Consolidated Financial Statements of

ARTIS REAL ESTATE INVESTMENT TRUST

Years ended December 31, 2010 and 2009

(In Canadian dollars)

Management's Responsibility for Financial Statements

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

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

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

"Armin Martens"

Armin Martens, P.Eng., MBA
President and Chief Executive Officer
March 2, 2011

"Jim Green"

Jim Green, CA
Chief Financial Officer
March 2, 2011

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Artis Real Estate Investment Trust
We have audited the accompanying consolidated financial statements of Artis Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, and the consolidated statements of operations, unitholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

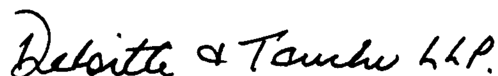
Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Artis Real Estate Investment Trust as at December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Winnipeg, Manitoba
March 2, 2011

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
As at December 31, 2010 and 2009

(In thousands of Canadian dollars)

	2010	2009
ASSETS		
Income-producing properties (note 4)	$ 1,720,771	$ 991,700
Other assets (note 5)	267,055	119,874
Future income taxes (note 18)	297	-
Deposits on income-producing properties (note 6)	16,081	1,350
Prepaid expenses	3,040	2,613
Notes receivable (note 7)	27,142	29,062
Rent and other receivables	15,262	9,348
Investment in equity securities	11,184	-
Cash held in trust	782	355
Cash and cash equivalents	88,324	35,907
	$ 2,149,938	$ 1,190,209
LIABILITIES AND UNITHOLDERS' EQUITY		
Liabilities:		
Mortgages and loans payable (note 8)	$ 1,156,092	$ 612,263
Convertible debentures (note 9)	135,691	86,032
Intangible liabilities (note 10)	91,568	81,523
Security deposits and prepaid rent	9,494	4,572
Accounts payable and other liabilities (note 11)	29,382	14,213
Bank indebtedness (note 12)	8,000	30,700
	1,430,227	829,303
Unitholders' equity	719,711	360,906
Commitments, contingencies and guarantees (note 22)		
Subsequent events (note 25)		
	$ 2,149,938	$ 1,190,209

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Operations
Years ended December 31, 2010 and 2009

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

	2010	2009
Revenue	$ 191,561	$ 136,853
Property operating expenses	62,032	43,490
	129,529	93,363
Interest	54,835	40,100
	74,694	53,263
Expenses (income):		
Corporate	6,744	4,524
Amortization	70,986	54,253
Unrealized (gain) loss on financial instruments (note 24 (b))	(2,006)	466
Foreign currency translation loss	2,945	-
	78,669	59,243
Loss before other items	(3,975)	(5,980)
Loss on termination of Interplex II agreement (note 13)	-	(7,287)
Income tax recovery (expense) (note 18)	200	(10,895)
Loss before non-controlling interest and discontinued operations	(3,775)	(24,162)
Non-controlling interest (note 13)	-	40
Loss from continuing operations	(3,775)	(24,122)
Income from discontinued operations (note 21)	-	14,933
Loss for the year	(3,775)	(9,189)
Other comprehensive loss:		
Unrealized foreign currency translation loss	(273)	-
Comprehensive loss for the year	$ (4,048)	$ (9,189)
Basic income (loss) per unit (note 14 (e))		
Continuing operations	$ (0.07)	$ (0.71)
Discontinued operations	$ 0.00	$ 0.44
Diluted income (loss) per unit (note 14 (e))		
Continuing operations	$ (0.07)	$ (0.71)
Discontinued operations	$ 0.00	$ 0.44
Weighted-average number of units outstanding,		
Basic	57,000,720	33,915,217
Diluted	57,000,720	33,915,217

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Unitholders' Equity
Years ended December 31, 2010 and 2009

(In thousands of Canadian dollars, except unit amounts)

	Number of Units		Capital Contributions		Equity Component of Convertible Debentures		Deficit		Accumulated Other Comprehensive Loss		Contributed Surplus		Total
Unitholders' equity, December 31, 2008	32,306,766	$	438,256	$	9,268	$	(91,571)	$	-	$	2,590	$	358,543
Issuance of units	4,761,801		40,564		-		-		-		-		40,564
Units issued on exchange of Class B units (note 13)	543,781		8,059		-		-		-		-		8,059
Unit-based compensation	-		-		-		-		-		160		160
Cancellation of options	-		-		-		-		-		(484)		(484)
Issuance of convertible debentures	-		-		838		-		-		-		838
Conversion of convertible debentures	66,233		578		(11)		-		-		-		567
Repayment of convertible debentures	-		-		(169)		-		-		-		(169)
Units acquired and cancelled through normal course issuer bid	(156,200)		(2,457)		-		-		-		1,211		(1,246)
Loss for the year	-		-		-		(9,189)		-		-		(9,189)
Distributions for the year	-		-		-		(36,737)		-		-		(36,737)
Unitholders' equity, December 31, 2009	37,522,381		485,000		9,926		(137,497)		-		3,477		360,906
Issuance of units	34,576,655		394,245		-		-		-		(449)		393,796
Unit-based compensation	-		-		-		-		-		221		221
Issuance of convertible debentures	-		-		2,662		-		-		-		2,662
Conversion of convertible debentures	3,378,272		30,086		(580)		-		-		-		29,506
Maturity of convertible debentures	-		-		(566)		-		-		566		-
Loss for the year	-		-		-		(3,775)		-		-		(3,775)
Other comprehensive loss for the year	-		-		-		-		(273)		-		(273)
Distributions for the year	-		-		-		(63,332)		-		-		(63,332)
Unitholders' equity, December 31, 2010	75,477,308	$	909,331	$	11,442	$	(204,604)	$	(273)	$	3,815	$	719,711

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows
Years ended December 31, 2010 and 2009

(In thousands of Canadian dollars)

	2010	2009
Cash provided by (used in):		
Operating activities:		
Loss for the year	$ (3,775)	$ (9,189)
Adjustments for non-cash items:		
Amortization:		
Income-producing properties	34,776	26,864
Office equipment and software	114	99
Above-market rent	542	233
Acquired in-place leases	32,135	26,779
Customer relationships	1	7
Below-market rent	(12,175)	(12,536)
Tenant inducements and leasing costs	3,960	2,723
Tenant inducements amortized to revenue	479	340
Above- and below-market mortgages, net	(370)	(183)
Accretion on liability component of convertible debentures	2,223	1,724
Straight-line rent adjustment	(2,841)	(1,738)
Unrealized foreign currency translation loss	191	-
Loss on termination of Interplex II agreement (note 13)	-	7,287
Gain on disposal of income-producing properties	-	(14,442)
Unrealized (gain) loss on financial instruments	(2,006)	466
Unit-based compensation expense	221	160
Cancellation of options	-	(484)
Amortization of financing costs included in interest	1,048	782
Future income tax (recovery) expense	(297)	11,127
Non-controlling interest (note 13)	-	91
	54,226	40,110
Changes in non-cash operating items (note 16)	16,376	1,003
	70,602	41,113
Investing activities:		
Acquisition of income-producing properties, net of related debt (note 3)	(339,352)	(35,092)
Disposition of income-producing properties, net of mortgages and costs	-	41,101
Additions to income-producing properties	(10,695)	(4,847)
Deposits on income-producing properties held for sale	-	(10,000)
Purchase of equity securities	(9,615)	-
Advance of notes receivable	-	(1,881)
Notes receivable principal repayments	1,920	1,649
Net change to office equipment and software	(27)	(2)
Additions to tenant inducements and leasing costs	(12,906)	(7,178)
Change in deposits on income-producing properties	(14,731)	(1,864)
	(385,406)	(18,114)
Financing activities:		
Issuance of units, net of issue costs	393,797	35,574
Purchase of units under normal course issuer bid	-	(1,246)
Issuance of convertible debentures, net of issue costs	82,496	43,638
Issuance of units on private placement, net of issue costs	-	4,990
Repayment of convertible debentures	(2,893)	(3,000)
Change in bank indebtedness	(22,700)	(1,800)
Distributions paid on REIT units	(63,332)	(36,737)
Distributions paid on Class B units, charged to non-controlling interest (note 13)	-	(65)
Mortgages and loans principal repayments	(16,933)	(12,367)
Repayment of mortgages and loans payable	(37,636)	(41,569)
Advance of mortgages payable	34,547	11,643
	367,346	(939)
Foreign exchange loss on cash held in foreign currency	(125)	-
Increase in cash and cash equivalents	52,417	22,060
Cash and cash equivalents at beginning of year	35,907	13,847
Cash and cash equivalents at end of year	$ 88,324	$ 35,907

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows (continued)
Years ended December 31, 2010 and 2009

(In thousands of Canadian dollars)

	2010	2009
Supplemental cash flow information:		
Interest paid, net of interest received	$ 47,835	$ 38,006
Non-cash investing and financing activities:		
Elimination of non-controlling interest and related exchange of Class B units for REIT units are excluded from investing and financing activities (note 13)	-	8,059
Elimination of non-controlling interest and related cancellation of Class B units are excluded from investing and financing activities (note 13)	-	2,226

See accompanying notes to consolidated financial statements.

1. Organization:

Artis Real Estate Investment Trust (the "REIT") is an unincorporated open-end real estate investment trust (note 14) created under, and governed by, the laws of the province of Manitoba and was created pursuant to the Declaration of Trust dated November 8, 2004, subsequently amended and restated on October 31, 2006 and May 14, 2010 (the "Declaration of Trust"). The purpose of the REIT is to directly, or indirectly, own, manage, lease and (where appropriate) develop retail, industrial and office properties in Canada and the United States (the "U.S.").

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

2. Significant accounting policies:

(a) Principles of consolidation:

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

(b) Translation of foreign currencies:

Assets and liabilities of self-sustaining foreign operations are translated at the rate of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rate for the period. Gains or losses on translation are included in other comprehensive income as foreign currency translation gains or losses. When there is a reduction in the net investment as a result of a dilution or sale, or reduction in the equity of the foreign operation as a result of a capital transaction, amounts previously recognized in accumulated other comprehensive income are reclassified into net income.

For assets, liabilities, revenues and expenses that do not form part of the net investment in self-sustaining foreign operations, foreign currency translation gains or losses are included in net income. Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expense items are translated at the rate in effect at the date of the transaction.

(c) Financial instruments:

Initially, all financial assets and liabilities are recorded on the consolidated balance sheet at fair value. Subsequent measurement is determined by the classification of each financial asset and liability. All financial instruments are classified as one of: (a) held-to-maturity; (b) loans and receivables; (c) held-for-trading; (d) available-for-sale or (e) other liabilities. Financial assets and liabilities held for trading are measured at fair value with gains and losses recognized in net income. Financial instruments classified as held-to-maturity, loans and receivables, and other liabilities are measured at amortized cost. Available-for-sale financial instruments are measured at fair value, with unrealized gains and losses recognized in other comprehensive income.

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

2. Significant accounting policies (continued):

(c) Financial instruments (continued):

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

All derivative instruments, including embedded derivatives, are recorded in the consolidated balance sheet at fair value.

The REIT uses a three-level hierarchy that reflects the significance of the inputs used in making fair value measurements of financial instruments carried at fair value. Level 1 of the fair value hierarchy uses quoted prices in active markets for identical assets or liabilities to determine the fair value of assets and liabilities. Level 2 includes valuations using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 valuations are based on inputs for the asset or liability that are not based on observable market data.

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

Income-producing properties include tangible and intangible assets.

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

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

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

2. Significant accounting policies (continued):

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

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

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

(e) Other assets:

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

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

2. Significant accounting policies (continued):

(f) Disposal of long-lived assets:

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

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

(g) Cash and cash equivalents:

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

(h) Revenue recognition:

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

(i) Co-ownerships:

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

(j) Earnings per unit:

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

2. Significant accounting policies (continued):

(k) Income taxes:

Income taxes are accounted for using the asset and liability method. Under this method, future income taxes are recognized for the expected future tax consequences of temporary differences between the carrying amount of balance sheet items and their corresponding tax values.

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

(l) Unit-based compensation:

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

(m) Use of estimates:

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

The significant areas of estimation include:

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

(n) Future changes in accounting policies:

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

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

3. Acquisitions and dispositions of income-producing properties:

Acquisitions:

The REIT acquired the following properties during the year ended December 31, 2010:

Property	Location	Acquisition Date	Type
Westbank Zellers [(1)]	Westbank / West Kelowna, BC	January 14, 2010	Retail
Maple Leaf Building	Saskatoon, SK	January 29, 2010	Industrial
Sherwood Centre	Edmonton, AB	January 29, 2010	Industrial
Alberta Industrial Portfolio [(2)]	Edmonton, Acheson and Calgary, AB	March 30, 2010	Industrial
Westbank Hub Centre North [(1) (3)]	Westbank / West Kelowna, BC	March 31, 2010	Retail
Sunrise Towne Square	Spruce Grove, AB	April 1, 2010	Retail
Visions Building	Calgary, AB	April 12, 2010	Retail
Tamarack Centre	Cranbrook, BC	April 15, 2010	Retail
Eagle Ridge Corner	Fort McMurray, AB	May 14, 2010	Retail
Production Court	Burnaby, BC	May 26, 2010	Office
Grande Prairie Power Centre	Grande Prairie, AB	June 15, 2010	Retail
DSI Building	Minneapolis, MN	June 30, 2010	Office
Winnipeg Square / 360 Main Street [(4)]	Winnipeg, MB	June 30, 2010	Office
Uplands Common	Lethbridge, AB	August 13, 2010	Retail
1045 Howe Street	Vancouver, BC	September 13, 2010	Office
Pembina Village Shopping Centre [(5)]	Winnipeg, MB	September 30, 2010	Retail
St. Vital Square [(5)]	Winnipeg, MB	September 30, 2010	Retail
Cancross Court	Mississauga, ON	October 1, 2010	Office
Meadowvale Building	Mississauga, ON	October 15, 2010	Office
Horizon II	Calgary, AB	October 15, 2010	Industrial
Letourneau Centre	Edmonton, AB	October 15, 2010	Industrial
Furniture Pluss Building	Fort McMurray, AB	October 20, 2010	Retail
Caterpillar Building	Minneapolis, MN	October 22, 2010	Industrial
Minneapolis Industrial Portfolio [(6)]	Minneapolis, MN	October 29, 2010	Industrial
Dunwin	Mississauga, ON	November 12, 2010	Industrial
Humana Building	Phoenix, AZ	November 18, 2010	Office
Concorde Corporate Centre	Toronto, ON	December 1, 2010	Office
Poco Place	Vancouver, BC	December 22, 2010	Office
Hartford Corporate Plaza	New Hartford, NY	December 30, 2010	Office
Mosaic Building	Tampa, FL	December 30, 2010	Office

(1) The REIT acquired a leasehold interest in these properties.
(2) The Alberta Industrial Portfolio is comprised of 2 single tenant and 2 multi-tenant properties.
(3) The REIT acquired a 50% interest in this property, which is proportionately consolidated in the accounts of the REIT.
(4) The REIT acquired the remaining 62% interest in this property, and also acquired the ancillary parkade on April 30, 2010.
(5) Pembina Village Shopping Centre and St. Vital Square were acquired together as the Winnipeg Retail portfolio.
(6) The Minneapolis Industrial Portfolio is comprised of 2 single tenant and 4 multi-tenant properties.

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

Property	Location	Acquisition Date	Type
Airdrie Flex Industrial	Airdrie, AB	October 1, 2009	Industrial
Winnipeg Industrial Portfolio [(1)]	Winnipeg, MB	October 29, 2009	Industrial
Cliveden Building [(2)]	Delta, BC	December 15, 2009	Industrial
Kincaid Building [(2)]	Burnaby, BC	December 15, 2009	Office

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

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

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

The net assets acquired including acquisition costs were as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
Land	$ 160,777	$ 19,356
Buildings	484,560	39,873
Leasehold interest	25,576	-
Parking lots	27,240	1,275
Tenant improvements	55,946	3,180
Acquired in-place leases	166,694	11,657
Above-market rent	5,010	225
Below-market rent	(22,220)	(4,052)
Long-term debt including acquired above- and below-market mortgages, net of deferred financing costs	(564,231)	(36,422)
Cash consideration	$ 339,352	$ 35,092
Acquisition costs included above	$ 15,791	$ 1,214

Dispositions:

The REIT did not dispose of any properties during the year ended December 31, 2010.

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

Property	Location	Disposition Date	Type
Plainsman Building	Kamloops, BC	March 31, 2009	Office
Airways Business Plaza (1)	Calgary, AB	April 1, 2009	Office
Glenmore Commerce Court (1)	Calgary, AB	April 1, 2009	Office
McKnight Village Mall	Calgary, AB	May 15, 2009	Retail
Albert Street Mall	Regina, SK	July 15, 2009	Retail
Bridges Place	Calgary, AB	July 27, 2009	Office
Willowglen Business Park	Calgary, AB	October 1, 2009	Office
Franklin Showcase Warehouse	Calgary, AB	November 1, 2009	Industrial
Raleigh Shopping Centre	Winnipeg, MB	December 1, 2009	Retail

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

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

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

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

4. Income-producing properties:

			December 31, 2010
	Cost	Accumulated amortization	Net book value
Land	$ 413,269	$ -	$ 413,269
Buildings and building improvements	1,215,526	71,048	1,144,478
Leasehold interests	33,591	1,598	31,993
Tenant improvements	120,359	35,208	85,151
Parking lots	50,568	4,688	45,880
	$ 1,833,313	$ 112,542	$ 1,720,771

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

5. Other assets:

	December 31, 2010		
	Cost	Accumulated amortization	Net book value
Acquired in-place leases	$ 353,875	$ 115,242	$ 238,633
Above-market rent	6,913	1,495	5,418
Customer relationships	105	95	10
Tenant inducements and leasing costs	31,802	9,155	22,647
Office equipment and software	580	233	347
	$ 393,275	$ 126,220	$ 267,055

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

6. Deposits on income-producing properties:

	Year ended December 31, 2010	Year ended December 31, 2009
Deposit on income-producing property (note 13):		
Balance, beginning of year	$ -	$ 6,712
Property rent	-	(300)
Costs incurred	-	618
Distributions on 543,781 Class B units of AXLP	-	196
	-	7,226
Forfeiture on settlement of Interplex II (note 13)	-	(7,226)
	-	-
Deposits on income-producing properties	16,081	1,350
	$ 16,081	$ 1,350

7. Notes receivable:

	December 31, 2010	December 31, 2009
Note receivable from tenant maturing in May 2023, bearing interest at 5.894% per annum, repayable in varying blended monthly installments of principal and interest. A default under the terms of the note constitutes a default of the lease of the tenant.	$ 25,323	$ 26,918
Notes receivable with maturity dates ranging from January 2011 to September 2017, bearing interest at rates ranging from 5.50% to 9.50% per annum, repayable in blended monthly installments of principal and interest.	1,819	1,865
Note receivable matured in November 2010.	-	279
	$ 27,142	$ 29,062

8. Mortgages and loans payable:

Substantially all of the REIT's assets have been pledged as security under mortgages and other security agreements. The majority of mortgages and loans payable bear interest at fixed rates. The weighted-average effective rate on all mortgages and loans payable is 5.12% at December 31, 2010 and the weighted-average nominal rate is 4.97% at December 31, 2010 (December 31, 2009, 5.56% and 5.45%, respectively). The maturity dates range from January 1, 2011 to October 1, 2030.

Principal payment requirements on the mortgages and loans payable as at December 31, 2010 are as follows:

2011	$ 59,236
2012	130,563
2013	176,455
2014	99,303
2015	283,661
2016 and thereafter	408,830
	1,158,048
Net above- and below-market mortgage adjustments	3,351
Financing costs	(5,307)
	$ 1,156,092

9. Convertible debentures:

In conjunction with the private placement offering that closed August 4, 2005, the REIT issued Series A convertible redeemable 7.75% debentures totaling $15,000. None of the Series A convertible debentures were converted into units of the REIT in fiscal 2010 or 2009. On the maturity date of August 4, 2010, the REIT repaid the $620 face value outstanding on the Series A convertible debentures.

In conjunction with the private placement offering that closed November 9, 2005, the REIT issued Series B convertible redeemable 7.5% debentures totaling $10,862. During the year, Series B convertible debentures with a face value of $40 were converted and the REIT issued 3,048 units at the exercise price of $13.50 per unit. The carrying value of the debt component was reduced by $40, the equity component was reduced by $8 and accrued interest was reduced by $1 for units issued in lieu of interest payable, with an offsetting increase to capital contributions of $49 (note 14(b)). None of the Series B convertible debentures were converted into units of the REIT in fiscal 2009. On the maturity date of November 9, 2010, the REIT repaid the $2,273 face value outstanding on the Series B convertible debentures.

In conjunction with the prospectus that closed May 4, 2006, the REIT issued Series C convertible redeemable 6.25% debentures totaling $30,000. Interest is paid semi-annually on May 31 and November 30. The convertible debentures are convertible into units of the REIT by the holder after May 31, 2009 at a price of $17.25 per unit. The debentures are redeemable for cash at the option of the REIT (i) at any time after May 31, 2009 provided that the market price of the units exceeds 125% of the conversion price; and (ii) at any time after May 31, 2011. Debentures that are not converted into units of the REIT are to be repaid in cash on maturity, being May 31, 2013. The convertible debentures are compound financial instruments and the proceeds of the offering, at the time of issue, were allocated between a liability and equity component in the amount of $22,410 and $7,590, respectively. The equity component reflects the equity value of the conversion option embedded in the convertible debentures. None of the Series C convertible debentures were converted into units of the REIT in fiscal 2010 or 2009.

In conjunction with the purchase of the Fort McMurray portfolio effective November 30, 2007, the REIT issued a Series D convertible redeemable 5% debenture totaling $20,000. Interest is paid semi-annually on May 31 and November 30. The convertible debenture is convertible into units of the REIT by the holder after November 30, 2009 at a price of $17.75 per unit. The debenture is redeemable for cash at the option of the REIT at any time prior to maturity provided that the market price of the units exceeds 120% of the conversion price. The debenture ranks pari passu with the convertible debentures issued May 4, 2006. If the debenture is not converted into units of the REIT it is to be repaid in cash on maturity, being November 30, 2014. The convertible debenture is a compound financial instrument and the proceeds of the offering, at the time of issue, were allocated between a liability and equity component in the amount of $18,875 and $1,125, respectively. The equity component reflects the equity value of the conversion option embedded in the convertible debenture. During 2009, the REIT repaid $3,000 of this debenture. The carrying value of the debt component was reduced by $2,861, and the equity component was reduced by $169. None of the Series D convertible debentures were converted into units of the REIT in fiscal 2010 or 2009.

9. Convertible debentures (continued):

In conjunction with the prospectus that closed July 9, 2009, the REIT issued Series E convertible redeemable 7.5% debentures totaling $40,000. On July 15, 2009, an additional $6,000 of the Series E convertible debentures were issued pursuant to the exercise of the underwriters' overallotment option. Interest is paid semi annually on June 30 and December 31. The convertible debentures are convertible into units of the REIT by the holder at any time prior to maturity, being on June 30, 2014, at a price of $9.30 per unit. The debentures will not be redeemable by Artis prior to June 30, 2012. On or after June 30, 2012, but prior to June 30, 2013, the Series E debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice, provided that the weighted-average trading price of the units is not less than 125% of the conversion price. On and after June 30, 2013, the Series E convertible debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice. The debentures rank pari passu with the convertible debentures issued May 4, 2006 and November 30, 2007. The convertible debentures are compound financial instruments and the proceeds of the offering, at the time of issue, were allocated between a liability and equity component in the amount of $45,162 and $838, respectively. The equity component reflects the equity value of the conversion option embedded in the convertible debentures. During fiscal 2010, Series E convertible debentures with a face value of $31,390 were converted and the REIT issued 3,375,224 units at the exercise price of $9.30 per unit. The carrying value of the debt was reduced by $29,465 and the equity component was reduced by $572, with an offsetting increase to capital contributions of $30,037 (note 14(b)). During fiscal 2009, Series E convertible debentures with a face value of $616 were converted and the REIT issued 66,233 units at the exercise price of $9.30 per unit. The carrying value of the debt was reduced by $567 and the equity component was reduced by $11, with an offsetting increase to capital contributions of $578 (note 14(b)).

In conjunction with the prospectus that closed April 22, 2010, the REIT issued Series F convertible redeemable 6.0% debentures totaling $75,000. An additional $11,250 of the Series F convertible debentures were issued pursuant to the exercise of the underwriters' overallotment option. Interest is paid semi annually on June 30 and December 31. The convertible debentures are convertible into units of the REIT by the holder at any time prior to maturity, being on June 30, 2020, at a price of $15.50 per unit. The debentures will not be redeemable by Artis prior to March 31, 2014. On or after March 31, 2014, but prior to March 31, 2016, the Series F debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice, provided that the weighted-average trading price of the units is not less than 125% of the conversion price. On and after March 31, 2016, the Series F convertible debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice. The debentures rank pari passu with the convertible debentures issued May 4, 2006, November 30, 2007 and July 9, 2009. The convertible debentures are compound financial instruments and the proceeds of the offering, at the time of issue, were allocated between a liability and equity component in the amount of $83,588 and $2,662, respectively. The equity component reflects the equity value of the conversion option embedded in the convertible debentures. None of the Series F convertible debentures were converted into units of the REIT in fiscal 2010.

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

9. Convertible debentures (continued):

Upon issuance, the Series D, Series E and Series F convertible debentures were separated into liability and equity components based on the respective estimated fair values at the date of issuance of the convertible debentures. The fair value of the liability component is estimated based on the present value of future interest and principal payments due under the terms of the convertible debenture using a discount rate for similar debt instruments without a conversion feature. The value assigned to the equity component is the estimated fair value ascribed to the holder's option to convert. Interest expense on the convertible debentures is determined by applying an effective interest rate of 6% on the Series D, 9.3% on the Series E and 7% on the Series F to the outstanding liability component. The difference between actual cash interest payments and interest expense is accreted to the liability component.

Particulars of the REIT's outstanding convertible debentures as at December 31, 2010 and December 31, 2009 are as follows:

Convertible redeemable debenture issue	Issue date	Maturity date	Interest rate
Series A	August 4, 2005	August 4, 2010	7.75%
Series B	November 9, 2005	November 9, 2010	7.50%
Series C	May 4, 2006	May 31, 2013	6.25%
Series D	November 30, 2007	November 30, 2014	5.00%
Series E	July 9, 2009	June 30, 2014	7.50%
Series F	April 22, 2010	June 30, 2020	6.00%

Convertible redeemable debenture issue	Face value	Equity portion	Liability portion	Accretion	Financing costs	Carrying value
Series C	$ 29,920	$ 7,570	$ 22,350	$ 4,251	$ (707)	$ 25,894
Series D	17,000	956	16,044	370	(23)	16,391
Series E	13,994	254	13,740	66	(540)	13,266
Series F	86,250	2,662	83,588	131	(3,579)	80,140
2010	147,164	11,442	135,722	4,818	(4,849)	135,691
2009	$ 95,237	$ 9,926	$ 85,311	$ 4,006	$ (3,285)	$ 86,032

Accretion to the carrying value of the debt component was $2,223 (2009, $1,724) during the year ended December 31, 2010. The weighted-average effective rate of the debentures at December 31, 2010 is 8.35% (December 31, 2009, 10.04%).

10. Intangible liabilities:

	December 31, 2010		
	Cost	Accumulated amortization	Net book value
Below-market rent	$ 142,811	$ 51,243	$ 91,568

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

11. Accounts payable and other liabilities:

	December 31, 2010	December 31, 2009
Accounts payable and accrued liabilities	$ 22,589	$ 10,836
Distributions payable (note 15)	6,793	3,377
	$ 29,382	$ 14,213

12. Bank indebtedness:

On September 22, 2010, the REIT entered into an amended and restated loan agreement for a revolving term credit facility in the amount of $60,000, which may be utilized to fund acquisitions of office, retail and industrial properties. $5,000 of the credit facility may be used for general corporate purposes. The credit facility may be extended for an additional year at the REIT's option; if the option is not exercised, the credit facility matures on September 28, 2011. Amounts drawn on the facility will bear interest at a floating rate equal to Canadian dollar bankers' acceptances with a term to maturity of 30 days, plus 3.30% per annum. The credit facility is secured by a first charge on Delta Centre, Grain Exchange Building, Johnston Terminal and Sears Centre. At December 31, 2010, the REIT had utilized $8,000 (December 31, 2009, $30,700) of the facility.

13. Non-controlling interest:

Non-controlling interest represents the allocation of income related to the Class B units of a subsidiary, AXLP.

On May 11, 2009, Artis reached a settlement with the holders of the Class B units, and agreed to terminate the purchase and sale agreement for Interplex II and the co-ownership agreement for Interplex III. Under the terms of the settlement, the vendor of Interplex II retained the 543,781 Class B units of AXLP. The Class B units were converted into REIT units at the closing of the settlement agreement. Deposits on income-producing properties were forfeited in the amount of $7,226, accounts payable and accrued liabilities increased by $61, non-controlling interest in the amount of $8,059 was eliminated, capital contributions increased $8,059, and a loss of $7,287 was recorded in 2009.

The 177,566 Class B units of AXLP that were issued for a 50% interest in the Interplex III lands were returned to AXLP for cancellation, and the 50% interest in land was transferred to the vendor. Property under development in the amount of $2,725 was removed from the books, non-controlling interest in the amount of $2,226 was eliminated, and a loss on disposition of property in the amount of $499 was recorded as part of discontinued operations in 2009.

14. Capital contributions:

(a) Authorized:

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

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

(b) Issued and outstanding:

	Number of units	Amount
Balance at December 31, 2008	32,306,766	$ 438,256
Public offerings, net of issue costs of $1,879	3,910,000	33,311
Conversion of Series E convertible debentures	66,233	578
Distribution Reinvestment and Unit Purchase Plan	296,246	2,263
Units issued on exchange of Class B units	543,781	8,059
Units issued on private placement	555,555	4,990
Units acquired and cancelled through normal course issuer bid	(156,200)	(2,457)
Balance at December 31, 2009	37,522,381	485,000
Public offerings, net of issue costs of $18,338	33,953,750	386,672
Conversion of Series B convertible debentures	3,048	49
Conversion of Series E convertible debentures	3,375,224	30,037
Options exercised	217,036	2,891
Distribution Reinvestment and Unit Purchase Plan	405,869	4,682
Balance at December 31, 2010	75,477,308	$ 909,331

At December 31, 2010, there were no special voting units issued and outstanding (note 13).

The REIT has a Distribution Reinvestment and Unit Purchase Plan which allows unitholders the option to elect to receive all or a portion of their regular monthly distributions in additional REIT units.

14. Capital contributions (continued):

(c) Contributed surplus:

	Year ended December 31, 2010	Year ended December 31, 2009
Balance, beginning of year	$ 3,477	$ 2,590
Unit-based compensation expense	221	160
Units acquired and cancelled through normal course issuer bid (note 14 (f))	-	1,211
Maturity of convertible debentures	566	-
Cancellation of options	-	(484)
Expiration of options	(1)	-
Value of options exercised	(448)	-
Balance, end of year	$ 3,815	$ 3,477

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

(d) Unit options:

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

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

	2010		2009	
	Units	Weighted-average exercise price	Units	Weighted-average exercise price
Balance, beginning of year	217,036	$ 11.25	1,458,336	$ 15.52
Granted	1,073,250	12.84	-	-
Exercised	(217,036)	11.25	-	-
Cancelled	-	-	(1,212,800)	16.26
Expired	(3,000)	11.95	(28,500)	16.76
Balance, end of year	1,070,250	$ 12.84	217,036	$ 11.25
Options exercisable at end of year	-		217,036	
Weighted-average fair value per unit of options granted during the year		$ 1.05		$ -

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

14. Capital contributions (continued):

(d) Unit options (continued):

Options outstanding at December 31, 2010 consist of the following:

Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Options outstanding weighted-average exercise price	Number exercisable
$ 11.28	271,250	4.25 years	$ 11.28	-
$ 13.30	399,000	4.75 years	$ 13.30	-
$ 13.44	400,000	5 years	$ 13.44	-
	1,070,250		$ 12.84	-

The compensation expense related to unit options granted under the unit option plan amounted to $221 for the year ended December 31, 2010. These unit options granted vest equally over a four year period. The compensation expense was determined based on the fair value of the options at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2010	2009
Expected option life	5.0 years	-
Risk-free interest rate	2.21%	-
Dividend yield	8.46%	-
Expected volatility	26.06%	-

(e) Normal course issuer bid:

On December 10, 2010, the REIT announced that the Toronto Stock Exchange (the "Exchange") had approved the renewal of its normal course issuer bid. Under the renewed bid, the REIT will have the ability to purchase for cancellation up to a maximum of 7,448,867 units, representing 10% of the REIT's float of 74,488,667 on November 30, 2010. Purchases will be made at market prices through the facilities of the Exchange. The bid commenced on December 14, 2007, and will remain in effect until the earlier of December 14, 2011, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the year ended December 31, 2010, the REIT did not acquire units through the normal course issuer bid. Since December 14, 2007, the REIT had acquired 410,200 units for cancellation.

14. Capital contributions (continued):

(f) Short-form base shelf prospectus:

On July 28, 2010, the REIT issued a base shelf prospectus. The REIT may from time to time during the 25-month period that this short-form base shelf prospectus is valid, offer and issue the following securities: (i) trust units of the REIT; (ii) preferred trust units, which may be issuable in series; (iii) debt securities, which may consist of debentures, notes or other types of debt and may be issuable in series; (iv) unit purchase warrants; and (v) subscription receipts to purchase trust securities. During the year ended December 31, 2010, the REIT issued 16,215,000 units under the base shelf prospectus.

(g) At-the-market equity financing:

The REIT has entered into an Equity Distribution Agreement dated September 17, 2010 with an exclusive agent for the issuance and sale, from time to time, until September 19, 2012 of up to 5,300,000 units of the REIT by way of "at-the-market distributions". The timing of any sale of units and the number of units actually sold during such period are at the discretion of the REIT. Sales of units, if any, pursuant to the Equity Distribution Agreement will be made in transactions that are deemed to be "at-the-market distributions", including sales made directly on the Exchange. As of December 31, 2010, no units have been issued pursuant to this arrangement.

15. Distributions to unitholders:

The REIT declared distributions to REIT unitholders of record in the amount of $63,332 for the year ended December 31, 2010 (2009, $36,737). On May 11, 2009, all outstanding Class B units were returned to AXLP for cancellation or converted into REIT units (note 13). The REIT declared distributions on Class B units of AXLP in the amount of $261 for the year ended December 31, 2009. Total distributions payable at December 31, 2010 are $6,793 (December 31, 2009, $3,377).

16. Changes in non-cash operating items:

	Year ended December 31, 2010	Year ended December 31, 2009
Prepaid expenses	$ (123)	$ (616)
Rent and other receivables	(3,074)	2,334
Cash held in trust	(427)	233
Security deposits and prepaid rent	4,922	(250)
Accounts payable and other liabilities	15,078	(698)
	$ 16,376	$ 1,003

17. Related party transactions:

	Year ended December 31, 2010	Year ended December 31, 2009
Legal fees expensed	$ 68	$ 494
Capitalized legal fees	2,688	1,286
Advisory fees	3,859	2,813
Capitalized acquisition fees	4,438	352
Property management fees	6,988	5,312
Capitalized leasing commissions	617	1,278
Capitalized building improvements	10,162	3,577
Capitalized tenant inducements	544	139
Services fee	-	198
Consulting fees	100	150

The REIT incurred legal fees with a law firm associated with a trustee of the REIT in connection with property acquisitions and general business matters. The amount payable at December 31, 2010 is $869 (December 31, 2009, $150).

The REIT incurred advisory fees and acquisition fees under the asset management agreement with Marwest Realty Advisors Inc. ("Marwest Realty"), a company owned and controlled by certain trustees and officers of the REIT. The amount payable at December 31, 2010 is $464 (December 31, 2009, $38). Under the asset management agreement, Marwest Realty is entitled to an annual advisory fee equal to 0.25% of the adjusted cost base of the REIT's assets and an acquisition fee equal to 0.5% of the cost of each property acquired.

The REIT incurred property management fees, leasing commission fees, and tenant improvement fees under the property management agreement with Marwest Management Canada Ltd. ("Marwest Management"). The amount payable at December 31, 2010 is $390 (December 31, 2009, $136). Marwest Management 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. and Marwest Development Corporation, companies related to certain trustees and officers of the REIT. The amount payable at December 31, 2010 is $671 (December 31, 2009, $302).

The services fee represents work done for all services rendered in anticipation of the purchase of the Interplex II and Interplex III properties, and the termination of said agreements. The amount payable at December 31, 2010 is $nil (December 31, 2009, $nil).

The consulting fees represent work performed by Marwest Realty on the IFRS implementation project. The amount payable at December 31, 2010 is $nil (December 31, 2009, $75).

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

18. Income taxes:

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

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

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

The New SIFT Rules do not apply to a “real estate investment trust" that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the New SIFT Rules and has assessed their interpretation and application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the New SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the years ended December 31, 2010 and 2009. The future income tax asset recorded in prior periods was reversed and charged to continuing and discontinued operations in 2009.

In respect of assets and liabilities of the REIT and its flow through entities, excluding real estate investments in the U.S., the tax basis of net assets exceeds their net book value for accounting purposes by approximately $59,381 at December 31, 2010 (December 31, 2009, $39,032). This balance includes non-capital losses available for carryforward in the amount of $7,252, which may be used to offset taxable income in future periods, and allowable capital losses available for carryforward in the amount of $3,125, which may be used to offset taxable capital gains in the future periods. No recognition has been given to these temporary differences and loss carryforwards.

The REIT is subject to taxation in the U.S. on the taxable income earned by its U.S. properties.

A future income tax asset arises from the temporary differences between the carrying value and the tax basis of the net assets of the U.S. properties.

The tax effects of temporary differences that give rise to significant portions of the future tax asset are as follows:

	December 31, 2010
Future income tax assets (liabilities):	
Income-producing properties	$ 341
Other assets	(44)
Net future income tax asset	$ 297

18. Income taxes (continued):

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

	Year ended December 31, 2010
Loss for the year	$ (3,775)
Loss subject to tax in the hands of unitholders, not the REIT	(2,766)
	(1,009)
Combined statutory rate	39.42 %
	(398)
Impact of foreign currency translation on U.S. operations	259
Other	(61)
Income tax recovery	$ (200)
Comprised of:	
Current income taxes	$ 97
Future income taxes recovered	(297)
	$ (200)

19. Co-ownership activities:

These consolidated financial statements include the REIT's proportionate share of assets, liabilities, revenue, expenses and cash flows of the co-ownerships in which it participates as at December 31, 2010. The REIT is contingently liable for the obligations of its associates in certain co-ownerships. Management believes that the assets of the co-ownerships are available and are sufficient for the purpose of satisfying such obligations. The REIT's proportionate share of these co-ownerships range between 50% and 85%, summarized as follows:

	December 31, 2010	December 31, 2009
Assets	$ 76,510	$ 27,188
Liabilities	74,516	25,814

	Year ended December 31, 2010	Year ended December 31, 2009
Revenue	$ 7,779	$ 4,010
Expenses	7,346	3,426
Operating income from properties	433	584
Cash flows provided by operating activities	2,363	1,456
Cash flows used in investing activities	(8,342)	(14,416)
Cash flows provided by financing activities	5,867	13,120

20. Segmented information:

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

	Year ended December 31, 2010				
	Retail	Office	Industrial	REIT	Total
Revenue	$ 60,852	$ 93,224	$ 36,519	$ 966	$ 191,561
Property operating expenses	17,628	32,968	11,436	-	62,032
	43,224	60,256	25,083	966	129,529
Interest	15,307	18,998	9,349	11,181	54,835
Corporate expenses	-	-	-	6,744	6,744
Amortization	19,529	35,446	15,859	152	70,986
Unrealized gain on financial instruments	-	-	-	(2,006)	(2,006)
Foreign currency translation loss	-	-	-	2,945	2,945
	34,836	54,444	25,208	19,016	133,504
	8,388	5,812	(125)	(18,050)	(3,975)
Income tax recovery	-	-	-	200	200
Income (loss) for the year	$ 8,388	$ 5,812	$ (125)	$ (17,850)	$ (3,775)
Total assets	$ 647,900	$ 997,161	$ 395,948	$ 108,929	$ 2,149,938

20. Segmented information (continued):

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

In presenting information on the basis of geographical segments, segment revenue and assets are based on the geographical location of the properties.

	Year ended December 31, 2010				Year ended December 31, 2009			
	Canada	U.S.	REIT	Total	Canada	U.S.	REIT	Total
Revenue	$ 187,904	$ 2,691	$ 966	$ 191,561	$ 136,654	$ -	$ 199	$ 136,853

	December 31, 2010				December 31, 2009			
	Canada	U.S.	REIT	Total	Canada	U.S.	REIT	Total
Total assets	$1,915,050	$125,959	$108,929	$2,149,938	$1,154,757	$ -	$ 35,452	$1,190,209

21. Income from discontinued operations:

Included in discontinued operations are the Plainsman Building, Airways Business Plaza, Glenmore Commerce Court, McKnight Village Mall, Interplex III, Albert Street Mall, Bridges Place, Willowglen Business Park, Franklin Showcase Warehouse and Raleigh Shopping Centre which were sold during 2009. None of the REIT's properties have been treated as discontinued operations in 2010.

	Year ended December 31, 2010	Year ended December 31, 2009
Revenue	$ -	$ 8,051
Property operating expenses	-	3,145
	-	4,906
Interest	-	1,833
Amortization	-	2,219
Net property operating income	-	854
Gain on disposal of income-producing properties	-	14,442
Future income tax expense (note 18)	-	(232)
Non-controlling interest (note 13)	-	(131)
Income from discontinued operations	$ -	$ 14,933

22. Commitments, contingencies and guarantees:

(a) Letters of credit:

As of December 31, 2010, the REIT had issued letters of credit in the amount of $1,701 (December 31, 2009, $1,701).

(b) Guarantees:

AXLP has guaranteed certain debt assumed by purchasers in connection with the dispositions of certain properties. These guarantees will remain until the debt is modified, refinanced or extinguished. Credit risk arises in the event that the purchaser defaults on repayment of their debt since it is guaranteed by the REIT. This credit risk is mitigated as the REIT has recourse under these guarantees in the event of default by the purchasers, in which case the REIT would have a claim against the underlying properties. The estimated amount of debt subject to the guarantees at December 31, 2010 is $5,873 (December 31, 2009, $15,806), with an estimated weighted-average remaining term of 6.9 years (December 31, 2009, 3.6 years). No liability in excess of the fair value of the guarantees has been recognized in these consolidated financial statements as the estimated fair value of the borrower's interests in the underlying properties is greater than the mortgages payable for which the REIT provided the guarantees.

(c) Contingent consideration:

In accordance with the purchase and sale agreement for Grande Prairie Power Centre, the vendor is entitled to an earn out payment related to certain future events. The purchase and sale agreement provides for this contingent consideration to be based on the lease up of certain vacant leasable area prior to June 14, 2011. The calculation provides for the gross rent earned to be capitalized at 7.5% and paid to the vendor. The amount and timing of the contingent consideration are not determinable at this time.

23. Capital management:

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

The REIT's Declaration of Trust permits the REIT to incur indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of such indebtedness of the REIT is not more than 70% of the gross book value of the REIT's total assets. Gross book value is defined in the Declaration of Trust as "the consolidated book value of the assets of the REIT, plus the amount of accumulated depreciation and amortization recorded in the books and records of the REIT, plus the amount of any future income tax liability arising out of any indirect acquisitions, calculated in accordance with generally accepted accounting principles". As at December 31, 2010, the ratio of such indebtedness to gross book value was 48.7% (December 31, 2009, 47.4%), which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

In addition to the covenant outlined in the Declaration of Trust, the REIT must maintain a debt to gross book value ratio of 70%, a debt service coverage ratio of 1.4, and minimum unitholders' equity of $275,000 for the purposes of the credit facility (note 12). As at December 31, 2010, the REIT was in compliance with these requirements.

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

The total managed capital for the REIT is summarized below:

	December 31, 2010	December 31, 2009
Mortgages and loans payable	$ 1,156,092	$ 612,263
Convertible debentures	135,691	86,032
Bank indebtedness	8,000	30,700
Total debt	1,299,783	728,995
Unitholders' equity	719,711	360,906
	$ 2,019,494	$ 1,089,901

24. Risk management and fair values:

(a) Risk management:

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

(i) Market risk:

(a) Interest rate risk:

The REIT is exposed to interest rate risk on its borrowings. It minimizes the risk by restricting debt to 70% of gross book value and by limiting the amount of variable rate debt. The REIT has the majority of its mortgage payable and debentures in fixed rate terms. In addition, management considers the weighted-average term to maturity of long-term debt relative to the remaining average lease terms. At December 31, 2010, the REIT is a party to $183,584 of variable rate debt, including the outstanding balance of bank indebtedness (December 31, 2009, $38,440). At December 31, 2010, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with $66,584 of variable rate debt (December 31, 2009, $nil).

The following table outlines the impact on interest expense of a 100 basis point increase or decrease in interest rates on the REIT's variable rate debt and fixed rate debt maturing within one year:

	Impact on interest expense
Variable rate debt	$ 357
Fixed rate debt due within one year	286
	$ 643

(b) Foreign currency risk:

The REIT owns properties located in the U.S., and therefore, the REIT is subject to foreign currency fluctuations that may impact its financial position and results. In order to mitigate this risk, the REIT's debt on U.S. properties is held in US dollars to act as a natural hedge.

A $0.10 weakening in the US dollar against the average Canadian dollar exchange rate of $0.9987 for the year ended December 31, 2010 and the year end exchange rate of $0.9946 at December 31, 2010 would have increased the unrealized foreign currency translation loss included in net loss by approximately $3,692 and increased other comprehensive loss by approximately $1,043. Conversely, a $0.10 strengthening in the US dollar against the Canadian dollar would have had an equal but opposite effect. This analysis assumes that all variables, in particular interest rates, remain constant.

(c) Other price risk:

The REIT periodically enters into derivative transactions in regards to non-financial items, primarily natural gas and electrical contracts, to manage the price risk arising from fluctuations in these commodities.

24. Risk management and fair values (continued):

(a) Risk management (continued):

(ii) Credit risk:

The REIT is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. The REIT's commercial properties are diversified across the industrial, retail and office asset classes, and geographically diversified with properties owned across western Canada, Ontario and the U.S. The allowance for doubtful accounts at December 31, 2010 was $174, and $396 at December 31, 2009. The credit quality of the rent and other receivables amount is considered adequate.

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

(iii) Liquidity risk:

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

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

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Accounts payable and other liabilities	$ 29,382	$ 29,382	$ -	$ -	$ -
Mortgages, loans and bank indebtedness	1,166,048	67,236	307,018	382,964	408,830
Convertible debentures	147,164	-	29,920	30,994	86,250
	$ 1,342,594	$ 96,618	$ 336,938	$ 413,958	$ 495,080

24. Risk management and fair values (continued):

(b) Fair values:

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

The fair value of the notes receivable has been determined by discounting the cash flows of these financial assets using year end market rates for assets of similar terms and credit risks. Based on these assumptions, the fair value of notes receivable at December 31, 2010 has been estimated at $26,689 (December 31, 2009, $29,581), compared with the carrying value of $27,142 (December 31, 2009, $29,062).

The fair value of the mortgages and loans payable has been determined by discounting the cash flows of these financial obligations using year end market rates for debt of similar terms and credit risks. Based on these assumptions, the fair value of mortgages and loans payable at December 31, 2010 has been estimated at $1,183,292 (December 31, 2009, $618,150) compared with the carrying value of $1,156,092 (December 31, 2009, $612,263).

The fair value of the REIT's convertible debentures is $153,889 (December 31, 2009, $103,225) compared to its face value of $147,164 (December 31, 2009, $95,237) at December 31, 2010. Fair value is based on the market price of the debentures, or if no market price exists, fair value is determined by discounting the cash flows of these financial obligations using year end market rates for debt of similar terms and credit risks.

As at December 31, 2010, the REIT has entered into natural gas and electrical contracts with a fair value liability of $196 (December 31, 2009, $243). The REIT recorded an unrealized fair value gain of $47 for the year ended December 31, 2010 (2009, fair value loss of $466).

The REIT entered into interest rate swaps on four mortgages. The swaps are not designated in a hedge relationship. An unrealized gain of $494 was recorded for the year ended December 31, 2010 in relation to the fair value of these interest rate swaps, resulting in a fair value asset at December 31, 2010 of $494.

The REIT entered into a forward contract to purchase US $10,000. An unrealized loss of $104 was recorded for the year ended December 31, 2010 in relation to the fair value of this contract, resulting in a fair value liability at December 31, 2010 of $104.

The fair value of equity securities is $11,184 at December 31, 2010, with an unrealized gain of $1,569 recorded for the year ended December 31, 2010.

Under the fair value hierarchy of financial instruments measured at fair value on the consolidated balance sheet, cash and cash equivalents, cash held in trust and investment in equity securities are measured using a Level 1 methodology and natural gas and electrical contracts, interest rate swaps and the forward contract are valued using a Level 2 methodology. There are no financial instruments valued using a Level 3 methodology.

25. Subsequent events:

On January 7, 2011, the REIT acquired the ADT and Dominion Construction Buildings which are located in Calgary, Alberta. The industrial properties were acquired for $10,600 and the purchase price was satisfied with cash.

On February 15, 2011, the REIT paid out a portion of the earn out payment relating to the acquisition of Grande Prairie Power Centre in the amount of $1,373. The amount and timing of the remaining contingent consideration are not determinable at this time.

On February 28, 2011, the REIT acquired the EMC Building which is located in Edmonton, Alberta. The office building was acquired for $7,400 and the purchase price was satisfied with cash.

The REIT has entered into an agreement with respect to the disposition of 2030 Notre Dame which is located in Winnipeg, Manitoba. The sales price is $7,000 and will be satisfied by cash. The REIT anticipates that the acquisition will close on March 7, 2011.

The REIT has entered into an agreement with respect to the acquisition of properties located in Minnesota. The total purchase price of the properties is US $73,200. The REIT anticipates that the acquisition will close March 31, 2011 and will be financed through a combination of cash consideration and new mortgage financing.

Subsequent to December 31, 2010, Series E convertible debentures with a face value of $1,095 were converted and the REIT issued 117,738 units at the price of $9.30 per unit.