit. The Class B units were converted into REIT units at the closing of the settlement agreement, and the interest of AXLP in the Interplex II project was transferred to the vendor. Deposits on income-producing properties were forfeited in the amount of $7,226, accounts payable and accrued liabilities increased by $61, non-controlling interest in the amount of $8,059 was eliminated, capital contributions increased $8,059, and a loss of $7,287 was recorded.

The 177,566 Class B units of AXLP that were issued for a 50% interest in the Interplex III lands were returned to AXLP for cancellation, and the 50% interest in land was transferred to the vendor. Property under development in the amount of $2,725 was removed from the books, non-controlling interest in the amount of $2,226 (note 13) was eliminated, and a loss on disposition of property in the amount of $499 was recorded as part of discontinued operations.

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

13. Non-controlling interest (continued):

The details of the non-controlling interest are as follows:

Issuance of 543,781 Class B units of AXLP on October 31, 2006	$	7,800
Issuance of 177,566 Class B units of AXLP on November 30, 2006		2,612
Costs relating to the issuance of Class B units of AXLP		(13)
Distributions on 177,566 Class B units of AXLP		(31)
Balance at December 31, 2006		10,368
Distributions on 177,566 Class B units of AXLP		(186)
Balance at December 31, 2007		10,182
Distributions on 177,566 Class B units of AXLP		(189)
Non-controlling interest from continuing operations		268
Non-controlling interest from discontinued operations (note 21)		(3)
Balance at December 31, 2008		10,258
Distributions on 177,566 Class B units of AXLP		(64)
Non-controlling interest from continuing operations		(40)
Non-controlling interest from discontinued operations (note 21)		131
Non-controlling interest eliminated on cancellation of 177,566 Class B units of AXLP		(2,226)
Non-controlling interest eliminated on exchange of 543,781 Class B units of AXLP for 543,781 REIT units		(8,059)
Balance at December 31, 2009	$	-

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

14. Capital contributions:

(a) Authorized:

In accordance with the Declaration of Trust, the REIT may issue an unlimited number of units, with each unit representing an equal fractional undivided beneficial interest in any distributions from the REIT, and in the net assets in the event of termination or wind-up of the REIT. All units are of the same class with equal rights and privileges. The units are redeemable at any time at the option of the holder at a price defined in the Declaration of Trust, subject to a maximum of $30 in cash redemptions by the REIT in any one month. Redemptions in excess of this amount will be paid by way of a distribution of notes of the REIT, or the notes of a wholly-owned subsidiary of the REIT.

In accordance with the Declaration of Trust, the REIT may also issue a class of special voting units, which are non-participating voting units of the REIT, to be issued to holders of securities which are exchangeable for units of the REIT (note 13). Special voting units are cancelled on the issuance of REIT units on exercise, conversion or cancellation of the corresponding exchangeable securities.

(b) Issued and outstanding:

	Number of units	Amount
Balance at December 31, 2007	31,158,068	$ 422,266
Conversion of Series A convertible debentures	202,379	2,656
Conversion of Series B convertible debentures	634,962	8,995
Options exercised	22,752	263
Distribution Reinvestment Plan ("DRIP")	411,297	4,875
Units issued on acquisition of income-producing property	118,308	2,100
Units acquired and cancelled through normal course issuer bid	(197,400)	(2,673)
Units acquired through normal course issuer bid, not cancelled at year end	(43,600)	(226)
Balance at December 31, 2008	32,306,766	438,256
Public offerings, net of issue costs of $1,879	3,910,000	33,311
Conversion of Series E convertible debentures	66,233	578
Distribution Reinvestment Plan (“DRIP”)	296,246	2,263
Units issued on exchange of Class B units	543,781	8,059
Units issued on private placement	555,555	4,990
Units acquired and cancelled through normal course issuer bid	(156,200)	(2,457)
Balance at December 31, 2009	37,522,381	$ 485,000

At December 31, 2009, there were no special voting units issued and outstanding (note 13).

The REIT has a Distribution Reinvestment Plan (“DRIP”) which allows Unitholders the option to elect to receive all or a portion of their regular monthly distributions in additional REIT units.

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

14. Capital contributions (continued):

(c) Contributed surplus:

	Year ended December 31, 2009	Year Ended December 31, 2008
Balance, beginning of year	$ 2,590	$ 1,518
Unit based compensation expense	160	567
Cancellation of options	(484)	-
Units purchased and cancelled under normal course issuer bid (note 14 (f))	1,211	552
Value of options exercised	-	(47)
Balance, end of year	$ 3,477	$ 2,590

Contributed surplus includes the recording of the fair value of options granted under the unit option plan (see note 14(d)). The fair value of the options is recorded to contributed surplus as the options vest. Upon exercise, the proceeds received, as well as any balance previously recorded to contributed surplus, are credited to capital contributions.

(d) Unit options:

The REIT has a unit option plan which is administered by the Board of Trustees of the REIT with unit options granted to trustees, management, management company employees and consultants as a form of compensation. The total number of units reserved under option for issuance may not exceed 5% of the units outstanding.

A summary of the REIT's unit options for the year ended December 31 are as follows:

	2009		2008	
	Units	Weighted-average exercise price	Units	Weighted-average exercise price
Balance, beginning of year	1,458,336	$ 15.52	1,481,088	$ 15.47
Exercised	-	-	(22,752)	11.25
Cancelled	(1,212,800)	16.26	-	-
Expired	(28,500)	16.76	-	-
Balance, end of year	217,036	$ 11.25	1,458,336	$ 15.52
Options exercisable at end of year	217,036		787,212	

Effective August 21, 2009, Artis and the holders of options to acquire units agreed to cancel an aggregate of 1,212,800 options. The exercise prices of the options surrendered ranged from $14.40 to $17.75 per unit. The weighted-average exercise price with respect to the cancelled options was $16.26 per unit.

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

14. Capital contributions (continued):

(d) Unit options (continued):

Options outstanding at December 31, 2009 consist of the following:

Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Options outstanding weighted-average exercise price	Number exercisable
$11.25	217,036	1.0 years	$11.25	217,036

(e) Weighted-average units:

	Year ended December 31, 2009	Year ended December 31, 2008
Loss and diluted loss	$ (9,189)	$ (6,952)
The weighted-average number of units outstanding was as follows:		
Basic and diluted units	33,915,217	32,088,592
Loss per unit:		
Basic	$ (0.27)	$ (0.22)
Diluted	$ (0.27)	$ (0.22)

The computation of diluted loss per unit for the year ended December 31, 2009 and 2008 does not include Class B units, convertible debentures and unit options as these instruments are anti-dilutive.

(f) Normal course issuer bid:

On December 11, 2009, the REIT announced that the Toronto Stock Exchange (the "Exchange") had approved the renewal of its normal course issuer bid. Under the renewed bid, the REIT will have the ability to purchase for cancellation up to a maximum of 3,172,816 units, representing 10% of the REIT's float of 31,728,167 on December 15, 2009. Purchases will be made at market prices through the facilities of the Exchange. The bid commenced on December 14, 2007, and will remain in effect until the earlier of December 14, 2010, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the year ended December 31, 2009, the REIT acquired 156,200 units and cancelled 199,800 units at market prices aggregating $1,246. As a result of purchases that were for amounts less than stated capital, $1,211 was recorded to contributed surplus. Since December 14, 2007, the REIT had acquired 410,200 units for cancellation.

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

15. Distributions to unitholders:

The REIT declared distributions to REIT unitholders of record in the amount of $36,737 for the year ended December 31, 2009 (2008, $34,352). On May 11, 2009, all outstanding Class B units were returned to AXLP for cancellation or converted into REIT units (Note 13). The REIT declared distributions on Class B units of AXLP in the amount of $261 for the year ended December 31, 2009 (2008, $771). Total distributions payable at December 31, 2009 are $3,377 (December 31, 2008, $2,976).

16. Changes in non-cash operating items:

	Year ended December 31, 2009	Year ended December 31, 2008
Prepaid expenses	$ (616)	$ (783)
Rent and other receivables	2,334	(2,350)
Cash held in trust	233	94
Security deposits and prepaid rent	(250)	789
Accounts payable and other liabilities	(698)	3,384
	$ 1,003	$ 1,134

17. Related party transactions:

	Year ended December 31, 2009	Year ended December 31, 2008
Legal fees expensed	$ 494	$ 151
Capitalized legal fees	1,286	480
Advisory fees	2,813	2,514
Capitalized acquisition fees	352	535
Property management fees	5,312	5,056
Capitalized leasing commissions	1,278	3,796
Capitalized building improvements	3,577	11,862
Tenant inducements	139	114
Services fee	198	-
Consulting fees	150	-

The REIT incurred legal fees with a law firm associated with a trustee of the REIT in connection with property acquisitions and general business matters. The amount payable at December 31, 2009 is $150 (December 31, 2008, $nil).

17. Related party transactions (continued):

The REIT incurred advisory fees and acquisition fees under the asset management agreement with Marwest Management Canada Ltd. ("Marwest"), a company owned and controlled by certain trustees and officers of the REIT. The amount payable at December 31, 2009 is $38 (December 31, 2008, $nil). Under the asset management agreement, Marwest is entitled to an annual advisory fee equal to 0.25% of the adjusted cost base of the REIT's assets and an acquisition fee equal to 0.5% of the cost of each property acquired.

The REIT incurred property management fees, leasing commission fees, and tenant improvement fees under the property management agreement with Marwest. The amount payable at December 31, 2009 is $136 (December 31, 2008, $546). Marwest acts as the general property manager for the REIT's properties and is entitled to management fees, leasing renewal commissions and tenant improvement fees at commercially reasonable rates.

The REIT incurred costs for building improvements and tenant inducements paid to Marwest Construction Ltd., a company related to certain trustees and officers of the REIT. The amount payable at December 31, 2009 is $302 (December 31, 2008, $292).

The services fee represents work done for all services rendered in anticipation of the purchase of the Interplex II and Interplex III properties, and the termination of said agreements. The amount payable at December 31, 2009 is $nil (December 31, 2008, $nil).

The consulting fees represent work performed by Marwest on the International Financial Reporting Standards implementation project. The amount payable at December 31, 2009 is $75 (December 31, 2008, $nil).

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

18. Future income taxes:

The REIT currently qualifies as a mutual fund trust for Canadian income tax purposes. Prior to new legislation relating to the federal income taxation of publicly listed or traded trusts, as discussed below, income earned by the REIT and distributed annually to unitholders was not, and would not be, subject to taxation in the REIT, but was taxed at the individual unitholder level. For financial statement reporting purposes, the tax deductibility of the REIT's distributions was treated as an exception from taxation as the REIT distributed, and was committed to continue distributing, all of its taxable income to its unitholders. Accordingly, the REIT did not previously record a provision for income taxes or future income tax assets or liabilities.

On June 22, 2007, new legislation relating to, among other things, the federal income taxation of a specified investment flow-through trust or partnership (a "SIFT") was enacted (the “New SIFT Rules"). A SIFT includes a publicly-listed or traded partnership or trust, such as an income trust.

Under the New SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as returns of capital should generally not be subject to the tax.

The New SIFT Rules do not apply to a “real estate investment trust" that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the New SIFT Rules and has assessed their interpretation and application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the New SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the fiscal year ended December 31, 2009. Accordingly, the future income tax asset recorded in prior periods was reversed and charged to continuing and discontinued operations in 2009.

In respect of assets and liabilities of the REIT, and its flow through entities, the tax basis of net assets exceeds their net book value for accounting purposes by approximately $39,032 at December 31, 2009 (December 31, 2008, $43,045). This balance includes non-capital losses available for carryforward in the amount of $2,474, which may be used to offset taxable income in future periods.

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

19. Co-ownership activities:

These consolidated financial statements include the REIT's proportionate share of assets, liabilities, revenue, expenses and cash flows of the co-ownerships in which it participates as at December 31, 2009. The REIT is contingently liable for the obligations of its associates in certain co-ownerships. Management believes that the assets of the co-ownerships are available and are sufficient for the purpose of satisfying such obligations. The REIT's proportionate share of these co-ownerships range between 38% and 85%, summarized as follows:

	December 31, 2009	December 31,2008
Assets	$ 88,588	$ 66,062
Liabilities	91,901	68,264

	December 31, 2009	December 31, 2008
Revenue	10,943	11,200
Expenses	12,031	12,478
Operating loss from properties	(1,088)	(1,278)
Cash flows provided by operating activities	3,283	1,382
Cash flows used in investing activities	(15,415)	(378)
Cash flows provided by (used in) financing activities	12,222	(1,343)

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

20. Segmented information:

The REIT owns and operates various retail, office and industrial properties located in western Canada. Information related to these property types is presented below. REIT expenses as well as interest and amortization of financing costs relating to the convertible debentures have not been allocated to the segments.

	Year ended December 31, 2009				
	Retail	Office	Industrial	REIT	Total
Revenue	$ 46,711	$ 71,178	$ 18,765	$ 199	$ 136,853
Property operating expenses	13,146	24,027	6,317	-	43,490
	33,565	47,151	12,448	199	93,363
Interest	11,576	16,166	4,419	7,939	40,100
Corporate expenses	-	-	-	4,524	4,524
Amortization	16,997	28,137	8,980	139	54,253
Unrealized loss on commodity derivatives	-	-	-	466	466
	28,573	44,303	13,399	13,068	99,343
	4,992	2,848	(951)	(12,869)	(5,980)
Loss on termination of Interplex II agreement	-	-	-	(7,287)	(7,287)
Future income tax expense	-	-	-	(10,895)	(10,895)
Non-controlling interest	-	-	-	40	40
Income (loss) from discontinued operations	3,746	11,040	646	(499)	14,933
Income (loss) for the year	$ 8,738	$ 13,888	$ (305)	$ (31,510)	$ (9,189)
Total assets	$ 379,312	$ 583,681	$ 191,764	$ 35,452	$ 1,190,209

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

20. Segmented information (continued):

	Year ended December 31, 2008				
	Retail	Office	Industrial	REIT	Total
Revenue	$ 46,475	$ 70,304	$ 14,254	$ 599	$ 131,632
Property operating expenses	13,367	22,903	4,281	-	40,551
	33,108	47,401	9,973	599	91,081
Interest	11,715	17,242	3,522	6,072	38,551
Corporate expenses	-	-	-	4,969	4,969
Amortization	18,486	27,984	7,295	47	53,812
Unrealized gain on commodity derivatives	-	-	-	(223)	(223)
	30,201	45,226	10,817	10,865	97,109
	2,907	2,175	(844)	(10,266)	(6,028)
Future income tax expense	-	-	-	(580)	(580)
Non-controlling interest	-	-	-	(268)	(268)
Income (loss) from discontinued operations	130	80	(286)	-	(76)
Income (loss) for the year	$ 3,037	$ 2,255	$ (1,130)	$ (11,114)	$ (6,952)
Total assets	$ 419,631	$ 654,427	$ 147,099	$ 22,536	$ 1,243,693

21. Income from discontinued operations:

Included in discontinued operations are the Plainsman Building, Airways Business Plaza, Glenmore Commerce Court, McKnight Village Mall, Interplex III, Albert Street Mall, Bridges Place, Willowglen Business Park, Franklin Showcase Warehouse and Raleigh Shopping Centre.

	Year ended December 31, 2009	Year ended December 31, 2008
Revenue	$ 8,051	$ 14,544
Property operating expenses	3,145	5,742
	4,906	8,802
Interest	1,833	3,059
Amortization	2,219	5,657
Net property operating income	854	86
Gain (loss) on disposal of income-producing properties	14,442	(197)
Future income tax (expense) recovery (note 18)	(232)	32
Non-controlling interest (note 13)	(131)	3
Income (loss) from discontinued operations	$ 14,933	$ (76)

22. Commitments and guarantees:

(a) Letters of credit:

As of December 31, 2009, the REIT had issued letters of credit in the amount of $1,701 (December 31, 2008, $2,215).

(b) Guarantees:

AXLP has guaranteed certain debt assumed by purchasers in connection with the dispositions of Royal Square, Airways Business Plaza, Glenmore Commerce Court and Bridges Place. These guarantees will remain until the debt is modified, refinanced or extinguished. Credit risk arises in the event that the purchaser defaults on repayment of their debt since it is guaranteed by the REIT. This credit risk is mitigated as the REIT has recourse under these guarantees in the event of default by the purchasers, in which case the REIT would have a claim against the underlying properties. The estimated amount of debt subject to the guarantees at December 31, 2009, is $15,806 (December 31, 2008, $1,649), with an estimated weighted-average remaining term of 3.6 years (December 31, 2008, 1.8 years). No liability in excess of the fair value of the guarantees has been recognized in these consolidated financial statements as the estimated fair value of the borrower's interests in the underlying properties is greater than the mortgages payable for which the REIT provided the guarantees.

23. Capital management:

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

The REIT's Declaration of Trust permits the REIT to incur indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of such indebtedness of the REIT is not more than 70% of the gross book value of the REIT's total assets. Gross book value is defined in the Declaration of Trust as "the consolidated book value of the assets of the REIT, plus the amount of accumulated depreciation and amortization recorded in the books and records of the REIT, plus the amount of any future income tax liability arising out of any indirect acquisitions, calculated in accordance with generally accepted accounting principles". As at December 31, 2009, the ratio of such indebtedness to gross book value was 47.4% (December 31, 2008, 51.6%), which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

In addition to the covenant outlined in the Declaration of Trust, the REIT must maintain a debt to gross book value ratio of 70%, a debt service coverage ratio of 1.4, and minimum unitholders' equity of $275,000 for the purposes of the credit facility (note 12). As at December 31, 2009, the REIT was in compliance with these requirements.

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

23. Capital management (continued):

The REIT's mortgage providers also have minimum limits on debt service coverage ratios. The REIT monitors these ratios and is in compliance with these requirements.

The total managed capital for the REIT is summarized below:

	December 31, 2009	December 31, 2008
Mortgages and loans payable	$ 612,263	$ 676,369
Convertible debentures	86,032	44,906
Bank indebtedness	30,700	32,500
Total debt	728,995	753,775
Non-controlling interest	-	10,258
Unitholders' equity	360,906	358,543
	$ 1,089,901	$ 1,122,576

24. Risk management and fair values:

(a) Risk management:

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

(i) Market risk:

(a) Interest rate risk:

The REIT is exposed to interest rate risk on its borrowings. It minimizes the risk by restricting debt to 70% of gross book value and by obtaining fixed rate debt to replace short-term floating rate borrowings. The REIT has the majority of its mortgage payable and debentures in fixed rate terms. In addition, management considers the weighted-average term to maturity of long-term debt relative to the remaining average lease terms. At December 31, 2009, the REIT is a party to $38,440 of variable rate debt, including the outstanding balance of bank indebtedness. The REIT periodically enters into derivative transactions in regards to non-financial items, primarily natural gas and electrical contracts, to manage the price risk arising from fluctuations in these commodities.

(ii) Credit risk:

The REIT is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. Management has diversified the REIT's holdings so that it owns several categories of properties (retail, office and industrial) and acquires properties throughout western Canada. The allowance for doubtful accounts at December 31, 2009 was $396, and $336 at December 31, 2008. The credit quality of the rent and other receivables amount is considered adequate.

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

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

24. Risk management and fair values (continued):

(a) Risk management (continued):

(iii) Liquidity risk:

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

The following are the estimated maturities of the REIT's mortgages, loans, bank indebtedness and convertible debentures, with convertible debentures disclosed at their face value:

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Mortgages, loans and bank indebtedness	$ 644,318	$ 106,738	$ 160,694	$ 134,701	$ 242,185
Convertible debentures	95,237	2,933	-	92,304	-
	$ 739,555	$ 109,671	$ 160,694	$ 227,005	$ 242,185

(b) Fair values:

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

The fair value of the notes receivable has been determined by discounting the cash flows of these financial assets using year end market rates for assets of similar terms and credit risks. Based on these assumptions, the fair value of notes receivable at December 31, 2009 has been estimated at $29,581 (December 31, 2008, $29,203), compared with the carrying value of $29,062 (December 31, 2008, $28,830).

The fair value of the mortgages and loans payable has been determined by discounting the cash flows of these financial obligations using year end market rates for debt of similar terms and credit risks. Based on these assumptions, the fair value of mortgages and loans payable at December 31, 2009 has been estimated at $618,150 (December 31, 2008, $675,918) compared with the carrying value of $612,263 (December 31, 2008, $676,369).

The fair value of the REIT's convertible debentures is $103,225 (December 31, 2008, $39,867) compared to its face value of $95,237 (December 31, 2008, $52,853) at December 31, 2009. Fair value is based on the market price of the debentures, or if no market price exists, fair value is determined by discounting the cash flows of these financial obligations using year end market rates for debt of similar terms and credit risks.

As at December 31, 2009, the REIT had entered into natural gas and electrical contracts with a fair value liability of $243 (December 31, 2008, fair value asset of $223).

Under the fair value hierarchy of financial instruments measured at fair value on the consolidated balance sheet, cash and cash equivalents and bank indebtedness are measured using a Level 1 methodology and natural gas and electrical contracts are valued using a Level 2 methodology.

25. Future changes in accounting policies:

In February 2008, The Canadian Accounting Standards Board ("AcSB") confirmed that the adoption of International Financial Reporting Standards ("IFRS") would be effective for interim and annual periods beginning on or after January 1, 2011 for profit-oriented Canadian publicly accountable enterprises. IFRS will replace Canada's current GAAP for these enterprises. Comparative IFRS information for the previous fiscal year will also have to be reported. These new standards will be effective for the REIT in the first quarter of 2011.

The REIT's management is currently in the process of evaluating the potential impact of IFRS to the consolidated financial statements. This will be an ongoing process as new standards and recommendations are issued by the International Accounting Standards Board and the AcSB. The REIT's consolidated financial performance and financial position as disclosed in the current GAAP financial statements may be significantly different when presented in accordance with IFRS.

26. Subsequent events:

On January 14, 2010, the REIT acquired Westbank Zellers located in West Kelowna, British Columbia. The retail property was acquired for $10,000 and settled in cash. Artis has obtained $6,000 of new 5-year mortgage financing bearing interest at a rate of 5.14% per annum.

On January 20, 2010, the REIT drew an additional $8,000 of the revolving term credit facility.

On January 21, 2010, the REIT repaid a vendor take-back mortgage in the amount of $20,000.

On January 26, 2010, the REIT issued 4,600,000 units at a price of $11.00 per unit for aggregate gross proceeds of $50,600, pursuant to a prospectus dated January 12, 2010.

On January 26, 2010, the REIT issued 690,000 units at a price of $11.00 per unit for aggregate gross proceeds of $7,590, pursuant to the underwriter’s over-allotment option on the January 12, 2010 offering.

On January 29, 2010, the REIT acquired the Maple Leaf Building located in Saskatoon, Saskatchewan. The retail property was acquired for $25,500 and the purchase price was satisfied with a combination of cash and the assumption of existing mortgage financing in the amount of $17,300, which matures in 2014 and bears interest at a rate of 5.0% per annum.

On January 29, 2010, the REIT acquired Sherwood Centre located in Edmonton, Alberta . The multi-tenant industrial property was acquired for $13,300 and the purchase price was satisfied with a combination of cash and new 5-year mortgage financing in the amount of $8,645 bearing interest at a rate of 5.06% per annum.

On February 1, 2010, the REIT repaid the balance drawn on the revolving term credit facility.

On February 25, 2010, the REIT granted to its Trustees, senior officers and Marwest options to acquire an aggregate of 273,250 units at an exercise price of $11.28, being the closing trading price of the units on the Toronto Stock Exchange on the date of the grant.

On March 1, 2010, the REIT completed the refinancing of the mortgage related to Canarama Mall. The mortgage is for $8,840, with an interest rate of 4.97% and a term of 5 years. The refinancing replaces the previous mortgage of $5,672, which carried interest at 5.45%.

On March 10, 2010, the REIT filed a final prospectus with respect to a public offering of 4,450,000 units at a price of $11.25 per unit for aggregate gross proceeds of $50,063. The offering closed on March 16, 2010. Artis has granted to the underwriters an option, exercisable for a period of 30 days from the date of closing, to purchase up to an additional 667,500 units at $11.25 per unit.

26. Subsequent events (continued):

The REIT has entered into agreements with respect to the acquisitions of properties located in British Columbia and Alberta. The total purchase price of the properties is $152,685. The REIT anticipates that the acquisitions will close in March and April, 2010, and will be financed through a combination of cash consideration and new mortgage financing.

Artis has entered into a conditional agreement to acquire a 49% interest in the Winnipeg Square Parkade which services the Shops of Winnipeg Square and 360 Main Street office tower. In conjunction with that transaction, Artis expects to acquire an additional 11% interest in the 360 Main Street office tower and Shops of Winnipeg Square property, in which it already holds 38% interest.

Subsequent to December 31, 2009, Series E convertible debentures with a face value of $12,131 were converted and the REIT issued 1,304,390 units at the price of $9.30 per unit.

27. Comparative figures:

Certain 2008 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2009.