ARTIS

REIT

CONSOLIDATED FINANCIAL STATEMENTS OF ARTIS REAL ESTATE INVESTMENT TRUST (Formerly Westfield Real Estate Investment Trust)

DECEMBER 31, 2007 AND 2006

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

The REIT's independent auditors, KPMG LLP, have been appointed by the unitholders to audit the financial statements and express an opinion thereon.

Armin Martens, P.Eng., M.B.A.
PRESIDENT AND CHIEF EXECUTIVE OFFICER
March 19, 2008

Jim Green, CA
CHIEF FINANCIAL OFFICER
March 19, 2008

AUDITORS' REPORT

To the Unitholders of Artis Real Estate Investment Trust

We have audited the consolidated balance sheets of Artis Real Estate Investment Trust as at December 31, 2007 and 2006 and the consolidated statements of operations, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of Artis Real Estate Investment Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Artis Real Estate Investment Trust as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

signed KPMG LLP
CHARTERED ACCOUNTANTS

Winnipeg, Canada
March 19, 2008

CONSOLIDATED BALANCE SHEETS

As at December 31, 2007 and 2006

(In thousands of dollars)		2007		2006
ASSETS				
Income-producing properties (note 4)	$	944,612	$	388,845
Other assets (note 5)		140,070		70,348
Future income taxes (note 18)		11,509		–
Deferred financing costs, net of accumulated amortization of $nil (2006, $871)		–		4,057
Deposits on income-producing properties (note 6)		11,826		10,343
Prepaid expenses		1,326		812
Notes receivable (note 7)		30,494		–
Rent and other receivables		6,543		2,956
Cash held in trust		682		327
Cash and cash equivalents		29,386		15,252
	$	1,176,448	$	492,940
LIABILITIES AND UNITHOLDERS' EQUITY				
Liabilities:				
Mortgages and loans payable (note 8)	$	612,996	$	272,341
Convertible debentures (note 9)		52,732		40,503
Intangible liabilities (note 10)		99,280		13,341
Security deposits and prepaid rent		4,033		1,402
Accounts payable and other liabilities (note 11)		11,725		7,233
		780,766		334,820
Non-controlling interest (note 13)		10,182		10,368
Unitholders' equity		385,500		147,752
Contingent consideration (note 21)				
Commitments and guarantees (note 22)				
Subsequent events (note 25)				
	$	1,176,448	$	492,940

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Armin Martens – Trustee

Delmore Crewson – Trustee

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2007 and 2006

(In thousands of dollars, except per unit amounts)		2007		2006
Revenue	$	99,259	$	53,522
Property operating expenses		31,790		19,271
		67,469		34,251
Interest		28,194		17,003
		39,275		17,248
Expenses:				
Corporate		4,798		3,081
Amortization		41,225		26,148
		46,023		29,229
Loss before the undernoted		(6,748)		(11,981)
Gain on disposal of income-producing properties (note 3)		2,511		828
Loss before income taxes		(4,237)		(11,153)
Future income tax recovery (note 18)		10,394		–
Income (loss) and comprehensive income (loss) for the year		6,157		(11,153)
Basic income (loss) per unit (note 14 (e))	$	0.25	$	(0.94)
Diluted income (loss) per unit (note 14 (e))	$	0.24	$	(0.94)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

Years ended December 31, 2007 and 2006

(In thousands of dollars, except per unit amounts)	Number of Units	Capital Contributions	Equity Component of Convertible Debentures	Deficit	Contributed Surplus	Total
Unitholders' equity, December 31, 2005	7,959,814	$ 70,151	$ 5,024	$ (5,991)	$ 176	$ 69,360
Issuance of units	6,731,463	89,236	–	–	(29)	89,207
Unit based compensation	–	–	–	–	502	502
Issuance of convertible debentures	–	–	7,570	–	–	7,570
Conversion of convertible debentures	527,984	5,901	(935)	–	–	4,966
Loss for the year	–	–	–	(11,153)	–	(11,153)
Distributions for the year	–	–	–	(12,700)	–	(12,700)
Unitholders' equity, December 31, 2006	15,219,261	165,288	11,659	(29,844)	649	147,752
Adoption of new accounting policies (note 2(b))	–	(297)	–	311	–	14
Issuance of units	15,372,633	250,152	–	–	(170)	249,982
Unit based compensation	–	–	–	–	1,039	1,039
Conversion of convertible debentures	566,174	7,123	(1,344)	–	–	5,779
Issuance of convertible debentures	–	–	1,125	–	–	1,125
Income and comprehensive income for the year	–	–	–	6,157	–	6,157
Distributions for the year	–	–	–	(26,348)	–	(26,348)
Unitholders' equity, December 31, 2007	31,158,068	$ 422,266	$ 11,440	$ (49,724)	$ 1,518	$ 385,500

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2007 and 2006

(In thousands of dollars)	2007	2006
Cash provided by (used for):		
Operating activities:		
Income (loss) for the year	$ 6,157	$ (11,153)
Adjustments for non-cash items:		
Amortization:		
Income-producing properties	18,898	10,106
Office equipment	7	4
Above-market rent	226	213
Acquired in-place leases	21,514	15,004
Customer relationships	22	23
Deferred financing costs	–	765
Below-market rent	(9,780)	(3,249)
Tenant inducements and leasing costs	784	246
Above- and below-market mortgages, net	(96)	(81)
Accretion on liability component of convertible debentures	1,713	1,094
Straight-line rent adjustment	(1,369)	(1,063)
Gain on disposal of income-producing properties	(2,511)	(828)
Unit based compensation expense	1,039	502
Amortization of deferred financing costs included in interest	229	–
Future income tax recovery	(10,394)	–
Units issued for Trustee compensation	–	15
	26,439	11,598
Changes in non-cash operating items (note 16)	2,147	2,022
	28,586	13,620
Investing activities:		
Acquisition of income-producing properties, net of related debt (note 3)	(197,680)	(85,200)
Disposition of income-producing properties, net of mortgage and costs (note 3)	2,552	3,440
Additions to income-producing properties	(984)	(1,741)
Repayment of mortgage receivable	14,000	–
Advances of mortgage and notes receivable	(45,000)	–
Notes receivable principal repayments	816	–
Additions to office equipment and software	(31)	(15)
Additions to tenant inducements and leasing costs	(3,469)	(3,319)
Change in deposits on income-producing properties	(1,374)	(2,118)
	(231,170)	(88,953)
Financing activities:		
Issuance of units, net of issue costs	248,893	89,192
Costs incurred on issuance of Class B units (note 13)	–	(13)
Issuance of convertible debentures	–	30,000
Distributions paid on REIT units	(26,348)	(12,700)
Distributions paid on Class B units, charged to non-controlling interest (note 13)	(186)	(31)
Mortgages and loans principal repayments	(6,665)	(4,261)
Repayment of mortgages and loans payable	–	(19,230)
Advance of mortgage payable	1,024	–
Deferred financing costs	–	(2,299)
	216,718	80,658
Increase in cash and cash equivalents	14,134	5,325
Cash and cash equivalents at beginning of year	15,252	9,927
Cash and cash equivalents at end of year	$ 29,386	$ 15,252
Supplemental cash flow information:		
Interest paid, net of interest received	$ 22,094	$ 14,212
Non-cash investing and financing activities:		
Deposit on income-producing property and related issuance of Class B units are excluded from investing and financing activities	–	7,800

See accompanying notes to consolidated financial statements.

1. ORGANIZATION:

Artis Real Estate Investment Trust (the "REIT"), formerly Westfield Real Estate Investment Trust, 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 will be an amount not less than the amount of distributable income in the year set down in a policy by the Trustees (currently $1.05 per unit).

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 CICA has issued three new standards: Handbook Section 3855, Financial Instruments - Recognition and Measurement, Handbook Section 3865, Hedges, and Handbook Section 1530, Comprehensive Income, which were adopted by the REIT on January 1, 2007. In accordance with the transitional provisions of the respective standards, prior periods have not been restated and the effects of adopting these standards were recorded as transitional adjustments to the opening balances of the components of consolidated unitholders' equity.

(i) Financial Instruments - Recognition and Measurement:

This standard 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 new 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, and accounts payable and other liabilities 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 Section 3855 is met.

(ii) Comprehensive Income:

This standard requires a new component of unitholders' equity, comprehensive income, to be included in the REIT's consolidated financial statements. In addition, the standard requires a statement of comprehensive income. The major components of the statement of 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 year ended December 31, 2007 and no opening or closing balances of accumulated other comprehensive income or loss.

(iii) Hedges:

In a fair value hedge, the change in fair value of the hedging derivative will be offset in the consolidated statements of operations against the change in the fair value of the hedged item relating to the hedged risk. In a cash flow hedge, the change in fair value of the derivative, to the extent effective, is recorded in other comprehensive income until the asset or liability being hedged affects the consolidated statements of operations, at which time, the related change in fair value of the derivative is recorded in the consolidated statements of operations. Any hedge ineffectiveness will be recorded in the consolidated statements of operations.

The impact on the REIT from the adoption of the financial instruments standard was as follows:

To change the method of amortization of the deferred financing costs to the effective interest rate method from straight-line, which decreased deficit by $311, decreased capital contributions by $297 and increased deferred financing costs by $14 as at January 1, 2007; and to classify the adjusted deferred financing costs against the relevant host contract within the liability portion of the consolidated balance sheet.

(iv) Equity:

In addition, the REIT adopted the disclosure requirements of Handbook Section 3251, Equity. This section establishes standards for the presentation of equity and changes in equity during the reporting period. As a result of adopting this section, the REIT has included an additional financial statement entitled "Consolidated Statements of Unitholders' Equity" within the consolidated financial statements.

(v) Convertible and Other Debt Instruments with Embedded Derivatives:

Emerging Issues Committee ("EIC") 164, Convertible and Other Debt Instruments with Embedded Derivatives issued by the EIC of the Accounting Standards Board on March 5, 2007, was adopted by the REIT on January 1, 2007. This abstract addressed various issues surrounding the recognition, classification and presentation of convertible debentures. There was no impact on the consolidated financial statements as a result of the adoption of this abstract.

(c) 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.

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

(d) Deferred costs:

Deferred recoverable operating costs are recorded at cost and are deferred and amortized over the period which they are recoverable from tenants.

Leasing costs, such as commissions, are deferred and 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.

Deferred financing costs represent costs incurred relating to the issuance of the convertible debentures and the financing by way of mortgage or vendor take-back loans related to the REIT's income-producing properties.

Prior to January 1, 2007, deferred financing costs were amortized on a straight-line basis over the term of the related debt. Pursuant to CICA 3855, effective January 1, 2007 (note 2(b)), deferred financing costs are capitalized to the related asset or liability and are amortized using the effective interest method.

(e) 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.

(f) Revenue recognition:

Revenue from income-producing properties include rents earned from tenants under lease agreements, percentage rent, realty tax and operating cost 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.

(g) 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.

(h) 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.

Years ended December 31, 2007 and 2006 (In thousands of dollars, except unit and per unit amounts)

(i) Income taxes:

Income taxes are accounted for using the asset and liability method. Under this method, future income taxes are 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 are computed using enacted or substantively enacted income tax rates or laws for the years in which the temporary differences are expected to reverse or settle. When realization of future income tax assets does not meet the more likely than not criterion, a valuation allowance is provided for the difference.

(j) 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.

(k) 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.

3. ACQUISITIONS AND DISPOSITIONS OF INCOME-PRODUCING PROPERTIES:

Acquisitions:

The REIT acquired the following properties during the year ended December 31, 2007:

PROPERTY	LOCATION	ACQUISITION DATE	TYPE
CDI College Building	280 Main Street, Winnipeg, MB	January 13, 2007	Office
Keewatin Distribution Centre	959 & 989 Keewatin Street, Winnipeg, MB	January 31, 2007	Industrial
Clareview Town Centre	50th Street & 137th Avenue, Edmonton, AB	February 1, 2007	Retail
Centre 70 Building(1)	7015 Macleod Tr. SW & 555 - 69th St. SW, Calgary, AB	February 28, 2007	Office
Honeywell Building	2840 - 2nd Avenue SE, Calgary, AB	February 28, 2007	Industrial
Millennium Centre	4909 - 49th St. & 4902 - 48th St., Red Deer, AB	February 28, 2007	Office
Bower Centre	2319 Taylor Dr. & 2310 Gaetz Ave., Red Deer, AB	March 1, 2007	Industrial
Britannia Building (2)	703 - 6th Avenue SW, Calgary, AB	March 31, 2007	Office
Sierra Place (2)	706 - 7th Avenue SW, Calgary, AB	March 31, 2007	Office
MTS Call Centre	365 Osborne Street, Winnipeg, MB	April 1, 2007	Office
488 Albert St (3)	488 Albert Street, Nanaimo, BC	June 19, 2007	Office
6475 Metral Drive (3)	6475 Metral Drive, Nanaimo, BC	June 19, 2007	Office
Aulds Corner (3)	6551 Aulds Road, Nanaimo, BC	June 19, 2007	Retail
Can-K Building (4)	8220 Davies Road, Edmonton, AB	June 30, 2007	Industrial
Mayfield Industrial Plaza(4)	11304/24 - 163 Street, Edmonton, AB	June 30, 2007	Industrial
TransAlta Place (5)	110 - 12th Avenue SW, Calgary, AB	July 5, 2007	Office
Winnipeg Square (6)	360 Main Street, Winnipeg, MB	August 29, 2007	Office/Retail
Pepco Building	608 - 17th Avenue, Nisku, AB	September 15, 2007	Industrial
Delta Shoppers Mall	8037 - 120th Street, Delta, BC	September 24, 2007	Retail
Glenmore Commerce Court	2880 Glenmore Trail SE, Calgary, AB	November 9, 2007	Office
Winnipeg Industrial Portfolio (7)	Various locations in Winnipeg, MB	November 15, 2007	Industrial
Brick Centre	11226 - 100th Avenue, 11245 - 104th Avenue & 11345/53 - 104th Avenue, Grande Prairie, AB	November 30, 2007	Retail
Fort McMurray Portfolio (8)	Various locations in Edmonton and Fort McMurray, AB	November 30, 2007	Retail
Paramount Building	630 - 4th Avenue SW, Calgary, AB	December 1, 2007	Office

(1) The REIT acquired an undivided 85% interest in Centre 70, which is proportionately consolidated in the accounts of the REIT.
(2) The Britannia Building and Sierra Place were acquired together as the Dome Britannia Portfolio.
(3) 488 Albert Street, 6475 Metral Drive and Aulds Corner were acquired as a portfolio.
(4) Can-K Building and Mayfield Industrial Plaza were acquired as a portfolio.
(5) The acquisition of TransAlta Place also included the acquisition of a note receivable for $31,000 (note 7).
(6) The REIT acquired an undivided 38% interest in the air rights leashold with respect to Winnipeg Square, which is proportionately consolidated in the accounts of the REIT.
(7) The Winnipeg Industrial Portfolio is comprised of 8 single-tenant and 8 multi-tenant properties.
(8) The Fort McMurray Portfolio is comprised of one property in Edmonton and 6 properties in Fort McMurray.

Years ended December 31, 2007 and 2006 (In thousands of dollars, except unit and per unit amounts)

The REIT acquired the following properties during the year ended December 31, 2006:

PROPERTY	LOCATION	ACQUISITION DATE	TYPE
Northwest Centre	4500 and 4520 - 16th Ave. NW, Calgary, AB	February 28, 2006	Office
Southwood Corner	10233 Elbow Drive, Calgary, AB	March 31, 2006	Retail
Circle 8	3120, 3124, 3126 & 3134 - 8th St. E, Saskatoon, SK	March 31, 2006	Retail
Reenders Square	3-11 Reenders Drive, Winnipeg, MB	March 31, 2006	Retail
Sunridge Spectrum	Sunridge & 32nd St. NE, Calgary, AB	May 31, 2006	Retail
McCall Lake	1338 - 36th Ave. NE, Calgary, AB	June 30, 2006	Industrial
Heritage Square	8500 Macleod Trail SE, Calgary, AB	July 13, 2006	Office
Franklin Showcase Warehouse	700 - 33rd Street NE & 3501 - 8th Avenue NE, Calgary, AB	July 14, 2006	Industrial
Horizon Heights	3508 - 32nd Avenue NE, Calgary, AB	July 17, 2006	Retail
Liberton Square	504, 506 & 506A St. Albert Trail, St. Albert, AB	November 1, 2006	Retail
Delta Centre	16515 - 116th Avenue, Edmonton, AB	December 31, 2006	Industrial

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, 2007	2006
Land	$ 126,881	$ 56,837
Buildings	419,975	119,666
Leasehold interest	–	6
Parking lots	7,512	3,800
Property under development	–	2,632
Improvements	20,972	10,800
Acquired in-place leases	86,925	35,460
Above-market rent	409	201
Below-market rent	(95,764)	(9,379)
Long-term debt including acquired above- and below-market mortgages	(349,230)	(132,211)
Series D convertible debenture	(20,000)	–
Total consideration	197,680	87,812
Issuance of Class B units (note 13)	–	(2,612)
Cash consideration	$ 197,680	$ 85,200
Acquisition costs included above	$ 9,251	$ 9,141

Years ended December 31, 2007 and 2006 (In thousands of dollars, except unit and per unit amounts)

Dispositions:

The REIT disposed of the following property during the year ended December 31, 2007:

PROPERTY	LOCATION	DISPOSITION DATE	TYPE
Royal Square	15 Worobetz Place, Saskatoon, SK	September 1, 2007	Retail

The proceeds from the sale of Royal Square, net of costs, were $4,591. Consideration received was the assumption of the existing mortgage in the amount of $1,729, a promissory note in the amount of $310 (note 7), and cash in the amount of $2,552. The assets, intangible assets and liabilities associated with the property were removed from the books and a gain on sale of property in the amount of $2,511 was recorded.

The REIT disposed of the following properties during the year ended December 31, 2006:

PROPERTY	LOCATION	DISPOSITION DATE	TYPE
Edgemont Mall	34 Edgedale Drive NW, Calgary, AB	January 12, 2006	Retail
Keystone Village Mall	1300 - 18th Street, Brandon, MB	June 15, 2006	Retail

The proceeds from the sale of Edgemont Mall, net of costs, were $5,117. Consideration received was the assumption of the existing mortgage in the amount of $2,976 and cash in the amount of $2,141. The assets, intangible assets and liabilities associated with the property were removed from the books and a gain on sale of property in the amount of $941 was recorded.

The proceeds from the sale of Keystone Village Mall, net of costs, were $3,510. Consideration received was the assumption of the existing mortgage in the amount of $2,211 and cash in the amount of $1,299. The assets, intangible assets and liabilities associated with the property were removed from the books and a loss on sale of property in the amount of $113 was recorded.

The impact of the gain on disposal of the income-producing property in 2007, net of future income taxes, on basic and diluted income per unit was $0.08 (2006 - $0.07).

4. INCOME-PRODUCING PROPERTIES:

	December 31, 2007		
	Cost	Accumulated amortization	Net book value
Land	$ 234,301	$ –	$ 234,301
Buildings and building improvements	667,846	16,944	650,902
Leasehold interest	8,015	489	7,526
Tenant improvements	46,807	12,199	34,608
Parking lots	15,513	963	14,550
Property under development	2,725	–	2,725
	$ 975,207	$ 30,595	$ 944,612

	December 31, 2006		
	Cost	Accumulated amortization	Net book value
Land	$ 108,066	$ –	$ 108,066
Buildings and building improvements	247,942	5,708	242,234
Leasehold interest	8,015	286	7,729
Tenant improvements	26,225	5,694	20,531
Parking lots	8,020	367	7,653
Property under development	2,632	–	2,632
	$ 400,900	$ 12,055	$ 388,845

Years ended December 31, 2007 and 2006 (In thousands of dollars, except unit and per unit amounts)

5. OTHER ASSETS:

	December 31, 2007		
	Cost	Accumulated amortization	Net book value
Acquired in-place leases	$ 168,892	$ 38,319	$ 130,573
Above-market rent	1,573	498	1,075
Customer relationships	105	68	37
Tenant inducements and leasing costs	6,864	958	5,906
Deferred recoverable operating costs	2,585	149	2,436
Office equipment and software	55	12	43
	$ 180,074	$ 40,004	$ 140,070

	December 31, 2006		
	Cost	Accumulated amortization	Net book value
Acquired in-place leases	$ 82,898	$ 17,489	$ 65,409
Above-market rent	1,179	283	896
Customer relationships	115	54	61
Tenant inducements and leasing costs	3,661	255	3,406
Deferred recoverable operating costs	557	–	557
Office equipment	24	5	19
	$ 88,434	$ 18,086	$ 70,348

6. DEPOSITS ON INCOME-PRODUCING PROPERTIES:

	Year Ended December 31, 2007	Year Ended December 31, 2006
Deposit on income-producing property (note 13):		
Balance, beginning of year	$ 7,743	$ –
Initial deposit	–	7,800
Property rent	(1,200)	(200)
Costs incurred	215	–
Distributions on 543,781 Class B units of AX L.P.	572	143
	7,330	7,743
Deposits on other income-producing properties	4,496	2,600
	$ 11,826	$ 10,343

Effective February 21, 2007, the REIT entered into a purchase and sale agreement with respect to the forward purchase of the property known as "Bridges Place", currently under development. The REIT anticipates that the purchase price, which is to be determined based on a 7% capitalization rate on the net operating income in place at acquisition, will be approximately $6,800. The REIT has made deposits totaling $1,150 with respect to the purchase and sale agreement. Construction has commenced and is anticipated to be completed in 2008. The vendor may extend closing until any date up to December 1, 2008 pending the lease-up of the property.

Years ended December 31, 2007 and 2006 (In thousands of dollars, except unit and per unit amounts)

7. NOTES RECEIVABLE:

	December 31, 2007	December 31, 2006
Note receivable from tenant (note 3) maturing in May 2023, bearing interest at 5.894% per annum, repayable in varying blended monthly instalments 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.	$ 30,187	$ –
Note receivable maturing in November 2010, bearing interest at 5.06% per annum, repayable in blended monthly instalments of principal and interest of $2 and is unsecured. The note was received as partial consideration for the sale of Royal Square (note 3).	307	–
	$ 30,494	$ –

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 5.51% at December 31, 2007, a weighted average nominal rate of 5.42% at December 31, 2007 (nominal and effective December 31, 2006, 5.51%), and maturity dates ranging from November 1, 2008 to January 1, 2018.

Principal payment requirements on the mortgages and loans payable as at December 31, 2007 are as follows:

2008	$ 20,598
2009	34,910
2010	92,819
2011	45,163
2012	107,913
2013 and thereafter	313,316
	614,719
Net of above- and below-market mortgage adjustments	481
Deferred financing costs	(2,204)
	$ 612,996

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 year, Series A convertible debentures with a face value of $7,015 (2006, $4,815) were converted and the REIT issued 561,538 (2006, 382,138) units at the exercise price of $12.60 per unit. The carrying value of the debt component was reduced by $5,701 (2006, $4,071), the equity component was reduced by $1,323 (2006, $909), future income taxes were increased by $26 (2006, $nil), with an offsetting increase to capital contributions of $7,050 (2006, $4,980) (note 14(b)).

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. None of the Series B convertible debentures were converted into units of the REIT in fiscal 2007 or 2006.

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. During the year, Series C convertible debentures with a face value of $80 were converted and the REIT issued 4,636 units at the exercise price of $17.25 per unit. The carrying value of the debt component was reduced by $52 and the equity component was reduced by $21, with an offsetting increase to capital contributions of $73 (note 14(b)).

In conjunction with the purchase of the Fort McMurray portfolio (note 3) 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. None of the Series D convertible debenture was converted into units of the REIT in fiscal 2007.

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 convertible debenture was separated into liability and equity components based on the respective estimated fair values at the date of issuance of the convertible debenture. 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 Series D convertible debenture is determined by applying an effective interest rate of 6% to the outstanding liability component. The difference between actual cash interest payments and interest expense is accreted to the liability component.

Years ended December 31, 2007 and 2006 (In thousands of dollars, except unit and per unit amounts)

Particulars of the REIT's outstanding convertible debentures as at December 31, 2007 and December 31, 2006 are as follows:

Convertible debenture issue	Series A convertible redeemable	Series B convertible redeemable	Series C convertible redeemable	Series D convertible redeemable	2007	2006
Issue date	August 4, 2005	November 9, 2005	May 4, 2006	November 30, 2007		
Interest rate	7.75%	7.50%	6.25%	5.00%		
Face value	$ 3,170	$ 10,862	$ 29,920	$ 20,000	$ 63,952	$ 51,047
Equity portion	598	2,147	7,570	1,125	11,440	11,659
Liability portion	2,572	8,715	22,350	18,875	52,512	39,388
Accretion to December 31, 2007 and December 31, 2006	236	759	1,162	9	2,166	1,115
Deferred financing costs (note 2(b))	(164)	(498)	(1,238)	(46)	(1,946)	–
Carrying value at December 31, 2007 and December 31, 2006	$ 2,644	$ 8,976	$ 22,274	$ 18,838	$ 52,732	$ 40,503

Accretion to the carrying value of the debt component was $1,713 (2006, $1,094) during the year ended December 31, 2007. The weighted average effective rate of the debentures at December 31, 2007 is 11.06% (2006, 12.30%).

10. INTANGIBLE LIABILITIES:

	December 31, 2007		
	Cost	Accumulated amortization	Net book value
Below-market rent	$ 112,954	$ 13,674	$ 99,280

	December 31, 2006		
	Cost	Accumulated amortization	Net book value
Below-market rent	$ 17,302	$ 3,961	$ 13,341

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES:

	December 31, 2007	December 31, 2006
Accounts payable and accrued liabilities	$ 8,934	$ 5,727
Distributions payable (note 15)	2,791	1,506
	$ 11,725	$ 7,233

Years ended December 31, 2007 and 2006 (In thousands of dollars, except unit and per unit amounts)

12. CREDIT FACILITY:

On September 28, 2007, Artis entered into an agreement for a revolving term credit facility in the amount of $75,000, which may be utilized to fund acquisitions of office, retail and industrial properties. $10,000 of the credit facility is available to purchase units under the normal course issuer bid, and an additional $7,500 may be used for general corporate purposes. The credit facility matures at the earlier of one year after the initial advance, and October 1, 2008. 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 1.85 percent per annum. The credit facility is secured by a first charge on Delta Centre, Grain Exchange Building, Johnston Terminal and Sears Centre. As at December 31, 2007, no amounts have been drawn on 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 will develop a Class A office building in Calgary, Alberta. Upon completion (estimated as June, 2008), the REIT will acquire the income-producing property based on a predetermined formula as set out in the agreement. 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. The Class B units have been released to the vendors, subject to trading restrictions as set out in the purchase and sale agreement. The aggregate purchase price of the income-producing property is estimated at $90,000. In accordance with the agreement, the REIT receives monthly property rent of $100 from the vendor, with a total of $2,400 to be received during construction of the income-producing property. Distributions paid to the vendor on the Class B units are netted against property rent and any remaining difference is 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. Both the REIT and the vendor transferred their 50% interest in the lands into the co-ownership. Construction is anticipated to commence in the first half of 2008, for completion in 2010. To facilitate the development of the income-producing property, the REIT may provide up to $6,500 of mezzanine financing to the co-ownership, bearing interest at a rate of ten percent per annum. 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.

The details of the non-controlling interests 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

Years ended December 31, 2007 and 2006 (In thousands of dollars, except unit and per unit amounts)

14. CAPITAL CONTRIBUTIONS:

(a) Authorized:

The REIT completed its conversion into an "open-ended" mutual fund trust under the provisions of the Income Tax Act (Canada) effective October 31, 2006. In accordance with the Amended and Restated 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 Amended and Restated 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 Amended and Restated 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.

Effective February 1, 2006, the REIT consolidated its units on a 15 for one basis. All unit and per unit disclosures are presented on a post-consolidation basis.

(b) Issued and Outstanding:

Units stated on a post-consolidation basis	Number of units		Amount
Balance at December 31, 2005	7,959,814	$	70,151
Public offerings, net of issue costs of $5,624	6,657,138		88,693
Conversion of $875 convertible debentures	145,833		921
Conversion of Series A convertible debentures	382,151		4,980
Options exercised	69,000		469
Distribution Reinvestment Plan	4,264		59
Units issued for Trustee compensation	1,066		15
Fractional units eliminated on consolidation	(5)		–
Balance at December 31, 2006	15,219,261		165,288
Adoption of new accounting policies (note 2 (b))	–		(297)
Public offerings, net of issue costs of $10,709 (net of future income taxes of $1,089)	15,270,000		248,572
Conversion of Series A convertible debentures	561,538		7,050
Conversion of Series C convertible debentures	4,636		73
Options exercised	81,355		1,223
Distribution Reinvestment Plan	34,278		553
Units acquired through normal course issuer bid, not cancelled at year end	(13,000)		(196)
Balance at December 31, 2007	31,158,068	$	422,266

At December 31, 2007, there were 721,347 special voting units issued and outstanding (note 13). There is no value assigned to the special voting units.

On June 27, 2006, the REIT announced its new Distribution Reinvestment Plan ("DRIP"). Under the terms of the DRIP, Unitholders now have the option to elect to receive all or a portion of their regular monthly distributions in additional REIT units.

Years ended December 31, 2007 and 2006 (In thousands of dollars, except unit and per unit amounts)

(c) Contributed surplus:

	Year Ended December 31, 2007	2006
Balance, beginning of year	$ 649	$ 176
Unit based compensation expense	1,039	502
Value of options exercised	(170)	(29)
Balance, end of year	$ 1,518	$ 649

Contributed surplus arises as a result of recording 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:

	2007		2006	
	Units	Weighted average exercise price	Units	Weighted average exercise price
Balance, beginning of year	729,393	$ 13.20	348,393	$ 10.29
Granted	898,050	17.07	450,000	14.40
Exercised	(81,355)	12.94	(69,000)	6.38
Expired	(65,000)	15.25	–	–
Balance, end of year	1,481,088	$ 15.47	729,393	$ 13.20
Options exercisable at end of year	423,107		178,598	
Weighted average fair value per unit of options granted during the year		$ 1.21		$ 2.16

Options outstanding at December 31, 2007 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	239,788	3.0 years	$ 11.25	97,595
$ 14.40	380,500	3.75 years	$ 14.40	181,500
$ 15.85	269,750	4.0 years	$ 15.85	64,250
$ 17.60	319,050	4.5 years	$ 17.60	79,762
$ 17.75	272,000	4.75 years	$ 17.75	–
	1,481,088		$ 15.47	423,107

The compensation expense related to unit options granted under the unit option plan for the year ended December 31, 2007 amounted to $1,039 (2006, $502). The balance of contributed surplus at December 31, 2007 relates to unexercised options. The compensation expense was determined based on the fair value of the options at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2007	2006
Expected option life	3.8 years	5 years
Risk-free interest rate	4.38%	4.01%
Dividend yield	6.11%	7.3%
Expected volatility	16.1%	31.83%

Years ended December 31, 2007 and 2006 (In thousands of dollars, except unit and per unit amounts)

(e) Weighted average units:

	Year Ended December 31, 2007	2006
Income (loss)	$ 6,157	$ (11,153)
Diluted income (loss)	$ 6,157	$ (11,153)
The weighted average number of units outstanding was as follows:		
Basic units	24,616,119	11,907,917
Effect of dilutive securities:		
Class B units of AXLP	721,347	–
Unit option plan	139,955	–
Diluted units	25,477,421	11,907,917
Income (loss) per unit:		
Basic	$ 0.25	$ (0.94)
Diluted	$ 0.24	$ (0.94)

The computation of diluted income (loss) per unit for the years ended December 31, 2007 and 2006 does not include convertible debentures as these instruments are anti-dilutive.

(f) Normal course issuer bid:

On December 12, 2007, the REIT announced that the Toronto Stock Exchange (the "Exchange") had approved its normal course issuer bid. Under the bid, the REIT will have the ability to purchase for cancellation up to a maximum of 3,055,099 units, representing 10% of the REIT's float of 30,550,991 on December 13, 2007. 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 13, 2008, or the date on which the REIT has purchased the maximum number of units permitted under the bid. As of December 31, 2007, the REIT had acquired 13,000 units for cancellation at market prices aggregating $196.

15. DISTRIBUTIONS TO UNITHOLDERS:

Distributable Income, which is defined in the Declaration of Trust, means net income in accordance with generally accepted accounting principles, subject to certain adjustments as set out in the Declaration of Trust, including: (i) adding back amortization (excluding leasing costs) and accretion to the carrying value of debt and (ii) excluding gains or losses on the disposition of any asset, and (iii) adding or deducting other adjustments as determined by the Trustees at their discretion. Distributable Income is not a generally accepted accounting principles financial measure and should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with generally accepted accounting principles as an indicator of the REIT's performance.

The REIT declared distributions to REIT unitholders of record in the amount of $26,348 for the year ended December 31, 2007 (2006, $12,700). The REIT declared distributions to the holders of Class B units of AXLP in the amount of $758 for the year ended December 31, 2007 (2006, $174). Total distributions payable at December 31, 2007 are $2,791 (December 31, 2006, $1,506).

Years ended December 31, 2007 and 2006 (In thousands of dollars, except unit and per unit amounts)

16. CHANGES IN NON-CASH OPERATING ITEMS:

	Year Ended December 31, 2007	2006
Deferred recoverable operating costs	$ (2,029)	$ (557)
Amortization of deferred recoverable operating costs	149	–
Prepaid expenses	(514)	(541)
Rent and other receivables	(2,235)	(447)
Cash held in trust	(355)	706
Security deposits and prepaid rent	2,639	438
Accounts payable and other liabilities	4,492	2,423
	$ 2,147	$ 2,022

17. RELATED PARTY TRANSACTIONS:

	Year Ended December 31, 2007	2006
Legal fees expensed	$ 101	$ 154
Capitalized legal fees	1,775	687
Advisory fees	1,693	939
Capitalized acquisition fees	3,047	1,009
Property management fees	3,052	1,830
Capitalized leasing commissions	2,224	490
Capitalized building improvements	760	410
Capitalized tenant inducements	642	–
Consulting fees	–	34
Interest expense	–	73

The REIT incurred legal fees with a law firm associated with a trustee of the REIT in connection with the prospectus offerings, the property acquisitions and general business matters. The amount payable at December 31, 2007 is $nil (December 31, 2006, $12).

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, 2007 is $nil (December 31, 2006, $116). 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, 2007 is $nil (December 31, 2006, $78). 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, 2007 is $nil (December 31, 2006, $115).

Years ended December 31, 2007 and 2006 (In thousands of dollars, except unit and per unit amounts)

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 is currently reviewing the New SIFT Rules and is assessing their interpretation and application to the REIT's assets and revenues. There are uncertainties in the interpretation and application of the New SIFT Rules and it is not possible, at the current time, to determine with certainty whether the REIT will meet the REIT Conditions.

The New SIFT Rules provide that a SIFT which was publicly traded before November 1, 2006 will become subject to the tax on distributions commencing with the 2011 taxation year. However, a SIFT may become subject to this tax prior to 2011 if its equity capital increases beyond certain limits measured against the market capitalization of the SIFT at the close of trading on October 31, 2006 (the "Safe Harbour Limits"). In the case of the REIT, its subsequent offerings have exceeded the Safe Harbour Limits. Therefore, commencing on January 1, 2007, subject to the REIT's ability to meet the REIT Conditions, the REIT is subject to tax on certain income which may adversely impact the level of cash otherwise available for distribution.

If the REIT does not meet the REIT Conditions, the REIT may restructure its affairs in order to minimize, or if possible eliminate, the impact of the New SIFT Rules, if such restructuring is in the best interests of unitholders. There can be no assurances, however, that the REIT would be able to restructure such that the REIT would not be subject to the tax imposed by the New SIFT Rules, or that any such restructuring, if implemented, would not result in material costs or other adverse consequences to the REIT and its unitholders.

Under the New SIFT Rules, a flow-through subsidiary of the REIT may also be a SIFT. On December 20, 2007, the Minister of Finance announced, in a backgrounder (the "Backgrounder"), his intention to introduce technical amendments to the SIFT definition to exclude certain flow-through subsidiaries of a SIFT that are able to meet certain ownership conditions. Based on the wording in the Backgrounder, it would appear that a flow-through subsidiary of the REIT would be a SIFT, however, until the legislation contemplated by the Backgrounder is enacted, there will continue to be uncertainty.

As management is unable to conclude at the present time if the REIT meets the REIT Conditions, and therefore cannot conclude that the New SIFT Rules do not apply to it, the REIT commenced recognizing future income tax assets and liabilities with respect to the temporary differences between the carrying amounts and tax basis of its assets and liabilities, including those of its subsidiary partnerships, that are expected to reverse after 2007. Future income tax assets or liabilties are recorded using tax rates and laws expected to apply when the temporary differences are expected to reverse. The New SIFT Rules resulted in the REIT including a future income tax asset of $11,509 in the consolidated balance sheet at December 31, 2007 and a future income tax recovery of $10,394 reflected in consolidated income (loss) for the year ended December 31, 2007. The REIT also credited capital contributions in the amount of $1,115 to adjust for the tax effects of unit issue costs incurred on the issuance of units, and deferred finance costs transferred to capital contributions on the conversion of convertible debentures.

The October 30, 2007, Canadian Federal Economic Statement announced several general corporate income tax rate reductions. Legislation for such rate reductions, which apply to the computation of SIFT tax, received Royal Assent on December 14, 2007. Consequently, in accounting for the REIT's future income taxes, the impact of these tax rate reductions have been applied in the periods that such temporary differences are expected to reverse.

The tax effects of temporary differences that give rise to significant portions of the future tax asset are as follows as at December 31, 2007:

Future income tax assets (liabilities):		
Income-producing properties, other assets and intangible liabilities	$	8,395
Unit issue costs		4,282
Other		(1,168)
Net future income tax asset	$	11,509

Years ended December 31, 2007 and 2006 (In thousands of dollars, except unit and per unit amounts)

A reconciliation of expected income taxes based upon the 2007 statutory rates to the recorded income tax recovery is as follows:

	2007	2006
Income taxes computed at the Canadian statutory rate of 35.12% applicable to the REIT for 2007	$ 1,453	$ –
Future income taxes arising from a change in tax status with the enactment of the SIFT rules	11,080	–
Non-deductible unit based compensation expense	(365)	–
Accretion in liability component of convertible debenture	(497)	–
Other permanent differences	15	–
Reduction of future income taxes arising from changes in tax rates	(1,292)	–
	$ 10,394	$ –

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. The REIT's proportionate share of these co-ownerships range between 38% and 85%, summarized as follows:

	Year Ended December 31,	
	2007	2006
Assets	$ 72,871	$ 2,632
Liabilities	73,232	2,632
Revenue	5,511	–
Expenses	5,872	–
Operating loss from properties	(361)	–
Cash flows provided by operating activities	1,107	–
Cash flows used in investing activities	(22,247)	(20)
Cash flows provided by financing activities	21,897	–

Years ended December 31, 2007 and 2006 (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 deferred financing costs relating to the convertible debentures have not been allocated to the segments.

	Year Ended December 31, 2007				
	Retail	Office	Industrial	REIT	Total
Revenue	$ 33,067	$ 57,000	$ 7,118	$ 2,074	$ 99,259
Property operating expenses	9,669	20,383	1,738	–	31,790
	23,398	36,617	5,380	2,074	67,469
Interest	8,702	12,595	1,883	5,014	28,194
Corporate expenses	–	–	–	4,798	4,798
Amortization	13,759	22,704	3,943	819	41,225
	22,461	35,299	5,826	10,631	74,217
	937	1,318	(446)	(8,557)	(6,748)
Gain on disposal of income-producing property	2,511	–	–	–	2,511
Future income tax recovery	–	–	–	10,394	10,394
Income (loss) for the year	$ 3,448	$ 1,318	$ (446)	$ 1,837	$ 6,157
Total assets	$ 381,908	$ 637,582	$ 114,923	$ 42,035	$ 1,176,448

	Year Ended December 31, 2006				
	Retail	Office	Industrial	REIT	Total
Revenue	$ 25,356	$ 26,353	$ 889	$ 924	$ 53,522
Property operating expenses	7,082	11,940	249	–	19,271
	18,274	14,413	640	924	34,251
Interest	6,920	5,551	275	4,257	17,003
Corporate expenses	–	–	–	3,081	3,081
Amortization	11,672	13,402	518	556	26,148
	18,592	18,953	793	7,894	46,232
	(318)	(4,540)	(153)	(6,970)	(11,981)
Gain on disposal of income-producing properties	828	–	–	–	828
Income (loss) for the year	$ 510	$ (4,540)	$ (153)	$ (6,970)	$ (11,153)
Total assets	$ 246,932	$ 204,085	$ 20,712	$ 21,211	$ 492,940

21. CONTINGENT CONSIDERATION:

In accordance with the purchase and sale agreement for Heritage Square, the vendor is entitled to a purchase price adjustment related to future events. The purchase and sale agreement provides for contingent consideration based on certain leases expiring prior to June 30, 2011 and being re-leased at a higher rental rate, net of leasing costs. The calculation provides for the difference in rate to be capitalized at 7.5% and 30% of that amount paid to the vendor. The amount and timing of the contingent consideration are not determinable at this time, and when determinable, will be recorded as an intangible asset.

22. COMMITMENTS AND GUARANTEES:

(a) Letters of credit

As of December 31, 2007, the REIT had issued letters of credit in the amount of $1,700 (2006, $nil).

(b) Guarantee

The REIT has guaranteed certain debt assumed by a purchaser in connection with the disposition of Royal Square. This guarantee will remain until the debt is modified, refinanced or extinguished. Credit risk arises in the event that the purchaser defaults on repayment of their debt since it is guaranteed by the REIT. This credit risk is mitigated as the REIT has recourse under this guarantee in the event of default by the purchaser, in which case the REIT would have a claim against the underlying property. The estimated amount of debt subject to the guarantee at December 31, 2007, is $1,709 (2006, $nil), with an estimated weighted average remaining term of 2.8 years (2006, nil). No liability in excess of the fair value of the guarantee has been recognized in these consolidated financial statements as the estimated fair value of the borrower's interest in the underlying property is greater than the mortgage payable for which the REIT provided the guarantee.

23. 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) Interest rate risk:

The REIT is exposed to interest rate risk on its borrowings. It minimizes this risk by restricting total debt to 70% of gross book value and by attaining long-term fixed rate debt to replace short-term floating rate borrowings. In addition, management considers the weighted average term to maturity of long-term debt relative to the remaining average lease terms.

(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.

(b) Fair values:

The fair value of the REIT's rent and other receivables, and accounts payable and other liabilities, 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, 2007 has been estimated at $30,530 compared with the carrying value of $30,494.

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, 2007 has been estimated at $607,981 (2006, $275,679) compared with the carrying value of $612,996 (2006, $272,341).

The fair value of the REIT's convertible debentures is $66,072 (2006, $53,169) compared to its face value of $63,952 (2006, $51,047) at December 31, 2007. 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.

24. FUTURE CHANGES IN ACCOUNTING POLICIES:

The CICA has issued three new accounting standards that are effective for the REIT's 2008 year end.

(a) Capital Disclosures:

Section 1535, "Capital Disclosures" establishes standards for the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

(b) Financial Instruments - Disclosures and Presentation:

Sections 3862, "Financial Instruments - Disclosures" and 3863 "Financial Instruments - Presentation" replace the existing Section 3861 "Financial Instruments - Disclosure and Presentation". These new sections revise and enhance disclosure requirements, and carry forward, unchanged, existing presentation requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

In addition, the CICA issued a new accounting standard in February, 2008. Section 3064, "Goodwill and Intangible Assets" replaces the existing Sections 3062 "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs". This new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This standard is effective for the REIT's 2009 fiscal year.

The REIT is in the process of assessing the full impact of these new standards to the consolidated financial statements.

25. SUBSEQUENT EVENTS:

On January 15, 2008, the REIT acquired King Edward Centre, located in Coquitlam, British Columbia. The property was acquired for $16,615 and the purchase price was satisfied with a combination of cash and new mortgage financing in the amount of $10,000 bearing interest at a rate of 5.27% per annum.

On February 1, 2008, the REIT acquired the Leon's Building, located in Nanaimo, British Columbia. The property was acquired for $8,550 and the purchase price was satisfied with a combination of cash and new mortgage financing in the amount of $5,100 bearing interest at a rate of 5.42% per annum.

The REIT has entered into agreements with respect to the acquisitions of various properties located in Alberta and Saskatchewan. The total purchase price of the properties is $20,500. The REIT anticipates that the acquisitions will close in March and April, 2008, and will be financed through a combination of existing mortgage financing, the issuance of 140,845 REIT units at a value of $17.75 per unit, and cash consideration.

The REIT has drawn an aggregate of $10,200 of the available credit facility for bridge financing on the acquisition of King Edward Centre and the Leon's Building.