



2007 ANNUAL

MANAGEMENT'S DISCUSSION AND ANALYSIS



MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

The following is management's discussion and analysis ("MD&A") of the financial condition and results of operations of Artis Real Estate Investment Trust ("Artis" or the "REIT") and should be read in conjunction with the REIT's audited annual consolidated financial statements for the years ended December 31, 2007 and 2006, and the notes thereto. This MD&A has been prepared taking into account material transactions and events up to and including March 19, 2008. Additional information about Artis, including the REIT's most recent Annual Information Form, has been filed with applicable Canadian securities regulatory authorities and is available at www.sedar.com or on our web site at www.artisreit.com.

OVERVIEW	15
2007 - ANNUAL HIGHLIGHTS	18
SELECTED FINANCIAL INFORMATION	19
ANALYSIS OF OPERATING RESULTS	20
DISTRIBUTABLE INCOME AND DISTRIBUTIONS	25
FUNDS FROM OPERATIONS	27
ANALYSIS OF FINANCIAL POSITION	28
LIQUIDITY AND CAPITAL RESOURCES	33
SUMMARIZED QUARTERLY INFORMATION	34
RELATED PARTY TRANSACTIONS	37
OUTSTANDING UNIT DATA	37
2008 OUTLOOK	38
RISKS AND UNCERTAINTIES	38
CRITICAL ACCOUNTING ESTIMATES	40
CHANGES IN ACCOUNTING POLICIES	40
CONTROLS AND PROCEDURES	41



MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

FORWARD LOOKING DISCLAIMER

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

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

OVERVIEW

Artis, 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 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".

Certain of the REIT's securities are listed on the Toronto Stock Exchange ("the TSX"). The REIT's trust units ("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 19, 2008, there were 31,746,696 units, and 1,458,337 options of Artis outstanding as well as 721,347 Class B limited partnership units ("Class B units") of the REIT's subsidiary AX L.P. ("AXLP") (refer to the 2008 Outlook-Subsequent Events section for further details).

PRIMARY OBJECTIVES

Artis focuses on primary and growing secondary markets in western Canada, with a particular emphasis on Alberta. The REIT focuses 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 the REIT's assets and maximize long term unit value through the active management of its assets; and
- to expand the REIT's asset base and increase its distributable income through acquisitions in western Canada.

The Declaration of Trust provides that Artis make monthly cash distributions to its unitholders.

The amount distributed in each year will be the amount of distributable income set down in a policy by the Trustees (currently \$1.05 per unit on an annualized basis).

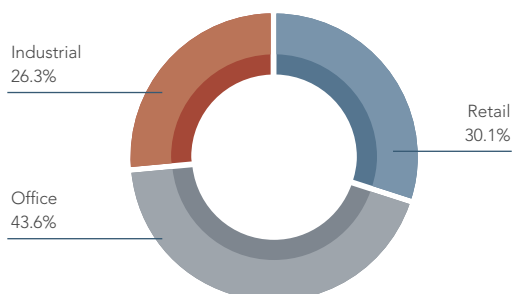
MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

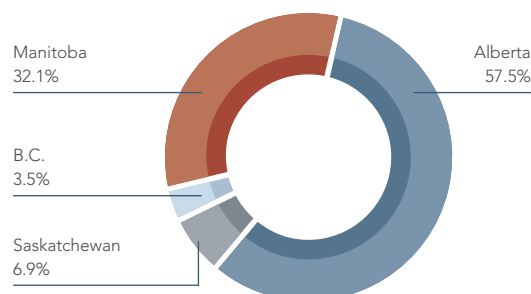
PORTFOLIO SUMMARY

At December 31, 2007, the REIT's portfolio was comprised of 80 commercial properties located across western Canada totaling approximately 6.1 million square feet (s.f.) of gross leasable area ("GLA").

GLA by Asset Class



GLA by Province



Lease Expiries by Asset Class (in 000's of s.f.) ⁽¹⁾

	Office		Retail		Industrial		Total	
	GLA	%	GLA	%	GLA	%	GLA	%
2008*	471	17.8%	130	7.1%	146	9.1%	747	12.3%
2009	241	9.1%	226	12.4%	286	17.9%	753	12.4%
2010	340	12.9%	339	18.6%	201	12.6%	880	14.5%
2011	412	15.6%	218	11.9%	228	14.3%	858	14.2%
2012	321	12.2%	137	7.5%	118	7.4%	576	9.5%
2013+	749	28.4%	742	40.7%	594	37.3%	2,085	34.5%
	2,534	96.0%	1,792	98.2%	1,573	98.6%	5,899	97.4%
Vacancies	105	4.0%	33	1.8%	22	1.4%	160	2.6%
Total GLA	2,639	100.00%	1,825	100.00%	1,595	100.0%	6,059	100.0%

*including month-to-month leases

Lease Expiries by Asset Class (in 000's of s.f.) ⁽¹⁾

	Alberta		British Columbia		Manitoba		Ontario	
	GLA	%	GLA	%	GLA	%	GLA	%
2008*	493	14.0%	6	2.7%	183	9.4%	65	15.6%
2009	395	11.3%	26	12.3%	278	14.3%	54	12.9%
2010	508	14.6%	41	19.2%	246	12.6%	85	20.5%
2011	636	18.2%	21	9.8%	161	8.3%	40	9.6%
2012	271	7.8%	46	21.5%	236	12.1%	23	5.5%
2013+	1,132	32.6%	72	33.5%	747	38.5%	134	32.3%
	3,435	98.6%	212	99.9%	1,851	95.2%	401	96.4%
Vacancies	50	1.4%	2	1.0%	93	4.8%	15	3.6%
Total GLA	3,485	100.0%	214	100.0%	1,944	100.0%	416	100.0%

*including month-to-month leases

(1) Based on Artis' proportionate share of the total 6.1 million s.f. of GLA.



MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

Historical Weighted Average Portfolio Occupancy

Q1-06	Q2-06	Q3-06	Q4-06	Q1-07	Q2-07	Q3-07	Q4-07
93.5%	94.9%	95.8%	95.8%	96.3%	97.2%	97.1%	97.4%

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 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. 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.

Artis calculates 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. Management considers Property NOI to be a valuable measure for evaluating the operating performance of the REIT's properties.

Artis calculates FFO, substantially in accordance with the guidelines set out by the Real Property Association of Canada ("RealPAC"). Management considers FFO to be a valuable measure for evaluating the REIT's operating performance in achieving its objectives.

Property NOI, DI and FFO are not measures defined under GAAP. Property NOI, DI and FFO are not intended to represent operating profits for the year, or from a property, nor should any of these measures be viewed as an alternative to net income, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP. Readers should be further cautioned that DI, Property NOI and FFO as calculated by Artis may not be comparable to similar measures presented by other issuers.

On July 6, 2007 the Canadian Securities Administrators issued an amended National Policy 41-201 *Income Trusts and Other Indirect Offerings* which includes disclosure guidance for income trusts, including guidance relating to the disclosure of distributable income. The REIT adopted the required disclosure in 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

2007 – ANNUAL HIGHLIGHTS

PORTFOLIO GROWTH

In 2007, Artis acquired 45 commercial properties in western Canada, adding nearly 3.2 million square feet of leasable area to the portfolio, 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, 2006	12	1,367	21	1,362	3	196	36	2,925
Q1-07 Acquisitions	5	462	1	55	3	389	9	906
Q2-07 Acquisitions	3	144	1	37	2	37	6	218
Q3-07 Acquisitions	2	540	1	98	1	23	4	661
Q4-07 Acquisitions	2	126	8	314	16	950	26	1,390
Total 2007 Acquisitions	12	1,272	11	504	22	1,399	45	3,175
Less Disposition	–	–	1	41	–	–	1	41
Portfolio properties at December 31, 2007	24	2,639	31	1,825	25	1,595	80	6,059

Highlights of the REIT's 2007 acquisition activity include the purchase of TransAlta Place, a single-tenant office building located in the Calgary Beltline District. TransAlta Place is comprised of over 336,000 square feet of leasable area, and is 100% occupied. Artis also acquired the Winnipeg Industrial portfolio; 16 industrial properties located in Winnipeg, MB, with a total leaseable area of 949,000 square feet. The portfolio is 98% occupied. Artis acquired six retail properties located in Fort McMurray, AB, and one retail property located in Edmonton, AB. The total leaseable area of the portfolio is 269,000 square feet and the portfolio is 98.3% occupied.

Effective September 1, 2007, the REIT disposed of Royal Square. The proceeds, 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, 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.

FINANCING ACTIVITIES

On January 18, 2007, Artis announced it had entered into a bought-deal arrangement with a syndicate of underwriters for the sale of 5,050,000 units (exclusive of units issuable upon the exercise of the over allotment option granted to the underwriters) at a price of \$15.85 per unit. The offering closed on February 8, 2007, for aggregate gross proceeds of \$80.0 million. On February 20, 2007, the underwriting syndicate exercised its over-allotment option and a further 757,500 units were issued for aggregate proceeds of \$12.0 million.

On May 10, 2007, Artis announced it had entered into a bought-deal arrangement with a syndicate of underwriters for the sale of 5,232,500 units (inclusive of units issuable upon the exercise of the over-allotment option granted to the underwriters) at a price of \$17.60 per unit. The underwriting syndicate exercised its over-allotment option in full prior to closing of the offering on June 11, 2007. Aggregate gross proceeds of \$92.1 million were raised from the offering.

On September 26, 2007, Artis announced it had entered into a bought-deal arrangement with a syndicate of underwriters for the sale of 4,230,000 units (exclusive of units issuable upon the exercise of the over-allotment option granted to the underwriters) at a price of \$17.75 per unit. The offering closed on October 17, 2007, for aggregate gross proceeds of \$75.1 million.

In conjunction with the acquisition of the Fort McMurray portfolio, the REIT issued a 5% Series D convertible redeemable debenture with a face value of \$20.0 million. Interest is paid semi annually on May 31 and November 30. The convertible debenture is convertible into units of the REIT, at the option of the holder, after November 30, 2009 at a price of \$17.75 per unit.

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



MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

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. These units were cancelled in January, 2008. Subsequent to December 31, 2007, the REIT acquired and cancelled an additional 32,600 at market prices aggregating \$469.

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. \$7,500 may be used for general corporate purposes and, as per an amendment to the

agreement dated January 31, 2008, an additional \$10,000 of the credit facility is available to purchase units under the normal course issuer bid. As at December 31, 2007, no amounts had been drawn on the facility. Subsequent to December 31, 2007, the REIT has drawn an aggregate of \$10,200 of the available credit facility for bridge financing on the acquisitions of King Edward Centre and the Leon's Building.

DISTRIBUTIONS

Artis distributed a total of \$26,348 to unitholders and AXLP, the REIT's subsidiary, distributed \$758 to Class B unitholders in 2007 at a stable rate of \$1.05 on an annualized basis.

SELECTED FINANCIAL INFORMATION

\$000's, except unit and per unit amounts

	Year ended December 31,	
	2007	2006
Revenue	\$ 99,259	\$ 53,522
Property NOI	\$ 67,469	\$ 34,251
Income (loss) for the year	\$ 6,157	\$ (11,153)
Basic income (loss) per unit	\$ 0.25	\$ (0.94)
Distributions (including Class B units)	\$ 27,106	\$ 12,874
Distributions per unit	\$ 1.05	\$ 1.05
DI	\$ 37,638	\$ 15,878
DI per unit	\$ 1.49	\$ 1.32
DI payout ratio	70.5%	79.5%
FFO	\$ 35,670	\$ 13,995
FFO per unit	\$ 1.41	\$ 1.16
FFO payout ratio	74.5%	90.5%
Weighted average units:		
Weighted average units (basic)	24,616,119	11,907,917
Weighted average units (basic) including Class B units	25,337,466	12,015,853

Artis has acquired 45 commercial properties during 2007, increasing the portfolio to 80 commercial properties at December 31, 2007. Primarily as a result of this on-going acquisition activity, Artis increased revenues \$45,737, or 85.5% compared to 2006 results. Artis increased Property NOI \$33,218, or 97.0% compared to 2006 results. As well, DI and FFO increased \$21,760, or 137.0% and \$21,675, or 154.9%, respectively.

On a per unit basis, basic FFO increased \$0.25 or 21.6% compared to 2006 results. Basic DI increased \$0.17 or 12.9% compared to 2006 results.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

ANALYSIS OF OPERATING RESULTS

\$000's, except unit and per unit amounts

	Three month period ended December 31,				Year ended December 31,			
	2007	% of Revenue	2006	% of Revenue	2007	% of Revenue	2006	% of Revenue
Revenue	\$ 31,850		\$ 16,489		\$ 99,259		\$ 53,522	
Property operating expenses	9,753	30.6%	6,056	36.7%	31,790	32.0%	19,271	36.0%
Property NOI	22,097	69.4%	10,433	63.3%	67,469	68.0%	34,251	64.0%
Interest	8,737	27.4%	4,834	29.3%	28,194	28.4%	17,003	31.8%
	13,360		5,599		39,275		17,248	
Expenses:								
Corporate	1,382	4.3%	994	6.0%	4,798	4.8%	3,081	5.8%
Amortization	12,873		7,864		41,225		26,148	
	14,255		8,858		46,023		29,229	
Loss before the under-noted	(895)		(3,259)		(6,748)		(11,981)	
Gain on disposal of income-producing properties	(10)		—		2,511		828	
Loss before income taxes	(905)		(3,259)		(4,237)		(11,153)	
Future income tax recovery (expense)	(1,433)		—		10,394		—	
Income (loss) for the period	\$ (2,338)		\$ (3,259)		\$ 6,157		\$ (11,153)	
Basic income (loss) per unit	\$ (0.03)		\$ (0.22)		\$ 0.25		\$ (0.94)	
Diluted income (loss) per unit	\$ (0.03)		\$ (0.22)		\$ 0.24		\$ (0.94)	
Weighted average number of units:								
Basic	30,411,628		14,725,024		24,616,119		11,907,917	
Diluted	31,132,975		14,725,024		25,477,421		11,907,917	

Revenue and Property NOI:

Revenue includes 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.

In accordance with GAAP, Artis accounts for rent step ups by straight-lining the incremental increases over the entire non-cancelable lease term. In 2007, straight-line rent adjustments of \$1,369 were recorded compared to \$1,063 in 2006. In Q4-07, the straight-line rent adjustments were \$465 compared to \$377 in Q4-06.

On the acquisition of properties, Artis 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. Since December 31, 2006, Artis acquired 45 commercial properties; in-place rent rates in a number of the 2007 acquisitions are considered to be below market rent rates. As a result, in 2007, the adjustment to market rents was \$9,554 compared to \$3,036 in 2006. In Q4-07, the adjustment to market rents was \$3,352 compared to \$1,069 in Q4-06.

Revenue in 2007 included \$3,093 of interest earned by the REIT compared to \$910 in 2006. Interest income was \$599 in Q4-07, compared to \$254 in Q4-06. The increase in interest income resulted from the short term investment of funds received from the current year's unit offerings.



MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

Property operating expenses include realty taxes as well as other costs related to interior and exterior maintenance, HVAC, elevator, insurance, utilities and management fees.

Revenue and property operating expenses increased over 2006 as a result of acquiring 45 properties during the year.

For 2007, Property NOI as a percentage of revenue was 68.0%, compared to 64.0% in 2006. This increase is attributable to a higher proportion of fully net and "carefree" properties in the portfolio, such as TransAlta Place. For the three months ended December 31, 2007 and 2006, Property NOI as a percentage of revenue was 69.4% and 63.3%, respectively.

Same Property NOI growth:

\$000's	Three month period ended December 31, ⁽¹⁾		Year ended December 31, ⁽¹⁾	
	2007	2006	2007	2006
Revenue	\$ 9,502	\$ 9,463	\$ 37,838	\$ 36,251
Property operating expenses	3,804	3,919	14,987	14,495
Property NOI	5,698	5,544	22,851	21,756
Deduct non-cash revenue adjustments:				
Straight-line rent adjustment	(23)	(234)	(339)	(710)
Above- and below-market rent	(368)	(441)	(1,536)	(1,721)
Property NOI less non-cash revenue adjustments	\$ 5,307	\$ 4,869	\$ 20,976	\$ 19,325

(1) Same property comparison includes only income-producing properties owned on January 1, 2006 and December 31, 2007.

In 2007, Artis achieved an increase of \$1,095, or 5.0% of Property NOI over 2006. As well, Artis also achieved an increase of \$1,651, or 8.5% of Property NOI less non-cash revenue adjustments over 2006. These improvements are the result of absorption of space in the portfolio and rate increases on lease rollovers, particularly in Alberta. These same property growth results do not include the

impact of growth realized on lease turnovers in properties acquired throughout fiscal 2006 and 2007. In Q4-07, Artis achieved an increase of \$154, or 2.8% of Property NOI over Q4-06. As well, Artis also achieved an increase of \$438, or 9.0% of Property NOI less non-cash revenue adjustments over Q4-06.

Property NOI by asset class:

Property NOI results by asset class and province have been impacted by acquisitions concluded since December 31, 2006.

\$000's	Year ended December 31,					
	2007			2006		
	Retail	Office	Industrial	Retail	Office	Industrial
Revenue	\$ 33,067	\$ 57,000	\$ 7,118	\$ 25,356	\$ 26,353	\$ 889
Property operating expenses	9,669	20,383	1,738	7,082	11,940	249
Property NOI	\$ 23,398	\$ 36,617	\$ 5,380	\$ 18,274	\$ 14,413	\$ 640
Share of Property NOI	35.8%	56.0%	8.2%	54.8%	43.3%	1.9%

MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

Property NOI by province:

\$000's	Year ended December 31,							
	2007				2006			
	MB	SK	AB	BC	MB	SK	AB	BC
Revenue	\$ 15,609	\$ 10,534	\$ 67,976	\$ 3,066	\$ 8,822	\$ 10,306	\$ 32,494	\$ 976
Property operating expenses	6,986	3,580	20,276	948	4,191	3,294	11,508	278
Property NOI	\$ 8,623	\$ 6,954	\$ 47,700	\$ 2,118	\$ 4,631	\$ 7,012	\$ 20,986	\$ 698
Share of Property NOI	13.2%	10.6%	73.0%	3.2%	13.9%	21.0%	63.0%	2.1%

Consistent with its stated focus, Artis will continue to weight the portfolio's Property NOI more heavily in Alberta, to take advantage of the strong economic fundamentals in that province. Management believes that there is growth inherent in the REIT's portfolio that will be realized as below-market leases are renewed at higher rates. This is expected to increase Property NOI, particularly in Alberta, where the gap between in-place rents and market rents are highest.

Interest:

The current year's interest on long-term debt is attributable to mortgages and other loans secured against the income-producing properties, as well as convertible debentures outstanding. Interest expense has increased over 2006 due to additional mortgage financing obtained to support the increased asset base of the REIT. Effective January 1, 2007, Artis adopted new accounting policies for financial instruments. As a result, on a prospective basis, financing costs are no longer deferred and amortized over the terms of the underlying agreements, and instead are netted against the related debt. Interest and financing costs are recorded on an effective interest basis.

The REIT's weighted average effective rate for the year ending December 31, 2007 on mortgages and other debt secured by properties was 5.51%. The weighted average nominal interest rate at December 31, 2007 was 5.42% compared to 5.51% at December 31, 2006.

At the time of issue, the convertible debentures are allocated between their equity and liability components in accordance with GAAP. Artis recorded interest expense of \$4,958 on the carrying value of debentures outstanding in 2007, compared to \$4,257 in 2006; the increase is the net result of the decrease in interest from conversions between December 31, 2006 and December 31, 2007, additional interest resulting from the issuance of the Series D convertible debenture, and the amortization of deferred financing costs in interest expense resulting from the adoption of accounting policies relating to financial instruments. Artis recorded interest expense of \$1,245 on the carrying value of debentures outstanding in Q4-07, compared to \$1,074 in Q4-06.

Corporate expenses:

\$000's	Three month period ended December 31,		Year ended December 31,	
	2007	2006	2007	2006
Accounting, legal, consulting	\$ 393	\$ 156	\$ 1,123	\$ 529
Advisory fees	529	286	1,693	939
Public company costs	106	86	453	426
Annual report and AGM	—	—	123	61
Unit-based compensation	262	382	1,039	502
Other general and administrative	92	84	367	227
Costs related to bid on property portfolio	—	—	—	397
Total corporate expenses	\$ 1,382	\$ 994	\$ 4,798	\$ 3,081



MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

In 2007, accounting, legal and consulting fees increased \$594 over 2006, due to additional advice relating to the new SIFT legislation, the determination of the tax status of the REIT, and the increased asset base of the REIT. 2007 advisory fees increased \$754 over 2006, reflecting the increased asset base of the REIT. 2007 unit-based compensation costs increased \$537 over 2006, due to options granted during the year. In Q4-07, accounting, legal and consulting fees increased \$237 over Q4-06, due to the new SIFT legislation and consulting services relating to potential acquisitions. Q4-07 advisory fees increased \$243 over Q4-06, reflecting the increased asset base of the REIT. Q4-07 unit based compensation costs decreased \$120 over Q4-06, as a result of changes in the vesting period of the latest option grant.

Corporate expenses in 2007 were \$4,798, or 4.8% of gross revenues compared to \$3,081, or 5.8% of gross revenues in 2006. Corporate expenses in Q4-07 were \$1,382, or 4.3% of gross revenues compared to \$994, or 6.0% of gross revenues in Q4-06.

Amortization:

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

At the time of acquisition, Artis allocates a portion of the purchase price of properties to income-producing properties and a portion to intangible assets. Income-producing properties are amortized on a straight-line basis over their useful lives, resulting in amortization expense of \$18,898 in 2007 compared to \$10,106 in 2006. Intangible assets, such as the value of in place operating leases and customer relationship values, are amortized on a straight-line basis over the term of the underlying lease agreements. In 2007, Artis recorded \$21,536 for the amortization of intangible assets, compared to \$15,027 in 2006. Amortization expense was \$6,015 in Q4-07 compared to \$3,148 in Q4-06. In Q4-07, Artis recorded \$6,626 for the amortization of intangible assets, compared to \$4,600 in Q4-06. These increases were the result of the increased asset base of the REIT.

In 2007, amortization expense relating to tenant inducements and leasing commissions totaled \$784, compared to \$246 in 2006. In Q4-07, amortization expense relating to tenant inducements and leasing commissions totaled \$231 compared to \$137 in Q4-06. These increases were the result of the increased asset base of the REIT.

In 2006, amortization expense included \$765 (Q4-06 - \$222) of deferred financing costs. Deferred financing costs included legal and other fees incurred

in connection with mortgages and other loans against properties, as well as the issuance of convertible debentures, amortized over the terms of the underlying loan or indenture agreements. As a result of the adoption of new accounting policies for financial instruments, deferred finance costs are no longer included in amortization expense. Interest expense in 2007 includes \$532 (Q4-07 - \$171) of amortization of deferred financing costs. See Note 2(b) of the Consolidated Financial Statements of the REIT as well as the Changes in Accounting Policies section of this report for further details.

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 conditions of the REIT Conditions.



MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

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 a restructuring is in the best interests of the 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 liabilities 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 recording 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.



MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

DISTRIBUTABLE INCOME ("DI") AND DISTRIBUTIONS:

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

Reconciliation of cash flows from operations to DI:

\$000's, except unit and per unit amounts	Three month period ended December 31,		Year ended December 31,	
	2007	2006	2007	2006
Cash flow from operations	\$ 11,386	\$ 5,098	\$ 28,586	\$ 13,620
Deduct amortization of:				
Office equipment	(2)	(1)	(7)	(4)
Above-market rent	(68)	(48)	(226)	(213)
Below-market rent	3,420	1,056	9,780	3,249
Tenant inducements and leasing costs	(231)	(137)	(784)	(246)
Above-market mortgage	12	29	96	81
Deferred financing costs, non-debenture	—	(59)	—	(232)
Add: Straight-line rent adjustment	465	370	1,369	1,063
Add (deduct):				
Units issued for Trustees compensation	—	(15)	—	(15)
Changes in non-cash operating items	(2,534)	(1,331)	(2,147)	(2,022)
Deferred financing costs, non-debenture, included in interest expense	(67)	—	(229)	—
Other adjustments ⁽¹⁾				
Property rent	300	200	1,200	200
Property bid costs	—	—	—	397
DI for the period	\$ 12,681	\$ 5,162	\$ 37,638	\$ 15,878
DI per unit				
Basic	\$ 0.41	\$ 0.34	\$ 1.49	\$ 1.32
Diluted	\$ 0.39	\$ 0.33	\$ 1.42	\$ 1.26
Weighted Average Number of Shares				
Basic ⁽²⁾	31,132,975	15,153,247	25,337,466	12,015,853
Diluted ⁽²⁾	35,114,445	18,577,492	29,382,503	14,844,073

(1) Added back to 2007 DI is \$1,200 (Q4-07 - \$300) of Property rent (YTD and Q4-06 - \$200), 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 due to the project being in the development phase. Included in 2006 DI is \$397 of costs attributable to an unsuccessful bid on a portfolio of assets.

(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. Options and convertible debentures are factored into the diluted weighted average calculation, to the extent that their impact is dilutive

MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

Reconciliation of GAAP income (loss) to DI:

\$000's, except unit and per unit amounts	Three month period ended December 31,		Year ended December 31,	
	2007	2006	2007	2006
Income (loss) for the period	\$ (2,338)	\$ (3,259)	\$ 6,157	\$ (11,153)
Add:				
Amortization (excluding amortized leasing costs)	12,640	7,504	40,434	25,133
Amortized financing costs on convertible debentures	—	163	—	533
Accretion on liability component of convertible debentures	374	172	1,713	1,094
Unit based compensation expense	262	382	1,039	502
Gain on disposal of income-producing properties	10	—	(2,511)	(828)
Future income tax recovery	1,433	—	(10,394)	—
Other adjustments ⁽¹⁾				
Property rent	300	200	1,200	200
Property bid costs	—	—	—	397
DI	\$ 12,681	\$ 5,162	\$ 37,638	\$ 15,878

(1) Added back to 2007 DI is \$1,200 (Q4-07 - \$300) of Property rent (YTD and Q4-06 - \$200), 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 due to the project being in the development phase. Included in 2006 DI is \$397 of costs attributable to an unsuccessful bid on a portfolio of assets.

In 2007, DI has increased \$21,760, or 137.0% over 2006. This increase is primarily attributed to the impact of acquisitions since December 31, 2006. Basic DI per unit increased \$0.17, or 12.9% over 2006. On a diluted basis, DI has increased \$0.16, or 12.7% over 2006. Q4-07 DI has increased \$7,519, or 145.7% over Q4-06. Basic DI per unit increased \$0.07, or 20.6% over Q4-06. On a diluted basis, DI has increased \$0.06, or 18.2% over Q4-06.

As the current year's acquisitions were not owned for the full period, management anticipates there will be further growth in basic and diluted DI from these acquisitions in future periods, as well as from future acquisitions that the REIT currently has under contract. Management believes that there is further potential DI growth that may be realized as below-market leases are renewed at higher rates, particularly in Alberta, where the gap between in-place rents and market rents is highest.

DISTRIBUTIONS:

Management determines the level of cash distributions based on the level of cash flow from operations before working capital changes, less actual and planned capital expenditures. As well, the REIT is committed to providing unitholders with stable and growing distributions. During the year, distributions are based on estimates of full year cash flow and capital spending; thus distributions may be adjusted as these estimates change. It is expected that normal seasonal fluctuations in working capital will be funded from cash resources. In addition, the distributions declared include a component funded by the distribution reinvestment and unit purchase plan (the "DRIP").

\$000's	Three month period ended December 31,		Year ended December 31,	
	2007	2007	2006	2005
Cash flow from operations	\$ 11,386	\$ 28,586	\$ 13,620	\$ 4,706
Net income (loss)	\$ (2,338)	\$ 6,157	\$ (11,153)	\$ (2,519)
Distributions declared	\$ 8,369	\$ 27,106	\$ 12,874	\$ 3,330
Excess of cash flow from operations over distributions declared	\$ 3,017	\$ 1,480	\$ 746	\$ 1,376
Shortfall of net income (loss) over distributions declared	\$ (10,707)	\$ (20,949)	\$ (24,027)	\$ (5,849)

For the year ended December 31, 2007, cash flow from operations exceeded distributions declared by \$1,480. For the three months ended December 31, 2007, this excess was \$3,017.

For the year and three months ended December 31, 2007, distributions declared exceeded net income (loss). These differences are mainly comprised of amortization and other non-cash adjustments.



MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

FUNDS FROM OPERATIONS ("FFO"):

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

Reconciliation of cash flows from operations to FFO:

\$000's, except unit and per unit amounts	Three month period ended December 31,		Year ended December 31,	
	2007	2006	2007	2006
Cash flow from operations	\$ 11,386	\$ 5,098	\$ 28,586	\$ 13,620
Deduct amortization of:				
Office equipment	(2)	(1)	(7)	(4)
Above-market rent	(68)	(48)	(226)	(213)
Deferred financing costs	—	(222)	—	(765)
Below-market rent	3,420	1,056	9,780	3,249
Above-market mortgages	12	29	96	81
Add:				
Straight-line rent adjustment	465	370	1,369	1,063
Deduct:				
Units issued for Trustees compensation	—	(15)	—	(15)
Accretion on liability component of convertible debentures	(374)	(172)	(1,713)	(1,094)
Unit-based compensation expense	(262)	(382)	(1,039)	(502)
Amortization of deferred financing costs included in interest	(67)	—	(229)	—
Changes in non-cash operating items	(2,534)	(1,331)	(2,147)	(2,022)
Other adjustments ⁽¹⁾				
Property rent	300	200	1,200	200
Property bid costs	—	—	—	397
FFO for the period	\$ 12,276	\$ 4,582	\$ 35,670	\$ 13,995
FFO per unit				
Basic	\$ 0.39	\$ 0.30	\$ 1.41	\$ 1.16
Diluted	\$ 0.39	\$ 0.30	\$ 1.38	\$ 1.16
Weighted average number of units:				
Basic ⁽²⁾	31,132,975	15,153,247	25,337,466	12,015,853
Diluted ⁽²⁾	31,197,012	15,225,436	25,716,657	12,078,079

- (1) Added back to 2007 FFO is \$1,200 (Q4-07 - \$300) of Property rent (YTD and Q4-06 - \$200), 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 due to the project being in the development phase. Included in 2006 FFO is \$397 of costs attributable to an unsuccessful bid on a portfolio of assets.
- (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 convertible debentures are factored into the diluted weighted average calculation, to the extent that their impact is dilutive.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

Reconciliation of GAAP income (loss) to FFO:

\$000's, except unit and per unit amounts	Three month period ended December 31,		Year ended December 31,	
	2007	2006	2007	2006
Income (loss) for the period	\$ (2,338)	\$ (3,259)	\$ 6,157	\$ (11,153)
Add amortization on:				
Income-producing properties	6,014	3,079	18,898	10,106
Acquired in-place leases	6,620	4,419	21,514	15,004
Customer relationships	6	6	22	23
Tenant inducements and leasing costs	231	137	784	246
Gain on disposal of income-producing properties	10	–	(2,511)	(828)
Future income tax recovery	1,433	–	(10,394)	–
Other adjustments ⁽¹⁾				
Property rent	300	200	1,200	200
Property bid costs	–	–	–	397
FFO for the period	\$ 12,276	\$ 4,582	\$ 35,670	\$ 13,995

(1) Added back to 2007 FFO is \$1,200 (Q4-07 - \$300) of Property rent (YTD and Q4-06 - \$200), 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 due to the project being in the development phase. Included in 2006 FFO is \$397 of costs attributable to an unsuccessful bid on a portfolio of assets.

2007 FFO has increased \$21,675, or 154.9%, over 2006. This increase is attributed to the impact of acquisitions since December 31, 2006. Basic FFO per unit has increased by \$0.25, or 21.6%, over 2006. On a diluted basis, FFO per unit has increased \$0.22, or 19.0% over 2006. Q4-07 FFO has increased \$7,694, or 167.9%, over Q4-06. Basic FFO per unit has increased by \$0.09, or 30.0%, over Q4-06. On a diluted basis, FFO per unit has increased \$0.09, or 30.0% over Q4-06.

As the current year's acquisitions were not owned for the full period, management anticipates there will be further growth in FFO per unit (basic and diluted) from these acquisitions in future periods, as well as from future acquisitions that the REIT currently has under contract. Management believes that there is further potential FFO growth that may be realized as below-market leases are renewed at higher rates, particularly in Alberta, where the gap between in-place rents and market rents is highest.

ANALYSIS OF FINANCIAL POSITION

ASSETS

\$000's	December 31, 2007	December 31, 2006	Increase
Income-producing properties	\$ 944,612	\$ 388,845	\$ 555,767
Other assets, including intangibles	189,942	78,173	111,769
Deposits on income-producing properties	11,826	10,343	1,483
Cash held in trust	682	327	355
Cash and cash equivalents	29,386	15,252	14,134
	\$ 1,176,448	\$ 492,940	\$ 683,508



MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

Income-producing properties and related intangible assets:

The REIT's income-producing properties and related intangible assets increased in the year ended December 31, 2007, due to the acquisition of 45 properties, as follows:

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 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 leasehold 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

The results of operations for the acquired properties are included in the REIT's accounts from the dates of acquisition. Artis funded these acquisitions from cash on hand and from the proceeds of new or assumed mortgage financings, and from the proceeds of convertible debenture and equity financings completed during 2007. The acquisitions have been accounted for by the purchase method, with a portion of the purchase price allocated to income-producing properties and a portion allocated to intangible assets and liabilities, as noted below.

\$000's	Year ended December 31,	
	2007	2006
Cash consideration	\$ 197,680	\$ 85,200
Issuance of Class B units	–	2,612
Issuance of Series D convertible debenture	20,000	–
New or assumed mortgages including above- and below-market mortgages	349,230	132,211
Net assets acquired	\$ 566,910	\$ 220,023
Allocated to income-producing properties	\$ 575,340	\$ 191,109
Allocated to property under development	–	2,632
Allocated to other assets	87,334	35,661
Allocated to intangible liabilities	(95,764)	(9,379)
Net assets acquired	\$ 566,910	\$ 220,023

Property under development:

Included in income-producing properties is property under development of \$2,725 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 2008, subject to sufficient pre-leasing, and is slated for completion in 2010.

Notes receivable:

In conjunction with the acquisition of TransAlta Place, the REIT acquired a note receivable in the amount of \$31,000. The note bears interest at 5.89% per annum and is repayable in varying blended monthly instalments of principal and interest. The note is transferable at the option of the REIT and matures in May, 2023.

Future income tax assets:

Effective with Q2-07, as a result of the New SIFT Rules (discussed in more detail above under the heading "Future Income Taxes"), the REIT has recorded future income tax assets, comprised of the following major components:

Future income tax assets (liabilities):

Income-producing properties, other assets and intangible liabilities	\$ 8,395
Unit issue costs	4,282
Other	(1,168)
	\$ 11,509

Capital expenditures:

Income-producing properties includes certain capital expenditures related to sustaining building improvements not related to a specific lease or tenancy. These improvements are amortized over the estimated useful life of the relevant assets.

These non-recoverable capital expenditures in 2007 totaled \$984 (Q4-07 - \$555) compared to \$1,741 in 2006 (Q4-06 - \$684), which were primarily related to the completion of 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 \$5,906 of unamortized tenant inducement and leasing costs related to the leasing or re-leasing of occupied or vacant space at December 31, 2007, compared to \$3,406 at December 31, 2006. 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.

In 2007, Artis incurred \$3,469 (Q4-07 - \$1,228) of tenant inducements and leasing costs compared to \$3,319 (Q4-06 - \$2,026) in 2006.

\$000's	Year ended December 31,	
	2007	2006
Tenant inducements	\$ 1,955	\$ 2,554
Leasing commissions	1,514	765
Total	\$ 3,469	\$ 3,319



MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

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 2007, Artis incurred \$2,029 (Q4-07 - \$996) of deferred recoverable operating costs compared to \$557 (Q4-06 - \$557) in 2006.

Deposits on income-producing properties:

At December 31, 2007, Artis had made \$4,496 of deposits on income-producing properties, related to the conditional and unconditional agreements to acquire income-producing properties during the subsequent quarters of 2008 compared to \$2,600 at December 31, 2006.

Also included in deposits on income-producing properties at December 31, 2007, is \$7,330 which represents an 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 \$1,400 earned by the REIT under the terms of the Interplex II purchase and sale agreement up to December 31, 2007, offset by the \$715 distributions paid (or payable) on the Class B units issued and the \$215 of costs that were incurred related to this project.

Cash and cash equivalents:

At December 31, 2007, the REIT had \$29,386 of cash and cash equivalents on hand, compared to \$15,252 at December 31, 2006. The balance is anticipated to be invested in income-producing property in subsequent periods, or used for working capital purposes. All of the REIT's cash and cash equivalents are held in current accounts and/or bank guaranteed investment certificates. The REIT does not invest in asset-backed commercial paper.

LIABILITIES

\$000's	December 31, 2007	December 31, 2006	Increase
Long-term debt	\$ 665,728	\$ 312,844	\$ 352,884
Other liabilities	115,038	21,976	93,062
	\$ 780,766	\$ 334,820	\$ 445,946

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, the 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 the 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 intangible assets) as disclosed in the balance sheet and notes thereto.

At December 31, 2007, Artis had reduced its debt (excluding convertible debentures) to GBV ratio to 49.2%, from 52.1% at December 31, 2006. The reduction in leverage at December 31, 2007 is attributed to the significant balance of cash on hand that is available for future investment in income-producing properties, and mortgage principal repayments during the year.

\$000's	December 31, 2007	December 31, 2006
GBV	\$ 1,247,047	\$ 523,081
Mortgages and loans secured by properties ⁽¹⁾	612,996	272,341
Mortgages and loans to GBV	49.2%	52.1%
Carrying value of convertible debentures	\$ 52,732	\$ 40,503
Total long-term debt	665,728	312,844
Total long-term debt to GBV	53.4%	59.8%

(1) Includes \$481 mark-to-market on above- and below-market mortgages

MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

Mortgages:

Artis 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 2007, Artis assumed or obtained new mortgage financing, net of deferred financing costs, of \$349,230 (Q4-07 - \$88,343) in conjunction with the 2007 acquisitions. In 2007, \$6,665 of principal repayments were made (Q4-07 - \$2,065). In Q4-07, an additional \$1,024 was received on the refinancing of one mortgage. No additional mortgages matured or were refinanced during the current year.

As a result of the adoption of new accounting standards effective January 1, 2007, Artis has reduced the carrying value of its mortgage debt by \$2,204 at December 31, 2007, netting the financing costs against the carrying value of the debt. Interest and financing costs are amortized on an effective interest basis; the weighted average effective rate for the year ending December 31, 2007 was 5.51%. At December 31, 2007, the weighted average nominal rate on the mortgage debt was 5.42%, a decrease from the rate of 5.51% at December 31, 2006.

The weighted average term to maturity at December 31, 2007 is 6.0 years, compared to 7.0 years at December 31, 2006.

Convertible debentures:

Artis has four series of convertible debentures outstanding as at December 31, 2007, as follows:

\$000's	Issued	Maturity	Face rate	December 31, 2007		December 31, 2006	
				Carrying value	Face value	Carrying value	Face value
Series A	4-Aug-05	4-Aug-10	7.75%	\$ 2,644	\$ 3,170	\$ 8,699	\$ 10,185
Series B	9-Nov-05	9-Nov-10	7.50%	8,976	10,862	9,093	10,862
Series C	4-May-06	31-May-13	6.25%	22,274	29,920	22,711	30,000
Series D	30-Nov-07	30-Nov-14	5.00%	18,838	20,000	—	—
				\$ 52,732	\$ 63,952	\$ 40,503	\$ 51,047

As a result of the adoption of new accounting standards effective January 1, 2007, Artis has reduced the carrying value of its debentures by \$1,946 at December 31, 2007, by netting the financing costs against the carrying value of the debentures. Interest and financing costs are amortized on an effective interest basis; this accretion increased the carrying value by \$1,713 in 2007 (Q4-07 - \$373). The weighted average effective rate of the debentures at December 31, 2007 was 11.06%, a decrease from the rate of 14.28% at December 31, 2006.

During 2007, Series A and C convertible debentures with a face value of \$7,095 (Q4-07 - \$70) were converted and 566,174 (Q4-07 - 4,177) units were issued upon such conversions. The carrying value was reduced by \$7,021 (Q4-07 - \$61).

Other liabilities:

Other liabilities includes the unamortized below-market rent intangible liability of \$99,280 at December 31, 2007. This increased \$85,939 from \$13,341 at December 31, 2006, as a result of acquisition activity, net of amortization recorded in the year. Also included in other liabilities are security deposits paid by tenants, rents prepaid by tenants at December 31, 2007, accounts payable and accruals, as well as the December 31, 2007 distribution payable to unitholders of \$2,791, subsequently paid on January 15, 2008.

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) was recorded as a non-controlling interest of the REIT. The Class B units are exchangeable on a one-for-one basis with units of Artis, 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 Artis trust units. The balance of non-controlling interest at December 31, 2007, after making certain adjustments required under GAAP, is \$10,182 (see Note 13 of the accompanying Consolidated Financial Statements for further details).

UNITHOLDERS' EQUITY

Unitholders' equity increased by \$237,748 between December 31, 2006 and December 31, 2007. Equity was increased by the issue of 4,230,000 units at a price of \$17.75 per unit for net proceeds of \$72,702, pursuant to the prospectus dated October 11, 2007, \$87,999 by the issue of 5,232,500 units at a price of \$17.60 per unit, pursuant to the prospectus

MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

dated May 29, 2007, and \$87,870 by the issue of 5,807,500 units at a price of \$15.85 per unit, pursuant to the prospectus dated February 1, 2007.

Unitholders' equity increased during the year by a further \$5,779 as a result of the conversion of a principal amount of \$7,095 Series A and Series C convertible debentures. Other transactions increasing Unitholders' equity during the year included an increase in the equity component of convertible debentures resulting from the issuance of the Series D convertible debenture, issuance of units on the exercise of options, issuance of units under the DRIP, and adjustments to contributed surplus to reflect unit-based compensation expense in the year. These increases were partially offset by the purchase of units under the normal course issuer bid.

Unitholders' equity increased during the year by the net income for the year and the provision for future income taxes less the distributions made to unitholders.

LIQUIDITY AND CAPITAL RESOURCES

In 2007, Artis generated \$28,586 (Q4-07 - \$11,386) of cash flows from operating activities compared to \$13,620 in 2006 (Q4-06 - \$5,098). Cash flows from operations assisted in funding distributions to Unitholders of \$26,348 (Q4-07 - \$8,178) compared to \$12,700 in 2006 (Q4-06 - \$3,973), distributions to Class B unitholders of \$758 (Q4-07 - \$189), and for principal repayments on mortgages and loans of \$6,665 (Q4-07 - \$2,065) compared to \$4,261 in 2006 (Q4-07 - \$1,303). As the current year's acquisitions were not owned for the full period, management anticipates that cash flows from operations will increase in future periods as a result of these acquisitions.

Cash on hand and deposits on income-producing properties at the beginning of the period, were used to finance the cash portion of acquisitions of income-producing properties in the period, totaling \$197,680 (Q4-07 - \$71,232) compared to \$85,200 in 2006 (Q4-06 - \$39,077). Cash of \$4,453 (Q4-07 - \$1,783) was used for substantive capital building improvements and for tenant inducements and leasing costs compared to \$5,060 in 2006 (Q4-06 - \$2,710).

At December 31, 2007, Artis had \$29,386 of cash and cash equivalents on hand, compared to \$15,252 at December 31, 2006. Management anticipates that the cash on hand will be invested in additional income-producing properties, subsequent to December 31, 2007, or used for working capital purposes.

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. 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%. 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. Subsequent to December 31, 2007, the REIT has drawn an aggregate of \$10,200 of the available credit facility for bridge financing on the acquisitions of King Edward Centre and the Leon's Building.

To its knowledge, Artis is not in default or arrears on any of its obligations, including distributions to unitholders, interest or principal payments on debt or any debt covenants.

Contractual obligations:

\$000's		Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Mortgages and other loans secured by properties ⁽¹⁾	\$	614,719	\$ 20,598	\$ 127,729	\$ 153,076	\$ 313,316
Convertible debentures ⁽²⁾		63,952	–	14,032	–	49,920
Total	\$	678,671	\$ 20,598	\$ 141,761	\$ 153,076	\$ 363,236

(1) Not including \$481 of mark-to-market on mortgages and deferred financing costs.

(2) It is assumed that none of the convertible debentures are converted or redeemed prior to maturity and that they are paid out in cash on maturity.

Only two of the REIT's mortgages mature in 2008 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 properties through funds generated from operations, from the proceeds of mortgage refinancing, and from the available credit facility and cash on hand.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

SUMMARIZED QUARTERLY INFORMATION:

\$000's, except unit and per unit amounts

	Q4-07	Q3-07	Q2-07	Q1-07	Q4-06	Q3-06	Q2-06	Q1-06
Revenue	\$ 31,850	\$ 27,041	\$ 22,759	\$ 17,609	\$ 16,489	\$ 15,744	\$ 11,932	\$ 9,357
Property operating expenses	9,753	8,385	7,671	5,980	6,077	5,665	3,912	3,617
Property NOI	22,097	18,656	15,088	11,629	10,412	10,079	8,020	5,740
Interest	8,717	7,684	6,366	5,427	4,834	5,277	3,986	2,906
	13,380	10,972	8,722	6,202	5,578	4,802	4,034	2,834
Expenses:								
Corporate	1,382	1,257	1,061	1,098	973	532	1,125	451
Amortization	12,893	11,158	9,413	7,761	7,864	7,545	5,906	4,833
	14,275	12,415	10,474	8,859	8,837	8,077	7,031	5,284
Loss before the under-noted	(895)	(1,443)	(1,752)	(2,657)	(3,259)	(3,275)	(2,997)	(2,450)
Gain (loss) on disposal of income-producing properties	(10)	2,521	–	–	–	–	(113)	941
Income (loss) before income taxes	\$ (905)	\$ 1,078	\$ (1,752)	\$ (2,657)	\$ (3,259)	\$ (3,275)	\$ (3,110)	\$ (1,509)
Future income tax (expense) recovery	(1,433)	(201)	12,028	–	–	–	–	–
Income (loss) for the period	\$ (2,338)	\$ 877	\$ 10,276	\$ (2,657)	\$ (3,259)	\$ (3,275)	\$ (3,110)	\$ (1,509)
Basic income (loss) per unit	\$ (0.03)	\$ 0.03	\$ 0.45	\$ (0.14)	\$ (0.22)	\$ (0.27)	\$ (0.26)	\$ (0.17)
Diluted income (loss) per unit	\$ (0.03)	\$ 0.03	\$ 0.41	\$ (0.14)	\$ (0.22)	\$ (0.27)	\$ (0.26)	\$ (0.17)

MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

Reconciliation of GAAP income (loss) to DI:

\$000's, except unit and per unit amounts

	Q4-07	Q3-07	Q2-07	Q1-07	Q4-06	Q3-06	Q2-06	Q1-06
Income (loss) for the period	\$ (2,338)	\$ 877	\$ 10,276	\$ (2,657)	\$ (3,259)	\$ (3,275)	\$ (3,110)	\$ (1,509)
Add:								
Amortization (excluding amortized leasing costs)	12,640	10,962	9,219	7,614	7,504	7,260	5,686	4,683
Amortized financing costs on convertible debentures	—	—	—	—	163	163	115	92
Accretion on liability component of debentures	374	391	490	457	172	399	326	197
Unit-based compensation expense	262	261	322	194	382	40	40	40
(Gain) loss on disposal of income-producing properties	10	(2,521)	—	—	—	—	113	(941)
Future income tax expense (recovery)	1,433	201	(12,028)	—	—	—	—	—
Other adjustments ⁽¹⁾								
Property rent	300	300	300	300	200	—	—	—
Property bid costs	—	—	—	—	—	—	397	—
DI	\$ 12,681	\$ 10,471	\$ 8,579	\$ 5,908	\$ 5,162	\$ 4,587	\$ 3,567	\$ 2,562
DI per unit								
Basic ⁽²⁾	\$ 0.41	\$ 0.38	\$ 0.37	\$ 0.31	\$ 0.34	\$ 0.38	\$ 0.30	\$ 0.29
Diluted ⁽²⁾	\$ 0.39	\$ 0.37	\$ 0.35	\$ 0.30	\$ 0.33	\$ 0.35	\$ 0.28	\$ 0.27
Weighted average number of units:								
Basic ⁽²⁾	31,132,975	27,546,303	23,325,672	19,189,433	15,153,247	12,072,151	11,850,099	8,918,795
Diluted ⁽²⁾	35,114,445	30,519,959	26,412,775	22,630,256	18,577,492	15,609,760	15,003,921	11,502,700

(1) Added back to Q4-07, Q3-07, Q2-07, Q1-07 and Q4-06 DI is \$300, \$300, \$300, \$300 and \$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 due to the project being in the development phase. Added back to Q2-06 DI is \$397 of costs attributed to an unsuccessful take-over bid.

(2) The weighted average number of units used in the calculation of DI per unit reflects 721,347 of Class B units issued by the REIT's subsidiary, AXLP, beginning in Q4-06. Options and convertible debentures are factored into the diluted weighted average calculation, to the extent that their impact is dilutive.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

Reconciliation of GAAP income (loss) to FFO:

\$000's, except unit and per unit amounts

	Q4-07	Q3-07	Q2-07	Q1-07	Q4-06	Q3-06	Q2-06	Q1-06
Income (loss) for the period	\$ (2,338)	\$ 877	\$ 10,276	\$ (2,657)	\$ (3,259)	\$ (3,275)	\$ (3,110)	\$ (1,509)
Add amortization on:								
Income-producing properties	6,014	5,284	4,340	3,260	3,079	3,010	2,211	1,806
Acquired in-place leases	6,620	5,673	4,874	4,348	4,419	4,244	3,470	2,871
Customer relationships	6	5	5	6	6	6	5	6
Tenant inducements and leasing costs	231	194	191	146	137	60	33	16
(Gain) loss on disposal of income-producing properties	10	(2,521)	—	—	—	—	113	(941)
Future income tax expense (recovery)	1,433	201	(12,028)	—	—	—	—	—
Other adjustments ⁽¹⁾								
Property rent	300	300	300	300	200	—	—	—
Property bid costs	—	—	—	—	—	—	397	—
FFO	\$ 12,276	\$ 10,013	\$ 7,958	\$ 5,403	\$ 4,582	\$ 4,045	\$ 3,119	\$ 2,249
FFO per unit								
Basic	\$ 0.39	\$ 0.36	\$ 0.34	\$ 0.28	\$ 0.30	\$ 0.34	\$ 0.26	\$ 0.25
Diluted	\$ 0.39	\$ 0.36	\$ 0.34	\$ 0.28	\$ 0.30	\$ 0.33	\$ 0.26	\$ 0.24
Weighted average number of units:								
Basic	31,132,975	27,546,303	23,325,672	19,189,433	15,153,247	12,072,151	11,850,099	8,918,795
Diluted	31,197,012	27,725,159	23,512,419	19,325,025	15,225,436	12,131,910	12,074,314	9,507,631

(1) Added back to Q4-07, Q3-07, Q2-07, Q1-07 and Q4-06 FFO is \$300, \$300, \$300, \$300 and \$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 due to the project being in the development phase. Added back to Q2-06 FFO is \$397 of costs attributed to an unsuccessful take-over bid.

(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, beginning in Q4-06. Options and convertible debentures are factored into the diluted weighted average calculation, to the extent that their impact is dilutive.

Artis has executed an aggressive but disciplined external growth strategy, resulting in significant growth in revenues, Property NOI, DI and FFO over the past eight quarters. DI and FFO per unit results posted in Q4-07 were the strongest in the REIT's history.

Management does not believe that the Q4-07 per unit results are indicative of future performance. Management expects that there will be further growth in revenues, Property NOI, FFO and DI in future periods as cash on hand at December 31, 2007 is invested in additional income-producing properties.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

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 (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 (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.

Artis 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 (unless such termination occurs following a take-over bid of the REIT, in which case Marwest is entitled to receive a termination fee equal to the anticipated fees payable until the end of the term). Marwest and its affiliated companies (collectively, the "Marwest Group") have granted a right of first refusal to Artis 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 tenant improvement fees under the property management agreement with Marwest. The amount payable at December 31, 2007 is \$nil (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 (2006, \$115).

OUTSTANDING UNIT DATA

The balance of units outstanding as of March 19, 2008, not including Class B units, is as follows:

Units outstanding at December 31, 2007	31,171,068
Units acquired through normal course issuer bid prior to December 31, 2007, cancelled subsequent to year end	(13,000)
Units issued (options)	22,751
Units issued (DRIP)	69,075
Units issued on conversion of debenture	529,402
Units acquired through normal course issuer bid	(32,600)
Units outstanding at March 19, 2008	31,746,696

The balance of options outstanding as of March 19, 2008 is as follows:

	Options outstanding	Options exercisable
\$11.25 options, issued December 8, 2005	217,036	74,843
\$14.40 options, issued October 11, 2006	380,500	181,500
\$15.85 options, issued February 8, 2007	269,750	132,750
\$17.60 options, issued June 11, 2007	319,050	79,762
\$17.75 options, issued October 17, 2007	272,000	—
	1,458,337	468,855



MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

2008 OUTLOOK

Artis is a growth-oriented REIT focused exclusively on commercial properties located in primary and growing secondary markets in western Canada, particularly in Alberta. The REIT's goal is to provide unitholders the opportunity to invest in high-quality western Canadian office, retail and industrial properties, as well as to provide monthly cash distributions that are stable, tax efficient, and growing over time.

Artis anticipates that there will be additional growth in revenues, property NOI, DI and FFO as the full impact of 2007 acquisitions is realized in 2008. Acquisitions in 2008 are also expected to positively impact growth. Acquisitions aggregating \$25,165 have already been concluded, as follows:

- ▶ On January 15, 2008, the REIT acquired King Edward Centre, located in Coquitlam, British Columbia.
- ▶ On February 1, 2008, the REIT acquired the Leon's Building, located in Nanaimo, British Columbia.

The REIT has entered into agreements to acquire various properties located in Alberta and Saskatchewan. These acquisitions are expected to close in March and April, 2008.

At the existing level of debt to GBV and with funds available on the credit facility, Artis has sufficient capacity to pursue further acquisition opportunities in its target markets in 2008.

At December 31, 2007, in-place rental rates on our 2008 lease maturities were estimated to be 38.6% below market rates. As these leases expire and are renewed at current market rates, this will be an additional source of growth in revenues, property NOI, DI and FFO.

Artis has minimal exposure to financing risk, with 2% of its mortgage debt maturing late in 2008 and 4% maturing in 2009. The REIT does not anticipate difficulty in renewing or replacing these mortgages.

With its existing acquisition capacity and embedded growth profile, Artis expects to deliver another year of growth in 2008, in spite of turbulence in the capital markets and uncertainties in the credit markets. Western Canadian employment, retail sales growth and net migration figures outperformed Canada again in 2007. Oil and gas production and oil-sands development continue to be significant growth drivers in Alberta. Global demand for potash, uranium and other precious metals, as well as agricultural commodities continue to fuel growth in western Canada. In Alberta, new supply coming on the market, particularly in the Calgary office market, has slowed the velocity of leasing activity and had a moderating effect on rental rate increases. However, at current and forecast occupancy levels, management anticipates that the Alberta market will continue to be a strong landlord's market for 2008 and well into 2009.

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.

Credit risk and tenant concentration:

Artis 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 asset classes. As well, management seeks to acquire properties with strong tenant covenants in place. As at December 31, 2007, government tenants contribute 10.1% to the REIT's overall gross revenue and occupy 8.9% of total GLA. The REIT's ten top tenants (excluding government tenants) are primarily high credit rated national retailers or businesses. As indicated below, the largest tenant is TransAlta Corporation, a Standard & Poor's BBB rated multi-national corporation with a market capitalization of approximately \$5 billion.

MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

Top Ten Tenants by GLA	Share	Top Ten Tenants by Gross Revenue	Share
TransAlta Corporation	5.6%	TransAlta Corporation	4.0%
Red River Packaging	3.2%	Jacobs Canada	3.5%
Reliance Products	2.9%	Birchcliff Energy	2.6%
Jacobs Canada	2.6%	Credit Union Central	2.2%
Sears	1.7%	Shoppers Drug Mart	1.8%
Credit Union Central	1.4%	MTS Allstream	1.8%
Shoppers Drug Mart	1.4%	Cineplex Odeon	1.5%
MTS Allstream	1.3%	BW Technologies (Honeywell)	1.1%
Komunik	1.2%	Komex International	1.1%
Cineplex Odeon	1.1%	The Brick	1.0%
Total of Top Ten by GLA	22.4%	Total of Top Ten by Gross Revenue	20.6%

Government Entities by GLA	Share	Government Entities by Gross Revenue	Share
Federal Government	2.8%	Federal Government	3.3%
Provincial Government	4.8%	Provincial Government	5.3%
Civic or Municipal Government	1.3%	Civic or Municipal Government	1.5%
Total Government by GLA	8.9%	Total Government by Gross Revenue	10.1%

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 24.7% of the REIT's GLA will come up for renewal from 2008 through to 2009; approximately 59.2% 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. At January 31, 2008, Artis had renewed approximately 56% of the 2008 square footage expiring, achieving renewal rates that were on average 79% higher than the in-place rate at expiry.

Tax risk:

On June 22, 2007, the New SIFT Rules (discussed in more detail above under the heading "Future Income Taxes") were enacted. Under the New SIFT Rules, 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"). In order to meet the REIT

Conditions, a trust must meet a number of technical tests that do not fully accommodate common real estate and business structures. 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.

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.

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.

The REIT may also be subject to risks arising from land and air rights leases for properties in which the REIT has an interest, public market risks, unitholder liability risks, risks pertaining to the availability of cash flow, risks related to fluctuations in cash distributions, changes in legislation, and risks relating to the REIT's reliance on key personnel and Marwest as asset manager.



MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

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.

Impairment of assets:

Under Canadian GAAP, the REIT is required to write down to fair value an asset that is determined to have been impaired. The REIT's most significant assets consist of investments in income-producing properties.

The fair value of investments in income-producing properties is dependent upon anticipated future cash flows from operations over the anticipated holding period. The review of anticipated cash flows involves assumptions of estimated occupancy, rental rates and a residual value. In addition to reviewing anticipated cash flows, the REIT assesses changes in business climates and other factors, which may affect the ultimate value of the property. These assumptions may not ultimately be achieved.

In the event these factors result in a carrying value that exceeds the sum of the undiscounted cash flows expected to result from the direct use and eventual disposition of the property, impairment would be recognized.

There were no impairments for the years ended December 31, 2007 and 2006.

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.

Future income tax valuation:

Future income taxes are estimated based upon temporary differences between the assets and liabilities reported on the REIT's consolidated financial statements and the tax basis of those assets and liabilities as determined under applicable tax laws. Future income tax assets are recognized when it is more likely than not that they will be realized prior to their expiration. This assumption is based on management's best estimate of future circumstances and events, including the timing and amount of projected future taxable income, and will be tested on a regular basis. Changes in estimates or assumptions could affect the value of future income tax assets, resulting in an income tax expense or recovery.

CHANGES IN ACCOUNTING POLICIES

Commencing January 1, 2007, Artis adopted Section 3855, "Financial Instruments-Recognition and Measurement". This section 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.

As a result of the adoption of this standard, interest on debt instruments is now recognized at the effective interest rate, with deferred finance costs netted against the related debt. Artis recorded a reduction of \$4,071 to the carrying value of long-term debt as a result of the elimination of the January 1, 2007, balance of deferred finance costs from its balance sheet. The beginning deficit balance was decreased by \$311, representing that proportion of adjustment to the carrying value up to December 31, 2006.



MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in \$000's, unless otherwise noted

Artis also adopted Section 1530, "Comprehensive Income", which 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. There were no adjustments to opening retained earnings or unusual adjustments as a result of the adoption of this standard.

Effective January 1, 2008, the REIT will be required to adopt additional accounting changes. The REIT does not expect Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments - Disclosure", and Section 3863 "Financial Instruments - Presentation" to have a material effect on the financial performance of the REIT, however, management will continue to evaluate the impact of these changes.

In addition, a new accounting standard was issued 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.

CONTROLS AND PROCEDURES

Disclosure controls and procedures:

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

As of December 31, 2007, an evaluation was carried out, under the supervision of and with the participation of Management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the REIT's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*). Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the REIT's disclosure controls and procedures were effective as at December 31, 2007.

Internal controls over financial reporting:

Management is responsible for establishing and maintaining 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. The 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, 2007. In 2006, the REIT identified that there was 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 were put in place to management's satisfaction. Due to the increase in the asset base of the REIT during 2007, the REIT's asset manager was required to increase staffing levels. As a result, there is adequate segregation of duties. 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. As a growing enterprise, management anticipates that the REIT will be continually evolving and enhancing its systems of controls and procedures.