



March 27, 2007

**SENT BY SEDAR**

TO: Ontario Securities Commission  
British Columbia Securities Commission  
Saskatchewan Financial Services Commission  
Manitoba Securities Commission  
Alberta Securities Commission  
Autorite des marches financiers  
Nova Scotia Securities Commission  
New Brunswick Securities Commission  
Registrar of Securities Prince Edward Island  
Securities Commission of Newfoundland and Labrador

Dear Sirs/Mesdames:

Artis Real Estate Investment Trust (the "Issuer") – SEDAR Project Number 01070039  
MD & A.

Please be advised that we are filing a revised Management's Discussion and Analysis for the year ended December 31, 2006, in order to correct certain typographical and clerical errors in the numbers appearing in the tables set forth on pages 11, 12 and 21. These errors do not appear in or affect Artis REIT's previously filed audited consolidated financial statements for the years ended December 31, 2006 and 2005. The revised management's discussion and analysis supersedes the version filed with the securities regulatory authorities on March 26, 2007.

Yours truly,

Artis Real Estate Investment Trust



# **Management's Discussion & Analysis**

## **2006 Annual (amended)**

On the TSX: AX.UN AX.DB.A AX.DB.B AX.DB.C

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") of the financial condition and results of operations of Artis Real Estate Investment Trust ("Artis REIT" or "the REIT") should be read in conjunction with the REIT's audited annual consolidated financial statements for the years ended December 31, 2006 and 2005 and the Statement of Consolidated Forecasted Net Income (the "Forecast") for the year ended December 31, 2006 included in the REIT's short form prospectus dated February 27, 2006. This MD&A has been prepared taking into account material transactions and events up to and including March 22, 2007. Additional information about Artis REIT, including the REIT's most recent Annual Information Form, has been filed with applicable Canadian securities regulatory authorities and is available at [www.sedar.com](http://www.sedar.com).

### FORWARD-LOOKING DISCLAIMER

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

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

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## OVERVIEW

Artis REIT, formerly Westfield Real Estate Investment Trust, is an unincorporated open-end real estate investment trust created under, and governed by, the laws of the province of Manitoba. The REIT was created as a closed-end trust pursuant to the Declaration of Trust dated November 8, 2004.

The REIT's Declaration of Trust was subsequently amended and restated (the "Declaration of Trust") on October 31, 2006, giving effect to the conversion of the REIT from a closed-end trust to an open-end trust. On February 15, 2007, the REIT underwent a name change from "Westfield Real Estate Investment Trust" to "Artis Real Estate Investment Trust".

Artis REIT's securities are listed on the Toronto Stock Exchange ("the TSX"). Units trade under the symbol AX.UN, and the REIT's Series A, Series B and Series C convertible debentures trade under the symbols AX.DB.A, AX.DB.B and AX.DB.C, respectively. As at March 22, 2007, there were 21,076,452 units and 1,012,393 options of the REIT outstanding (refer to the Subsequent Events section for further details).

### ***Artis REIT's Primary Objectives***

Artis REIT's geographic focus is on primary and growing secondary markets in western Canada, with a particular emphasis on Alberta. Artis REIT is focused exclusively on commercial properties; retail, office and industrial, with strong tenancies in place.

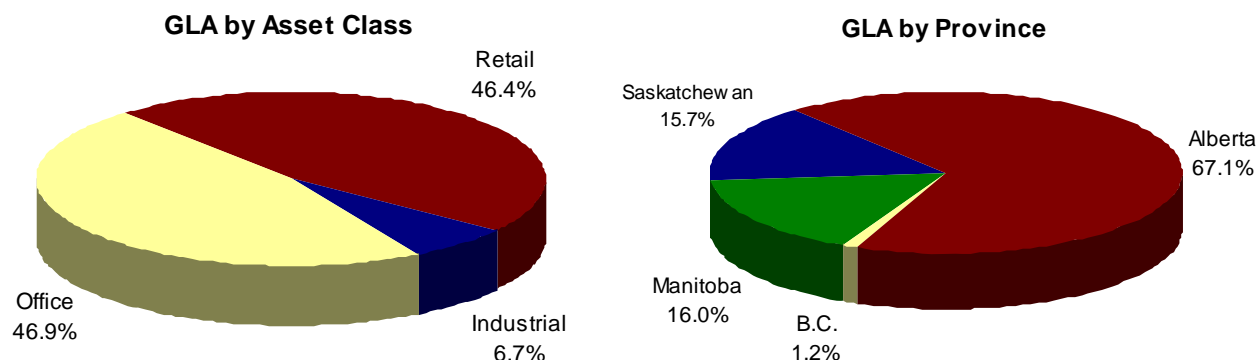
The REIT's primary objectives are:

- to provide unitholders with stable and growing cash distributions, payable monthly and, to the maximum extent practicable, income tax deferred, from investments in a diversified portfolio of income-producing office, retail and industrial properties located in western Canada, primarily in Alberta;
- to enhance the value of Artis REIT's assets and maximize long-term unit value through the active management of its assets; and
- to expand Artis REIT's asset base and increase its distributable income through accretive acquisitions in western Canada.

The Declaration of Trust provides that Artis REIT make monthly cash distributions to its unitholders. The amount distributed in each year will be in an amount equal to not less than the greater of: (i) the amount of distributable income in the year set down in a policy by the Trustees (currently \$1.05 per unit on an annualized basis); and (ii) an amount of net income and net realized capital gains for the year as is necessary to ensure that the REIT will not be subject to tax in accordance with the terms of the Declaration of Trust.

## Artis REIT's Portfolio Summary

At December 31, 2006, Artis REIT's portfolio was comprised of 36 commercial properties located across western Canada totaling 2.9 million square feet (s.f.) of gross leasable area ("GLA").



### Lease Expiries By Asset Class (in 000's of s.f.)

	Office		Retail		Industrial		Total	
	GLA	%	GLA	%	GLA	%	GLA	%
2007*	181	13.2%	76	5.6%	12	6.1%	269	9.2%
2008	350	25.6%	114	8.4%	16	8.2%	480	16.5%
2009	161	11.8%	179	13.2%	37	18.9%	377	12.9%
2010	129	9.4%	282	20.9%	28	14.3%	439	15.1%
2011	330	24.1%	171	12.7%	71	36.2%	572	19.6%
2012 & Later	138	10.1%	488	36.1%	28	14.3%	654	22.4%
	1,289	94.2%	1,310	97.0%	192	98.0%	2,791	95.8%
Vacancies	78	5.8%	41	3.0%	4	2.0%	123	4.2%
Total GLA	1,367	100.0%	1,351	100.0%	196	100.0%	2,914	100.0%

\*including month-to-month leases

### Lease Expiries By Province (in 000's of s.f.)

	Alberta		British Columbia		Manitoba		Saskatchewan	
	GLA	%	GLA	%	GLA	%	GLA	%
2007*	121	6.2%	7	20.0%	98	21.0%	42	9.2%
2008	372	19.0%	2	5.7%	36	7.7%	70	15.3%
2009	267	13.7%	4	11.4%	49	10.5%	57	12.5%
2010	289	14.8%	12	34.3%	48	10.3%	89	19.5%
2011	464	23.7%	8	22.9%	54	11.6%	47	10.3%
2012 & Later	404	20.7%	2	5.7%	124	26.6%	125	27.4%
Total	1,917	98.0%	35	100.0%	409	87.8%	430	94.1%
Vacancies	39	2.0%	-	0.0%	57	12.2%	27	5.9%
Total GLA	1,956	100.0%	35	100.0%	466	100.0%	457	100.0%

### Historical Weighted Average Portfolio Occupancy

Q4-5	Q1-06	Q2-06	Q3-06	Q4-06
92.5%	93.5%	94.9%	95.8%	95.8%

Subsequent to December 31, 2006, Artis REIT has acquired or executed unconditional purchase and sale agreements to acquire the following properties:

<u>Closing Date</u>	<u>Property Name</u>	<u>Location</u>	<u>Asset Class</u>	<u>GLA</u>	<u>% Occupied at Acquisition</u>
January 12, 2007	CDI College	Winnipeg, MB	Office	24,300	100.0%
January 31, 2007	Keewatin Distribution Centre	Winnipeg, MB	Industrial	201,154	100.0%
February 1, 2007	Clareview Town Centre	Edmonton, AB	Retail	55,900	100.0%
February 28, 2007	Centre 70	Calgary, AB	Office	132,251	97.1%
February 28, 2007	Honeywell Building	Calgary, AB	Industrial	61,874	100.0%
February 28, 2007	Millenium Centre	Red Deer, AB	Office	104,580	99.4%
March 1, 2007	Bower Centre	Red Deer, AB	Industrial	125,777	98.5%
March 30, 2007	Dome Britannia	Calgary, AB	Office	220,811	98.6%
March 31, 2007	MTS Call Centre	Winnipeg, MB	Office	75,986	100.0%
				1,002,633	99.1%

### ***Notice Respecting Non-GAAP Measures***

Distributable Income ("DI"), Property Net Operating Income ("Property NOI") and Funds from Operations ("FFO") are non-GAAP measures commonly used by Canadian income trusts as an indicator of financial performance. "GAAP" means the generally accepted accounting principles described by the Canadian Institute of Chartered Accountants which are applicable as at the date on which any calculation using GAAP is to be made.

Artis REIT calculates Distributable Income, or "DI", to reflect distributable cash which is defined in the REIT's Declaration of Trust as net income in accordance with GAAP, 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. The definition of DI used by Artis REIT may not be the same as that used by other REIT's. Readers are further cautioned that DI is not a measure defined under GAAP, and cannot be construed as an alternate measure to earnings or cash flow from operations defined under GAAP. However, given that one of the REIT's objectives is to provide stable cash flows to investors, management believes that DI is an indicative measure for evaluating the REIT's operating performance in achieving its objectives.

Management uses Property NOI as a measure of operating performance. Artis REIT defines Property NOI as revenues, prepared in accordance with GAAP, less property operating expenses such as taxes, utilities, repairs and maintenance. Property NOI does not include charges for interest and amortization.

Artis REIT calculates Funds from Operations, or "FFO", substantially in accordance with the guidelines set out by the Real Property Association of Canada ("RealPAC"). Although FFO is a widely reported measure used by REIT's in Canada and the U.S., readers are cautioned that FFO is not a measure defined under GAAP, and cannot be construed as an alternate measure to earnings or cash flow from operations defined under GAAP. The definition of FFO used by Artis REIT may not be the same as that used by other REIT's. Management considers FFO to be a valuable measure for evaluating the REIT's operating performance in achieving its objectives.

Neither Property NOI, DI nor FFO are intended to represent operating profits for the year, or from a property, nor should either be viewed as an alternative to net income, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP. Readers should be further cautioned that DI, Property NOI and FFO as calculated by the REIT may not be comparable to similar measures presented by other issuers.

Investors are invited to visit our website at [www.artisreit.com](http://www.artisreit.com) or SEDAR at [www.sedar.ca](http://www.sedar.ca) for further information.

## 2006 – ANNUAL HIGHLIGHTS

### **Portfolio Growth**

2006 has been another year of strong portfolio growth for Artis REIT. The REIT acquired 11 properties, increasing the portfolio by over 1 million square feet and further diversifying into the industrial segment, as follows:

	Office		Retail		Industrial		Total	
	# of Properties	S.F. (000's)	# of Properties	S.F. (000's)	# of Properties	S.F. (000's)	# of Properties	S.F. (000's)
Portfolio properties at December 31, 2005	10	991	17	913	-	-	27	1,904
Q1-06 Acquisitions	1	78	3	254	-	-	4	332
Q2-06 Acquisitions	-	-	1	128	1	91	2	219
Q3-06 Acquisitions	1	298	1	74	1	69	3	441
Q4-06 Acquisitions	-	-	1	21	1	36	2	57
Total 2006 Acquisitions	2	376	6	477	3	196	11	1,049
Less Dispositions	-	-	2	39	-	-	2	39
Portfolio properties at December 31, 2006	12	1,367	21	1,351	3	196	36	2,914

Highlights of Artis REIT's 2006 acquisition activity include the May acquisition of Sunridge Spectrum, a 129,003 square foot newer class "A" retail complex 99% occupied by high-profile national tenancies such as Cineplex Odeon, Chapters, ATB Financial and Starbucks, and the July acquisition of Heritage Square, a 298,081 square foot class "A" suburban office complex located in south Calgary.

In 2006, Artis REIT also successfully negotiated two development agreements for new Calgary office properties. Interplex II, which will be 100% owned by the REIT, is proposed to be a 225,000 square foot office building, 62% pre-leased to an international engineering and environmental services firm, with an expected completion date of November, 2008. Interplex III is proposed to be a 211,000 square foot Class "A" office building being developed through a co-development agreement with a third party, with an anticipated completion date in 2009.

Artis REIT also formed a limited partnership, AX L.P. ("AXLP"), and its general partner Artis General Partner Ltd., in connection with the Interplex II and Interplex III transactions, and AXLP issued an aggregate of 721,347 Class B limited partnership units at a weighted average price of \$14.43 per unit. The Class B limited partnership units of AXLP are exchangeable for units of the REIT on a one-for-one basis.

### **Financing Activities**

Artis REIT raised significant capital through the issuance of new units and convertible debentures in 2006. Artis REIT filed its first short-form prospectus on February 27, 2006, and issued 3,862,000 units at a price of \$14.00 per unit for gross proceeds of \$54,068. On May 4, 2006, Artis REIT issued by way of prospectus \$30,000 of 6.25% Series C convertible debentures in a bought-deal arrangement through a syndicate of underwriters. On October 3, 2006, Artis REIT filed another short-form prospectus, issuing an additional 2,795,138 units at a price of \$14.40 per unit for gross proceeds of \$40,250 in a bought-deal arrangement through a syndicate of underwriters. Capital raised through these financing activities was primarily allocated to the financing of acquisitions, and a portion was used to pay down existing mortgages and for working capital purposes.



## **Other Significant Activities**

Good corporate governance is a priority for Artis REIT, and in 2006 the composition of the board was further strengthened with the appointment of two qualified individuals. Mr. Delmore Crewson, now chair of the Audit Committee of the board, is an FCA and a retired partner with a national accounting and auditing firm, and has public company board experience. Mr. Andre Kuzmicki, an active member of the board's Investment Committee, is an experienced real estate executive and educator with prior public company board experience. The board worked to improve governance for the REIT. One initiative included the formalization and adoption of a Code of Conduct for the Board, management of the REIT, and its asset management company.

Artis REIT undertook several key initiatives in the year to improve the liquidity and accessibility of its units, including the February 1, 2006 consolidation of units on a 15 for one basis, the graduation from the TSX Venture Exchange to the Toronto Stock Exchange on April 17, 2006, and the initiation of a dividend reinvestment and unit purchase plan ("DRIP") in June, 2006.

Effective October 31, 2006, Artis REIT amended its Declaration of Trust and converted from a closed-end trust to an open-end trust. The new structure enables the REIT, through its subsidiary AXLP, to issue limited partnership units as consideration in future acquisition transactions.

## **Distributions**

Artis REIT distributed a total of \$12,874 to unitholders (including \$174 to Class B unitholders) in 2006 at a stable rate of \$1.05 on an annualized basis. In 2006, as in 2005, 100% of the amount distributed represented a return of capital, and was not taxable in the hands of unitholders.

## **SELECTED ANNUAL INFORMATION**

### **Selected Financial Information**

(\$000's, except unit and per unit amounts)	Year ended December 31,	
	2006	2005
Revenues	\$ 53,522	\$ 9,644
Property NOI	\$ 34,251	\$ 6,220
Loss for the year	\$ (11,153)	\$ (2,519)
Loss per unit (basic and diluted)	\$ (0.94)	\$ (0.74)
Distributions	\$ 12,874	\$ 3,330
Distributions per unit	\$ 1.05	\$ 0.78
DI	\$ 15,878	\$ 2,508
DI per unit	\$ 1.32	\$ 0.74
DI payout ratio	79.5%	105.4%
FFO	\$ 13,995	\$ 2,017
FFO per unit	\$ 1.16	\$ 0.59
FFO payout ratio	90.5%	132.2%
Weighted average units (basic)	11,907,917	3,399,747
Weighted average units (basic) including Class B units	12,015,853	3,399,747
Total assets	\$ 492,940	\$ 273,267
Total long-term debt	\$ 312,844	\$ 190,834



Artis REIT has executed a disciplined external growth strategy, focusing on acquiring high-quality commercial assets that are accretive to unitholders.

Artis REIT's 2006 revenues have increased significantly by 454% over the prior year, accompanied by a 450% increase in Property NOI. Gross property margin on revenues has remained relatively stable (64.0% at December 31, 2006 compared to 64.5% at December 31, 2005). These significant increases are attributed to the impact of a full year of operations of the 26 properties acquired in 2005 as well as the partial impact on operations of 2006 acquisitions.

Losses for 2006 increased over the comparable year, primarily as a result of the increase in non-cash amortization expense related to properties acquired in 2006 and 2005, which offset the increase in revenues, net of property operating expenses, interest and corporate expenses.

Artis REIT has successfully deployed capital raised in the market into accretive acquisitions, as indicated by the substantial growth in DI and FFO, accompanied by significant reductions in the payout ratios. Artis REIT's 2006 DI increased \$13,370 to \$15,878, while the distribution payout ratio was reduced to 79.5% at December 31, 2006. Artis REIT's FFO increased \$11,978 to \$13,995, while the distribution payout ratio was reduced to 90.5% at December 31, 2006.

Artis REIT's financial results for 2006 are not indicative of future performance as the current year acquisitions were not owned for the full year. Management anticipates there will be further growth in revenues, property NOI, DI and FFO from these acquisitions in future periods.

Total assets have increased \$219,673 over the prior year as a result of on-going acquisition activity. Long-term debt increased \$122,010, as a result of the new and assumed mortgage financing related to acquired properties, less mortgages repaid in the year, as well as the issue of Series C convertible debentures.

## ANALYSIS OF OPERATING RESULTS

(\$000's, except unit and per unit amounts)	Year ended December 31, 2006		Year ended December 31, 2005	
		% of Revenue		% of Revenue
Revenues	\$ 53,522		\$ 9,644	
Property operating expenses	19,271	36.0%	3,424	35.5%
Property NOI	34,251	64.0%	6,220	64.5%
Interest	17,003	31.8%	3,165	32.8%
	17,248		3,055	
Expenses:				
Corporate	3,081	5.8%	913	9.5%
Amortization	26,148		4,661	
	29,229		5,574	
Loss before the undernoted	(11,981)		(2,519)	
Gain on disposal of income-producing properties	828		-	
Loss for the year	\$ (11,153)		\$ (2,519)	
Loss per unit (basic and diluted)	\$ (0.94)		\$ (0.74)	
Weighted average number of units: Basic and diluted	11,907,917		3,399,747	

## **Revenues and Property NOI**

Revenues from income properties include all amounts earned from tenants related to lease agreements, including basic rent, parking, operating cost and realty tax recoveries, as well as adjustments for the straight-lining of rents and above- or below-market rate adjustments recorded in accordance with GAAP. Property operating expenses include realty taxes as well as other costs related to interior and exterior maintenance, HVAC, elevator, insurance, utilities and management fees.

As indicated below, acquisition activity has contributed substantially to revenues and Property NOI in both 2006 and 2005.

(\$000's)	Year ended December 31, 2006		Year ended December 31, 2005	
	Same asset <sup>(1)</sup>	Acquisitions	Same asset <sup>(1)</sup>	Acquisitions
Revenues	\$ 37,358	\$ 15,240	\$ 953	\$ 8,243
Property operating expenses	14,668	4,603	213	3,211
Property NOI	\$ 22,690	\$ 10,637	\$ 740	\$ 5,032
<i>Share of Property NOI</i>	68%	32%	13%	87%

<sup>(1)</sup> "Same asset" includes income-producing properties owned on the first day of the reporting period

In accordance with GAAP, Artis REIT accounts for rent step-ups by straight-lining the incremental increases over the entire non-cancelable lease term. In 2006, straight-line rent adjustments of \$1,063 were recorded compared to \$207 in 2005.

On the acquisition of properties, Artis REIT records intangible assets and liabilities resulting from above- and below-market rent leases. These intangible assets and liabilities are amortized to revenue over the term of the related leases. In 2005 and 2006, Artis REIT acquired a number of properties, particularly in the Alberta market, which has leases in-place at rent rates well below market. As a result, in 2006, the adjustment to market rents was \$3,036 compared to \$648 in 2005.

Revenues in 2006 included \$910 of interest earned by the REIT (compared to \$289 in 2005) and \$14 of other income (compared to \$159 in 2005).

### **Property NOI by Asset Class and Province**

Property NOI results by asset class and province have been significantly impacted by acquisition activity over the course of 2005 and 2006.

Property NOI by Asset Class (\$000's)	Year ended December 31, 2006			Year ended December 31, 2005		
	Retail	Office	Industrial	Retail	Office	Industrial
Revenue	\$25,356	\$26,353	\$889	\$5,519	\$3,677	-
Property operating expenses	7,082	11,940	\$249	1,389	2,035	-
Property NOI	\$18,274	\$14,413	\$640	\$4,130	\$1,642	-
<i>Share of Property NOI</i>	54.8%	43.3%	1.9%	71.6%	28.4%	-

Property NOI by Province (\$000's)	Year ended December 31, 2006				Year ended December 31, 2005			
	MB	SK	AB	BC	MB	SK	AB	BC
Revenue	\$8,822	\$10,306	\$32,494	\$976	\$2,101	\$2,664	\$4,352	\$79
Property operating expenses	4,191	3,294	11,508	278	1,293	792	1,318	21
Property NOI	\$4,631	\$7,012	\$20,986	\$698	\$808	\$1,872	\$3,034	\$58
Share of Property NOI	13.9%	21.0%	63.0%	2.1%	14.0%	32.4%	52.6%	1.0%

Consistent with its stated focus, Artis REIT's management will continue to weight the portfolio's Property NOI more heavily in Alberta, to take advantage of the strong economic fundamentals in that province.

### **Interest**

The current year's interest on long-term debt is attributable to mortgages and other secured loans against the income-producing properties as well as convertible debentures outstanding.

The REIT's weighted average interest rate on mortgages and other debt secured by properties at December 31, 2006 is 5.46% compared to 5.24% for 2005.

At the time of issue, the convertible debentures are allocated between their equity and liability components in accordance with GAAP. Artis REIT recorded interest expense of \$4,257 on the carrying value of debentures outstanding in 2006, compared to \$354 in 2005.

### **Corporate Expenses**

(\$000's)	Year ended December 31,	
	2006	2005
Accounting, legal, consulting	\$ 529	\$ 410
Advisory Fees	939	155
Public company costs	426	58
Annual report and AGM	61	-
Unit based compensation	502	157
Other general and administrative	227	133
Costs related to bid on property portfolio	397	-
Total corporate expenses	\$ 3,081	\$ 913

Corporate expenses in 2006 were \$3,081 (5.8% of gross revenues) compared to \$913 in 2005 (9.5% of gross revenues).

Advisory fees increased \$784 over the prior year, reflecting the increased asset base of the REIT. Public company costs increased \$368, including a one-time TSX initial listing fee of \$160 related to the move from the TSX Venture Exchange to the TSX. Other public company cost increases were primarily driven by the larger market capitalization of the REIT and the increased size of the REIT's board. A final factor contributing to the year-over-year increase in corporate expenses is the \$397 of costs incurred on an unsuccessful bid to acquire a large portfolio of properties.

Management anticipates that corporate expenses will increase slightly in future periods as the asset base and market capitalization of the REIT continue to grow. However, management expects that corporate expenses as a percentage of gross revenues will decline in future periods as the full impact of revenues from recent acquisitions are realized.

### **Amortization**

Amortization expense includes amortization of the income-producing properties and their related intangible assets, plus office equipment and other assets such as deferred financing costs.

Artis REIT follows EIC Abstract 140 in accounting for acquisitions of income-producing properties, which requires that a portion of the purchase price be allocated to intangible assets, such as the value of in-place operating leases and customer relationship values. Income-producing properties are amortized on a straight-line basis over their useful lives, resulting in amortization expense of \$10,106 in 2006 compared to \$1,900 in 2005. Intangible assets (in-place operating leases and customer relationship values) are amortized on a straight-line basis over the term of the underlying lease agreements. In 2006 Artis REIT recorded \$15,027 for the amortization of intangible assets, compared to \$2,627 in 2005.

Deferred financing costs include legal and other fees incurred in connection with mortgages and other loans against properties, as well as the issuance of convertible debentures. Deferred financing costs are amortized over the terms of the underlying loan or indenture agreements. In 2006, Artis REIT recorded \$765 for the amortization of deferred financing costs, compared to \$124 in 2005.

### **Comparison to Forecast**

In its prospectus dated February 27, 2006, the REIT provided a Consolidated Forecasted Net Income (the "Forecast") for the year ended December 31, 2006. A comparison of actual results to the Forecast for the period follows:

(\$000's, except unit and per unit amounts)		Year ended December 31,	
	Actual		Forecast
Revenue	\$ 53,522	\$	42,801
Property operating expenses	19,271		15,137
Property NOI	34,251		27,664
Interest	17,003		13,070
	17,248		14,594
Expenses:			
Corporate	3,081		1,260
Amortization	26,148		20,672
	29,229		21,932
Loss before the undernoted	(11,981)		(7,338)
Gain on disposal of income-producing properties	828		943
Loss for the year	\$ (11,153)	\$	(6,395)
Loss per unit (basic and diluted)	\$ (0.94)	\$	(0.59)
Weighted average number of units:			
Basic and diluted	11,907,917		10,905,501

Artis REIT's revenues, property operating expenses, interest and corporate and amortization expenses all exceeded the Forecast, primarily as a result of the acquisition of additional income-producing properties not contemplated in the Forecast.

Artis REIT's 2006 Property NOI surpassed forecasted 2006 Property NOI expectations by \$6,587 or 23.8%, also primarily as a result of the additional acquisition activity. However, Artis REIT has also achieved growth in same Property NOI over the Forecast.

A reconciliation of Property NOI from the Forecast to actual results follows:

(\$000's)	Year ended December 31, 2006
<b>Forecast Property NOI</b>	<b>\$ 27,664</b>
Delay in forecasted acquisition	(82)
Interest revenue exceeding forecast amount	732
Property NOI from acquisitions not included in forecast	6,055
Property NOI from dispositions not included in forecast	(159)
Actual Property NOI exceeding forecast Property NOI	41
<b>Actual Property NOI</b>	<b>\$ 34,251</b>

Year-to-date interest expense exceeded the Forecast by \$3,933. A substantial portion of the increase is attributable to interest on the \$30,000 Series C debentures issued in May 2006 which resulted in \$1,544 not being forecast. Additional interest expense of \$2,503 was recorded as a result of mortgages on acquisitions not contemplated in the Forecast. During the year, interest expense was reduced from the Forecast as a result of two property dispositions, as well as by the repayment of mortgages in October and November.

Corporate expenses and non-cash amortization expenses were higher than anticipated, substantially as a result of acquisitions not contemplated in the Forecast, as well as costs incurred on an unsuccessful bid to acquire a large portfolio of properties (\$397) and one-time TSX initial listing fees (\$160).

### ***Distributable Income (DI):***

Consistent with the application of CSA Staff Notice 52-306 (Revised) Non-GAAP Financial Measures, Artis REIT reconciles DI to cash flows from operating activities, in addition to the net loss for the period.

#### ***Reconciliation of GAAP Loss to DI:***

(\$000's, except unit and per unit amounts)	Year ended December 31,	
	<b>2006</b>	2005
Loss for the year	<b>\$ (11,153)</b>	\$ (2,519)
Add:		
Amortization (excluding amortized leasing costs)	<b>25,133</b>	4,527
Amortized financing costs on convertible debentures	<b>533</b>	105
Accretion to carrying value of debt	<b>1,094</b>	238
Unit-based compensation expense	<b>502</b>	157
Gain on disposal of income-producing properties	<b>(828)</b>	-
Other adjustments <sup>(1)</sup>	<b>597</b>	-
<b>DI</b>	<b>\$ 15,878</b>	\$ 2,508
<b>DI per unit</b>		
Basic	<b>\$ 1.32</b>	\$ 0.74
Diluted	<b>\$ 1.26</b>	\$ 0.73

Weighted average number of units:

Basic <sup>(2)</sup>	<b>12,015,853</b>	3,399,747
Diluted <sup>(2)</sup>	<b>14,844,073</b>	3,420,353

(1) Added back to 2006 DI is \$397 of costs attributable to an unsuccessful bid on a portfolio of assets. Added back to 2006 DI is \$200 of Property rent, which is cash revenue earned pursuant to the Interplex II purchase and sale agreement not recorded as revenue in the REIT's Consolidated Statement of Operations and Deficit due to the project being in the development phase.

(2) The weighted average number of units used in the calculation of basic and diluted DI per unit includes the 721,347 Class B units issued by the REIT's subsidiary, AXLP, on a weighted average basis. Options and convertibles debentures are factored into the diluted weighted average calculation, to the extent that their impact is dilutive.

**Reconciliation of Cash Flows from Operations to DI:**

(\$000's)	Year ended December 31,	
	<b>2006</b>	<b>2005</b>
Cash flow from operations	<b>\$ 13,620</b>	\$ 4,706
Deduct amortization of:		
Office equipment	<b>(4)</b>	(1)
Above-market rent	<b>(213)</b>	(67)
Below-market rent	<b>3,249</b>	715
Tenant inducement and leasing costs	<b>(246)</b>	(9)
Above-market mortgage	<b>81</b>	9
Deferred financing costs, non-debenture	<b>(232)</b>	(19)
Add: Straight-line rent adjustment	<b>1,063</b>	207
Deduct: Units issued for Trustees compensation	<b>(15)</b>	-
Deduct: change in non-cash items	<b>(2,022)</b>	(3,033)
Other adjustments <sup>(1)</sup>	<b>597</b>	-
<b>DI</b>	<b>\$ 15,878</b>	\$ 2,508

(1) Added back to 2006 DI is \$397 of costs attributable to an unsuccessful bid on a portfolio of assets. Added back to 2006 DI is \$200 of Property rent, which is cash revenue earned pursuant to the Interplex II purchase and sale agreement not recorded as revenue in the REIT's Consolidated Statement of Operations and Deficit due to the project being in the development phase.

2006 DI has increased \$13,370 over 2005; basic DI per unit has increased by \$0.58, or 78.4% over 2005 (\$0.53 or 72.6% on a diluted basis). These significant increases are attributed to the impact of a full year on operations of the 26 properties acquired in 2005, as well as the partial impact of operations of 2006 acquisitions.

As the current year acquisitions were not owned for the full period, management anticipates there will be further DI growth from these acquisitions in future years.

## **Funds from Operations (FFO):**

Consistent with the application of CSA Staff Notice 52-306 (Revised) Non-GAAP Financial Measures, Artis REIT reconciles FFO to cash flows from operating activities, in addition to the net loss for the period.

### **Reconciliation of GAAP loss to FFO:**

(\$000's, except unit and per unit amounts)	Year ended December 31,	
	2006	2005
Loss for the year	\$ (11,153)	\$ (2,519)
Add amortization on:		
Income-producing properties	10,106	1,900
Acquired in-place leases	15,004	2,597
Customer relationships	23	30
Tenant improvement and leasing costs	246	9
Gain on disposal of income-producing properties	(828)	-
Other adjustments <sup>(1)</sup>	597	-
<b>FFO for the period</b>	<b>\$ 13,995</b>	<b>\$ 2,017</b>
<b>FFO per unit</b>		
Basic	\$ 1.16	\$ 0.59
Diluted	\$ 1.16	\$ 0.59
<b>Weighted average number of units:</b>		
Basic <sup>(2)</sup>	12,015,853	3,399,747
Diluted <sup>(2)</sup>	12,078,079	3,420,353

(1) Added back to 2006 FFO is \$397 of costs attributable to an unsuccessful bid on a portfolio of assets. Added back to 2006 FFO is \$200 of Property rent, which is cash revenue earned pursuant to the Interplex II purchase and sale agreement not recorded as revenue in the REIT's Consolidated Statement of Operations and Deficit due to the project being in the development phase.

(2) The weighted average number of units used in the calculation of FFO per unit reflects 721,347 of class B units issued by the REIT's subsidiary, AXLP. Options and convertibles debentures are factored into the diluted weighted average calculation, to the extent that their impact is dilutive.

### **Reconciliation of FFO to Cash flows from operations:**

(\$000's)	Year ended December 31,	
	2006	2005
Cash flow from operations	\$ 13,620	\$ 4,706
Deduct amortization of:		
Office equipment	(4)	(1)
Above-market rent	(213)	(67)
Deferred financing costs	(765)	(124)
Below-market rent	3,249	715
Above-market mortgage	81	9
Add: Straight-line rent adjustment	1,063	207
Deduct: Units issued for Trustees compensation	(15)	-
Deduct: Accretion on liability component of convertible debentures	(1,094)	( 238)
Unit based compensation expense	(502)	( 157)
Deduct: change in non-cash items	(2,022)	(3,033)
Other adjustments <sup>(1)</sup>	597	-
<b>FFO for the period</b>	<b>\$ 13,995</b>	<b>\$ 2,017</b>

(1) Added back to 2006 FFO is \$397 of costs attributable to an unsuccessful bid on a portfolio of assets. Added back to 2006 FFO is \$200 of Property rent, which is cash revenue earned pursuant to the Interplex II purchase and sale agreement not recorded as revenue in the REIT's Consolidated Statement of Operations and Deficit due to the project being in the development phase.



2006 FFO has increased \$11,978 over 2005; FFO per unit (basic and diluted) has increased by \$0.57 or 96.6% over 2005. These significant increases are attributed to the impact of a full year of operations of the 26 properties acquired in 2005 as well as the partial impact on operations of 2006 acquisitions.

As the current year acquisitions were not owned for the full period, management anticipates there will be further FFO growth from these acquisitions in future years.

## ANALYSIS OF FINANCIAL POSITION

### Assets

(\$000's)	December 31, 2006	December 31 2005	Change
Income-producing properties	\$ 388,845	\$ 209,658	\$ 179,187
Other assets, including intangibles	78,173	52,224	25,949
Deposits on income-producing properties	10,343	425	9,918
Cash and cash equivalents	15,579	10,960	4,619
	<b>\$ 492,940</b>	<b>\$ 273,267</b>	<b>\$ 219,673</b>

#### Income-producing properties and related intangible assets:

Artis REIT's income-producing properties and the related intangible assets (net of accumulated amortization) increased significantly in the year, reflecting the acquisition of 11 income-producing properties during the year.

<i>Property</i>	<i>Location</i>	<i>Acquisition Date</i>	<i>Type</i>
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	2555 - 32nd St. NE, Calgary, AB	May 31, 2006	Retail
McCall Lake	1338-36 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

Funds for the acquisitions were obtained primarily from the proceeds of new or assumed mortgage financing as well as equity and convertible debenture financings completed in the year. Acquisitions have been accounted for by the purchase method, with the results of operations included in Artis REIT's accounts from the dates of acquisition.

(\$000's)	Year ended December 31,	
	2006	2005
Cash consideration	\$ 85,200	\$ 83,638
Issuance of Class B units	2,612	-
New or assumed mortgages including above-market mortgage	132,211	162,659
<b>Net assets acquired</b>	<b>\$ 220,023</b>	<b>\$ 246,297</b>
Allocated to income-producing properties	\$ 191,109	\$ 205,143
Allocated to property under development	2,632	-
Allocated to other assets	35,661	49,113
Allocated to intangible liabilities	(9,379)	(7,959)
<b>Net assets acquired</b>	<b>\$ 220,023</b>	<b>\$ 246,297</b>

During 2006, Artis REIT sold two properties, known as Edgemont Mall and Keystone Village Mall, in two separate transactions, and the net assets and intangible assets totaling \$7,799 associated with the properties were removed from the records of the REIT.

#### **Property under development:**

Included in income-producing properties is property under development of \$2,632, which represents a 50% undivided interest in land in Calgary, Alberta. The lands are to be developed into a 211,000 square foot Class A office building (known as Interplex III) in accordance with a co-ownership agreement between the vendor of the lands and the REIT's subsidiary, AXLP. The development is anticipated to commence in 2007 and is slated for completion in 2009.

#### **Capital expenditures**

Included as additions to income-producing properties are certain capital expenditures related to substantive building improvements not related to a specific lease or tenancy. These improvements are depreciated over the estimated useful life of the relevant assets.

These non-recoverable capital expenditures in 2006 totaled \$1,741 (compared to nil in 2005), and included a roof replacement for a retail property (\$581) as well as the total redevelopment of a full floor in one of the REIT's office buildings. Management considers the redevelopment project to be revenue enhancing, as the space is being improved from Class "C" building standards to Class "B" building standards, which is expected to translate into higher rents on lease-up.

#### **Tenant Inducements and leasing costs:**

Other assets of the REIT includes \$3,661 of unamortized tenant inducement and leasing costs related to the leasing or re-leasing of occupied or vacant space. Tenant inducements include costs incurred to improve the space as well as allowances paid to tenants. Leasing costs are primarily brokers' commissions. These costs are deferred and amortized over the terms of the underlying leases.

	Year ended December 31,	
	2006	2005
Tenant inducements	\$ 2,848	\$ 293
Leasing commissions	813	49
Total	<u>\$ 3,661</u>	<u>\$ 342</u>

#### **Deferred recoverable operating costs:**

Deferred recoverable operating costs include major repair or replacement items (such as HVAC, elevator or roof replacements) that are recoverable from tenants under leases. These costs are deferred when incurred and amortized to recoverable expenses over the planned period of recovery. In 2006, the REIT incurred \$557 of deferred recoverable operating costs, primarily in HVAC and elevator replacements.

#### **Deposits on income-producing properties:**

At December 31, 2006, Artis REIT had made \$2,600 of deposits on income-producing properties, primarily related to the unconditional agreements to acquire nine income-producing properties during the first quarter of 2007.

Also included in deposits on income-producing properties at December 31, 2006, is a \$7,743 interim payment, net of adjustments, made towards the final purchase price of the Interplex II property, currently under development. The initial payment of \$7,800 was paid by issuing Class B units of the REIT's subsidiary AXLP. In accordance with GAAP, the initial deposit has been reduced by the \$200 earned by the REIT under the terms of the Interplex II purchase and sale agreement offset by the \$143 distributions paid (or payable) on the Class B units issued.

#### **Cash and cash equivalents:**

At December 31, 2006, the REIT had \$15,579 of cash and cash equivalents on hand, including cash held in trust, reflecting the remaining proceeds from the October prospectus offering to be invested in income producing property subsequent to December 31, 2006.

## **Liabilities**

	December 31, 2006	December 31 2005	Change
Long term debt	\$ 312,844	\$ 190,834	\$ 122,010
Other liabilities	<u>21,976</u>	<u>13,073</u>	<u>8,903</u>
	<u>\$ 334,820</u>	<u>\$ 203,907</u>	<u>\$ 130,913</u>

Long term debt is comprised of mortgages and other loans related to properties as well as the carrying value of convertible debentures issued by the REIT. In accordance with GAAP, Artis REIT's convertible debentures on issue are separated into a liability and an equity component; with the liability component, or "carrying value" included in long-term debt of the REIT.

Under the terms of Artis REIT's Declaration of Trust, the total indebtedness of the REIT (excluding indebtedness related to the convertible debentures) is limited to 70% of gross book value ("GBV"). GBV is calculated as the consolidated net book value of the consolidated assets of the REIT, adding back the amount of accumulated amortization of the income-producing properties and other assets (including

intangibles) as disclosed in the balance sheet and notes thereto.

At December 31, 2006, the REIT's debt-to-GBV ratios are as follows:

(\$000's)	<i>Prior period has been restated to conform to current year's presentation</i>			
	December 31, 2006		December 31 2005	
GBV	\$	523,081	\$	278,065
Mortgages and loans secured by properties <sup>(1)</sup>	\$	272,341	\$	168,889
Mortgages and loans to GBV		52.1%		60.7%
Carrying value of convertible debentures	\$	40,503	\$	21,945
Total long-term debt	\$	312,844	\$	190,834
Total long-term debt to GBV		59.8%		68.6%
(1) Includes \$613 mark-to-market on above-market mortgages (2005, \$175)				

### Mortgages:

Artis REIT finances acquisitions in part through the assumption of mortgage financing and consequently substantially all of the REIT's income-producing properties are pledged as security under mortgages and other loans. In 2006, Artis REIT assumed or arranged \$132,211 of mortgage debt related to the acquisitions of income-producing properties. In 2006, Artis REIT repaid two mortgages and one vendor take-back loan totaling \$19,230 that matured in October, November and December of 2006. In addition to \$4,261 of principal repayments made during the year, the mortgage debt balance was further reduced by \$5,187 as a result of the disposition of two income-producing properties. There were no mortgages refinanced during the year.

The weighted average term to maturity is 7.0 years at December 31, 2006, compared to 6.6 years at December 31, 2005.

### Convertible debentures:

Artis REIT has issued four series of convertible debentures, proceeds of which have been used primarily to finance acquisitions, and for working capital purposes.

A summary of Artis REIT's debentures outstanding as at December 31, 2006, is as follows:

(\$000's)				At December 31, 2006		At December 31, 2005	
	Issued	Maturity	Face rate	Carrying value	Face value	Carrying value	Face value
\$875 convertible	3-Aug-05	3-Aug-06	7.25%	\$ -	\$ -	\$ 847	\$ 875
Series A	4-Aug-05	4-Aug-10	7.75%	8,699	10,185	12,339	15,000
Series B	9-Nov-05	9-Nov-10	7.50%	9,093	10,862	8,759	10,862
Series C	4-May-06	31-May-13	6.25%	22,711	30,000	-	-
				\$ 40,503	\$ 51,047	\$ 21,945	\$ 26,737

On August 3, 2006, the \$875 convertible debenture matured. The holder, a corporation under the control of certain Trustees of the REIT, exercised its option and converted the debenture into 145,833 units at the exercise price of \$6. The carrying value of the debenture on maturity of \$875, together with the equity component attributed to the debenture of \$46, was recorded as a capital contribution in the year.

During the year, Series A convertible debentures with a face value of \$4,815 were converted and 382,138

units were issued at the exercise price of \$12.60 per unit. The carrying value was reduced by \$4,071.

**Other liabilities:**

Other liabilities includes the below-market rent intangible liability (net of accumulated amortization) which has increased significantly in the year as a result of 2006 acquisition activity. Also included in other liabilities are security deposits paid by tenants, rents prepaid by tenants at December 31, 2006, accounts payable and accruals as well as the distribution to unitholders of \$1,506 subsequently paid on January 15, 2007.

***Non-Controlling Interest***

In accordance with GAAP, the amount of equity related to the issue of 721,347 Class B units of a subsidiary, AXLP, net of costs of issuance of \$13, has been recorded as a non-controlling interest of the REIT. The Class B units are exchangeable on a one-for-one basis with units of the REIT, and holders of the Class B units of AXLP are entitled to receive distributions at a per unit amount equal to the per unit amount payable to holders of the REIT's trust units.

In October of 2006, AXLP issued 543,781 Class B units as consideration for the interim purchase price of \$7,800 under the Interplex II purchase and sale agreement. Interplex II is a Class A office building under construction in Calgary, Alberta, and upon completion (estimated November, 2008), Artis REIT will acquire the property at a price calculated on a pre-determined formula based on in-place leases at completion. Pursuant to the purchase and sale agreement, the REIT is entitled to earn \$100 per month in property rents from the vendor. Distributions paid or payable to the vendor on the Class B units (\$143 in 2006) are first netted against the property rents, the remaining net property rents are recorded as a reduction to the deposit on the property.

In November of 2006, AXLP issued a further 177,566 Class B units as consideration for its 50% interest of \$2,612 in certain lands in Calgary, Alberta (see preceding section "Land under development" for further information). Distributions paid to the vendor on the Class B units (\$31 in 2006) are recorded as a reduction to the balance of non-controlling interest.

***Unitholders' Equity***

Unitholders' equity increased by \$78,392 between December 31, 2005 and December 31, 2006, primarily as result of the completion of equity and debenture offerings in the year. Pursuant to the prospectus dated February 27, 2006, Artis REIT issued 3,862,000 units at a price of \$14.00 per unit for gross proceeds to the REIT of \$54,068 (including the exercise of the over-allotment option). Pursuant to the prospectus dated April 26, 2006, Artis REIT issued \$30,000 of Series C convertible redeemable debentures and at the time of issue, allocated a portion of the proceeds to the liability and equity components of the financial instrument. Unitholders' equity was increased \$7,590 as a result of that issue. Pursuant to the prospectus dated October 3, 2006, Artis REIT issued an additional 2,795,137 units at a price of \$14.40 per unit for gross proceeds to the REIT of \$40,250.

Unitholders' equity increased during the year by a further \$5,901 as a result of the conversion of the \$875 convertible debenture (in full) during the year and conversions of a principal amount of \$4,815 of Series A convertible debentures. Other transactions increasing Unitholders' equity in the year included issuance of units under the DRIP plan, the exercise of options, units issued in lieu of cash for trustees' compensation and adjustments to contributed surplus to reflect unit based compensation expense in the period.

Unitholders' equity was decreased during the year by the net loss for the period and by the distributions made to Unitholders.

## LIQUIDITY AND CAPITAL RESOURCES

In 2006, Artis REIT generated \$13,620 of cash flows from operations. Cash flows from operations, in addition to \$3,440 of cash realized on the disposition of two income-producing properties, were used primarily to fund distributions to Unitholders of \$12,700, distributions to Class B unitholders of \$174 and for principal repayments on mortgages and loans of \$4,261. As the current year acquisitions were not owned for the full period, management anticipates that cash flows from operations will increase in future years as a result of these acquisitions.

Proceeds from the issuance of units and debentures totaling \$119,192 in 2006, were used to finance the cash portion of acquisitions in the year totaling \$85,200 as well as for repayment of mortgages and loans payable due in the year of \$19,230.

Artis REIT is not in default or arrears on any of its obligations, including distributions to Unitholders, interest or principal payments on debt or any debt covenants. A summary of the REIT's contractual obligations follows:

(\$000's)	Less than 1				
	Total	year	1 - 3 years	4 - 5 years	After 5 years
Mortgages and other loans secured by properties <sup>(1)</sup>	\$ 271,728	\$ 9,415	\$ 25,889	\$ 59,049	\$ 177,375
Convertible debentures <sup>(2)</sup>	51,047	-	-	21,047	30,000
Total	\$ 322,775	\$ 9,415	\$ 25,889	\$ 80,096	\$ 207,375

(1) Not including \$613 of mark to market on mortgages.  
(2) It is assumed that none of the debentures convert and that they are paid out in cash on maturity.

Only one of the REIT's mortgages matures in the upcoming year and management does not foresee any difficulties in obtaining replacement financing.

The REIT's management expects to meet all of its on-going obligations and capital commitments with respect to owned properties through funds generated from operations, from the proceeds of mortgage refinancing, and from cash on hand, as well as through the issuance of new equity or debentures.

## SUMMARIZED QUARTERLY INFORMATION AND Q4-06 ANALYSIS

<i>\$Thousands, except per unit amounts</i>								
	Q4-06	Q3-06	Q2-06	Q1-06	Q4-05	Q3-05	Q2-05	Q1-05
Revenue	\$ 16,489	\$ 15,744	\$ 11,932	\$ 9,357	\$ 6,547	\$ 1,728	\$ 854	\$ 515
Property operating expenses	6,077	5,665	3,912	3,617	2,728	355	209	132
	10,412	10,079	8,020	5,740	3,819	1,373	645	383
Interest	4,834	5,277	3,986	2,906	2,150	634	212	169
	5,578	4,802	4,034	2,834	1,669	739	433	214
Expenses:								
Corporate	973	532	1,125	451	584	219	59	51
Amortization	7,864	7,545	5,906	4,833	3,284	665	478	234
	8,837	8,077	7,031	5,284	3,868	884	537	285
Loss before the undernoted	(3,259)	(3,275)	(2,997)	(2,450)	(2,199)	(145)	(104)	(71)
Gain (loss) on disposal of income-producing properties	-	-	(113)	941	-	-	-	-
Loss for the period	\$ (3,259)	\$ (3,275)	\$ (3,110)	\$ (1,509)	\$ (2,199)	\$ (145)	\$ (104)	\$ (71)
Loss per unit								
Basic and diluted	\$ (0.22)	\$ (0.27)	\$ (0.26)	\$ (0.17)	\$ (0.31)	\$ (0.04)	\$ (0.08)	\$ (0.06)

The quarterly review indicates steady growth in Artis REIT's revenues and Property NOI. This is attributable to the successful closing of accretive acquisitions over the past two years. Property NOI was 63.1% of gross revenues in Q4-06, substantially in line with Q3-06 results of 64.0%.

Interest expense in Q4-06 was substantially reduced from Q3-06, as a result of interest eliminated on repayment of mortgages and loans in October, November and December. Corporate expenses in Q4-06 were \$441 higher than in Q3-06, largely due to a \$343 fourth quarter non-cash charge against income for the expense attributed to options issued in October.

Accounting losses have increased as a result of increasing non-cash amortization of the income-producing properties and their related intangible assets.



**Reconciliation of GAAP loss to DI:**

<b>\$ Thousands, except unit and per unit amounts</b>								
	<b>Q4-06</b>	<b>Q3-06</b>	<b>Q2-06</b>	<b>Q1-06</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q1-05</b>
Loss for the period	\$ (3,259)	\$ (3,275)	\$ (3,110)	\$ (1,509)	\$ (2,199)	\$ (145)	\$ (104)	\$ (71)
Add:								
Amortization (excluding amortized leasing costs)	7,504	7,260	5,686	4,683	3,193	626	477	231
Amortized financing costs on convertible debentures	163	163	115	92	65	37	3	-
Accretion to carrying value of debt	172	399	326	197	162	73	-	3
Unit-based compensation expense	382	40	40	40	157	-	-	-
(Gain) loss on disposal of income-producing properties	-	-	113	(941)	-	-	-	-
Other adjustments	200 <sup>(1)</sup>	-	397 <sup>(2)</sup>	-	-	-	-	-
DI	\$ 5,162	\$ 4,587	\$ 3,567	\$ 2,562	\$ 1,378	\$ 591	\$ 376	\$ 163
DI per unit								
Basic	\$ 0.34	\$ 0.38	\$ 0.30	\$ 0.29	\$ 0.20	\$ 0.14	\$ 0.30	\$ 0.14
Diluted	\$ 0.33	\$ 0.35	\$ 0.28	\$ 0.27	\$ 0.20	\$ 0.14	\$ 0.30	\$ 0.14
Weighted average number of units:								
Basic	15,153,247 <sup>(3)</sup>	12,072,151	11,850,099	8,918,795	6,993,641	4,122,383	1,269,728	1,140,980
Diluted	18,577,492	15,609,760	15,003,921	11,502,700	7,030,560	4,152,154	1,270,131	1,142,227
<sup>(1)</sup> Added back to Q4-06 DI is property rent. Property rent is cash revenue earned pursuant to the Interplex II purchase and sale agreement not recorded as revenue in the REIT's Consolidated Statement of Operations and Deficit due to the project being in the development phase.								
<sup>(2)</sup> Added back to Q2-06 DI is \$397 of costs attributable to an unsuccessful bid on a portfolio of assets.								
<sup>(3)</sup> Q4-06 basic weighted average number of units outstanding includes Class B units.								

DI has grown steadily on a quarter-by-quarter basis since January of 2005. This is attributable to the successful closing of accretive acquisitions over the past two years. In Q4-06, Artis REIT realized \$5,162 of DI, a 12.5% increase over the Q3-06 DI and a 274.6% increase over Q4-05.

DI per unit has also increased steadily, with a slight decline from the high in Q3-06 of \$0.38 (basic) to \$0.34 per unit in Q4-06. Per unit results were significantly impacted in the period as a result of the issuance in October of 2,795,138 new Trust units and 721,347 Class B units, while the substantial investment of those proceeds into income-producing properties was completed subsequent to December 31, 2006.

**Reconciliation of GAAP loss to FFO:**

<b>\$ Thousands, except unit and per unit amounts</b>								
	<b>Q4-06</b>	<b>Q3-06</b>	<b>Q2-06</b>	<b>Q1-06</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q1-05</b>
Loss for the period	\$ (3,259)	\$ (3,275)	\$ (3,110)	\$ (1,509)	\$ (2,199)	\$ (145)	\$ (104)	\$ (71)
Add amortization on:								
Income-producing properties	3,079	3,010	2,211	1,806	1,318	308	153	121
Acquired in-place leases	4,419	4,244	3,470	2,871	1,869	312	310	106
Customer relationships	6	6	5	6	6	6	14	4
Tenant improvement and leasing costs	137	60	33	16	9	-	-	-
Gain on disposal of income-producing properties	-	-	113	(941)	-	-	-	-
Other adjustments	200 <sup>(1)</sup>	-	397 <sup>(2)</sup>	-	-	-	-	-
<b>FFO</b>	<b>\$ 4,582</b>	<b>\$ 4,045</b>	<b>\$ 3,119</b>	<b>\$ 2,249</b>	<b>\$ 1,003</b>	<b>\$ 481</b>	<b>\$ 373</b>	<b>\$ 160</b>
<b>FFO per unit</b>								
Basic	\$ 0.30	\$ 0.34	\$ 0.26	\$ 0.25	\$ 0.14	\$ 0.12	\$ 0.29	\$ 0.14
Diluted	\$ 0.30	\$ 0.33	\$ 0.26	\$ 0.24	\$ 0.14	\$ 0.12	\$ 0.29	\$ 0.14
<b>Weighted average shares</b>								
Basic	15,153,247 <sup>(3)</sup>	12,072,151	11,850,099	8,918,795	6,993,641	4,122,383	1,269,728	1,140,980
Diluted	15,225,436	12,131,910	12,074,314	9,507,631	7,030,560	4,152,154	1,270,131	1,142,227

<sup>(1)</sup> Included in other adjustments is property rent. Property rent is cash revenue earned pursuant to the Interplex II purchase and sale agreement not recorded as revenue in the REIT's Consolidated Statement of Operations and Deficit due to the project being in the development phase.

<sup>(2)</sup> Added back to 2006 FFO is \$397 of costs attributable to an unsuccessful bid on a portfolio of assets.

<sup>(3)</sup> Q4-06 basic weighted average number of units outstanding includes Class B units.

FFO has grown steadily on a quarter-by-quarter basis since January of 2006. This is attributable to the successful closing of accretive acquisitions over the past two years. In Q4-06, Artis REIT realized \$4,582 of FFO, a 13.3% increase over the Q3-06 DI and a 356.8% increase over Q4-05.

FFO per unit has also increased steadily, with a slight decline from the high in Q3-06 of \$0.34 to \$0.30 per unit in Q4-06. Two factors lead to the decrease in the fourth quarter results, the first being the \$343 fourth quarter non-cash charge against income for the expense attributed to options issued in October. Per unit results were also significantly impacted in the period as a result of the issuance in October of 2,795,138 new Trust units and 721,347 Class B units, while the substantial investment of those proceeds into income-producing properties was completed subsequent to December 31, 2006

## RELATED PARTY TRANSACTIONS

	<b>2006</b>	<b>2005</b>
Legal fees - expensed	\$ 203	\$ 265
Legal fees - capitalized	580	521
Advisory fees	939	155
Acquisition fees	1,057	1,206
Property management fees	1,830	241
Leasing commissions	762	-
Building improvements	1,002	-
Tenant improvement fees	-	43
Consulting fees	43	-
Interest expense	73	280

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, 2006 is \$12 (2005, \$314).

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, 2006 is \$116 (2005, \$224). 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.

Artis REIT has the option to terminate the asset management agreement in certain circumstances, including at any time on 120 days' notice to Marwest in the event that the REIT decides to internalize its management, with no termination fee or penalty payable. Marwest and its affiliated companies (collectively, the "Marwest Group") have granted a right of first refusal to Artis REIT with respect to office, retail and industrial properties which are presented to or developed by a member of the Marwest Group. The right of first refusal remains in effect for so long as Marwest is the asset manager of the REIT.

The REIT incurred property management fees, leasing commission fees, and renovation fees under the property management agreement with Marwest. The amount payable at December 31, 2006 is \$78 (2005, \$80). 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 paid to Marwest Construction Ltd., a company related to certain trustees and officers of the REIT. The amount payable at December 31, 2006 is \$115 (2005, nil).

The REIT incurred consulting fees with an engineering firm associated with a Trustee of the REIT. There is no balance payable at December 31, 2006.

During the year ended December 31, 2005, the REIT acquired two income-producing properties from corporations under the control of certain Trustees of the REIT for an aggregate purchase price of \$24,800. The amount payable to the vendors in relation to the acquisitions at December 31, 2006 is nil (2005, \$563), excluding the amounts noted below. In conjunction with the acquisition of one of the properties, the REIT issued a \$875 convertible debenture, with the debenture fully converted into units of the REIT on August 3, 2006. The REIT also issued a \$7,100 debenture bearing interest at the prime interest rate plus 1/8% to the vendor of this property. At December 31, 2006 the balance owing on the debenture is nil (2005, \$103).

In conjunction with the acquisition of the other property, the REIT obtained vendor take-back financing in the amount of \$9,940 bearing interest at 5%. The vendor take-back financing was repaid by the REIT on January 5, 2006.

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.

## **OUTSTANDING UNIT DATA**

The balance of units outstanding as of March 22, 2007, is as follows:

Units outstanding at December 31, 2006	15,219,261
Units issued (Prospectus Offering)	5,807,500
Units issued (DRIP)	2,778
Units issued in lieu of interest on debenture	89
Units issued on conversion of debentures	<u>46,824</u>
Units outstanding at March 22, 2007	<u>21,076,452</u>

The balance of options outstanding as of March 22, 2007 is as follows:

	Options outstanding	Options exercisable
\$11.25 options	279,393	66,098
\$14.40 options, issued October 11, 2006	440,000	110,000
\$15.85 options, issued February 8, 2007	293,000	73,250
	1,012,393	249,348

## 2007 OUTLOOK

The outlook for 2007 is promising and management anticipates further improvements in key financial metrics. As of the date of filing of this MD&A, Artis REIT has closed on \$116,615 of acquisitions since December 31, 2006, representing approximately 702,000 square feet of commercial property in western Canada. The REIT also closed a prospectus offering in February for gross proceeds of \$92,049, including the exercise of the over-allotment option. The proceeds of the offering will be used for acquisitions and working capital purposes.

Including all acquisitions anticipated to close by March 31, 2007, Artis REIT has acquired approximately \$660 million of income-producing property assets. Including the most recent prospectus offering, Artis REIT has a market capitalization of approximately \$339 million.

Going forward, although cap rate compression continues to be a consideration, particularly in Alberta where the REIT is an aggressive investor, management anticipates that Artis REIT will continue to be able to source accretive acquisition opportunities throughout 2007 through its strong network of contacts in western Canada. Artis REIT will continue to pursue development opportunities that exist within the portfolio or with outside partners.

Artis REIT also has an excellent internal growth profile, based on the high proportion of below-market leases in place in its acquired properties. In particular, in 2007 and 2008, Artis REIT has approximately 180,000 and 460,000 square feet of leases expiring in Alberta, which management believes are significantly below current market rents in Alberta. Artis REIT's unitholders will continue to see growth in DI and FFO as leases continue to renew at much higher rates than the in-place rates at the time the properties were acquired.

## Subsequent Events

On February 8, 2007, Artis REIT issued 5,050,000 units at a price of \$15.85 per unit for aggregate gross proceeds of \$80,043, pursuant to its prospectus dated February 1, 2007. On February 20, 2007, the underwriters exercised their over-allotment option and the REIT issued an additional 757,500 units at a price of \$15.85 per unit for aggregate gross proceeds of \$12,006.

Subsequent to the December 31, 2006, the REIT acquired the following properties, in separate transactions with unrelated vendors.

<u>Closing Date</u>	<u>Property Name</u>	<u>Location</u>	<u>Asset Class</u>	<u>Purchase Price</u>
January 12, 2007	CDI College	Winnipeg, MB	Office	\$ 4,590
January 31, 2007	Keewatin Distribution Centre	Winnipeg, MB	Industrial	9,600
February 1, 2007	Clareview Town Centre	Edmonton, AB	Retail	13,800
February 28, 2007	Centre 70	Calgary, AB	Office	31,500
February 28, 2007	Honeywell Building	Calgary, AB	Industrial	15,841
February 28, 2007	Millenium Centre	Red Deer, AB	Office	25,500
March 1, 2007	Bower Centre	Red Deer, AB	Industrial	15,784
				\$ 116,615

The purchase prices were satisfied with a combination of cash and mortgage financing in a total amount of \$62,699, bearing interest at a weighted average rate of 5.22%.

Subsequent to the closing of the Honeywell Building, the existing mortgage financing in the amount of \$2,660 bearing interest at a rate of 7.24% per annum was repaid, and replaced with new mortgage financing in the amount of \$9,653, bearing interest at a rate of 5.0% per annum.

Artis REIT has also entered into agreements to acquire the two properties known as Dome Britannia Place and the MTS Call Centre, for purchase prices aggregating approximately \$78,850. These acquisitions are expected to close in March, 2007, and will be financed through a combination of mortgage financing and cash consideration.

On February 8, 2006, Artis REIT granted to its trustees, officers and management personnel options to acquire an aggregate of 293,000 trust units of the REIT. 25% of the options vested immediately and 25% of the options will vest on each of the first, second and third anniversaries from the date of grant. The options are exercisable into trust units of the REIT at a price of \$15.85 per trust unit and expire on the fifth anniversary of the date of grant.

## **RISKS AND UNCERTAINTIES**

All real property investments are subject to elements of risk. General economic conditions, local real estate markets, supply and demand for leased premises, competition from other available premises and various other factors affect such investments.

### **Tax Risk:**

The REIT currently qualifies as a Mutual Fund Trust for Canadian income tax purposes and, as discussed in note 2 to the financial statements, does not record a provision for income taxes on income earned by the REIT and its flow through entities. On December 21, 2006, The Minister of Finance (Canada) released draft legislation (the "Proposals") relating to the federal income taxation of publicly traded income trusts and certain other publicly traded flow-through entities.

Under the Proposals, certain distributions from a "specified investment flow-through" trust or partnership (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, the Proposals provide that distributions paid by a SIFT as returns of capital should not be subject to the tax.

The Proposals provide that a SIFT which was publicly listed before November 1, 2006 (an "Existing Trust") would become subject to the tax on distributions commencing with the 2011 taxation year end. However, an Existing Trust may become subject to this tax prior to the 2011 taxation year end if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006. In the case of the REIT, its subsequent offerings have exceeded the guidelines on the amount of normal growth allowed. Accordingly, in the event that the REIT was a SIFT as finally enacted, the Proposals would be expected to apply commencing on January 1, 2007.

Under the Proposals, the new taxation regime will not apply to a Real Estate Investment Trust (a "Trust") that continues to meet prescribed conditions relating to the nature to its income and investments (the "Trust Conditions"). Unless an Existing Trust, that was a Real Estate Investment Trust at the time of the Proposals, is able to continuously meet all Trust Conditions, the Proposals, if enacted, would immediately subject an Existing Trust to tax, which may adversely impact the level of cash otherwise available for distribution.

As the Proposals are currently drafted, the REIT does not meet the Trust Conditions which contain a number of technical provisions that do not fully accommodate common real estate properties and business structures. If the Proposals are enacted as currently drafted, the REIT would become subject to tax on certain income and, at the date of substantive enactment, the REIT would record future income tax assets and liabilities in respect of accounting and tax basis differences that are expected to reverse in future periods, with a corresponding credit or charge to consolidated earnings for the period.

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 \$25,540 at December 31, 2006. At December 31, 2005, the net book value for accounting purposes of net assets exceeds their tax basis by approximately \$7,060.

It is possible that changes will be made to the Proposals prior to their enactment. If the Proposals are not changed, the REIT may need to restructure its affairs in order to minimize, or if possible eliminate, the impact of the Proposals. There can be no assurances, however, that changes will be made to the Proposals, or that the REIT would be able to restructure such that the REIT would not be subject to the tax contemplated by the Proposals.

#### **Credit Risk and Tenant Concentration:**

Artis REIT is exposed to risk as tenants may be unable to pay their contracted rents. Management mitigates this risk by seeking to acquire properties across several assets classes. As well, management seeks to acquire properties with strong tenant covenants in place. Currently, government tenants contribute 12.8% to the REIT's overall gross revenue and occupy 12.5% of total GLA. Artis REIT's ten top tenants (excluding government agencies) are primarily high-credit rated national retailers or businesses. As indicated below, only one tenant in the entire portfolio contributed more than 5% of the gross revenue of the REIT.

Top Ten Tenants by GLA	Share	Top Ten Tenants by Gross Revenue	Share
Jacobs Canada	5.1%	Jacobs Canada	6.3%
Sears	3.6%	Credit Union Central	4.0%
Credit Union Central	2.9%	Shoppers Drug Mart Total	3.3%
Shoppers Drug Mart	2.8%	Cineplex Odeon	2.8%
Cineplex Odeon	2.2%	Komex International	2.1%
Komex International	1.7%	Columbia College Corp	1.4%
Columbia College Corp	1.5%	Cooperators General Insurance	1.4%
Home Outfitters	1.4%	Home Outfitters	1.4%
Hycal Energy Labs	1.3%	Sobey's	1.3%
Sobey's	1.3%	Bank of Montreal	1.2%
Total of Top Ten by GLA	23.9%	Total of Top Ten by Gross Revenue	25.3%

Government Entities by GLA	Share	Government Entities by Gross Revenue	Share
Federal Government	4.8%	Federal Government	4.8%
Provincial Government	4.9%	Provincial Government	5.3%
Civic or Municipal Gov't	2.8%	Civic or Municipal Gov't	2.6%
Total Government by GLA	12.5%	Total Government by Gross Revenue	12.8%

#### **Lease Rollover Risk:**

The value of income-properties and the stability of cash flows derived from those properties is dependent upon the level of occupancy and lease rates in those properties. Upon expiry of any lease, there is no assurance that a lease will be renewed on favourable terms, or at all; nor is there any assurance that a tenant can be replaced.

Approximately 38.6% of the REIT's GLA will come up for renewal in 2007 through 2009; approximately 67.5% of those expiries are in the province of Alberta. Management believes there is substantial upside

to be realized from the below-market leases coming up for renewal in Alberta, particularly in the strong Calgary office market. Alberta, particularly Calgary, has seen steadily declining vacancy rates with corresponding and substantial increases in market rent rates across all categories of commercial real estate.

**Other Risks:**

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

## **CRITICAL ACCOUNTING ESTIMATES**

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

**Allocation of purchase price of income-producing properties:**

The REIT has adopted the EIC Abstract 140, Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination. This standard requires that where an enterprise acquired real estate in either an asset acquisition or a business combination, a portion of the purchase price should be allocated to in-place operating lease intangible assets, based on their fair value, acquired in connection with the real estate property. The adoption of this standard has given rise to intangible assets and liabilities, which are amortized using the straight-line method over the terms of the tenant lease agreements and non-cancelable renewal periods, where applicable. In the event a tenant vacates its leased space prior to the contractual termination of the lease and rental payments are not being made, any unamortized balance of the intangible asset or liability will be written off.

The allocation of the purchase price to the respective income-producing properties and intangible assets and liabilities, as well as the related amortization of the assets, is subject to management's estimations and judgment.

**Amortization:**

Artis REIT amortizes the costs of income-producing properties on a straight-line basis over the estimated useful life of the underlying asset. For building and leasehold interest, management's estimate is typically up to 40 years and for parking lots, 20 years. Improvements are amortized over the remaining term of the lease agreement and assumed renewal periods.

**Allocation of convertible debentures:**

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

## **CHANGES IN ACCOUNTING POLICIES**

The CICA issued two new accounting standards that will be adopted by the REIT in the fiscal year commencing January 1, 2007. The standards are applied retroactively, without restatement of prior periods.

Section 3855, "Financial Instruments – Recognition and Measurements" establishes standards for the recognition and measurement of financial assets, financial liabilities and non-financial derivatives. Financial instruments will ordinarily be measured at fair value on initial recognition. Subsequent



measurement is determined by the classification of the financial instrument as held to maturity, loans and receivables, held-for trading or available-for-sale.

Impacts on the REIT include:

- Interest on debt instruments is recognized at the effective interest rate, with deferred finance costs netted against the related debt
- Embedded derivative features in lease agreements would be valued at market
- Any embedded derivative features in debt agreements, including mortgage or debenture agreements, would be valued at market

Leases are specifically excluded from the definition of financial instruments, unless there are derivative features embedded in the lease.

Section 1530, "Comprehensive Income" requires presentation of Other Comprehensive Income in a separate statement. Components of the new statement include unrealized gains and losses related to financial assets classified under Section 3855 as available-for-sale and changes in the fair value of certain hedging instruments.

The REIT is in the process of assessing the full impact of the standards on the consolidated financial statements. Any adjustment required as a result of our assessment will be recognized by restating the balance of opening retained earnings at January 1, 2007.

## **CONTROLS AND PROCEDURES**

Artis REIT maintains appropriate information systems, procedures and controls to ensure that publicly disclosed information is released on a timely basis, and is complete and reliable. The Chief Executive Officer and Chief Financial Officer evaluated, or caused to be evaluated, the design and effectiveness of the REIT's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure) as at December 31, 2006 and have concluded that such disclosure controls and procedures are operating effectively.

Management is responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Artis REIT's Chief Executive Officer and Chief Financial Officer evaluated, or caused to be evaluated, the design of the REIT's internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2006. The REIT identified that there is a lack of segregation of duties within several of the REIT's processes. The control objectives that could be compromised by the lack of segregation were identified, and compensating controls put in place to management's satisfaction. The REIT has identified a need for assistance with taxation and complex accounting issues, and has sought outside assistance or clarification where appropriate.

All control systems have inherent limitations, and evaluation of a control system cannot provide absolute assurance that all control issues have been detected, including risks of misstatement due to error or fraud. In the fourth quarter of 2006, the REIT's board of trustees formalized and adopted a Code of Conduct, including mandatory annual sign-off by trustees, officers, management and employees of the management company of the REIT. As a growing enterprise, management anticipates that the REIT will be continually evolving and enhancing its systems of controls and procedures.