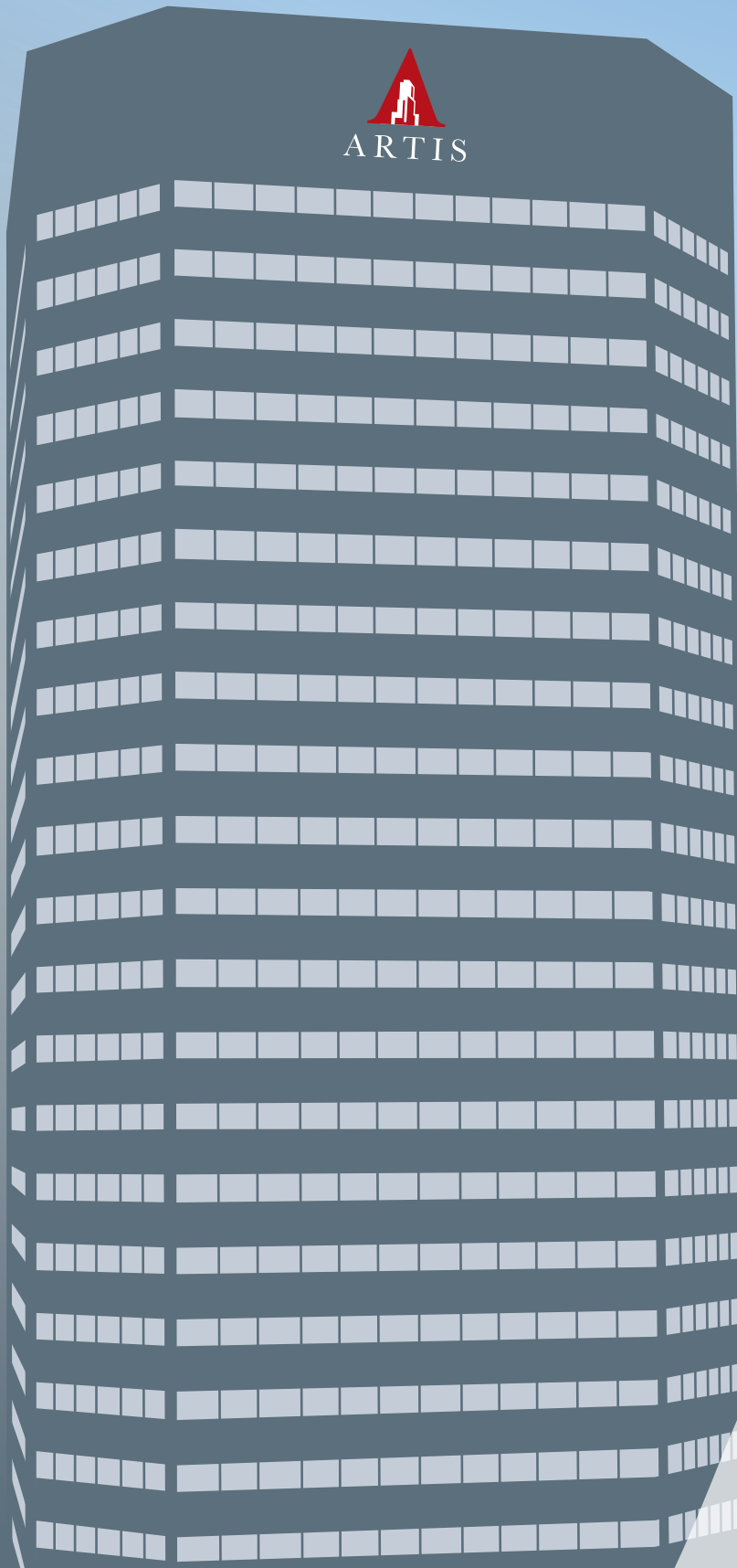


2011 FINANCIAL REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010



2011 FINANCIAL REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, unless otherwise noted)

The following 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") should be read in conjunction with the REIT's audited annual consolidated financial statements for the years ended December 31, 2011 and 2010, and the notes thereto. This MD&A has been prepared taking into account material transactions and events up to and including March 14, 2012. 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.

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.

NOTICE RESPECTING NON-GAAP MEASURES

Property Net Operating Income ("Property NOI") and Funds from Operations ("FFO") are non-GAAP measures commonly used by Canadian real estate investment trusts as an indicator of financial performance. "GAAP" means the generally accepted accounting principles described by the Canadian Institute of Chartered Accountants ("CICA") Handbook - Accounting, which are applicable as at the date on which any calculation using GAAP is to be made. As a publicly accountable enterprise, Artis applies the International Financial Reporting Standards ("IFRS") described in Part I of the CICA Handbook - Accounting.

Artis calculates Property NOI as revenues, prepared in accordance with IFRS, 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"), as issued in June 2010 for entities adopting IFRS. These guidelines include certain additional adjustments to FFO under IFRS from the previous definition of FFO. Management considers FFO to be a valuable measure for evaluating the REIT's operating performance in achieving its objectives.

Property NOI and FFO are not measures defined under IFRS. Property NOI 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 IFRS. Readers should be further cautioned that Property NOI and FFO as calculated by Artis may not be comparable to similar measures presented by other issuers.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, unless otherwise noted)

OVERVIEW

Artis is an unincorporated open-end real estate investment trust created under, and governed by, the laws of the province of Manitoba. On February 15, 2007, Artis underwent a name change from "Westfield Real Estate Investment Trust" to "Artis Real Estate Investment Trust". On May 14, 2009, unitholders authorized the trustees of Artis to implement certain amendments to Artis' Declaration of Trust which, if implemented, would have the effect of converting Artis to a closed-end trust. As at March 14, 2012, the trustees of Artis have not yet implemented such amendments. On May 19, 2011, the Declaration of Trust was further amended at the Annual and Special Meeting of Unitholders.

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 C, Series E, Series F and Series G convertible debentures trade under the symbols AX.DB.C, AX.DB.E, AX.DB.F, and AX.DB.U respectively. As at March 14, 2012, there were 94,926,818 units, and 2,138,375 options of Artis outstanding (refer to the *Outstanding Unit Data* section for further details).

PRIMARY OBJECTIVES

Artis REIT's primary objective is to maximize total returns to our unitholders. Returns include a stable, reliable and tax efficient monthly cash distribution as well as long-term appreciation in the value of Artis REIT's units.

Artis REIT's management employs several key strategies to meet our primary objective:

- **Portfolio Diversification.** We build stability into our cash flows through a strategy of diversification. Our commercial properties are well diversified across the industrial, retail and office asset classes. We are also geographically diversified with properties owned across western Canada, as well as Ontario and in select markets in the United States ("U.S.").
- **Portfolio Expansion.** We build growth into our cash flows through the efficient sourcing and deployment of capital into high-quality and accretive acquisition opportunities in our target markets, or into high-yield intensification or (re)development opportunities that exist within our property portfolio.
- **Managing for Value Creation.** We build value through the active management of our portfolio, leveraging off the experience and expertise of our management team. We focus on maximizing property value and cash flows over the long-term, creating additional value through the selective disposition of assets at premium prices, and reinvesting and repositioning the portfolio on an on-going basis in higher growth markets.

The Declaration of Trust provides that Artis may make monthly cash distributions to its unitholders. The amount distributed annually (currently \$1.08 per unit on an annualized basis effective May 31, 2008) will be set by the Trustees.

U.S. INVESTMENT STRATEGY

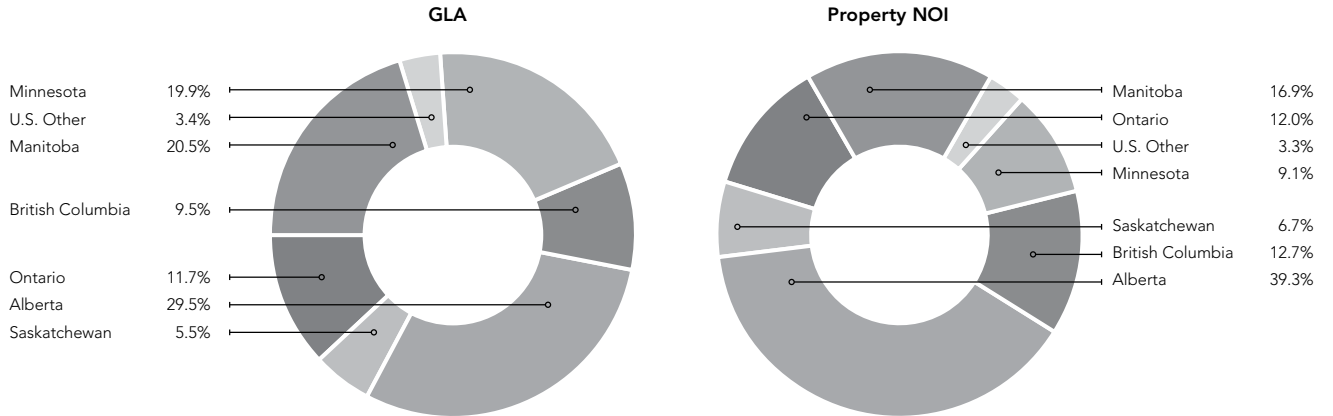
At December 31, 2011, approximately 17.8% of Artis' portfolio weighting by run-rate Property NOI is in the United States. Historically, commercial real estate in the U.S. has been more expensive and offered lower unlevered yields than similar property in Canada. This has now changed, and Canadian investors are able to acquire quality U.S. properties at relatively higher yields than in Canada. Artis' management believes that this window of opportunity will not be open for long and has adopted a disciplined approach in pursuing U.S. acquisitions while the opportunity exists, as follows:

- total weighting of U.S. properties in Artis' portfolio will not exceed 20% by pro-forma Property NOI.
- unlevered yield will be accretive, and higher than that available for a comparable property in Canada.
- low interest, conventional mortgage financing will be available.
- quality local third party property management will be available.
- property will be "new generation", thus reducing the average age of Artis' overall portfolio.
- the tenant credit and lease expiry profile for the property will be more conservative than that of a comparable property in Canada, thus improving the credit profile of Artis' overall portfolio.

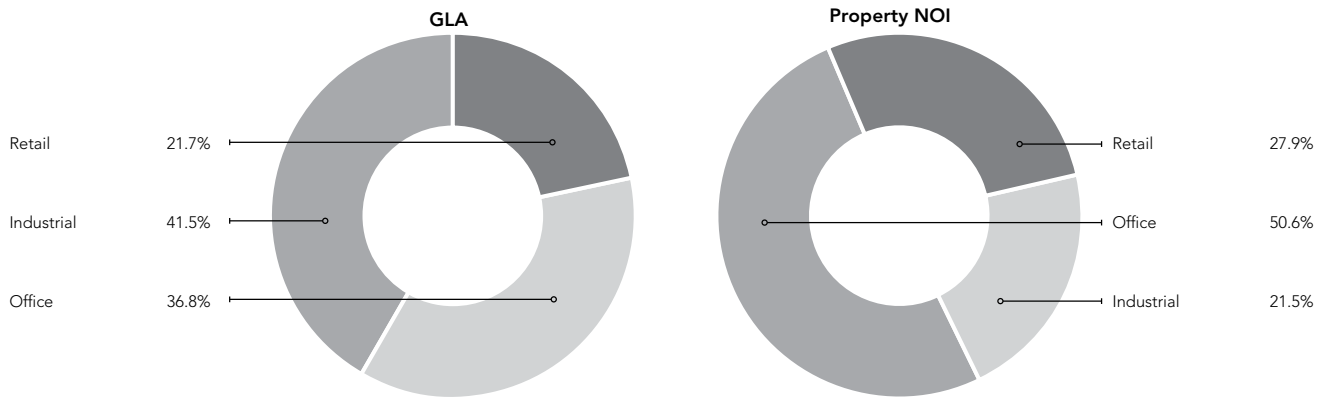
PORTFOLIO SUMMARY

At December 31, 2011, the REIT's portfolio was comprised of 163 commercial properties totaling approximately 16.96 million square feet (s.f.) of gross leasable area ("GLA").

DIVERSIFICATION BY GEOGRAPHICAL REGION:



DIVERSIFICATION BY ASSET CLASS:



MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, unless otherwise noted)

Portfolio by Asset Class as at December 31, 2011 (in 000's of s.f.)⁽¹⁾

Asset Class	City	Province / State	Number of Properties	Owned Share of Leasable Area	% of Portfolio GLA	Occupancy %	Committed % ⁽²⁾
Industrial	Acheson	AB	2	265	1.6%	100.0%	100.0%
	Airdrie	AB	1	27	0.2%	83.7%	100.0%
	Brampton	ON	1	301	1.8%	100.0%	100.0%
	Calgary	AB	7	596	3.5%	100.0%	100.0%
	Delta	BC	1	70	0.4%	0.0%	0.0%
	Edmonton	AB	6	734	4.3%	97.4%	98.3%
	Mississauga	ON	1	158	0.9%	94.4%	96.6%
	Nisku	AB	1	23	0.1%	100.0%	100.0%
	Red Deer	AB	1	126	0.7%	94.0%	94.0%
	Saskatoon	SK	1	163	1.0%	100.0%	100.0%
	Toronto	ON	1	319	1.9%	100.0%	100.0%
	Winnipeg	MB	29	1,761	10.4%	98.0%	98.6%
	Industrial total			52	4,543	26.8%	96.8%
Office	Burnaby	BC	3	436	2.6%	96.8%	97.7%
	Calgary	AB	12	1,498	8.9%	95.0%	96.0%
	Edmonton	AB	1	29	0.2%	100.0%	100.0%
	Mississauga	ON	2	244	1.4%	98.0%	98.0%
	Nanaimo	BC	2	68	0.4%	100.0%	100.0%
	Ottawa	ON	1	181	1.1%	100.0%	100.0%
	Red Deer	AB	1	149	0.9%	100.0%	100.0%
	Toronto	ON	2	737	4.3%	90.4%	96.0%
	Vancouver	BC	1	174	1.0%	92.9%	94.5%
	Vaughan	ON	1	50	0.3%	100.0%	100.0%
Winnipeg	MB	7	1,296	7.6%	96.0%	97.2%	
Office total			33	4,862	28.7%	95.3%	96.9%
Retail	Calgary	AB	5	426	2.6%	97.8%	98.8%
	Coquitlam	BC	1	82	0.5%	97.8%	97.8%
	Cranbrook	BC	1	290	1.7%	94.5%	96.5%
	Delta	BC	1	75	0.4%	98.6%	98.6%
	Edmonton	AB	2	165	1.0%	98.6%	98.6%
	Edson	AB	1	20	0.1%	100.0%	100.0%
	Estevan	SK	1	38	0.2%	100.0%	100.0%
	Fort McMurray	AB	8	194	1.1%	98.5%	100.0%
	Grande Prairie	AB	4	378	2.2%	98.2%	98.9%
	Lethbridge	AB	1	53	0.3%	100.0%	100.0%
	Medicine Hat	AB	1	162	1.0%	97.2%	97.2%
	Moose Jaw	SK	1	38	0.2%	100.0%	100.0%
	Nanaimo	BC	2	90	0.5%	64.7%	64.7%
	Regina	SK	8	554	3.3%	96.1%	97.1%
	Saskatoon	SK	2	143	0.8%	100.0%	100.0%
	Spruce Grove	AB	1	112	0.7%	100.0%	100.0%
	St. Albert	AB	1	21	0.1%	100.0%	100.0%
	Vancouver	BC	1	91	0.5%	99.3%	99.3%
	Westbank / West Kelowna	BC	2	231	1.4%	98.4%	99.5%
	Winnipeg	MB	4	414	2.4%	96.2%	98.3%
Retail total			48	3,577	21.0%	96.7%	97.6%
Total Canadian portfolio			133	12,982	76.5%	96.2%	97.3%
Industrial	Minneapolis	MN	16	2,396	14.1%	89.4%	90.0%
	Phoenix	AZ	1	99	0.6%	100.0%	100.0%
Industrial total			6	805	6.4%	88.5%	95.6%
Office	Minneapolis	MN	4	875	5.2%	90.9%	94.1%
	New Hartford	NY	1	123	0.7%	100.0%	100.0%
	Phoenix	AZ	2	249	1.5%	97.4%	97.4%
	Tampa	FL	1	107	0.6%	100.0%	100.0%
Office total			8	1,354	8.0%	93.7%	95.7%
Retail	Minneapolis	MN	5	110	0.7%	95.2%	95.2%
Total U.S. portfolio			30	3,959	23.4%	91.3%	92.4%
Total Canadian and U.S.			163	16,941	99.9%	95.1%	96.1%

¹⁾ Excluding properties in redevelopment.

²⁾ Percentage committed is based on committed leases at December 31, 2011.

Properties in Redevelopment (in 000's of s.f.)

Asset Class	City	Province / State	Number of Properties	Owned Share of Leasable Area	% of Portfolio GLA Property	Committed % ⁽¹⁾
Office	Edmonton	AB	-	19	0.1% North City Office	10.4%

⁽¹⁾ Percentage committed is based on committed leases at December 31, 2011.

2011 – ANNUAL HIGHLIGHTS

PORTFOLIO GROWTH

Artis acquired 32 commercial properties and disposed of two properties in 2011.

	Office		Retail		Industrial		Total	
	Number of Properties	s.f. (000's)	Number of Properties	s.f. (000's)	Number of Properties	s.f. (000's)	Number of Properties	s.f. (000's)
Portfolio properties at December 31, 2010	31	4,427	46	3,238	56	4,934	133	12,599
Q1-11 acquisitions	2	333	-	-	11	1,557	13	1,890
Q1-11 construction	-	19	-	-	-	-	-	19
Q1-11 disposition	-	-	-	-	(1)	(108)	(1)	(108)
Q2-11 acquisitions	5	770	7	449	2	620	14	1,839
Q3-11 acquisitions	2	437	-	-	2	182	4	619
Q3-11 disposition	-	-	-	-	(1)	(147)	(1)	(147)
Q4-11 acquisition	1	249	-	-	-	-	1	249
Total 2011	10	1,808	7	449	13	2,104	30	4,361
Portfolio properties at December 31, 2011	41	6,235	53	3,687	69	7,038	163	16,960

Property acquisitions:

During 2011, Artis acquired 32 properties with total square feet of 4,597 for \$678,716. The acquisitions include Stinson Office Park, the second tranche of the Minneapolis Industrial Portfolio, Victoria Square Shopping Centre, 201 Westcreek Boulevard, MTS Place, and Two MarketPointe.

Stinson Office Park is a 97.0% occupied, 307,045 square foot office complex with two high credit-rated tenants with prescribed annual rent increases, located in Minneapolis, Minnesota. The second tranche of the Minneapolis Industrial Portfolio is 86.9% occupied by a combination of office, flex-industrial, warehouse and distribution, and light manufacturing tenants. It includes 9 properties comprising 1,508,193 square feet of leasable area in Minneapolis, Minnesota. Victoria Square Shopping Centre is a 290,627 square foot enclosed regional mall, well-located on Ring Road and Victoria Avenue in Regina, Saskatchewan. The centre is 95.6% occupied by a mix of national and regional tenants and forms part of an established retail node in close proximity to many national retailers. 201 Westcreek Boulevard is a 301,113 square foot Class A industrial building, with 70,977 square feet of office space on two floors. The property is located in the Greater Toronto Area West Industrial market and is 100.0% occupied. MTS Place comprises 274,712 square feet of leasable area in Winnipeg, Manitoba and is 100.0% occupied. Two MarketPointe is a 249,111 square foot LEED Gold Class A office property located in Minneapolis, Minnesota. The property was constructed in 2008 and is currently 91.3% occupied by a mixture of national and regional tenants.

Property dispositions:

During 2011, the REIT sold two properties that were part of the Winnipeg Industrial Portfolio and the Minneapolis Industrial Portfolio. The proceeds from the sale of these properties, net of costs and related debt, were \$8,146. The gains recorded on the sale were \$736.

FINANCING ACTIVITIES

Series G convertible debenture offering:

On April 21, 2011, Artis issued a US\$88,000 public offering of 7-year convertible redeemable unsecured subordinated debentures (the "Series G Debentures"). This includes US\$8,000 of the Series G convertible debentures issued pursuant to the exercise of the underwriters' over-allotment option. The Series G convertible debentures pay interest at a rate of 5.75% per annum and are listed on the TSX under the trading symbol AX.DB.U.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, unless otherwise noted)

Equity offerings:

On June 28, 2011, Artis issued 7,100,000 units at a price of \$14.10 per unit for aggregate gross proceeds of \$100,110. This includes 700,000 units issued pursuant to the exercise of the underwriters' over-allotment option.

Under the short-form base shelf prospectus, on December 23, 2011, Artis issued 5,019,750 units at a price of \$13.75 per unit for aggregate gross proceeds of \$69,022. This includes 654,750 units issued pursuant to the exercise of the underwriters' over-allotment option.

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 up to a maximum of \$750,000 of initial offering price: (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. As at December 31, 2011, the REIT has issued units under three offerings in the aggregate amount of \$277,626 and a US\$88,000 offering of convertible debentures under the base shelf prospectus.

INTERNALIZATION OF ASSET AND PROPERTY MANAGEMENT

On December 31, 2011, the REIT and Marwest Realty Advisors Inc. ("Marwest Realty") terminated the asset management agreement. On January 1, 2012, the REIT fully internalized the asset management functions. On December 31, 2011, the omnibus property management agreement was assigned to the REIT from Marwest Management Canada Ltd. ("Marwest Management") which encompasses all investment properties owned by the REIT. On January 1, 2012, the REIT internalized the property management operations for 78 properties that were previously directly managed by Marwest Management.

DISTRIBUTIONS

Artis distributed a total of \$87,183 to unitholders in 2011, of which \$10,081 was paid by way of distribution reinvestment, pursuant to Artis' Distribution Reinvestment and Unit Purchase Plan ("DRIP").

SELECTED FINANCIAL INFORMATION

000's, except per unit amounts	Year ended December 31,	
	2011	2010
Revenue	\$ 290,512	\$ 175,075
Property NOI	\$ 182,813	\$ 113,043
Income for the period	\$ 321,289	\$ 33,224
Basic income per unit	\$ 4.02	\$ 0.58
Diluted income per unit	\$ 3.60	\$ 0.58
Distributions	\$ 87,183	\$ 63,333
Distributions per unit	\$ 1.08	\$ 1.08
FFO	\$ 92,065	\$ 56,257
FFO per unit	\$ 1.15	\$ 0.99
FFO after adjustments ⁽¹⁾	\$ 99,955	\$ 58,539
FFO per unit after adjustments ⁽¹⁾	\$ 1.25	\$ 1.03
FFO payout ratio after adjustments ⁽¹⁾	86.4%	104.9%
Weighted-average units (basic)	79,867	57,001

⁽¹⁾ Calculated after adjustments for a termination fee included in transaction costs, transactions costs related to the issuance of convertible debentures, current tax (recovery) expense and the (gain) loss on equity securities.

Artis has been actively acquiring properties since Q4-09. Due to this acquisition activity as well as same property revenue growth, 2011 revenues increased \$115,437, or 65.9% compared to 2010 results. Property NOI increased by \$69,770, or 61.7% year-over-year.

FFO increased \$35,808, or 63.7% compared to 2010. This increase is primarily attributed to the acquisitions completed in 2010 and 2011. Basic FFO increased \$0.16 or 16.2% year-over-year. Adjusted FFO has increased \$41,416, or 70.7% year-over-year. Basic FFO after adjustments has increased \$0.22, or 21.4% compared to 2010.

As a result of units issued under the DRIP, units issued from public offerings, and conversion of convertible debentures, basic units outstanding for the calculation of FFO has substantially increased. This increase has diluted the impact of strong growth in revenues, Property NOI and FFO on per unit results. Management anticipates there will be further growth in revenues, Property NOI and FFO as acquisitions completed in 2011 contribute to operating results.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the adoption of IFRS would be effective for interim and annual periods beginning on or after January 1, 2011 for profit oriented Canadian publicly accountable enterprises. IFRS replaces Canada's previous GAAP for these enterprises. These new standards became effective for the REIT on January 1, 2011. Comparative financial information for the previous fiscal year has been restated to IFRS.

IMPACT OF ADOPTION OF IFRS

IFRS and previous Canadian GAAP are based on conceptual frameworks that are substantially the same, although significant differences exist in certain matters of recognition, measurement and disclosure. The transition to IFRS had a material impact on the REIT's consolidated balance sheets and statements of operations. The cash flow statement was amended in accordance with the changes to the consolidated balance sheets and statements of operations. In particular, the opening IFRS balance sheet at January 1, 2010 reflects the revaluation of substantially all of the REIT's investment properties to fair value and, as a result, intangible assets and liabilities are no longer separately recognized. The impact of the transition to IFRS resulted in a decrease in unitholders' equity from \$360,906 as reported under previous GAAP to a deficit of \$7,414 as reported under IFRS at January 1, 2010. At December 31, 2010, the impact of the transition to IFRS resulted in unitholders' equity increasing to \$854,230 as reported under IFRS from \$719,711 as reported under previous GAAP.

FIRST-TIME ADOPTION OF IFRS

IFRS 1 - *First Time Adoption of International Financial Reporting Standards* ("IFRS 1") contains all the transitional recognition, measurement, presentation and disclosure requirements applicable for an entity's initial adoption of IFRS. Included in IFRS 1 is a requirement for retrospective application of each IFRS, with certain mandatory exceptions and limited optional exceptions available. In accordance with IFRS 1, the REIT elected to apply IFRS prospectively to all business combinations that occurred on or after the January 1, 2010 transition date. The remaining optional exemptions are either not applicable to Artis or not utilized in the transition to IFRS. In accordance with IFRS 1, the REIT has applied the mandatory exception from full retrospective application of IFRS with respect to estimates. Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the REIT under previous GAAP are consistent with their application under IFRS at January 1, 2010. The remaining mandatory exceptions are not applicable to the REIT.

IMPACT OF IFRS ON 2010 FINANCIAL POSITION

Investment properties and investment properties under construction:

The REIT considers its commercial properties to be investment properties under IAS 40 - *Investment Property*. Investment property is property held to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or services, for administrative purposes or for sale in the ordinary course of business. Under IFRS, investment properties are recognized initially at cost. Subsequent to initial recognition, an entity chooses as its accounting policy either the fair value model or the cost model and should apply that policy to all of its investment properties.

The REIT has elected to measure its investment properties at fair value. The fair value of the REIT's investment properties at January 1, 2010 is \$1,111,586, which is \$76,055 greater than the carrying value under previous GAAP, inclusive of related intangible assets, leasing costs, intangible liabilities, straight-line rent receivables, tenant incentives and tenant improvements which were recorded separately under previous GAAP. There was a corresponding \$76,055 decrease to deficit at January 1, 2010. At December 31, 2010, the fair value of investment properties is \$2,052,780 and the carrying value of investment properties under construction is \$5,405, which is \$153,523 greater than the carrying value under previous GAAP. There was a corresponding \$153,523 decrease to deficit at December 31, 2010.

The REIT determined the fair value of investment properties based upon a combination of generally accepted appraisal methodologies: the discounted cash flow method and the overall capitalization method. Under the discounted cash flow method, expected future cash flows for each investment property were discounted, generally over a term of 10 years, using weighted-average rates of approximately 8.79% at January 1, 2010 and 8.60% at December 31, 2010. Expected future cash flows for each investment property have been based upon, but not limited to, rental income from current leases, budgeted and actual expenses, and assumptions about rental income from future leases. Under the overall capitalization method, year one income was stabilized and capped at weighted-average capitalization rates of approximately 7.69% at January 1, 2010 and 7.74% at December 31, 2010.

Investment properties under construction have been measured at cost, which approximates fair value.

Other assets:

Tenant inducements reflected in other assets under previous GAAP are included in the carrying amount of investment properties under IFRS. Additionally, intangible assets and leasing costs have been derecognized under IFRS as these amounts are inherently reflected in the fair value of investment properties. This resulted in a decrease to other assets of \$119,440 at January 1, 2010 and \$266,707 at December 31, 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, unless otherwise noted)

Deferred taxes:

As a result of the accounting policy decision to measure investment properties at fair value under IFRS, the deferred tax asset decreased from \$297 under previous GAAP to a liability of \$201 under IFRS at December 31, 2010. This was due to the change in the measurement of the carrying value of investment properties from amortized cost under previous GAAP to fair value under IFRS.

Notes receivable:

Under previous GAAP, Artis did not present a classified balance sheet. Under IFRS, the REIT has presented the current and non-current portion of notes receivable as separate classifications in its balance sheets.

Accounts receivable and other receivables:

Straight-line rent receivables reflected in other receivables under previous GAAP are included in the carrying amount of investment properties under IFRS. This resulted in a decrease to accounts receivable and other receivables of \$5,914 at January 1, 2010 and \$8,752 at December 31, 2010.

Mortgages and loans payable:

Under previous GAAP, Artis did not present a classified balance sheet. Under IFRS, the REIT has presented the current and non-current portion of mortgages and loans payable as separate classifications in its balance sheets.

Convertible debentures:

The REIT's convertible debentures are to be settled by redeemable trust units. Accordingly, under IFRS, an entity chooses as its accounting policy to either fair value the debentures in their entirety with the value recorded as a liability or separate the debentures into their components with the value ascribed to the conversion option recorded as a derivative liability at fair value. Under previous GAAP, convertible debentures were recorded as compound financial instruments and allocated between a liability and equity component at the time of issue. The REIT has elected to fair value its convertible debentures in their entirety. This resulted in an increase to the liability component of convertible debentures of \$17,193, a decrease to the equity component of convertible debentures of \$9,926 and an increase to deficit of \$7,267 at January 1, 2010. At December 31, 2010, the liability component of convertible debentures increased by \$18,198, the equity component of convertible debentures decreased by \$11,442, capital contributions increased by \$4,531, contributed surplus decreased by \$566 and deficit increased by \$10,721. Convertible debentures are further allocated between their current and non-current portions and separately classified in the balance sheets.

Intangible liabilities:

Intangible liabilities have been derecognized under IFRS as these amounts are inherently reflected in the fair value of investment properties. This resulted in a decrease to intangible liabilities of \$81,523 at January 1, 2010 and \$91,568 at December 31, 2010.

Trust units liability:

Under previous GAAP, the REIT classified its trust units as equity. IAS 32 – *Financial Instruments*, has a more rigorous definition of what constitutes a financial liability which includes financial instruments if they have a contractual obligation to deliver cash or other financial assets to another entity. On May 14, 2010, the REIT amended its Declaration of Trust in order to make distributions non-mandatory. Prior to May 14, 2010, the REIT had a contractual obligation to make cash distributions to its unitholders, therefore under IFRS, trust units are classified as a financial liability measured at fair value at January 1, 2010. This resulted in the REIT recording a trust units liability of \$427,005, a decrease to capital contributions of \$485,000 and a decrease to deficit of \$59,758 at January 1, 2010. Units acquired and cancelled through the normal course issuer bid and recorded to contributed surplus under previous GAAP were derecognized, resulting in a decrease to contributed surplus of \$1,763 at January 1, 2010. Under IFRS, the REIT has presented the current and non-current portion of the trust units liability as separate classifications in its balance sheet.

On May 14, 2010, trust units under IFRS were reclassified from liability to equity at the fair value of the liability at that date, being \$575,885.

Accounts payable and other liabilities:

Under previous GAAP, Artis accounted for unit options issued under its unit option plan using the fair value method. Under this method, compensation expense was measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period. The REIT's unit options are to be settled by redeemable trust units. In accordance with IFRS, these unit-based payments are considered to be cash-settled and are therefore recorded as a liability at fair value at each reporting date. This resulted in an increase to accounts payable and other liabilities of \$177, a decrease to contributed surplus of \$1,714 and a decrease to deficit of \$1,537 at January 1, 2010. At December 31, 2010, this resulted in an increase to accounts payable and other payables of \$308, a decrease to contributed surplus of \$1,486, an increase to capital contributions of \$7 and a decrease to deficit of \$1,171 from previous GAAP.

IMPACT OF IFRS ON 2010 OPERATING RESULTS

Revenue:

Under the fair value model of accounting for investment properties, historic intangible assets and liabilities established under previous GAAP are no longer separately recognized and accordingly not amortized under IFRS. The impact of no longer amortizing historic intangible assets and liabilities resulted in a decrease to revenue of \$3,021 for the three months ended December 31, 2010 and \$11,633 for the year ended December 31, 2010.

Previous GAAP required the REIT to record tenant inducements as a reduction of rental revenue. IFRS requires the same treatment, however, the definition of tenant inducements differs from the REIT's previous application of GAAP. All of the REIT's tenant inducements under IFRS are amortized as a reduction of rental revenue, with the exception of certain tenant improvements determined to benefit the REIT. This resulted in a decrease to revenue of \$863 for the three months ended December 31, 2010 and \$2,500 for the year ended December 31, 2010.

Under IFRS, tenant improvements are not amortized, which resulted in an increase to revenue of \$56 for the three months ended December 31, 2010 and \$196 for the year ended December 31, 2010.

Under IFRS, the REIT has presented interest income as a separate classification in its statements of operations.

Interest expense:

Under the fair value approach of accounting for convertible debentures, no accretion adjustment to the liability is required. The impact of no longer recording accretion on convertible debentures resulted in a decrease to interest expense of \$564 for the three months ended December 31, 2010 and \$2,223 for the year ended December 31, 2010.

Additionally, distributions paid to unitholders during the period from January 1, 2010 to May 13, 2010 were reclassified from equity to interest expense as a result of the mandatory distribution requirement, resulting in an increase to interest expense of \$16,828.

Corporate expense:

As described above, unit options are measured on a different basis under IFRS than under previous GAAP, and resulted in a decrease to corporate expense of \$174 for the three months ended December 31, 2010 and an increase of \$368 for the year ended December 31, 2010.

Under the fair value model, amortization of investment properties is not recorded. The impact of no longer amortizing historic intangible assets and liabilities as described above, along with no longer recording amortization expense on investment properties resulted in a decrease to amortization expense of \$21,627 for the three months ended December 31, 2010 and \$68,372 for the year ended December 31, 2010.

The REIT's accounting treatment for tenant inducements as described above resulted in a decrease to amortization expense of \$863 for the three months ended December 31, 2010 and \$2,500 for the year ended December 31, 2010.

Transaction costs:

During the year ended December 31, 2010, \$3,754 of transaction costs attributable to the issuance of convertible debentures were expensed in accordance with IFRS. Under previous GAAP, transaction costs were included in the carrying value of the liability at inception and amortized over the expected life of the debentures.

For the three months ended December 31, 2010 and the year ended December 31, 2010, \$6,672 and \$15,792, respectively, of transaction costs attributable to the acquisition of properties were expensed under IFRS, as these acquisitions were considered to be business combinations. Under previous GAAP, transactions costs associated with property acquisitions were capitalized.

Unrealized fair value changes on financial instruments:

As described above, trust units are measured on a different basis under IFRS than under previous GAAP, and resulted in fair value gains and losses being recorded under IFRS. An unrealized fair value loss of \$19,361 was recorded for the period from January 1, 2010 to May 13, 2010.

As described above, convertible debentures are measured on a different basis under IFRS than under previous GAAP, and resulted in fair value gains and losses being recorded under IFRS. For the three months ended December 31, 2010, an unrealized fair value gain on convertible debentures of \$2,121 was recorded and a loss of \$1,923 for the year ended December 31, 2010.

Income tax expense:

As described above, the change in the measurement of the carrying value of investment properties from amortized cost under previous GAAP to fair value under IFRS resulted in the REIT's income tax recovery decreasing from \$200 to an expense of \$298 for the three months and year ended December 31, 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, unless otherwise noted)

Unrealized fair value changes on investment properties:

As a result of electing to use the fair value model to account for investment properties, net income during any given period may be greater or less than as determined under previous GAAP depending on whether an increase or decrease in fair value occurs during the period. The impact of fair value changes resulted in an increase to net income of \$11,214 for the three months ended December 31, 2010 and \$36,365 for the year ended December 31, 2010.

Other comprehensive loss:

As a result of the accounting policy decision to measure investment properties at fair value under IFRS, the unrealized foreign currency translation loss included in other comprehensive loss increased from \$94 under previous GAAP to \$126 under IFRS for the three months ended December 31, 2010 and increased from \$273 under previous GAAP to \$310 under IFRS for the year ended December 31, 2010. This was due to the change in the measurement of the carrying value of investment properties from amortized cost under previous GAAP to fair value under IFRS.

ANALYSIS OF OPERATING RESULTS

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 recorded in accordance with IFRS.

In accordance with IFRS, Artis accounts for rent step-ups by straight-lining the incremental increases over the entire non-cancelable lease term. In 2011, straight-line rent adjustments of \$5,514 (Q4-11 - \$1,508) were recorded compared to \$2,841 in 2010 (Q4-10 - \$957).

In 2011, the REIT recorded amortization of \$4,559 (Q4-11 - \$1,246) as a reduction in revenue from tenant incentives compared to \$2,784 (Q4-10 - \$950) in 2010.

In Q4-11, the REIT recorded a lease termination fee of \$430 from an Ontario office property.

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

SAME PROPERTY NOI GROWTH

Same property comparison includes only investment properties owned on January 1, 2010, and excludes properties considered to be in redevelopment and properties disposed of subsequent to January 1, 2010.

	Three month period ended December 31,		Year ended December 31,	
	2011	2010	2011	2010
Revenue ⁽¹⁾	\$ 37,205	\$ 36,884	\$ 140,437	\$ 137,416
Property operating expenses	14,905	14,790	54,548	51,170
Property NOI	22,300	22,094	85,889	86,246
Add (deduct) non-cash revenue adjustments:				
Straight-line rent adjustment	(71)	(278)	(584)	(1,286)
Amortization of tenant inducements	1,125	940	4,080	2,761
Property NOI less non-cash revenue adjustments	\$ 23,354	\$ 22,756	\$ 89,385	\$ 87,721

⁽¹⁾ Revenue in Q1-10 was adjusted by \$188 for a lease termination fee received for a Winnipeg office property and income received for a post closing adjustment.

In 2011, Artis achieved an increase of \$1,664, or 1.9% in Property NOI less non-cash revenue adjustments over 2010. For Q4-11, Property NOI less non-cash revenue adjustments increased \$598 or 2.6% quarter-over-quarter.

Same Property NOI less Non-Cash Revenue Adjustments by Asset Class:

	Three month period ended December 31,				Year ended December 31,			
	2011	2010	Change	% Change	2011	2010	Change	% Change
Retail	\$ 7,502	\$ 7,674	\$ (172)	(2.2)%	\$ 30,495	\$ 30,536	\$ (41)	(0.1)%
Office	12,091	11,437	654	5.7%	44,279	43,226	1,053	2.4%
Industrial	3,761	3,645	116	3.2%	14,611	13,959	652	4.7%
Total	\$ 23,354	\$ 22,756	\$ 598	2.6%	\$ 89,385	\$ 87,721	\$ 1,664	1.9%

Same Property NOI less Non-Cash Revenue Adjustments by Geographical Region:

	Three month period ended December 31,				Year ended December 31,			
	2011	2010	Change	% Change	2011	2010	Change	% Change
Alberta	\$ 13,810	\$ 13,581	\$ 229	1.7%	\$ 54,199	\$ 53,576	\$ 623	1.2%
British Columbia	1,679	1,629	50	3.1%	6,634	6,413	221	3.4%
Manitoba	5,934	5,541	393	7.1%	20,568	19,627	941	4.8%
Saskatchewan	1,931	2,005	(74)	(3.7)%	7,984	8,105	(121)	(1.5)%
Total	\$ 23,354	\$ 22,756	\$ 598	2.6%	\$ 89,385	\$ 87,721	\$ 1,664	1.9%

Same Property Occupancy Comparison:

By Geographical Region

	As at December 31,	
	2011	2010
Alberta	96.5%	96.0%
British Columbia	82.8%	99.0%
Manitoba	96.2%	95.9%
Saskatchewan	97.9%	98.0%
Total	95.7%	96.3%

By Asset Class

	As at December 31,	
	2011	2010
Retail	97.6%	98.9%
Office	95.4%	94.5%
Industrial	94.4%	96.3%
Total	95.7%	96.3%

PROPERTY NOI BY ASSET CLASS

In 2011, revenues and Property NOI increased for all asset class segments of the portfolio. This growth is primarily attributable to acquisition activity.

	Three month period ended December 31,					
	2011			2010		
	Retail	Office	Industrial	Retail	Office	Industrial
Revenue	\$ 20,107	\$ 45,672	\$ 17,161	\$ 17,634	\$ 27,314	\$ 10,976
Property operating expenses	6,775	18,270	5,734	5,805	11,813	3,635
Property NOI	\$ 13,332	\$ 27,402	\$ 11,427	\$ 11,829	\$ 15,501	\$ 7,341
Share of Property NOI	25.6%	52.5%	21.9%	34.1%	44.7%	21.2%

	Year ended December 31,					
	2011			2010		
	Retail	Office	Industrial	Retail	Office	Industrial
Revenue	\$ 75,823	\$ 154,432	\$ 60,257	\$ 57,437	\$ 82,533	\$ 35,105
Property operating expenses	24,860	61,970	20,869	17,583	33,013	11,436
Property NOI	\$ 50,963	\$ 92,462	\$ 39,388	\$ 39,854	\$ 49,520	\$ 23,669
Share of Property NOI	27.9%	50.6%	21.5%	35.3%	43.8%	20.9%

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, unless otherwise noted)

PROPERTY NOI BY GEOGRAPHICAL REGION

In 2011, revenues and Property NOI increased in all regions in comparison to 2010. This growth is primarily attributable to acquisition activity.

Three months ended December 31, 2011							
	Canada					U.S.	
	AB	BC	MB	ON	SK	MN	Other
Revenue	\$ 28,932	\$ 8,991	\$ 15,886	\$ 11,415	\$ 5,015	\$ 9,522	\$ 3,179
Property operating expenses	9,942	3,117	7,348	4,314	1,650	3,397	1,011
Property NOI	\$ 18,990	\$ 5,874	\$ 8,538	\$ 7,101	\$ 3,365	\$ 6,125	\$ 2,168
Share of Property NOI	36.4%	11.3%	16.3%	13.6%	6.5%	11.7%	4.2%

Three months ended December 31, 2010							
	Canada					U.S.	
	AB	BC	MB	ON	SK	MN	Other
Revenue	\$ 25,657	\$ 7,909	\$ 13,468	\$ 3,310	\$ 3,630	\$ 1,801	\$ 149
Property operating expenses	8,443	3,087	6,576	1,352	1,055	677	63
Property NOI	\$ 17,214	\$ 4,822	\$ 6,892	\$ 1,958	\$ 2,575	\$ 1,124	\$ 86
Share of Property NOI	49.6%	13.9%	20.0%	5.7%	7.4%	3.2%	0.2%

Year ended December 31, 2011							
	Canada					U.S.	
	AB	BC	MB	ON	SK	MN	Other
Revenue	\$ 109,314	\$ 35,643	\$ 55,726	\$ 36,786	\$ 17,623	\$ 27,053	\$ 8,367
Property operating expenses	37,456	12,363	24,897	14,759	5,449	10,433	2,342
Property NOI	\$ 71,858	\$ 23,280	\$ 30,829	\$ 22,027	\$ 12,174	\$ 16,620	\$ 6,025
Share of Property NOI	39.3%	12.7%	16.9%	12.0%	6.7%	9.1%	3.3%

Year ended December 31, 2010							
	Canada					U.S.	
	AB	BC	MB	ON	SK	MN	Other
Revenue	\$ 92,141	\$ 21,855	\$ 41,204	\$ 3,310	\$ 13,919	\$ 2,497	\$ 149
Property operating expenses	28,979	7,770	19,191	1,352	3,826	851	63
Property NOI	\$ 63,162	\$ 14,085	\$ 22,013	\$ 1,958	\$ 10,093	\$ 1,646	\$ 86
Share of Property NOI	55.9%	12.5%	19.4%	1.7%	8.9%	1.5%	0.1%

PORTFOLIO OCCUPANCY

Occupancy levels impact the REIT's revenues and Property NOI. Occupancy and commitments at December 31, 2011 (excluding properties currently in redevelopment), and the previous four periods, are as follows.

Occupancy Report by Asset Class

	Q4-11 % Committed ⁽¹⁾	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10
Retail	97.5%	96.6%	97.1%	96.6%	97.0%	97.5%
Office	96.7%	94.9%	96.6%	95.7%	95.8%	95.6%
Industrial	94.9%	94.3%	94.2%	94.9%	94.0%	95.3%
Total portfolio	96.1%	95.1%	95.7%	95.6%	95.3%	96.0%

Occupancy Report by Geographical Region

	Q4-11 % Committed ⁽¹⁾	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10
Canada:						
Alberta	98.1%	97.4%	97.0%	96.3%	96.3%	96.6%
British Columbia	91.5%	90.6%	96.0%	96.0%	96.4%	96.4%
Manitoba	98.0%	97.0%	96.5%	97.3%	97.0%	96.3%
Ontario	98.0%	95.8%	98.2%	97.9%	94.6%	94.2%
Saskatchewan	98.3%	97.7%	98.0%	97.1%	98.1%	98.5%
U.S.:						
Minnesota	91.3%	90.0%	89.7%	90.0%	89.9%	90.0%
U.S. - Other	98.9%	98.9%	98.9%	98.7%	100.0%	100.0%
Total portfolio	96.1%	95.1%	95.7%	95.6%	95.3%	96.0%

⁽¹⁾ % Committed is based on occupancy and executed leases on vacant units.

Occupancy was 95.1% at December 31, 2011 compared to 95.7% at September 30, 2011 and 96.0% at December 31, 2010. Occupancy decreased 0.4% as a result of the December 2011 expiration of a lease for 69,638 square feet in a single tenant industrial property in Vancouver, B.C. The remaining decrease in occupancy compared to September, 2011 and December 31, 2010 results is attributable to occupancy rates in the newly acquired properties being lower, on average, than in the same property portfolio. Excluding the 69,638 square foot industrial property vacancy, year-over-year same property occupancy would have increased from 96.3% at December 31, 2010 to 96.6% at December 31, 2011.

PORTFOLIO LEASING ACTIVITY AND LEASE EXPIRIES

Artis monitors year-over-year changes in weighted-average rental rates for new and renewal leasing activities. In 2011, the weighted-average rental rates on total activity was flat (Q4-11 - decrease of 4.8%) compared to an increase of 5.2% (Q4-10 - 11.0%) in 2010. In 2011, the weighted-average rental rates on renewal activity increased 4.7% (Q4-11 - 2.7%) compared to 4.9% (Q4-10 - 4.0%) in 2010.

Leasing Activity Summary (in 000's of s.f.)

	Three months ended December 31,				Year ended December 31,			
	2011		2010		2011		2010	
	s.f.	In-Place Rent	s.f.	In-Place Rent	s.f.	In-Place Rent	s.f.	In-Place Rent
New/renewed	768	\$ 11.66	510	\$ 14.86	2,137	\$ 11.38	1,512	\$ 11.08
Expiring	825	\$ 12.25	464	\$ 13.39	2,149	\$ 11.38	1,324	\$ 10.53
Change		\$ (0.59)		\$ 1.47		\$ -		\$ 0.55
% Change		(4.8)%		11.0%		0.0%		5.2%
% Change on renewals only		2.7%		4.0%		4.7%		4.9%

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, unless otherwise noted)

Lease Expiries by Asset Class (in 000's of s.f.) ⁽¹⁾⁽²⁾

	2012	2013	2014	2015	2016	2017 & later	Total ⁽³⁾
Office							
GLA	474	798	374	557	349	3,279	6,235
%	7.6%	12.8%	6.0%	8.9%	5.6%	52.6%	36.8%
Retail							
GLA	352	380	359	363	402	1,692	3,687
%	9.5%	10.3%	9.7%	9.8%	10.9%	45.9%	21.7%
Industrial							
GLA	668	762	1,405	948	1,086	1,757	7,038
%	9.5%	10.8%	20.0%	13.5%	15.4%	25.0%	41.5%
Total portfolio							
GLA	1,494	1,940	2,138	1,868	1,837	6,728	16,960
%	8.8%	11.4%	12.6%	11.0%	10.8%	39.6%	100.0%

⁽¹⁾ Based on Artis' proportionate share of total leasable area.

⁽²⁾ Based on expiries without deduction for future lease commitments.

⁽³⁾ Excluding vacancies and month-to-month leases.

In-Place Rents

In-place rents reflect the actual rental rate in effect for the leasable area as at December 31, 2011. In-place rents do not reflect either the average rate over the term of the lease or the rate in place in the year of expiry.

Market Rents

Artis reviews market rents across the portfolio on an on-going basis. Market rent estimates are based on management's best estimate for each leasable space and may take into consideration the property manager's revenue budget, recent leasing activity, current prospects, future commitments or publicly available market information. Rates applied in future expiry years do not allow for the impact of inflation, nor do they attempt to factor in anticipated higher (or lower) than normal periods of demand or market rent inflation due to specific market conditions.

Market Rents and Commitments by Asset Class (in 000's of s.f.) ⁽¹⁾⁽²⁾

	2012	2013	2014 & later	Total ⁽³⁾
Office				
Commitments	15.9%	20.2%	0.8%	6.1%
In-place rents	\$ 17.35	\$ 18.96	\$ 15.87	\$ 16.97
Market rents	\$ 16.27	\$ 18.00	\$ 17.04	\$ 17.69
Change	(6.2)%	(5.1)%	7.4%	4.2%
Revenue impact ⁽⁴⁾	\$ (512)	\$ (766)	\$ 5,334	\$ 4,056
Retail				
Commitments	45.5%	3.6%	0.5%	6.0%
In-place rents	\$ 16.84	\$ 19.20	\$ 15.67	\$ 16.21
Market rents	\$ 18.73	\$ 21.07	\$ 16.68	\$ 17.42
Change	11.2%	9.7%	6.5%	7.5%
Revenue impact ⁽⁴⁾	\$ 665	\$ 711	\$ 2,844	\$ 4,220
Industrial				
Commitments	11.8%	25.8%	4.3%	7.7%
In-place rents	\$ 5.71	\$ 5.38	\$ 7.18	\$ 7.23
Market rents	\$ 6.13	\$ 5.43	\$ 7.14	\$ 7.27
Change	7.4%	0.9%	(0.6)%	0.6%
Revenue impact ⁽⁴⁾	\$ 281	\$ 38	\$ (208)	\$ 111
Total portfolio				
Commitments	21.1%	19.1%	2.2%	6.7%
In-place rents	\$ 11.67	\$ 13.67	\$ 12.23	\$ 12.35
Market rents	\$ 11.99	\$ 13.66	\$ 12.87	\$ 12.88
Change	2.7%	(0.1)%	5.2%	4.3%
Revenue impact ⁽⁴⁾	\$ 478	\$ (19)	\$ 8,045	\$ 8,504

⁽¹⁾ Based on Artis' proportionate share of total leasable area.

⁽²⁾ Based on expiries without deduction for future lease commitments.

⁽³⁾ Total includes vacancies and month-to-month leases.

⁽⁴⁾ This impact is based on the difference between the in-place rents and the market rents for the year. This excludes the impact of any straight-line rent adjustments on revenues

Market rents reflect those rates available today, without adjustment for inflation in future years. Average in-place rents at December 31, 2011 are estimated to be 4.3% below market across the portfolio (compared to 3.0% at September 30, 2011). Today's in-place rents for the 2012 lease expiries are estimated to be below market by 2.7%, and in-place rents for the 2013 lease expiries are approximately at market.

Record leasing activity took place in 2011 in the Calgary office market. Renewed confidence in the energy sector has continued to drive growth locally and provincially and management anticipates that the office market will experience continued strong activity. Vacancy dropped below 7% during the year and led to increased rents within all building classes. As a result, market-rents to in-place rent gap across Artis' properties has decreased. Management believes this market has now stabilized, and anticipates that market rents will exceed inflation significantly in the coming years.

Lease Expiries by Geographical Region (in 000's of s.f.) ⁽¹⁾⁽²⁾

	2012	2013	2014	2015	2016	2017 & later	Total ⁽³⁾
Alberta							
GLA	414	627	508	384	759	2,111	4,998
%	8.3%	12.5%	10.1%	7.7%	15.1%	42.1%	29.5%
British Columbia							
GLA	137	253	175	200	71	618	1,606
%	8.5%	15.8%	10.9%	12.5%	4.4%	38.5%	9.5%
Manitoba							
GLA	514	546	639	478	337	831	3,470
%	14.8%	15.7%	18.4%	13.8%	9.7%	23.9%	20.5%
Ontario							
GLA	155	63	344	106	144	1,089	1,990
%	7.8%	3.2%	17.3%	5.3%	7.2%	54.7%	11.7%
Saskatchewan							
GLA	99	131	89	67	74	444	937
%	10.6%	14.0%	9.5%	7.2%	7.9%	47.4%	5.5%
Minnesota							
GLA	175	310	342	633	452	1,115	3,381
%	5.2%	9.2%	10.1%	18.7%	13.4%	33.0%	19.9%
U.S. - Other							
GLA	-	10	41	-	-	520	578
%	0.0%	1.7%	7.1%	0.0%	0.0%	90.0%	3.4%
Total portfolio							
GLA	1,494	1,940	2,138	1,868	1,837	6,728	16,960
%	8.8%	11.4%	12.6%	11.0%	10.8%	39.6%	100.0%

⁽¹⁾ Based on Artis' proportionate share of total leasable area.

⁽²⁾ Based on expiries without deduction for future lease commitments.

⁽³⁾ Total includes vacancies and month-to-month leases.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, unless otherwise noted)

Market Rents and Commitments by Geographical Region (in 000's of s.f.)^{(1) (2)}

	2012	2013	2014 & later	Total ⁽³⁾
Alberta				
Commitments	29.3%	6.5%	1.1%	4.8%
In-place rents	\$ 16.75	\$ 19.96	\$ 14.57	\$ 15.46
Market rents	\$ 16.06	\$ 18.82	\$ 16.03	\$ 16.40
Change	(4.1)%	(5.7)%	10.0%	6.1%
Revenue impact ⁽⁴⁾	\$ (286)	\$ (715)	\$ 5,493	\$ 4,492
British Columbia				
Commitments	44.7%	53.1%	0.9%	13.7%
In-place rents	\$ 17.63	\$ 16.31	\$ 14.48	\$ 15.09
Market rents	\$ 17.98	\$ 17.33	\$ 15.30	\$ 15.91
Change	2.0%	6.3%	5.7%	5.4%
Revenue impact ⁽⁴⁾	\$ 48	\$ 258	\$ 872	\$ 1,178
Manitoba				
Commitments	10.3%	35.9%	9.9%	14.7%
In-place rents	\$ 7.88	\$ 7.43	\$ 11.39	\$ 10.21
Market rents	\$ 8.70	\$ 8.13	\$ 12.11	\$ 10.94
Change	10.4%	9.4%	6.3%	7.1%
Revenue impact ⁽⁴⁾	\$ 421	\$ 382	\$ 1,645	\$ 2,448
Ontario				
Commitments	5.4%	0.0%	0.0%	2.7%
In-place rents	\$ 13.93	\$ 12.45	\$ 11.23	\$ 11.49
Market rents	\$ 14.97	\$ 12.94	\$ 10.94	\$ 11.33
Change	7.5%	3.9%	(2.6)%	(1.4)%
Revenue impact ⁽⁴⁾	\$ 161	\$ 31	\$ (488)	\$ (296)
Saskatchewan				
Commitments	28.8%	0.0%	0.0%	3.6%
In-place rents	\$ 14.12	\$ 19.41	\$ 14.23	\$ 14.97
Market rents	\$ 15.17	\$ 20.14	\$ 14.79	\$ 15.61
Change	7.4%	3.8%	4.0%	4.3%
Revenue impact ⁽⁴⁾	\$ 104	\$ 96	\$ 377	\$ 577
Minnesota				
Commitments	24.3%	0.0%	0.0%	2.5%
In-place rents	\$ 5.79	\$ 7.19	\$ 8.16	\$ 7.92
Market rents	\$ 5.67	\$ 6.96	\$ 7.83	\$ 7.62
Change	(2.1)%	(3.3)%	(4.0)%	(3.8)%
Revenue impact ⁽⁴⁾	\$ (21)	\$ (71)	\$ (839)	\$ (931)
U.S. - Other				
Commitments	0.0%	0.0%	0.0%	0.0%
In-place rents	\$ -	\$ 27.38	\$ 14.76	\$ 14.98
Market rents	\$ -	\$ 27.50	\$ 16.37	\$ 16.57
Change	0.0%	0.4%	10.9%	10.6%
Revenue impact ⁽⁴⁾	\$ -	\$ 69	\$ 919	\$ 988
Total portfolio				
Commitments	21.1%	19.1%	2.2%	6.7%
In-place rents	\$ 11.67	\$ 13.67	\$ 12.23	\$ 12.35
Market rents	\$ 11.99	\$ 13.66	\$ 12.87	\$ 12.88
Change	2.7%	(0.1)%	5.2%	4.3%
Revenue impact ⁽⁴⁾	\$ 478	\$ (19)	\$ 8,045	\$ 8,504

⁽¹⁾ Based on Artis' proportionate share of total leasable area.

⁽²⁾ Based on expiries without deduction for future lease commitments.

⁽³⁾ Total includes vacancies and month-to-month leases.

⁽⁴⁾ This impact is based on the difference between the in-place rents and the market rents for the year. This excludes the impact of any straight-line rent adjustments on revenues.

Artis' real estate is diversified across five Canadian provinces and four U.S. states, and across the office, retail and industrial asset classes. At December 31, 2011, the three largest segments of the REIT's portfolio (by GLA) are Minneapolis industrial properties, Winnipeg industrial properties and Calgary office properties.

Minneapolis industrial properties represent 14.1% of the overall portfolio by GLA. Vacancy in the Minneapolis industrial market, as reported by CBRE, was 7.4% at December 31, 2011, down slightly from 7.5% at September 30, 2011 on positive net absorption of 320,497 square feet. This is the fifth consecutive quarter of positive absorption. Lease rates are up year-over-year and now stand at \$4.57 psf for warehouse space. Occupancy in this segment of the portfolio was 89.4% at December 31, 2011. In 2012, 165,870 square feet comes up for renewal, which represents approximately 1.0% of the portfolio's GLA; 24.9% has been renewed or committed to new leases. In 2013, 245,259 square feet comes up for renewal, which represents 1.4% of the portfolio's GLA.

Winnipeg industrial properties represent 10.4% of Artis' portfolio by GLA. Vacancy in the Winnipeg industrial market, as reported by CBRE, was approximately 3.6% at December 31, 2011, unchanged from 3.6% at September 30, 2011. Rent rates decreased slightly to \$6.21 psf from \$6.28. Occupancy in this segment of the portfolio was 98.0% at December 31, 2011, compared to 95.9% at September 30, 2011. In total, Artis has commitments in place for 29.5% of the unoccupied space. In 2012, 305,728 square feet comes up for renewal, which represents approximately 1.8% of the portfolio's GLA; 15.0% has been renewed or committed to new leases. In 2013, 348,779 square feet comes up for renewal, which represents 1.5% of the portfolio's GLA.

Lease Expiries for Calgary Office Segment (in 000's of s.f.) ^{(1) (2)}

	2012	2013	2014	2015	2016	2017 & later	Total ⁽³⁾
Calgary office							
GLA	162	334	70	58	102	646	1,503
%	10.8%	22.2%	4.6%	3.9%	6.8%	43.0%	24.1%
Other office							
GLA	312	464	304	499	247	2,633	4,732
%	6.6%	9.8%	6.4%	10.5%	5.2%	55.6%	75.9%
Total office							
GLA	474	798	374	557	349	3,279	6,235
%	7.6%	12.8%	6.0%	8.9%	5.6%	52.6%	100.0%

Market Rents and Commitments for Calgary Office Segment (in 000's of s.f.) ^{(1) (2)}

	2012	2013	2014 & later	Total ⁽³⁾
Calgary office				
Commitments	10.9%	8.1%	46.8%	5.8%
In-place rents	\$ 20.53	\$ 24.29	\$ 18.48	\$ 20.34
Market rents	\$ 15.61	\$ 20.91	\$ 21.95	\$ 21.08
Change Revenue impact ⁽⁴⁾	(24.0)% \$ (797)	(13.9)% \$ (1,129)	18.8% \$ 3,040	3.6% \$ 1,114
Other office				
Commitments	18.5%	28.9%	0.3%	6.2%
In-place rents	\$ 14.21	\$ 15.16	\$ 14.60	\$ 14.66
Market rents	\$ 15.74	\$ 15.75	\$ 15.46	\$ 15.52
Change Revenue impact ⁽⁴⁾	10.8% \$ 477	3.9% \$ 274	5.9% \$ 3,167	5.9% \$ 3,918
Total office				
Commitments	15.9%	20.2%	0.8%	6.1%
In-place rents	\$ 17.35	\$ 18.96	\$ 15.87	\$ 16.97
Market rents	\$ 16.27	\$ 18.00	\$ 17.04	\$ 17.69
Change Revenue impact ⁽⁴⁾	(6.2)% \$ (512)	(5.1)% \$ (766)	7.4% \$ 5,334	4.2% \$ 4,056

⁽¹⁾ Based on Artis' proportionate share of total leasable area.

⁽²⁾ Based on expiries without deduction for future lease commitments.

⁽³⁾ Total includes vacancies and month-to-month leases.

⁽⁴⁾ This impact is based on the difference between the in-place rents and the market rents for the year. This excludes the impact of any straight-line rent adjustments on revenues.

Calgary office properties represent 8.9% of the overall portfolio by GLA. Artis' office properties are Class A, B and C buildings, in downtown, beltline and suburban locations. Overall vacancy in the Calgary office market, as reported by CBRE, was 6.5% at December 31, 2011, compared to 6.6% at September 30, 2011. Tenant demand has been stronger than forecast in both the suburban and downtown markets due largely to the positive impacts of continued capital investment in oil and gas in Alberta. Recent research from CRESA, Avison Young, Colliers and CBRE reflect increased optimism based on positive absorption in both suburban and downtown markets. Management believes that as the vacancy continues to stabilize in these markets, rental rates will continue to inflate in 2012. At December 31, 2011, the Calgary office segment of Artis' portfolio was 95.0% occupied, compared to 94.5% occupancy at September 30, 2011. Artis has commitments in place for 19.8% of the unoccupied space. In the remainder of 2012, 161,984 square feet comes up for renewal, which represents 1.0% of the portfolio's GLA; 10.9% has been committed. In 2013, 333,554 square feet comes up for renewal, which represents 2.0% of the portfolio's GLA; 8.1% has been renewed. Approximately 43.0% of the Calgary office GLA expires in 2017 or later.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, unless otherwise noted)

INTEREST EXPENSE

The current year's interest expense is attributable to mortgages and other loans secured against the investment properties, as well as convertible debentures outstanding and the balance drawn on the credit facility. Interest expense in 2010 includes a portion of the distributions paid to unitholders during the period. Interest expense in 2011 has increased over 2010 due to additional mortgage financing obtained in connection with acquisitions completed in 2010 and 2011, and the issuance of additional convertible debentures in 2011. In accordance with IFRS, financing costs on mortgages and other loans are netted against the related debt, and amortized on an effective interest basis over the expected life of the debt.

The REIT's weighted-average effective rate at December 31, 2011 on mortgages and other debt secured by properties was 4.79% compared to 5.12% at December 31, 2010. The weighted-average nominal interest rate at December 31, 2011 was 4.61% compared to 4.97% at December 31, 2010.

In accordance with IFRS, convertible debentures are recorded as a financial liability at fair value. Artis recorded interest expense of \$12,205 (Q4-11 - \$3,478) on the face value of debentures outstanding in 2011, compared to 8,223 (Q4-10 - \$2,271) in 2010.

The REIT's interest coverage ratio, defined as total revenues less property operating expenses and corporate expenses divided by interest expense, is 2.21 times for the year ended December 31, 2011 (Q4-11 - 2.25 times).

CORPORATE EXPENSES

	Three month period ended December 31,		Year ended December 31,	
	2011	2010	2011	2010
Accounting, legal and consulting	\$ 299	\$ 263	\$ 1,161	\$ 671
Advisory fees	1,689	1,182	6,037	3,859
Public company costs	187	145	853	781
Unit-based compensation	663	(33)	926	588
Amortization	32	29	120	114
General and administrative	436	397	1,958	1,212
Total corporate expenses	\$ 3,306	\$ 1,983	\$ 11,055	\$ 7,225

Corporate expenses in 2011 were \$11,055 (Q4-11 - \$3,306), or 3.8% (Q4-11 - 4.0%) of gross revenues compared to \$7,225 (Q4-10 - \$1,983), or 4.1% (Q4-10 - 3.5%) of gross revenues in 2010. The increase in advisory fees is due to the number of properties acquired since 2010. A liability for unit-based compensation is recognized and measured initially at fair value. The liability is remeasured to fair value at each reporting date and at each settlement date. Any change in the fair value of the liability is recognized as compensation expense for the year. An increase in the value of the REIT's units as well as additional options issued during the year has caused an increase in the compensation expense for the period.

FOREIGN CURRENCY TRANSLATION (GAIN) LOSS

In 2011, the REIT held cash, deposits and the Series G debentures in US dollars. This resulted in a foreign currency translation loss of \$1,268 (Q4-11 - gain of \$1,941) compared to a loss of \$2,945 (Q4-10 - loss of \$2,488) in 2010.

INCOME TAX RECOVERY (EXPENSE)

The REIT converted its U.S. subsidiary to a REIT for U.S. income tax purposes during 2011. The subsidiary intends to distribute all of its U.S. taxable income to Canada and is entitled to deduct such distributions for U.S. income tax purposes. As a result, the REIT does not record a provision for current U.S. income taxes. The current taxes of \$1,680 recorded in the first three quarters of 2011 were reversed in Q4-11. The U.S. subsidiary is subject to a 30% to 35% withholding tax on distributions to Canada. Any withholding taxes paid are recorded with the related distributions.

The REIT currently qualifies as a mutual fund trust and a real estate investment trust ("REIT") for Canadian income tax purposes. Under current tax legislation, income distributed annually by the REIT to unitholders is a deduction in the calculation of its taxable income. As the REIT intends to distribute all of its taxable income to its unitholders, the REIT does not record a provision for current Canadian income taxes.

The Income Tax Act (Canada) contains legislations affecting the tax treatment of a specified investment flow-through ("SIFT") trust or partnership (the "SIFT Rules"). A SIFT includes a publicly-listed or traded partnership or trust, such as an income trust.

Under the SIFT Rules, certain distributions from a SIFT are not deductible in computing a SIFT's taxable income, and a SIFT is 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 tax.

The SIFT Rules do not apply to a REIT that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the 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 SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the three months and twelve months ended December 31, 2011 and the year ended December 31, 2010. As a result, the REIT does not recognize any deferred income tax assets or liabilities for income tax purposes.

TRANSACTION COSTS

During 2011, \$16,451 (Q4-11 - \$4,439) of transaction costs were expensed in accordance with IFRS compared to \$19,546 (Q4-10 - \$6,672) in 2010. The REIT issued new Series G debentures in Q2-11 and expensed \$3,630 of transaction costs related to the issuance in 2011 compared to \$3,754 of transaction costs related to Series F debentures issued in Q2-10. On October 31, 2011, the REIT took over the property management operations for several of its properties in Winnipeg, Manitoba and paid a termination fee of \$4,000 to the prior third party property management company. The termination fee was recorded as a transaction cost. The remainder of the transaction costs are attributable to the acquisition of investment properties.

GAIN (LOSS) ON FINANCIAL INSTRUMENTS

Prior to May 14, 2010, the REIT had a contractual obligation to make cash distributions to its unitholders. Therefore, the REIT's trust units were classified as a financial liability measured at fair value. On May 14, 2010, the Declaration of Trust was amended to make distributions non-mandatory and the trust units were reclassified from liabilities to equity at the fair value of the liability at that date. During 2010, the REIT recorded an unrealized loss on the liability of \$19,361.

The REIT holds a number of interest rate swaps to effectively lock the interest rate on a portion of floating rate debt. In accordance with IFRS, the REIT recorded an unrealized loss on the fair value adjustment of the interest rate swaps outstanding of \$4,347 in 2011 (Q4-11 - loss of \$259) compared to an unrealized gain of \$494 in 2010 (Q4-10 - gain of \$841). The REIT anticipates holding the mortgages and interest rate swap contracts until maturity.

In 2011, the REIT recorded an unrealized gain on convertible debentures of \$650 (Q4-11 - loss of \$14,036) compared to an unrealized loss of \$1,923 in 2010 (Q4-10 - gain of \$2,121).

During Q4-10 and Q1-11, the REIT invested excess cash in equity securities. In 2011, the REIT has liquidated this investment and, in accordance with IFRS, has recorded an unrealized loss of \$290 in 2011 (Q4-11 - gain of \$102). The realized gain recorded on these equity securities since purchase is \$1,279.

UNREALIZED FAIR VALUE GAIN ON INVESTMENT PROPERTIES

The changes in fair value of investment properties, year-over-year, are recognized as fair value gains and losses in the statement of operations. Fair values of the investment properties are determined through a combination of the discounted cash flow method and the overall capitalization method which are generally accepted appraisal methodologies. External valuations are performed quarterly on a rotational basis over a four year cycle. In 2011, the fair value gain on investment properties is \$246,094 (Q4-11 - \$46,916) compared to \$36,365 (Q4-10 - \$11,214) in 2010. The size and mix of the Q4-11 portfolio is significantly different than the size and mix of the portfolio in Q4-10. Capitalization rate compression has occurred in several markets over the course of 2011 and has contributed to the increase in fair value.

OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income includes the unrealized foreign currency translation gain in 2011 of \$3,183 (Q4-11 - loss of \$2,967) compared to a loss of \$310 (Q4-10 - loss of \$126) in 2010. Foreign currency translation gains and losses related to the REIT's net investment in foreign operations in the U.S.

DISTRIBUTABLE INCOME ("DI")

Artis no longer presents DI as approved at the Annual and Special Meeting of Unitholders on May 19, 2011.

DISTRIBUTIONS

The Trustees determine the level of cash distributions based on the level of cash flow from operations before working capital changes, less actual and planned capital expenditures. 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 DRIP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, unless otherwise noted)

	Three month period ended December 31,	Year ended December 31,	Year ended December 31,	Year ended December 31,
	2011	2011	2010	2009 ⁽¹⁾
Cash flow from operations	\$ 22,106	\$ 76,494	\$ 24,187	\$ 41,113
Net income (loss)	\$ 66,739	\$ 321,289	\$ 33,224	\$ (9,189)
Distributions declared ⁽²⁾	\$ 23,061	\$ 87,183	\$ 46,503	\$ 36,998
Excess (shortfall) of cash flow from operations over distributions declared	\$ (955)	\$ (10,689)	\$ (22,316)	\$ 4,115
Excess (shortfall) of net income over distributions declared	\$ 43,678	\$ 234,106	\$ (13,279)	\$ (46,187)

⁽¹⁾ Results for 2009 are reported under previous Canadian GAAP.

⁽²⁾ Excludes distributions recorded in interest expense in 2010.

For the year ended December 31, 2011, distributions declared exceeded cash flow from operations by \$10,689 (Q4-11 - \$955) and net income exceeded distributions declared.

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 for the year.

Reconciliation of Cash Flows from Operations to FFO:

000's, except per unit amounts	Three month period ended December 31,		Year ended December 31,	
	2011	2010	2011	2010
Cash flow from operations	\$ 22,106	\$ 14,397	\$ 76,494	\$ 24,187
Add (deduct) amortization of:				
Office equipment and software	(32)	(29)	(120)	(114)
Above- and below-market mortgages, net	290	172	862	370
Add (deduct):				
Straight-line rent adjustment	1,508	957	5,514	2,841
Unrealized gain (loss) on equity securities	427	1,569	(1,569)	1,569
Realized foreign currency translation (gain) loss	(334)	1,696	(3,734)	2,752
Unrealized foreign currency (gain) loss from U.S. operations	(318)	-	2,662	-
Unit-based compensation expense	(663)	33	(926)	(588)
Accretion of financing costs included in interest	(562)	(310)	(1,974)	(1,048)
Distributions paid, included in interest	-	-	-	16,829
Transaction costs on acquisitions	449	6,672	8,821	15,792
Additions to tenant inducements	1,969	1,948	8,666	10,043
Changes in non-cash operating items	1,657	(6,698)	(2,631)	(16,376)
FFO for the period	\$ 26,497	\$ 20,407	\$ 92,065	\$ 56,257
Add back:				
Termination fee included in transaction costs ⁽¹⁾	4,000	-	4,000	-
Convertible debentures financing costs	(10)	-	3,630	3,754
Current tax (recovery) expense	(1,710)	97	(30)	97
(Gain) loss on equity securities	(102)	(1,569)	290	(1,569)
FFO for the period after adjustments	\$ 28,675	\$ 18,935	\$ 99,955	\$ 58,539
FFO per unit				
Basic	\$ 0.31	\$ 0.28	\$ 1.15	\$ 0.99
Diluted	\$ 0.31	\$ 0.27	\$ 1.13	\$ 0.98
FFO per unit after adjustments				
Basic	\$ 0.34	\$ 0.26	\$ 1.25	\$ 1.03
Diluted	\$ 0.33	\$ 0.25	\$ 1.21	\$ 1.01
Weighted-average number of units:				
Basic ⁽²⁾	84,172	74,012	79,867	57,001
Diluted ⁽²⁾	98,073	82,039	92,370	63,335

⁽¹⁾ On October 31, 2011, the REIT took over the property management operations for several of its properties in Winnipeg, Manitoba and paid a termination fee of \$4,000 to the prior third party property management company.

⁽²⁾ Options and convertible debentures are factored into the diluted weighted-average calculation used for FFO, to the extent that their impact is dilutive.

The following is a reconciliation of the weighted-average number of basic units to diluted units and FFO to diluted FFO:

Diluted units reconciliation

	Three month period ended December 31,	
	2011	2010
Basic units	84,172	74,012
Add:		
Debtentures ⁽¹⁾	13,901	8,027
Diluted units	98,073	82,039

Diluted FFO reconciliation

	Three month period ended December 31,	
	2011	2010
FFO	\$ 26,497	\$ 20,407
Add:		
Debtentures ⁽¹⁾	3,471	1,783
Diluted FFO	\$ 29,968	\$ 22,190

⁽¹⁾ All debenture series are dilutive in Q4-11 and Series D, E, and F are dilutive in Q4-10.

Diluted units reconciliation

	Year ended December 31,	
	2011	2010
Basic units	79,867	57,001
Add:		
Debtentures ⁽¹⁾	12,503	6,334
Diluted units	92,370	63,335

Diluted FFO reconciliation

	Year ended December 31,	
	2011	2010
FFO	\$ 92,065	\$ 56,257
Add:		
Debtentures ⁽¹⁾	12,110	5,501
Diluted FFO	\$ 104,175	\$ 61,758

⁽¹⁾ All debenture series are dilutive in 2011 and Series D, E and F are dilutive in 2010.

Reconciliation of GAAP Income (Loss) to FFO:

	Three month period ended December 31,		Year ended December 31,	
	2011	2010	2011	2010
Income for the period	\$ 66,739	\$ 24,582	\$ 321,289	\$ 33,224
Add amortization on:				
Tenant inducements amortized to revenue	1,246	950	4,559	2,784
Add (deduct):				
Gain on disposal of investment properties	-	-	(736)	-
Deferred tax (recovery) expense	(8,997)	201	(439)	201
Unrealized fair value gain on investment properties	(46,916)	(11,214)	(246,094)	(36,365)
Foreign currency translation (gain) loss	(1,941)	2,488	1,268	2,945
Transaction costs on acquisitions	449	6,672	8,821	15,792
Distributions paid, included in interest	-	-	-	16,829
Unrealized (gain) loss on financial instruments	15,917	(3,272)	3,397	20,847
FFO for the period	\$ 26,497	\$ 20,407	\$ 92,065	\$ 56,257
Add back:				
Termination fee included in transaction costs ⁽¹⁾	4,000	-	4,000	-
Convertible debentures financing costs	(10)	-	3,630	3,754
Current tax (recovery) expense	(1,710)	97	(30)	97
(Gain) loss on equity securities	(102)	(1,569)	290	(1,569)
FFO for the period after adjustments	\$ 28,675	\$ 18,935	\$ 99,955	\$ 58,539

⁽¹⁾ On October 31, 2011, the REIT took over the property management operations for several of its properties in Winnipeg, Manitoba and paid a termination fee of \$4,000 to the prior third party property management company.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, unless otherwise noted)

In 2011, FFO has increased \$35,808 (Q4-11 - \$6,090), or 63.7% (Q4-11 - 29.8%) over 2010. This increase is primarily attributed to acquisitions completed in 2010 and 2011. Basic FFO per unit has increased by \$0.16 (Q4-11 - \$0.03) or 16.2% (Q4-11 - 10.7%) over 2010. On a diluted basis, FFO per unit has increased \$0.15 (Q4-11 - \$0.04), or 15.3% (Q4-11 - 14.8%) over 2010.

During 2011, the REIT converted its U.S. subsidiary to a REIT for U.S. income tax purposes. The current tax expense recorded in the first three quarters of 2011 was reversed in Q4-11. This reversal has been excluded from the calculation of adjusted FFO. In 2011, adjusted FFO has increased \$41,416 (Q4-11 - \$9,740), or 70.7% (Q4-11 - 51.4%) over 2010. Adjusted basic FFO per unit has increased by \$0.22 (Q4-11 - \$0.08) or 21.4% (Q4-11 - 30.8%). Adjusted diluted FFO per unit has increased by \$0.20 (Q4-11 - \$0.08) or 19.8% (Q4-11 - 32.0%).

As a result of units issued under the DRIP, units issued from public offerings, and conversion of convertible debentures, basic units outstanding for the calculation of FFO has substantially increased. This increase has diluted the impact of strong growth in FFO on per unit results. Management anticipates there will be further growth in FFO as acquisitions completed in 2011 contribute to operating results.

The following is a reconciliation of FFO for the period under previous GAAP to FFO for the period under IFRS:

	Three month period ended December 31, 2010	Year ended December 31, 2010
FFO for the period as reported under previous GAAP	\$ 18,636	\$ 65,273
Adjustments:		
Unit-based compensation	170	(366)
Amortization of below-market rent	(3,268)	(12,175)
Amortization of above-market rent	248	542
Accretion on liability component of convertible debentures	564	2,223
Foreign currency translation loss	2,488	2,945
Gain on equity securities	1,569	1,569
Convertible debentures financing costs	-	(3,754)
FFO for the period	\$ 20,407	\$ 56,257

ANALYSIS OF FINANCIAL POSITION

ASSETS

	December 31, 2011	December 31, 2010	Increase (decrease)
Non-current assets:			
Investment properties and investment properties under construction	\$ 3,024,067	\$ 2,058,185	\$ 965,882
Other non-current assets	24,063	24,136	(73)
Current assets:			
Cash, cash equivalents and cash held in trust	95,133	89,106	6,027
Other current assets	24,325	40,169	(15,844)
	\$ 3,167,588	\$ 2,211,596	\$ 955,992

Investment properties and investment properties under construction:

The increase in investment properties and investment properties under construction is a result of the following:

	Investment Properties	Investment Properties Under Construction	Total
Balance, December 31, 2010	\$ 2,052,780	\$ 5,405	\$ 2,058,185
Additions:			
Acquisitions	678,716	-	678,716
Capital expenditures	8,333	19,608	27,941
Leasing costs	4,313	-	4,313
Net change to tenant inducements	4,107	-	4,107
Dispositions	(13,002)	-	(13,002)
Reclassification of investment property under construction	4,550	(4,550)	-
Unrealized fair value gain	246,094	-	246,094
Foreign currency translation gain	12,199	-	12,199
Straight-line rent adjustment	5,514	-	5,514
Balance, December 31, 2011	\$ 3,003,604	\$ 20,463	\$ 3,024,067

During the year ended December 31, 2011, the following 32 commercial properties were acquired:

Property	Location	GLA	Acquisition Date	Type
ADT Building	Calgary, AB	30,932	January 7, 2011	Industrial
Dominion Construction Building	Calgary, AB	17,187	January 7, 2011	Industrial
EMC Building	Edmonton, AB	28,520	February 28, 2011	Office
Stinson Office Park	Minneapolis, MN	307,045	March 31, 2011	Office
Minneapolis Industrial Portfolio ⁽¹⁾	Minneapolis, MN	1,508,193	March 31, 2011	Industrial
Cara Foods Building ⁽²⁾	Vaughan, ON	100,398	April 15, 2011	Office
3M Distribution Facility	Toronto, ON	318,805	April 29, 2011	Industrial
1165 Kenaston	Ottawa, ON	180,689	May 27, 2011	Office
Victoria Square Shopping Centre	Regina, SK	290,627	May 31, 2011	Retail
Ryan Retail Portfolio ⁽³⁾	Minneapolis, MN	110,333	May 31, 2011	Retail
605 Waterford Park	Minneapolis, MN	204,417	June 1, 2011	Office
McGillivray Cineplex	Winnipeg, MB	42,725	June 10, 2011	Retail
415 Yonge Street	Toronto, ON	191,880	June 28, 2011	Office
Union Hills Office Plaza	Phoenix, AZ	142,773	June 30, 2011	Office
201 Westcreek Boulevard	Toronto, ON	301,113	June 30, 2011	Industrial
Plymouth Corporate Campus	Minneapolis, MN	83,617	July 6, 2011	Industrial
Stampede Station	Calgary, AB	162,502	July 26, 2011	Office
MTS Place	Winnipeg, MB	274,712	August 31, 2011	Office
7499 East Paradise Lane	Phoenix, AZ	98,555	September 15, 2011	Industrial
Two MarketPointe	Minneapolis, MN	249,111	December 22, 2011	Office

⁽¹⁾ The second tranche of the Minneapolis Industrial Portfolio is comprised of 9 multi-tenant properties.

⁽²⁾ The REIT acquired a 50% interest in this property.

⁽³⁾ The Ryan Retail Portfolio is comprised of 5 shopping centres.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, 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 financing. The acquisitions have been accounted for using the acquisition method.

	Three month period ended December 31,		Year ended December 31,	
	2011	2010	2011	2010
Cash consideration	\$ 21,869	\$ 121,803	\$ 278,129	\$ 323,560
Contingent consideration	713	-	713	-
New or assumed mortgages including above-market mortgages, net of deferred financing costs	40,928	214,219	399,874	564,231
Net assets acquired	\$ 63,510	\$ 336,022	\$ 678,716	\$ 887,791

Investment properties include certain capital expenditures related to sustaining building improvements not related to a specific lease or tenancy. Capital expenditures, including tenant improvements, in 2011 totaled \$27,941 (Q4-11 - \$12,821) compared to \$11,011 (Q4-10 - \$5,361) in 2010. Revenue enhancing capital expenditures of \$19,785 (Q4-11 - \$9,165) were incurred in 2011 primarily relating to construction of a parkade ancillary to an existing portfolio office property in Winnipeg, Manitoba and construction of new buildings on a retail property in Winnipeg, Manitoba, an industrial property in Edmonton, Alberta and on an industrial property in Minneapolis, Minnesota. The remaining \$8,156 (Q4-11 - \$3,656) of capital expenditures primarily relate to a parkade upgrade at a Winnipeg office property, parking lot improvements, HVAC unit replacements, and roof replacements. Approximately \$3,973 (Q4-11 - \$2,141) of these capital expenditures are recoverable from tenants in future periods.

In 2011, Artis incurred \$12,979 (Q4-11 - \$2,968) of tenant inducements and leasing costs compared to \$12,592 (Q4-10 - \$3,019) in 2010. Tenant inducements include costs incurred to improve the space that primarily benefit the tenant, as well as allowances paid to tenants. Leasing costs are primarily brokers' commissions.

	Three month period ended December 31,		Year ended December 31,	
	2011	2010	2011	2010
Tenant inducements	\$ 1,969	\$ 1,948	\$ 8,666	\$ 10,043
Leasing commissions	999	1,071	4,313	2,549
Total	\$ 2,968	\$ 3,019	\$ 12,979	\$ 12,592

On March 7, 2011, the REIT sold a property that was part of the Winnipeg Industrial Portfolio. The proceeds from the sale of this property, net of costs, were \$6,780. The gain recorded on the sale was \$255. The REIT transferred the mortgage on this property to three previously unencumbered properties.

On September 15, 2011, the REIT sold a property that was part of the Minneapolis Industrial Portfolio. The proceeds from the sale of this property, net of costs and related debt, were \$1,366. The gain recorded on the sale was \$481.

The construction of a new office building at North City Centre in Edmonton, Alberta was completed in Q1-11 and has been reclassified from investment properties under construction to properties in redevelopment.

In 2011, the REIT recorded a gain on the fair value of investment properties of \$246,094 (Q4-11 - \$46,916) primarily due to capitalization rate compression. In 2010, the REIT recorded a gain of \$36,365 (Q4-10 - \$11,214). Artis determines the fair value of investment properties based upon a combination of the discounted cash flow method and the overall capitalization method, which are generally accepted appraisal methodologies. Capitalization rates are estimated using market surveys, available appraisals and market comparables. Under the overall capitalization method, year one income is stabilized and capitalized at a rate deemed appropriate for each investment property. Individual properties were valued using capitalization rates in the range of 5.50% to 9.00%. Additional information on the average capitalization rates and ranges used for the portfolio properties, assuming all properties were valued using an overall capitalization method, broken out by asset class and country are set out in the table below.

	December 31, 2011			December 31, 2010		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Office:						
U.S.	8.50%	7.00%	7.67%	9.50%	7.50%	8.53%
Canada	9.00%	5.50%	6.71%	11.00%	6.00%	7.81%
Office total	5.50%	9.00%	6.86%	11.00%	6.00%	7.88%
Industrial:						
U.S.	9.00%	7.00%	7.47%	10.00%	8.00%	8.37%
Canada	9.00%	6.00%	7.03%	9.75%	6.75%	7.72%
Industrial total	9.00%	6.00%	7.14%	10.00%	6.75%	7.80%
Retail:						
U.S.	8.50%	6.50%	7.58%	N/A	N/A	N/A
Canada	8.00%	5.50%	6.71%	8.75%	6.00%	7.18%
Retail total	8.50%	5.50%	6.74%	8.75%	6.00%	7.18%
Total:						
U.S. portfolio	9.00%	6.50%	7.59%	10.00%	7.50%	8.46%
Canadian portfolio	9.00%	5.50%	6.77%	11.00%	6.00%	7.57%
Total portfolio	9.00%	5.50%	6.89%	11.00%	6.00%	7.62%

In 2011, the foreign currency translation gain was \$12,199 (Q4-11 - loss of \$7,995) due to the change in the year-end exchange rate from 0.9946 at December 31, 2010 to 1.0170 at December 31, 2011.

Notes receivable:

In conjunction with the 2007 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 installments of principal and interest. The note is transferable at the option of the REIT and matures in May 2023. The REIT has one additional note receivable arising from the disposition of investment properties. The balance outstanding on all notes receivable at December 31, 2011 is \$25,437 compared to \$27,142 at December 31, 2010.

Investment in equity securities:

At December 31, 2011, the REIT has liquidated its investment in equity securities (December 31, 2010, \$11,184).

Cash and cash equivalents:

At December 31, 2011, the REIT had \$94,094 of cash and cash equivalents on hand, compared to \$88,324 at December 31, 2010. The balance is anticipated to be invested in investment properties in subsequent periods, used for working capital purposes or for debt repayment. All of the REIT's cash and cash equivalents are held in current accounts and/or bank guaranteed investment certificates.

LIABILITIES

	December 31,	December 31,	Increase (decrease)
	2011	2010	
Non-current liabilities:			
Mortgages and loans payable	\$ 1,428,334	\$ 1,097,402	\$ 330,932
Convertible debentures	235,746	153,889	81,857
Other non-current liabilities	78	201	(123)
Current liabilities:			
Current portion of mortgages and loans payable	139,065	58,690	80,375
Bank indebtedness	37,900	8,000	29,900
Other current liabilities	56,650	39,184	17,466
	\$ 1,897,773	\$ 1,357,366	\$ 540,407

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, unless otherwise noted)

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 IFRS, convertible debentures are recorded as a liability at fair value.

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 other assets as disclosed in the balance sheet and notes thereto.

In connection with the U.S. restructuring, a subsidiary of the REIT issued \$78 of preferred shares. The REIT has included these in the calculation of GBV as a liability.

Artis' mortgages, loans and bank indebtedness to GBV ratio at December 31, 2011 was 50.7%, compared to 52.6% at December 31, 2010.

	December 31, 2011	December 31, 2010
GBV	\$ 3,167,941	\$ 2,211,829
Mortgages, loans and bank indebtedness	1,605,299	1,164,092
Mortgages, loans and bank indebtedness to GBV	50.7%	52.6%
Preferred share liabilities	\$ 78	\$ -
Carrying value of convertible debentures	235,746	153,889
Total long-term debt and bank indebtedness	1,841,123	1,317,981
Total long-term debt and bank indebtedness to GBV	58.1%	59.6%

At the 2009 Annual and Special Meeting of Unitholders', the REIT received unitholder approval to amend its Declaration of Trust to authorize Artis to create and issue a new class of preferred equity securities ("Preferred Units"). Artis believes that Preferred Units would be an attractive investment for certain investors in the current economic and market conditions. The issuance of Preferred Units would enable the REIT to attract new investors as well as to potentially provide Artis with an opportunity to reduce its cost of capital. The issuance of such Preferred Units is conditional on support and demand for such a security in the market. The REIT is in receipt of a favourable tax ruling from the Canada Revenue Agency regarding any potential future issuance.

Artis REIT has an internal policy of maintaining a total debt to GBV ratio of 70% or lower. In the event that the REIT issues Preferred Units, the Trustees have approved a guideline stipulating that for purposes of calculating this ratio, Preferred Units would be included in the debt component of the calculation.

Mortgages and loans payable:

Artis finances acquisitions in part through the arrangement or assumption of mortgage financing and consequently, substantially all of the REIT's investment properties are pledged as security under mortgages and other loans. In 2011, \$29,728 (Q4-11 - \$8,783) of principal repayments were made compared to \$16,933 (Q4-10 - \$5,272) in 2010.

During 2011, long-term debt added on acquisition of investment properties was \$399,874 (Q4-11 - \$40,928) and the balance drawn on the line of credit was increased to \$37,900. Artis obtained new or additional financing on existing properties of \$44,230.

At December 31, 2011, the REIT is a party to \$386,388 of variable rate debt, including the outstanding balance of bank indebtedness (December 31, 2010, \$183,584). At December 31, 2011, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$65,061 of variable rate debt (December 31, 2010, \$66,584). The variable rate debt less the portion protected by interest rate swaps is \$321,327 or 17.5% of total debt. The amount of variable rate debt on properties in the U.S. is \$254,993, which is not protected by interest rate swaps. Management is of the view that the interest rates in the U.S. are less likely to increase in the near term and interest rate swaps can be placed on top of these loans at any time.

The weighted-average term to maturity at December 31, 2011 is 4.0 years, compared to 4.8 years at December 31, 2010.

Convertible debentures:

Artis has five series of convertible debentures outstanding as at December 31, 2011, as follows:

	Issued	Maturity	Face rate	December 31, 2011		December 31, 2010	
				Carrying value	Face value	Carrying value	Face value
Series C	4-May-06	31-May-13	6.25%	\$ 30,593	\$ 29,920	\$ 30,833	\$ 29,920
Series D	30-Nov-07	30-Nov-14	5.00%	17,230	17,000	17,156	17,000
Series E	9-July-09	30-June-14	7.50%	14,093	9,333	19,857	13,994
Series F	22-Apr-10	30-June-20	6.00%	87,932	86,250	86,043	86,250
Series G	21-Apr-11	30-June-18	5.75%	85,898	89,496	-	-
				\$ 235,746	\$ 231,999	\$ 153,889	\$ 147,164

The carrying value of convertible debentures has increased by \$81,857 from December 31, 2010. This increase is due to the issuance of the Series G debentures during Q2-11 and net increase in the fair value of the debentures offset by the conversion of Series E convertible debentures.

Deferred tax liability:

The REIT believes that it has met the REIT Conditions throughout the three months and twelve months ended December 31, 2011 and the year ended December 31, 2010. In respect of assets and liabilities of the REIT and its flow through entities, the net book value of net assets for accounting purposes exceeds their tax basis by approximately \$412,084 at December 31, 2011 (December 31, 2010, \$89,008).

Other liabilities and bank indebtedness:

Included in other liabilities are security deposits paid by tenants, rents prepaid by tenants at December 31, 2011, accounts payable and accruals, as well as the December 31, 2011 distribution payable to unitholders of \$7,999, subsequently paid on January 13, 2012. Bank indebtedness relates to the balance drawn on the REIT's revolving term credit facility. At December 31, 2011, Artis had drawn \$37,900 on the credit facility in conjunction with 2010 and 2011 acquisitions. Amounts drawn on the facility 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.

UNITHOLDERS' EQUITY

Unitholders' equity increased overall by \$415,585 between December 31, 2011 and December 31, 2010. The increase was due to the issuance of units for \$171,433, the conversion of convertible debentures for \$6,863, income for the year of \$321,289 and other comprehensive income for the year of \$3,183. This increase was offset by the distributions made to unitholders of \$87,183.

LIQUIDITY AND CAPITAL RESOURCES

In 2011, Artis generated \$76,494 of cash flows from operating activities. Cash flows from operations assisted in funding distributions to unitholders of \$85,977 and for principal repayments on mortgages and loans of \$29,728.

Cash of \$40,920 was used for capital expenditures, tenant inducements and leasing costs compared to \$23,603 in 2010.

At December 31, 2011, Artis had \$94,094 of cash and cash equivalents on hand. Management anticipates that the cash on hand will be invested in investment properties in subsequent periods, used for working capital purposes or for debt repayment.

Artis has a revolving term credit facility for a total 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 utilized for general corporate purposes. The credit facility matures on September 28, 2012. As at December 31, 2011, the REIT had incurred bank indebtedness of \$37,900.

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 for the year ended December 31, 2011.

The REIT's management expects to meet all of its short-term obligations and capital commitments with respect to properties through funds generated from operations, from the proceeds of mortgage refinancing, from the issuance of new debentures or units, and from the available credit facility and cash on hand.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, unless otherwise noted)

CONTRACTUAL OBLIGATIONS

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Accounts payable and other liabilities	\$ 42,490	\$ 42,490	\$ -	\$ -	\$ -
Mortgages, loans and bank indebtedness	1,607,757	177,982	464,332	603,962	361,481
Convertible debentures ⁽¹⁾	231,999	-	56,253	-	175,746
Total	\$ 1,882,246	\$ 220,472	\$ 520,585	\$ 603,962	\$ 537,227

⁽¹⁾ 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.

At December 31, 2011, obligations due within one year include \$42,490 of accounts payable and other liabilities, \$107,206 of mortgages, \$37,900 drawn on the revolving term credit facility, and principal repayments on mortgages of \$32,876.

SUMMARIZED QUARTERLY INFORMATION

\$000's, except per unit amounts

	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10	Q1-10
Revenue	\$ 82,940	\$ 78,427	\$ 65,887	\$ 63,258	\$ 55,924	\$ 46,184	\$ 39,216	\$ 33,751
Property operating expenses	30,779	29,316	23,358	24,246	21,253	16,256	12,885	11,638
Property NOI	52,161	49,111	42,529	39,012	34,671	29,928	26,331	22,113
Interest income	517	599	714	750	914	668	515	452
	52,678	49,710	43,243	39,762	35,585	30,596	26,846	22,565
Expenses (income):								
Interest	21,943	21,336	18,988	16,675	15,617	14,443	17,110	22,271
Corporate	3,306	2,663	2,573	2,513	1,983	2,536	1,422	1,284
Foreign currency translation (gain) loss	(1,941)	5,131	(2,025)	103	2,488	553	(96)	-
	23,308	29,130	19,536	19,291	20,088	17,532	18,436	23,555
Income (loss) before other items	\$ 29,370	\$ 20,580	\$ 23,707	\$ 20,471	\$ 15,497	\$ 13,064	\$ 8,410	\$ (990)
Income tax recovery (expense)	10,707	(7,700)	(2,661)	123	(298)	-	-	-
Gain on disposal of investment properties	-	481	-	255	-	-	-	-
Transaction costs	(4,439)	(1,684)	(9,122)	(1,206)	(6,672)	(4,286)	(7,259)	(1,329)
Gain (loss) on financial instruments	(15,815)	16,785	(875)	(3,782)	4,841	(14,525)	16,155	(25,749)
Unrealized fair value gain (loss) on investment properties	46,916	35,043	47,975	116,160	11,214	14,434	11,188	(471)
Income (loss) for the period	\$ 66,739	\$ 63,505	\$ 59,024	\$ 132,021	\$ 24,582	\$ 8,687	\$ 28,494	\$ (28,539)
Other comprehensive income (loss):								
Unrealized foreign currency translation gain (loss)	\$ (2,967)	\$ 10,497	\$ (2,278)	\$ (2,069)	\$ (126)	\$ (184)	\$ -	\$ -
Comprehensive income (loss) for the period	\$ 63,772	\$ 74,002	\$ 56,746	\$ 129,952	\$ 24,456	\$ 8,503	\$ 28,494	\$ (28,539)
Basic income (loss) per unit	\$ 0.79	\$ 0.76	\$ 0.77	\$ 1.75	\$ 0.33	\$ 0.14	\$ 0.57	\$ (0.66)
Diluted income (loss) per unit	\$ 0.79	\$ 0.49	\$ 0.69	\$ 1.63	\$ 0.30	\$ 0.14	\$ 0.47	\$ (0.66)

The quarterly trend has been impacted by acquisition and disposition activity. Management anticipates there will be further growth in revenues and Property NOI as acquisitions completed in 2011 contribute to operating results.

Reconciliation of GAAP Income (Loss) to FFO:

000's, except per unit amounts

	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10	Q1-10
Income (loss) for the period	\$ 66,739	\$ 63,505	\$ 59,024	\$ 132,021	\$ 24,582	\$ 8,687	\$ 28,494	\$ (28,539)
Add amortization on:								
Tenant inducements amortized into revenue	1,246	1,199	1,094	1,020	950	904	483	447
Unrealized (gain) loss on financial instruments	15,917	(16,829)	720	3,589	(3,272)	14,525	(16,155)	25,749
Transaction costs on acquisitions	449	1,677	5,489	1,206	6,672	4,286	3,505	1,329
Unrealized fair value (gain) loss on investment properties	(46,916)	(35,043)	(47,975)	(116,160)	(11,214)	(14,434)	(11,188)	471
Distributions paid, included in interest	-	-	-	-	-	-	4,484	12,345
Gain on disposal of investment properties	-	(481)	-	(255)	-	-	-	-
Deferred tax expense (recovery)	(8,997)	6,817	1,790	(49)	201	-	-	-
Foreign currency translation (gain) loss	(1,941)	5,131	(2,025)	103	2,488	553	(96)	-
FFO for the period	\$ 26,497	\$ 25,976	\$ 18,117	\$ 21,475	\$ 20,407	\$ 14,521	\$ 9,527	\$ 11,802
Add back:								
Termination fee included in transaction costs ⁽¹⁾	4,000	-	-	-	-	-	-	-
Convertible debentures financing costs	(10)	7	3,633	-	-	-	3,754	-
Current tax expense (recovery)	(1,710)	883	871	(74)	97	-	-	-
(Gain) loss on equity securities	(102)	44	154	193	(1,569)	-	-	-
FFO for the period after adjustments	\$ 28,675	\$ 26,910	\$ 22,775	\$ 21,594	\$ 18,935	\$ 14,521	\$ 13,281	\$ 11,802
FFO per unit								
Basic	\$ 0.31	\$ 0.31	\$ 0.24	\$ 0.28	\$ 0.28	\$ 0.24	\$ 0.19	\$ 0.27
Diluted	\$ 0.31	\$ 0.30	\$ 0.24	\$ 0.28	\$ 0.27	\$ 0.24	\$ 0.19	\$ 0.27
FFO per unit after adjustments								
Basic	\$ 0.34	\$ 0.32	\$ 0.30	\$ 0.29	\$ 0.26	\$ 0.24	\$ 0.27	\$ 0.27
Diluted	\$ 0.33	\$ 0.31	\$ 0.29	\$ 0.28	\$ 0.25	\$ 0.24	\$ 0.26	\$ 0.27
Weighted-average number of units:								
Basic ⁽²⁾	84,172	83,380	76,173	75,613	74,012	60,493	50,097	43,105
Diluted ⁽²⁾	98,073	97,400	83,929	85,209	82,039	68,808	52,548	49,398

⁽¹⁾ On October 31, 2011, the REIT took over the property management operations for several of its properties in Winnipeg, Manitoba and paid a termination fee of \$4,000 to the prior third party property management company.

⁽²⁾ Options and convertible debentures are factored into the diluted weighted-average calculation, to the extent that their impact is dilutive.

The quarterly trend has been impacted by acquisition and disposition activity. Management anticipates there will be further growth in FFO as acquisitions completed in 2011 contribute to operating results.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, unless otherwise noted)

RELATED PARTY TRANSACTIONS

	Three month period ended		Year ended	
	December 31,		December 31,	
	2011	2010	2011	2010
Legal fees	\$ 212	\$ 620	\$ 1,481	\$ 2,756
Advisory fees	1,690	1,182	6,037	3,859
Acquisition fees	305	1,695	3,361	4,438
Property management fees	3,149	2,098	11,155	6,692
Recoverable property management salaries and wages	477	69	2,078	296
Capitalized leasing commissions	108	275	743	617
Capitalized building improvements	6,661	5,058	18,089	10,162
Capitalized tenant inducements	739	-	2,996	544
Property tax assessment consulting fees	160	34	224	92
Consulting fees	62	25	137	100

The REIT incurred legal fees with a law firm associated with a trustee of the REIT in connection with prospectus offerings, property acquisitions and general business matters. The amount payable at December 31, 2011 is \$200 (December 31, 2010, \$869).

The REIT incurred advisory fees and acquisition fees under the asset management agreement with Marwest Realty, a company owned and controlled by certain trustees and officers of the REIT. The amount payable at December 31, 2011 is \$567 (December 31, 2010, \$464). 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. On December 31, 2011, the REIT and Marwest Realty terminated the asset management agreement.

The REIT incurred property management fees, recoverable property management salaries and wages, leasing commission fees, and tenant improvement fees under the property management agreement with Marwest Management. The amount payable at December 31, 2011 is \$1,949 (December 31, 2010, \$390). 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. Under certain leases, Marwest Management is entitled to recover property management salaries and wages for properties managed directly. On December 31, 2011, the omnibus property management agreement was assigned to the REIT from Marwest Management which encompasses all investment properties owned by the REIT.

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, 2011 is \$354 (December 31, 2010, \$671).

The REIT incurred costs for property tax assessment consulting paid to Fairtax Realty Advocates, a company under control of close family members of key management personnel. The amount payable at December 31, 2011 is \$13 (December 31, 2010, \$nil).

The consulting fees represent work performed by Marwest Realty on IFRS accounting work and engineering services performed by a firm controlled by a trustee of the REIT.

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

OUTSTANDING UNIT DATA

The balance of units outstanding as of March 14, 2012 is as follows:

Units outstanding at December 31, 2011	88,872,905
Units offering	5,750,000
Units issued (DRIP)	157,919
Units issued on exercise of options	19,875
Units issued on conversion of debentures	126,119
Units outstanding at March 14, 2012	94,926,818

The balance of options outstanding as of March 14, 2012 is as follows:

	Options outstanding	Options exercisable
\$11.28 options, issued February 25, 2010	225,625	91,250
\$13.30 options, issued September 10, 2010	391,250	95,000
\$13.44 options, issued October 15, 2010	391,500	95,250
\$14.10 options, issued June 17, 2011	1,130,000	-
	2,138,375	281,500

2012 OUTLOOK

According to the Scotiabank Global Economic Research report of February 2012, real GDP in Canada is forecast to grow 1.9% in 2012. Forecast GDP growth for the Canadian provinces where Artis owns properties is also positive, as follows: Manitoba, 2.2%; Saskatchewan, 2.9%; Alberta, 3.1%; British Columbia, 2.1% and Ontario, 1.7%. Artis has also selectively diversified into geographical areas where GDP growth is anticipated to be strong.

Artis anticipates that 2012 will be another year of significant portfolio growth. We continue to target high quality retail, office and industrial assets primarily in western Canada, as well as in Ontario and select markets in the U.S. Access to capital is expected to remain strong as investors continue to seek investment products with a stable distribution yield, such as REIT units. We also expect to continue enjoying the benefits of a stable, low interest-rate environment. In this environment, Artis expects that a minimum of \$400,000 of accretive acquisitions in our established markets will be completed in 2012. We remain committed to growing our portfolio while slowly reducing our overall debt to gross book value ratio over the course of the year. Economic fundamentals remain strong, which we anticipate will translate into solid same property growth and improvements in market rent rate expectations in certain key markets, such as Calgary office and Minneapolis industrial, and stable or improving occupancy across the portfolio.

As at December 31, 2011, Artis had \$94,094 of cash and cash equivalents on hand and \$22,100 available on the line of credit. Subsequent to December 31, 2011, the following transactions took place:

- On January 1, 2012, the REIT fully internalized the asset management functions.
- On January 1, 2012, the REIT internalized the property management operations for 78 properties that were previously directly managed by Marwest Management.
- On January 3, 2012, the REIT refinanced a mortgage on a retail property in Calgary, Alberta, obtaining additional proceeds of \$5,691.
- On January 26, 2012, the REIT issued 5,750,000 units at a price of \$15.05 per unit for aggregate gross proceeds of \$86,538 (inclusive of 750,000 units issued pursuant to the exercise in full of the underwriter's over-allotment option).
- On January 31, 2012, the REIT acquired the North 48 Commercial Complex which is located in Saskatoon, Saskatchewan. The office property was acquired for \$18,400 and the purchase price was satisfied with cash.
- On February 1, 2012, the REIT repaid a maturing mortgage on an office property in Winnipeg, Manitoba in the amount of \$2,750.
- On February 3, 2012, the REIT repaid the balance drawn on the revolving term credit facility.
- On February 13, 2012, the REIT announced that it intends to redeem all of its outstanding Series C convertible debentures effective March 15, 2012.
- On February 24, 2012, the REIT acquired the Aluma Systems Building which is located in Edmonton, Alberta. The industrial property was acquired for \$17,495 and the purchase price was satisfied with cash.
- The REIT has an agreement with respect to the acquisition of a property located in Arizona. The purchase price of the property is US\$75,000. The REIT anticipates that the acquisition will close in March of 2012, and will be financed through a combination of cash consideration and new mortgage financing.
- The REIT has an agreement with respect to the acquisition of a property located in Manitoba. The purchase price of the property is \$32,000. The REIT anticipates that the acquisition will close in April of 2012, and will be financed through a combination of cash consideration and new mortgage financing.
- Distributions in the amount of \$0.09 per unit for each of January 2012 and February 2012 were declared subsequent to December 31, 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, unless otherwise noted)

RISKS AND UNCERTAINTIES

REAL ESTATE OWNERSHIP

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. The REIT's properties are located in five Canadian provinces and four U.S. states, with a significant majority of its properties, measured by GLA, located in the province of Alberta. As a result, our properties are impacted by factors specifically affecting their respective real estate markets. These factors may differ from those affecting the real estate markets in other regions of Canada and the U.S.

INTEREST RATE AND DEBT FINANCING

Artis will be subject to the risks associated with debt financing. There can be no assurance that Artis will be able to refinance its existing indebtedness on terms that are as or more favourable to Artis as the terms of existing indebtedness. The inability to replace financing of debt on maturity would have an adverse impact on the financial condition and results of Artis.

Management seeks to mitigate this risk in a variety of ways. First, management considers structuring the timing of the renewal of significant tenant leases on properties in relation to the time at which mortgage indebtedness on such property becomes due for refinancing. Second, management seeks to secure financing from a variety of lenders on a property by property basis. Third, mortgage terms are, where practical, structured such that the exposure in any one year to financing risks is balanced.

Artis is also subject to interest rate risk associated with the REIT's revolving term credit facility, mortgages and unsecured debentures payable due to the expected requirement to refinance such debts in the year of maturity. The REIT 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. At December 31, 2011, the REIT is a party to \$386,388 of variable rate debt, including the outstanding balance of bank indebtedness (December 31, 2010, \$183,584). At December 31, 2011, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$65,061 of variable rate debt (December 31, 2010, \$66,584).

The REIT's ratio of mortgages, loans and bank indebtedness to GBV is 50.7%, down from 52.6% at December 31, 2010. Approximately 7.7% of Artis' maturing mortgage debt comes up for renewal in 2012, and 13.0% in 2013. Management is in discussion with various lenders with respect to the renewal or refinancing of the 2012 mortgage maturities.

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. Artis' portfolio includes over 1,787 tenant leases with a weighted-average term to maturity of 5.6 years. Approximately 63.8% of the REIT's portfolio was occupied by national or government tenants. As indicated below, the largest tenant by gross revenue is MTS Allstream, one of Canada's leading national communication companies providing voice services, internet and data services, and television. MTS Allstream is a TSX listed entity with 2010 annual revenues in excess of \$1.7 billion. The second largest tenant by gross revenue is AMEC Americas Ltd, a global supplier of consultancy, engineering and project management services to energy, power and process industries with a market capitalization of over £3.5 billion.

Top Twenty Tenants By Gross Revenue

Tenant	% of Total Gross Revenue	GLA (in 000's of s.f.)	% of Total GLA	Weighted-Average Remaining Lease Term
MTS Allstream	2.7%	322	1.9%	11.2
AMEC Americas Ltd.	2.7%	200	1.2%	1.7
TransAlta Corporation	1.6%	336	2.0%	11.4
Shoppers Drug Mart	1.2%	136	0.8%	5.1
IHS Energy (Canada) Ltd.	1.2%	78	0.5%	5.8
Sobeys	1.1%	190	1.1%	9.2
PMC - Sierra	1.1%	148	0.9%	4.7
Home Depot	1.1%	95	0.6%	7.8
3M Canada Company	1.1%	319	1.9%	8.3
Fairview Health Services	1.1%	179	1.1%	11.7
Birchcliff Energy	1.0%	59	0.3%	5.9
ABB Body-In-White	1.0%	313	1.8%	2.7
Credit Union Central	0.9%	90	0.5%	10.0
TD Bank	0.9%	91	0.5%	8.4
Bell Canada	0.9%	76	0.4%	4.5
Sports Alliance of Ontario	0.8%	85	0.5%	12.5
Cineplex Entertainment LP	0.8%	107	0.6%	10.9
Data Sciences International	0.8%	116	0.7%	8.5
Q9 Networks Inc.	0.8%	35	0.2%	4.7
Deloitte & Touche	0.8%	76	0.4%	7.8
Total	23.6%	3,051	17.9%	7.9

Government Tenants By Gross Revenue

Tenant	% of Total Gross Revenue	GLA (in 000's of s.f.)	% of Total GLA	Weighted-Average Remaining Lease Term
Federal Government	2.6%	305	1.8%	3.7
Provincial Government	3.1%	332	2.0%	3.0
Civic or Municipal Government	0.7%	122	0.7%	16.8
Total	6.4%	759	4.5%	5.7
Weighted-average term to maturity (entire portfolio)				5.6

LEASE ROLLOVER RISK

The value of investment 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. A contraction in the Canadian or U.S. economy would negatively impact demand for space in retail, office and industrial properties, consequently increasing the risk that leases expiring in the near term will not be renewed.

Details of the portfolio's expiry schedule is as follows:

Expiry Year	Canada					U.S.			Total
	AB	BC	MB	SK	ON	Calgary Office Only	MN	Other	
2012	2.4%	0.9%	3.0%	0.6%	0.9%	1.0%	1.0%	0.0%	8.8%
2013	3.7%	1.4%	3.2%	0.8%	0.4%	2.0%	1.8%	0.1%	11.4%
2014	3.0%	1.1%	3.8%	0.5%	2.0%	0.4%	2.0%	0.2%	12.6%
2015	2.3%	1.2%	2.8%	0.4%	0.6%	0.3%	3.7%	0.0%	11.0%
2016	4.5%	0.4%	2.0%	0.4%	0.8%	0.6%	2.7%	0.0%	10.8%
2017 & later	12.5%	3.5%	4.9%	2.6%	6.4%	3.8%	6.6%	3.1%	39.6%
Month-to-month	0.3%	0.1%	0.2%	0.1%	0.1%	0.3%	0.1%	0.0%	0.9%
Vacant	0.8%	0.9%	0.6%	0.1%	0.5%	0.4%	2.0%	0.0%	4.9%
Total	29.5%	9.5%	20.5%	5.5%	11.7%		19.9%	3.4%	100.0%

Artis' real estate is diversified across five Canadian provinces and four U.S. states, and across the office, retail and industrial asset classes. By city and asset class, the three largest segments of the REIT's portfolio by GLA are Minneapolis industrial properties, Winnipeg industrial properties, and Calgary office properties.

In total, 56.2% of the 2012 and 26.8% of the 2013 leasing programs are complete, and the retention ratio at the end of 2011 was 78.2%.

TAX RISK

On June 22, 2007, the SIFT Rules (discussed in more detail above under the heading "Income Tax Expense") were enacted. Under the 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 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. Prior to the end of 2008, the REIT undertook various restructuring activities in order to attempt to meet the requirements of the REIT Conditions, and the REIT intends to comply with the REIT Conditions so that the SIFT Rules will not apply to the REIT in 2009 and subsequent years. The REIT believes that it has met the REIT Conditions throughout the three months and twelve months ended December 31, 2011 and the year ended December 31, 2010. There can be no assurances, however, that the REIT will continue to be able to satisfy the REIT Conditions in the future such that the REIT will not be subject to the tax imposed by the SIFT Rules.

The REIT operates in the United States through a U.S. REIT (Artis US Holdings Inc.) which is primarily capitalized by the REIT by way of equity, debt in the form of notes owed to the REIT and preferred shares. As at December 31, 2011, Artis US Holdings Inc. owes \$49.2 million to the REIT which is eliminated on consolidation of the financial statements.

The notes have been recorded as a liability for U.S. federal income tax purposes. If the Internal Revenue Service ("IRS") or a court were to determine that the notes should be treated as equity rather than debt for tax purposes, the interest on the notes would become taxable as a dividend, and therefore would not be deductible for U.S. federal income tax purposes. In addition, if the IRS were to determine that the interest rate on the notes did not represent an arm's length rate, any excess amount over arm's length would not be deductible and would be taxed as a dividend payment instead of an interest payment. This would increase the U.S. federal income tax liability of the REIT. In addition, the REIT could be subject to penalties. The increase in the tax liability could adversely affect Artis US Holdings Inc.'s ability to make payments on the notes or the REIT's ability to make distribution on its units.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, unless otherwise noted)

FOREIGN CURRENCY RISK

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

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, 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 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.

CRITICAL ACCOUNTING ESTIMATES

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

VALUATION OF INVESTMENT PROPERTIES

Investment properties include properties held to earn rental income and properties that are being constructed or developed for future use as investment properties. Investment properties are measured at fair value with any changes therein recognized in income or loss for the year. Artis determines the fair value of investment properties based upon a combination of generally accepted appraisal methodologies: the discounted cash flow method and the overall capitalization method. Under the discounted cash flow method, expected future cash flows for each investment property were discounted, generally over a term of 10 years, using weighted-average rates of approximately 8.79% at January 1, 2010, 8.60% at December 31, 2010 and 8.02% at December 31, 2011. Expected future cash flows for each investment property have been based upon, but not limited to, rental income from current leases, budgeted and actual expenses, and assumptions about rental income from future leases. Under the overall capitalization method, year one income was stabilized and capped at weighted-average capitalization rates of approximately 7.69% at January 1, 2010, 7.74% at December 31, 2010 and 7.08% at December 31, 2011.

Investment properties under construction include initial acquisition costs, other direct costs and borrowing costs during the period of development. The REIT considers practical completion to have occurred when the property is capable of being operated in the manner intended by management.

VALUATION OF CONVERTIBLE DEBENTURES

Under IFRS, the REIT records convertible debentures as a liability at fair value. 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. The discount rate applied to the cash flows is determined by management.

VALUATION OF DEFERRED TAX ASSETS AND LIABILITIES

The REIT currently qualifies as a mutual fund trust for Canadian income tax purposes. On June 22, 2007, new legislation relating to, among other things, the federal income taxation of a specified investment flow-through trust or partnership (a "SIFT") was enacted (the "SIFT Rules"). The REIT has reviewed the 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 SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the three months and twelve months ended December 31, 2011 and the year ended December 31, 2010.

CHANGES IN ACCOUNTING POLICIES

IFRS 7 - *Financial Instruments: Disclosures* ("IFRS 7"), as amended by the IASB in October 2010, requires entities to provide the disclosures for all transferred financial assets that are not derecognized and for a continuing involvement in a transferred financial asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. The amendment is effective for annual periods beginning on or after January 1, 2012. IFRS 7 was further amended by the IASB in December 2011. The amendment requires entities to provide disclosures related to offsetting financial assets and liabilities. The amendment is effective for annual periods beginning on or after January 1, 2014.

IFRS 9 - *Financial Instruments* ("IFRS 9") was issued by the IASB in November 2009 and will replace IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. IFRS 9 was amended by the IASB in October 2010 to provide guidance on the classification and reclassification of financial liabilities, their measurement, and the presentation of gains and losses on financial liabilities designated as at fair value through profit and loss. When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the credit risk of the instrument must be recognized in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

In May 2011, the IASB issued IFRS 10 - *Consolidated Financial Statements* ("IFRS 10"), IFRS 11 - *Joint Arrangements* ("IFRS 11") and IFRS 12 - *Disclosure of Interests in Other Entities* ("IFRS 12"). IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 - *Consolidated and Separate Financial Statements* and SIC-12 - *Consolidation - Special Purpose Entities*. IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 - *Interests in Joint Ventures* and SIC-13 - *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new standards, the IASB also issued amended and retitled IAS 27 - *Separate Financial Statements* and IAS 28 - *Investments in Associates and Joint Ventures*. The new requirements are effective for annual periods beginning on or after January 1, 2013.

IFRS 13 - *Fair Value Measurement* ("IFRS 13") defines fair value, sets out in a single standard a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other standards require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after January 1, 2013.

IAS 12 - *Income Taxes* ("IAS 12") was amended by the IASB in December 2010. The amendment provides a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model, based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The amendment is effective for annual periods beginning on or after January 1, 2012.

The REIT is currently evaluating the impact of these new and amended standards on its financial statements.

CONTROLS AND PROCEDURES

On October 1, 2010, the Canadian Securities Administrators implemented amendments to National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") effective January 1, 2011, with the primary purpose of accommodating the transition to IFRS. The amendments replaced previous GAAP terms and phrases with IFRS terms and phrases.

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 IFRS. 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 NI 52-109) for the year ended December 31, 2011.

The conversion to IFRS from previous GAAP impacts the REIT's presentation of financial results and the accompanying disclosure. Artis has assessed its internal controls over financial reporting, and has determined that the most significant change to the REIT's internal control environment relates to its IFRS accounting policy election to measure investment properties at fair value. This change required Artis to design and implement new processes and internal controls surrounding the development of fair values for investment properties.

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.

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, 2011, 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 NI 52-109). 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 for the year ended December 31, 2011.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS



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 International Financial Reporting Standards 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.

Handwritten signature of Armin Martens in black ink.

Armin Martens, P.Eng., MBA
President and Chief Executive Officer
March 14, 2012

Handwritten signature of Jim Green in black ink.

Jim Green, CA
Chief Financial Officer
March 14, 2012



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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, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of operations, consolidated statements of changes in unitholders' equity and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, 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 International Financial Reporting Standards, 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, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Chartered Accountants
March 14, 2012
Winnipeg, Manitoba

CONSOLIDATED BALANCE SHEETS

As at December 31, 2011 and 2010

(In thousands of Canadian dollars)	December 31, 2011	December 31, 2010 (note 27)	January 1, 2010 (note 27)
ASSETS			
Non-current assets:			
Investment properties (note 4)	\$ 3,003,604	\$ 2,052,780	\$ 1,111,586
Investment properties under construction (note 4)	20,463	5,405	–
Other assets (note 5)	311	348	434
Notes receivable (note 6)	23,752	23,788	27,133
	3,048,130	2,082,321	1,139,153
Current assets:			
Deposits on investment properties	5,614	16,081	1,350
Prepaid expenses	5,150	3,040	2,613
Notes receivable (note 6)	1,685	3,354	1,929
Accounts receivable and other receivables	11,876	6,510	3,434
Investment in equity securities	–	11,184	–
Cash held in trust	1,039	782	355
Cash and cash equivalents	94,094	88,324	35,907
	119,458	129,275	45,588
	\$ 3,167,588	\$ 2,211,596	\$ 1,184,741
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities:			
Mortgages and loans payable (note 7)	\$ 1,428,334	\$ 1,097,402	\$ 541,857
Convertible debentures (note 8)	235,746	153,889	100,193
Deferred taxes (note 19)	–	201	–
Trust unit and preferred share liabilities	78	–	426,645
	1,664,158	1,251,492	1,068,695
Current liabilities:			
Mortgages and loans payable (note 7)	139,065	58,690	70,406
Convertible debentures (note 8)	–	–	3,032
Trust unit liabilities	–	–	360
Security deposits and prepaid rent	14,160	9,494	4,572
Accounts payable and other liabilities (note 9)	42,490	29,690	14,390
Bank indebtedness (note 10)	37,900	8,000	30,700
	233,615	105,874	123,460
	1,897,773	1,357,366	1,192,155
Unitholders' equity (deficit)	1,269,815	854,230	(7,414)
Commitments and guarantees (note 22)			
Subsequent events (note 25)			
	\$ 3,167,588	\$ 2,211,596	\$ 1,184,741

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2011 and 2010

(In thousands of Canadian dollars, except unit and per unit amounts)	2011		2010 (note 27)	
Revenue (note 13)	\$	290,512	\$	175,075
Property operating expenses		107,699		62,032
		182,813		113,043
Interest income		2,580		2,549
		185,393		115,592
Expenses:				
Interest		78,942		69,441
Corporate		11,055		7,225
Foreign currency translation loss		1,268		2,945
		91,265		79,611
Income before other items		94,128		35,981
Income tax recovery (expense) (note 19)		469		(298)
Transaction costs (note 14)		(16,451)		(19,546)
Loss on financial instruments (note 15)		(3,687)		(19,278)
Gain on disposal of investment properties (note 3)		736		–
Unrealized fair value gain on investment properties (note 4)		246,094		36,365
Income for the year		321,289		33,224
Other comprehensive income (loss):				
Unrealized foreign currency translation gain (loss)		3,183		(310)
Comprehensive income for the year	\$	324,472	\$	32,914
Basic income per unit (note 11 (c))	\$	4.02	\$	0.58
Diluted income per unit (note 11 (c))	\$	3.60	\$	0.58
Weighted-average number of units outstanding:				
Basic (note 11 (c))		79,867,112		57,000,720
Diluted (note 11 (c))		92,413,015		57,000,720

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

Years ended December 31, 2011 and 2010

(In thousands of Canadian dollars, except unit amounts)	Number of units	Capital contributions	Equity (deficit)	Accumulated other comprehensive (loss) income	Total
Unitholders' deficit, January 1, 2010 (note 27)	–	\$ –	\$ (7,414)	\$ –	\$ (7,414)
Reclassification of trust unit liabilities to equity	50,076,978	575,885	–	–	575,885
Issuance of units, net of issue costs	24,058,272	282,804	–	–	282,804
Conversion of convertible debentures	1,342,058	16,545	–	–	16,545
Income for the year	–	–	33,224	–	33,224
Other comprehensive loss for the year	–	–	–	(310)	(310)
Distributions for the year	–	–	(46,504)	–	(46,504)
Unitholders' equity, December 31, 2010 (note 27)	75,477,308	875,234	(20,694)	(310)	854,230
Issuance of units, net of issue costs	12,894,439	171,433	–	–	171,433
Conversion of convertible debentures	501,158	6,863	–	–	6,863
Income for the year	–	–	321,289	–	321,289
Other comprehensive income for the year	–	–	–	3,183	3,183
Distributions for the year	–	–	(87,183)	–	(87,183)
Unitholders' equity, December 31, 2011	88,872,905	\$ 1,053,530	\$ 213,412	\$ 2,873	\$ 1,269,815

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2011 and 2010

(In thousands of Canadian dollars)	2011	2010 (note 27)
Cash provided by (used in):		
Operating activities:		
Income for the year	\$ 321,289	\$ 33,224
Adjustments for non-cash items:		
Unrealized fair value gain on investment properties	(246,094)	(36,365)
Depreciation of office equipment and software	120	114
Amortization:		
Tenant inducements amortized to revenue	4,559	2,784
Above- and below-market mortgages, net	(862)	(370)
Straight-line rent adjustment	(5,514)	(2,841)
Unrealized foreign currency translation loss	2,340	193
Gain on disposal of investment properties	(736)	-
Unrealized fair value loss on financial instruments	4,966	19,278
Unit-based compensation expense	926	588
Accretion of financing costs included in interest	1,974	1,048
Deferred tax (recovery) expense	(439)	201
	82,529	17,854
Additions to tenant inducements	(8,666)	(10,043)
Changes in non-cash operating items (note 16)	2,631	16,376
	76,494	24,187
Investing activities:		
Acquisition of investment properties, net of related debt	(278,129)	(323,560)
Proceeds from disposition of investment properties, net of costs and related debt	8,146	-
Additions to investment properties	(8,333)	(5,606)
Additions to investment properties under construction	(19,608)	(5,405)
Purchase of investment in equity securities	(5,683)	(9,615)
Proceeds from sale of equity securities	15,298	-
Notes receivable principal repayments	1,705	1,920
Net change to office equipment and software	(83)	(27)
Additions to leasing costs	(4,313)	(2,549)
Change in deposits on investment properties	10,599	(14,731)
	(280,401)	(359,573)
Financing activities:		
Issuance of units, net of issue costs	171,357	393,797
Issuance of convertible debentures	83,767	86,250
Repayment on convertible debentures	-	(2,893)
Change in bank indebtedness	29,900	(22,700)
Distributions paid on REIT units	(85,977)	(46,504)
Mortgages and loans principal repayments	(29,728)	(16,933)
Repayment of mortgages and loans payable	(4,828)	(37,636)
Advance of mortgages and loans payable	44,230	34,547
Issuance of preferred shares	78	-
	208,799	387,928
Foreign exchange gain (loss) on cash held in foreign currency	878	(125)
Increase in cash and cash equivalents	5,770	52,417
Cash and cash equivalents at beginning of year	88,324	35,907
Cash and cash equivalents at end of year	\$ 94,094	\$ 88,324
Supplemental cash flow information:		
Interest paid, net of interest received	\$ 74,094	\$ 47,835
Taxes paid	152	-
Distributions paid on REIT units, included in interest	-	16,828

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2011 and 2010
(In thousands of Canadian dollars, except unit and per unit amounts)

1. ORGANIZATION:

Artis Real Estate Investment Trust (the "REIT") is an unincorporated open-end real estate investment trust (note 11) 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, May 14, 2010 and May 19, 2011 (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 registered office of the REIT is 360 Main Street, Suite 300, Winnipeg, Manitoba, R3C 3Z3.

The Declaration of Trust provides that the REIT may make cash distributions to unitholders of the REIT's units. The amount distributed annually (currently \$1.08 per unit) will be set by the Trustees.

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the REIT's first consolidated financial statements prepared in accordance with IFRS, and IFRS 1 - *First Time Adoption of International Financial Reporting Standards* ("IFRS 1") has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, operating results and cash flows of the REIT is provided in note 27.

(b) Principles of consolidation:

The consolidated financial statements include the accounts of the REIT and entities controlled by the REIT (its subsidiaries), together with its share of the assets, liabilities, revenue and expenses of jointly controlled assets.

(c) Basis of presentation and measurement:

The consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars rounded to the nearest thousand. The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements and in preparing the opening IFRS balance sheet at January 1, 2010. Standards issued but not yet effective for the current accounting period are described in note 2 (r).

The consolidated financial statements are prepared on the historical cost basis with the exception of investment properties, investment in equity securities, derivative financial instruments, convertible debentures, and the liabilities related to trust units and cash-settled unit-based payments, which are measured at fair value.

(d) Translation of foreign currencies:

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the REIT.

Assets and liabilities of 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 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 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.

(e) 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 assets are classified as one of: (a) at fair value through profit or loss; (b) held-to-maturity; (c) loans and receivables; or (d) available-for-sale. Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. All financial liabilities are classified as either: (a) at fair value through profit or loss; or (b) other liabilities. Financial assets and liabilities classified as at fair value through profit or loss 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 assets 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, notes receivable, and accounts receivable and other receivables as loans and receivables; mortgages and loans payable, preferred share liabilities, accounts payable and other liabilities and bank indebtedness as other liabilities; and investment in equity securities, convertible debentures and trust unit liabilities as at fair value through profit or loss. The REIT does not hold any financial instruments classified as held-to-maturity or available-for-sale.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, with the exception of those classified as at fair value through profit or loss, 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. Transaction costs directly attributable to the acquisition or issuance of financial assets or liabilities classified as at fair value through profit or loss are recognized immediately in net income.

All derivative instruments, including embedded derivatives, are classified as at fair value through profit or loss and are recorded on the consolidated balance sheet at fair value.

Financial assets, other than those classified as at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

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 market 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.

(f) Investment properties:

Investment properties include properties held to earn rental income and properties that are being constructed or developed for future use as investment properties. Investment properties are measured at fair value with any changes therein recognized in profit or loss for the period.

Investment properties under construction include initial acquisition costs and other direct costs during the period of development. The REIT considers practical completion to have occurred when the property is capable of being operated in the manner intended by management.

A property acquisition is accounted for as a business combination using the acquisition method if the assets acquired and liabilities assumed constitute a business, and the REIT obtains control of the business. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities assumed at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition. The REIT recognizes assets or liabilities, if any, resulting from a contingent consideration arrangement at their acquisition date fair value and such amounts form part of the cost of the business combination. Subsequent changes in the fair value of contingent consideration arrangements are recognized in profit or loss for the period.

Leasing costs, such as commissions, and straight-line rent receivable are included in the carrying amount of investment properties.

Payments to tenants under lease obligations are included in the carrying amount of investment properties. Payments that are determined to primarily benefit the tenant are treated as tenant inducements that reduce revenue. Tenant inducements are amortized on a straight-line basis over the term of the lease.

Investment properties held under operating leases are recognized in the REIT's consolidated balance sheet at fair value.

Investment properties are reclassified to assets held for sale when the criteria set out in IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations* are met.

(g) Other assets:

Office equipment and software are carried at cost less accumulated depreciation, and are depreciated on a straight-line basis over their estimated useful life of five years. The estimated useful life, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimates accounted for on a prospective basis.

(h) Assets held for sale:

Non-current assets, or disposal groups comprising assets and liabilities, are categorized as held for sale at the point in time when the asset or disposal group is available for immediate sale, management has committed to a plan to sell and is actively locating a buyer 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. Investment properties measured under the fair value model and held for sale continue to be measured by the guidelines of IAS 40 - *Investment Property*. All other

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2011 and 2010
(In thousands of Canadian dollars, except unit and per unit amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(h) Assets held for sale (continued):

assets held for sale are stated at the lower of their carrying amount and fair value less selling costs. An asset that is subsequently reclassified as held and in use, with the exception of an investment property measured under the fair value model, is measured at the lower of its recoverable amount and the carrying amount that would have been recognized had the asset never been classified as held for sale.

The results of operations associated with disposal groups sold, or classified as held for sale, are reported separately as profit or loss from discontinued operations.

(i) Cash and cash equivalents:

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

(j) Provisions:

A provision is recognized if, as a result of a past event, the REIT has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are remeasured at each balance sheet date using the current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the REIT has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

(k) Revenue recognition:

The REIT has retained substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases. Revenue from investment properties includes rents earned from tenants under lease agreements, percentage rent, realty tax and operating cost recoveries and other incidental income and is recognized as revenue over the term of the underlying leases. All rent steps in lease agreements are accounted for on a straight-line basis over the term of the respective leases. Percentage rent is not recognized until a tenant is obligated to pay such rent.

(l) Jointly controlled assets:

The REIT carries out a portion of its activities through co-ownership agreements and records its share of assets, liabilities, revenues, expenses and cash flows of these jointly controlled assets.

(m) Earnings per unit:

Basic earnings per REIT unit is computed by dividing net earnings by the weighted-average units outstanding during the reporting period. Diluted earnings per unit is calculated based on the weighted-average number of units outstanding during the period, plus the effect of dilutive unit equivalents. The diluted per unit amounts for unit-based compensation 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 period, or the date 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 period. The diluted per unit amounts for convertible debentures are calculated using the if-converted method, whereby conversion is not assumed for the purposes of computing diluted earnings per unit if the effect is antidilutive.

(n) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Deferred taxes are accounted for using the asset and liability method. Under this method, deferred taxes are recognized for the expected deferred tax consequences of temporary differences between the carrying amount of balance sheet items and their corresponding tax values. Deferred 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 deferred tax assets is not probable, a valuation allowance is provided for the difference.

(o) Discontinued operations:

A discontinued operation is a component of the REIT's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(p) Unit-based compensation:

The REIT may issue unit-based awards to trustees, management, management company employees and consultants. For cash-settled unit-based payment transactions, a liability is recognized and measured initially at fair value by applying an option pricing model. The liability is remeasured to fair value at each reporting date and at settlement date. Any change in the fair value of the liability is recognized as compensation expense for the period.

(q) Use of estimates and judgments:

The preparation of the consolidated financial statements requires management to make estimates, assumptions and judgments 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 period. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts reported in the consolidated financial statements are as follows:

- Accounting for business combinations - The REIT's accounting policy relating to business combinations is described in note 2 (f). Judgment is applied in determining whether property acquisitions constitute the purchase of a business or the purchase of assets.
- Accounting for tenant inducements - The REIT's accounting policy relating to tenant inducements is described in note 2 (f). The REIT makes judgments with respect to whether tenant inducements provided in connection with a lease enhance the value of the leased property which determines whether such amounts are treated as capital expenditures.
- Capitalized cost of investment properties under construction - The REIT's accounting policy relating to investment properties under construction is described in note 2 (f). Judgment is applied in identifying the point at which practical completion of the investment property under construction occurs.
- Classification of leases - The REIT's accounting policy for revenue recognition is described in note 2 (k). The REIT makes judgments in determining whether certain leases are operating or finance leases. The REIT determined that all of its leases are operating leases.

Information about assumptions and estimation uncertainties that are critical to the determination of the amounts reported in the consolidated financial statements are as follows:

- Valuation of investment properties - The fair value of investment properties represents an estimate of the price that would be agreed upon between knowledgeable, willing parties in an arm's length transaction. The critical estimates and assumptions underlying the valuation of investment properties are described in note 4.
- Valuation of deferred tax liabilities and assets - The critical estimates and assumptions underlying the valuation of deferred tax liabilities and assets are described in note 19.
- Allowance for doubtful accounts - The critical estimates and assumptions underlying the value of the allowance for doubtful accounts are described in note 24 (a)(ii).
- Fair value of financial instruments - The fair value of financial instruments is estimated as the amount for which an instrument could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. The critical estimates and assumptions underlying the fair value of financial instruments are described in note 24 (b).

(r) Future changes in accounting policies:

IFRS 7 - *Financial Instruments: Disclosures* ("IFRS 7"), as amended by the IASB in October 2010, requires entities to provide the disclosures for all transferred financial assets that are not derecognized and for a continuing involvement in a transferred financial asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. The amendment is effective for annual periods beginning on or after January 1, 2012. IFRS 7 was further amended by the IASB in December 2011. The amendment requires entities to provide disclosures related to offsetting financial assets and liabilities. The amendment is effective for annual periods beginning on or after January 1, 2014.

IFRS 9 - *Financial Instruments* ("IFRS 9") will replace IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. IFRS 9 was amended by the IASB in October 2010 to provide guidance on the classification and reclassification of financial liabilities, their measurement, and the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss. When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the credit risk of the instrument must be recognized in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2011 and 2010
(In thousands of Canadian dollars, except unit and per unit amounts)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(r) Future changes in accounting policies (continued):

In May 2011, the IASB issued IFRS 10 - *Consolidated Financial Statements* ("IFRS 10"), IFRS 11 - *Joint Arrangements* ("IFRS 11") and IFRS 12 - *Disclosure of Interests in Other Entities* ("IFRS 12"). IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 - *Consolidated and Separate Financial Statements* and SIC-12 - *Consolidation - Special Purpose Entities*. IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 - *Interests in Joint Ventures* and SIC-13 - *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new standards, the IASB also issued amended and retitled IAS 27 - *Separate Financial Statements* and IAS 28 - *Investments in Associates and Joint Ventures*. The new requirements are effective for annual periods beginning on or after January 1, 2013.

IFRS 13 - *Fair Value Measurement* ("IFRS 13") defines fair value, sets out in a single standard a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other standards require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after January 1, 2013.

IAS 12 - *Income Taxes* ("IAS 12") was amended by the IASB in December 2010. The amendment provides a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model, based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The amendment is effective for annual periods beginning on or after January 1, 2012.

The REIT is currently evaluating the impact of these new and amended standards on its financial statements.

3. ACQUISITIONS AND DISPOSITIONS OF INVESTMENT PROPERTIES:

Acquisitions:

The REIT acquired the following properties during the year ended December 31, 2011:

Property	Location	Acquisition date	Type
ADT Building	Calgary, AB	January 7, 2011	Industrial
Dominion Construction Building	Calgary, AB	January 7, 2011	Industrial
EMC Building	Edmonton, AB	February 28, 2011	Office
Stinson Office Park	Minneapolis, MN	March 31, 2011	Office
Minneapolis Industrial Portfolio ⁽¹⁾	Minneapolis, MN	March 31, 2011	Industrial
Cara Foods Building ⁽²⁾	Vaughan, ON	April 15, 2011	Office
3M Distribution Facility	Toronto, ON	April 29, 2011	Industrial
1165 Kenaston	Ottawa, ON	May 27, 2011	Office
Victoria Square Shopping Centre	Regina, SK	May 31, 2011	Retail
Ryan Retail Portfolio ⁽³⁾	Minneapolis, MN	May 31, 2011	Retail
605 Waterford Park	Minneapolis, MN	June 1, 2011	Office
McGillivray Cineplex	Winnipeg, MB	June 10, 2011	Retail
415 Yonge Street	Toronto, ON	June 28, 2011	Office
Union Hills Office Plaza	Phoenix, AZ	June 30, 2011	Office
201 Westcreek Boulevard	Toronto, ON	June 30, 2011	Industrial
Plymouth Corporate Campus	Minneapolis, MN	July 6, 2011	Industrial
Stampede Station	Calgary, AB	July 26, 2011	Office
MTS Place	Winnipeg, MB	August 31, 2011	Office
7499 East Paradise Lane	Phoenix, AZ	September 15, 2011	Industrial
Two MarketPointe	Minneapolis, MN	December 22, 2011	Office

⁽¹⁾ The second tranche of the Minneapolis Industrial Portfolio is comprised of 9 multi-tenant properties.

⁽²⁾ The REIT acquired a 50% interest in this property.

⁽³⁾ The Ryan Retail Portfolio is comprised of 5 shopping centres.

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⁾	Various locations in Alberta	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/Retail
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.

⁽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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2011 and 2010
(In thousands of Canadian dollars, except unit and per unit amounts)

3. ACQUISITIONS AND DISPOSITIONS OF INVESTMENT PROPERTIES (CONTINUED):

Acquisitions (continued):

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

The net assets acquired were as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Investment properties	\$ 678,716	\$ 887,791
Long-term debt including acquired above-market mortgages, net of deferred financing costs	(399,874)	(564,231)
Contingent consideration	(713)	-
Cash consideration	\$ 278,129	\$ 323,560
Transaction costs expensed	\$ 8,821	\$ 15,792

In accordance with the purchase and sale agreement for the Ryan Retail Portfolio, 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 May 30, 2016. The calculation provides for the net annual rent earned to be capitalized at 8.25% and paid to the vendor.

In accordance with the purchase and sale agreement for Two MarketPointe, the vendor is entitled to a payment related to certain future events. The agreement provides for this contingent consideration to be based on the development of certain undeveloped land prior to December 21, 2021. The agreement provides for an amount of \$1,000 to be paid to the vendor, reduced by an amount equal to the real property taxes paid by the REIT after January 1, 2013 to the date of substantial completion of the project, to a maximum reduction of \$400.

Dispositions:

The REIT disposed of the following properties during the year ended December 31, 2011:

Property	Location	Disposition Date	Type
2030 Notre Dame Avenue	Winnipeg, MB	March 7, 2011	Industrial
Rogers Distribution Centre	Minneapolis, MN	September 15, 2011	Industrial

The proceeds from the sale of 2030 Notre Dame Avenue, net of costs, were \$6,780. The REIT transferred the mortgage on this property to three previously unencumbered properties. The assets and liabilities associated with the property were derecognized and a gain on sale of property in the amount of \$255 was recorded.

The proceeds from the sale of Rogers Distribution Centre, net of costs and related debt, were \$1,366. The assets and liabilities associated with the property were derecognized and a gain on sale of property in the amount of \$481 was recorded.

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

4. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER CONSTRUCTION:

	Year ended December 31, 2011		Year ended December 31, 2010	
	Investment properties	Investment properties under construction	Investment properties	Investment properties under construction
Balance, beginning of year	\$ 2,052,780	\$ 5,405	\$ 1,111,586	\$ -
Additions:				
Acquisitions (note 3)	678,716	-	887,791	-
Capital expenditures	8,333	19,608	5,606	5,405
Leasing costs	4,313	-	2,549	-
Dispositions (note 3)	(13,002)	-	-	-
Reclassification of investment property under construction	4,550	(4,550)	-	-
Foreign currency translation gain (loss)	12,199	-	(1,217)	-
Straight-line rent adjustment	5,514	-	2,841	-
Net change to tenant inducements	4,107	-	7,259	-
Unrealized fair value gain	246,094	-	36,365	-
Balance, end of year	\$ 3,003,604	\$ 20,463	\$ 2,052,780	\$ 5,405

External valuations are performed quarterly on a rotational basis over a four year cycle. For the fourth quarter cycle, investment properties with an aggregate fair value of \$145,425 at December 31, 2011 (December 31, 2010, \$46,218; January 1, 2010, \$72,567) were valued by qualified external valuation professionals.

The REIT determined the fair value of investment properties based upon a combination of the discounted cash flow method and the overall capitalization method, which are generally accepted appraisal methodologies. Under the discounted cash flow method, expected future cash flows are discounted using an appropriate rate based on the risk of the property. Expected future cash flows for each investment property are based upon, but not limited to, rental income from current leases, budgeted and actual expenses, and assumptions about rental income from future leases. The REIT uses leasing history, market reports, tenant profiles and building assessments, among other things, in determining the most appropriate assumptions. Discount and capitalization rates are estimated using market surveys, available appraisals and market comparables. Under the overall capitalization method, year one income is stabilized and capped at a rate deemed appropriate for each investment property.

The key valuation assumptions for investment properties are as follows:

	December 31, 2011			December 31, 2010			January 1, 2010		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Discount rate	9.50%	7.25%	8.02%	10.00%	7.50%	8.60%	10.25%	8.00%	8.79%
Terminal capitalization rate	9.00%	6.00%	7.04%	9.50%	6.50%	7.62%	9.50%	7.25%	7.93%
Capitalization rate	8.50%	6.25%	7.08%	9.50%	7.00%	7.74%	9.50%	6.50%	7.69%
Investment horizon (years)	20.0	10.0	10.6	20.0	10.0	10.7	20.0	10.0	11.1

At December 31, 2011, included in investment properties is \$14,234 (December 31, 2010, \$8,752; January 1, 2010, \$5,914) of net straight-line rent receivables arising from the recognition of rental income on a straight-line basis over the lease term in accordance with IAS 17 - Leases.

Investment properties include properties held under operating leases with an aggregate fair value of \$45,777 at December 31, 2011 (December 31, 2010, \$44,578; January 1, 2010, \$9,082).

At December 31, 2011, investment properties with a fair value of \$2,913,117 (December 31, 2010, \$1,988,374; January 1, 2010, \$1,052,961) are pledged as security under mortgage agreements and the credit facility.

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5. OTHER ASSETS:

	December 31, 2011	December 31, 2010	January 1, 2010
Office equipment and software	\$ 664	\$ 581	\$ 553
Accumulated depreciation	353	233	119
	\$ 311	\$ 348	\$ 434

6. NOTES RECEIVABLE:

	December 31, 2011	December 31, 2010	January 1, 2010
Note receivable from tenant maturing in May 2023, bearing interest at 5.89% 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.	\$ 23,719	\$ 25,323	\$ 26,918
Note receivable maturing in March 2013, bearing interest at 10.00% per annum, repayable in blended monthly installments of principal and interest of \$17 from February 2011 to March 2012 and bearing interest at 12.00% per annum, repayable in blended monthly installments of principal and interest of \$20 from April 2012 to March 2013. The note receivable is unsecured.	1,718	1,749	1,785
Note receivable repaid in March 2011.	-	69	77
Notes receivable matured in November 2010 and January 2011.	-	1	282
	25,437	27,142	29,062
Current portion	1,685	3,354	1,929
Non-current portion	\$ 23,752	\$ 23,788	\$ 27,133

7. MORTGAGES AND LOANS PAYABLE:

	December 31, 2011	December 31, 2010	January 1, 2010
Mortgages and loans payable	\$ 1,569,857	\$ 1,158,048	\$ 613,618
Net above- and below-market mortgage adjustments	4,620	3,351	598
Financing costs	(7,078)	(5,307)	(1,953)
	1,567,399	1,156,092	612,263
Current portion	139,065	58,690	70,406
Non-current portion	\$ 1,428,334	\$ 1,097,402	\$ 541,857

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 4.79% and the weighted-average nominal rate is 4.61% at December 31, 2011 (December 31, 2010, 5.12% and 4.97%, respectively). Maturity dates range from February 1, 2012 to October 1, 2030.

8. CONVERTIBLE DEBENTURES:

In conjunction with the prospectus that closed on 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. None of the Series C convertible debentures were converted into units of the REIT in fiscal 2011 or 2010.

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 on 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. None of the Series D convertible debentures were converted into units of the REIT in fiscal 2011 or 2010.

In conjunction with the prospectus that closed on 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 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 on May 4, 2006 and November 30, 2007. During the year ended December 31, 2011, Series E convertible debentures with a face value of \$4,661 were converted and the REIT issued 501,158 units at the exercise price of \$9.30 per unit. During the year ended December 31, 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.

In conjunction with the prospectus that closed on 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 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 on May 4, 2006, November 30, 2007 and July 9, 2009. None of the Series F convertible debentures were converted into units of the REIT in fiscal 2011 or 2010.

In conjunction with the prospectus that closed on April 21, 2011, the REIT issued Series G convertible redeemable 5.75% debentures totaling US\$80,000. An additional US\$8,000 of the Series G 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 June 30, 2018, at a price of US\$18.25 (with a fixed foreign exchange rate of 1.0390) per unit. The debentures will not be redeemable by Artis prior to June 30, 2014. On or after June 30, 2014, but prior to June 30, 2016, the Series G 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, 2016, the Series G 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 on May 4, 2006, November 30, 2007, July 9, 2009 and April 22, 2010. None of the Series G convertible debentures were converted into units of the REIT in fiscal 2011.

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8. CONVERTIBLE DEBENTURES (CONTINUED):

Particulars of the REIT's outstanding convertible debentures are as follows:

Convertible redeemable debenture issue	Issue date	Maturity date	Interest rate
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%
Series G	April 21, 2011	June 30, 2018	5.75%

Convertible redeemable debenture issue	Face value	Fair value adjustment	Carrying value	Current portion	Non current portion
Series C	\$ 29,920	\$ 673	\$ 30,593	\$ –	\$ 30,593
Series D	17,000	230	17,230	–	17,230
Series E	9,333	4,760	14,093	–	14,093
Series F	86,250	1,682	87,932	–	87,932
Series G	89,496	(3,598)	85,898	–	85,898
December 31, 2011	\$ 231,999	\$ 3,747	\$ 235,746	\$ –	\$ 235,746
December 31, 2010	147,164	6,725	153,889	–	153,889
January 1, 2010	95,237	7,988	103,225	3,032	100,193

For the year ended December 31, 2011, transaction costs of \$3,630 (2010, \$3,754) related to the issuance of convertible debentures were expensed.

9. ACCOUNTS PAYABLE AND OTHER LIABILITIES:

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payable and accrued liabilities	\$ 33,334	\$ 22,589	\$ 10,836
Distributions payable (note 12)	7,999	6,793	3,377
Cash-settled unit-based payments liability	1,157	308	177
	\$ 42,490	\$ 29,690	\$ 14,390

Under the REIT's unit option and equity incentive plans, 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:

	2011		2010	
	Units	Weighted-average exercise price	Units	Weighted-average exercise price
Balance, beginning of year	1,070,250	\$ 12.84	217,036	\$ 11.25
Granted	1,200,000	14.10	1,073,250	12.84
Exercised	(30,500)	11.28	(217,036)	11.25
Expired	(75,500)	13.98	(3,000)	11.95
Balance, end of year	2,164,250	\$ 13.52	1,070,250	\$ 12.84
Options exercisable at end of year	234,938		–	

The weighted-average unit price at the date of exercise for unit options exercised during the year ended December 31, 2011 was \$13.84 (2010, \$13.36).

Options outstanding at December 31, 2011 consist of the following:

Exercise price	Number outstanding	Weighted-average remaining contractual life	Options outstanding weighted-average exercise price	Number exercisable
\$ 11.28	239,250	3.25 years	\$ 11.28	36,938
\$ 13.30	396,000	3.75 years	\$ 13.30	99,000
\$ 13.44	396,000	4.00 years	\$ 13.44	99,000
\$ 14.10	1,133,000	4.50 years	\$ 14.10	–
	2,164,250		\$ 13.52	234,938

Unit-based compensation related to unit options granted under the unit option and equity incentive plans for the year ended December 31, 2011 amounted to \$926 (2010, \$588). These unit options granted vest equally over a four-year period. Unit-based compensation was determined based on the change in fair value of the options, with the following weighted-average assumptions:

	December 31, 2011	December 31, 2010	January 1, 2010
Expected option life	3.9 years	4.4 years	1.0 year
Risk free interest rate	1.19%	2.41%	1.47%
Distribution yield	7.72%	8.18%	9.49%
Expected volatility	23.38%	25.28%	26.92%

Expected volatility is estimated by considering historic average unit price volatility.

10. 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 was extended for an additional year and matures on September 28, 2012. 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, 2011, the REIT had utilized \$37,900 (December 31, 2010, \$8,000) of the facility.

11. 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. Special voting units are cancelled on the issuance of REIT units on exercise, conversion or cancellation of the corresponding exchangeable securities.

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11. CAPITAL CONTRIBUTIONS (CONTINUED):

(b) Issued and outstanding:

	Number of units	Amount
Balance at January 1, 2010	–	\$ –
Reclassification of trust unit liabilities to equity	50,076,978	575,885
Public offerings, net of issue costs of \$12,805	23,546,250	276,443
Conversion of Series B convertible debentures	3,048	40
Conversion of Series E convertible debentures	1,339,010	16,505
Options exercised	217,036	2,898
Distribution Reinvestment and Unit Purchase Plan	294,986	3,463
Balance at December 31, 2010	75,477,308	875,234
Public offerings, net of issue costs of \$7,616	12,119,750	161,515
Conversion of Series E convertible debentures	501,158	6,863
Options exercised	30,500	422
Distribution Reinvestment and Unit Purchase Plan	744,189	9,496
Balance at December 31, 2011	88,872,905	\$ 1,053,530

At December 31, 2011, there were no special voting units issued and outstanding.

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

(c) Weighted-average units:

	Year ended December 31, 2011	Year ended December 31, 2010
Income for the year	\$ 321,289	\$ 33,224
Adjustment for unit options	150	–
Adjustment for convertible debentures	11,460	–
Diluted income for the year	\$ 332,899	\$ 33,224
The weighted-average number of units outstanding was as follows:		
Basic units	79,867,112	57,000,720
Effect of dilutive securities:		
Unit options	43,311	–
Convertible debentures	12,502,592	–
Diluted units	92,413,015	57,000,720
Income per unit:		
Basic	\$ 4.02	\$ 0.58
Diluted	\$ 3.60	\$ 0.58

The computation of per unit amounts for the year ended December 31, 2010 is based upon the weighted-average units outstanding during the year, notwithstanding the trust units classification as financial liabilities until May 13, 2010.

(d) Normal course issuer bid:

On December 9, 2011, 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 8,283,192 units, representing 10% of the REIT's float of 82,831,922 on November 30, 2011. 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, 2012, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the years ended December 31, 2011 and 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.

(e) 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 up to a maximum of \$750,000 of initial offering price: (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. As at December 31, 2011, the REIT has issued units under three offerings in the aggregate amount of \$277,626 and a US\$88,000 offering of convertible debentures under the base shelf prospectus.

(f) 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 at December 31, 2011, no units have been issued pursuant to this arrangement.

12. DISTRIBUTIONS TO UNITHOLDERS:

The REIT declared distributions to REIT unitholders of record in the amount of \$1.08 per unit (2010, \$1.08 per unit) or \$87,183 for the year ended December 31, 2011 (2010, \$46,504). Distributions during the period from January 1, 2010 to May 13, 2010 are classified as interest expense. Total distributions payable at December 31, 2011 are \$7,999 (December 31, 2010, \$6,793).

13. REVENUE:

The REIT leases retail, industrial and office properties to tenants under operating leases.

Minimum rental commitments on non-cancellable tenant operating leases over their remaining terms are as follows:

	December 31, 2011	December 31, 2010
Not later than one year	\$ 198,154	\$ 156,891
Later than one year and not later than five years	592,130	483,059
Later than five years	441,661	366,044
	\$ 1,231,945	\$ 1,005,994

14. TRANSACTION COSTS:

The REIT incurred transaction costs in relation to the following:

	Year ended December 31, 2011	Year ended December 31, 2010
Acquisitions of investment properties	\$ (8,821)	\$ (15,792)
Issuance of convertible debentures	(3,630)	(3,754)
Termination fee	(4,000)	—
	\$ (16,451)	\$ (19,546)

On October 31, 2011, the REIT internalized the property management operations from one of its third party property managers in Winnipeg, Manitoba and paid a termination fee of \$4,000.

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15. LOSS ON FINANCIAL INSTRUMENTS:

The components of the fair value loss on financial instruments are as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Fair value gain (loss):		
Convertible debentures	\$ 650	\$ (1,923)
Commodity derivatives	196	47
Interest rate swaps	(4,347)	494
Forward and swap contracts	104	(104)
Investment in equity securities	(290)	1,569
Trust unit liabilities (note 27 (f))	-	(19,361)
	\$ (3,687)	\$ (19,278)

16. CHANGES IN NON-CASH OPERATING ITEMS:

	Year ended December 31, 2011	Year ended December 31, 2010
Prepaid expenses	\$ (2,819)	\$ (123)
Accounts receivable and other receivables	(5,330)	(3,074)
Cash held in trust	(255)	(427)
Security deposits and prepaid rent	4,485	4,922
Accounts payable and other liabilities	6,550	15,078
	\$ 2,631	\$ 16,376

17. RELATED PARTY TRANSACTIONS:

The REIT may issue unit-based awards to trustees, management, management company employees and consultants (note 9).

Other related party transactions are outlined as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Legal fees	1,481	2,756
Advisory fees	6,037	3,859
Acquisition fees	3,361	4,438
Property management fees	11,155	6,692
Recoverable property management salaries and wages	2,078	296
Capitalized leasing commissions	743	617
Capitalized building improvements	18,089	10,162
Capitalized tenant inducements	2,996	544
Property tax assessment consulting fees	224	92
Consulting fees	137	100

The REIT incurred legal fees with a law firm associated with a trustee of the REIT in connection with prospectus offerings, property acquisitions and general business matters. The amount payable at December 31, 2011 is \$200 (December 31, 2010, \$869).

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, 2011 is \$567 (December 31, 2010, \$464). 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. On December 31, 2011, the REIT and Marwest Realty terminated the asset management agreement.

The REIT incurred property management fees, recoverable property management salaries and wages, 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, 2011 is \$1,949 (December 31, 2010, \$390). 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. Under certain leases, Marwest Management is entitled to recover property management salaries and wages for properties managed directly. On December 31, 2011, the omnibus property management agreement was assigned to the REIT from Marwest Management which encompasses all investment properties owned by the REIT.

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, 2011 is \$354 (December 31, 2010, \$671).

The REIT incurred costs for property tax assessment consulting paid to Fairtax Realty Advocates, a company under control of close family members of key management personnel. The amount payable at December 31, 2011 is \$13 (December 31, 2010, \$nil).

The consulting fees represent work performed by Marwest Realty on IFRS accounting work and engineering services performed by a firm controlled by a trustee of the REIT.

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.

Subsidiaries of the REIT, excluding bare trustees, are outlined as follows:

Name of entity	Ownership interest		
	December 31, 2011	December 31, 2010	January 1, 2010
Artis General Partner Ltd.	100%	100%	100%
AX L.P.	100%	100%	100%
Artis US Holdings, Inc.	100%	100%	100%
Osborne Street Call Centre Partnership	100%	100%	100%
Winnipeg Square Leaseco Inc.	100%	100%	38%
AX Property Management L.P.	100%	-	-
Artis Property Management General Partner Ltd.	100%	-	-

18. KEY MANAGEMENT PERSONNEL:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the REIT, directly or indirectly.

The compensation paid or payable to trustees of the REIT are as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Short-term benefits	\$ 493	\$ 504
Unit-based payments	131	149
	\$ 624	\$ 653

The compensation paid or payable to key management personnel of the REIT are as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Short-term benefits	\$ 3,030	\$ 2,854
Unit-based payments	488	349
	\$ 3,518	\$ 3,203

Short-term benefits paid or payable to key management personnel represent the portion of compensation paid or payable by Marwest Realty attributable to time spent on the activities of the REIT.

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19. INCOME TAXES:

The REIT currently qualifies as a mutual fund trust and a real estate investment trust ("REIT") for Canadian income tax purposes. Under current tax legislation, income distributed annually by the REIT to unitholders is a deduction in the calculation of its taxable income. As the REIT intends to distribute all of its taxable income to its unitholders, the REIT does not record a provision for current Canadian income taxes.

The REIT converted its U.S. subsidiary to a REIT for U.S. income tax purposes during 2011. The subsidiary intends to distribute all of its U.S. taxable income to Canada and is entitled to deduct such distributions for U.S. income tax purposes. As a result, the REIT does not record a provision for current U.S. income taxes. The U.S. subsidiary is subject to a 30% to 35% withholding tax on distributions to Canada. Any withholding taxes paid are recorded with the related distributions.

The Income Tax Act (Canada) contains legislations affecting the tax treatment of a specified investment flow-through ("SIFT") trust or partnership (the "SIFT Rules"). A SIFT includes a publicly-listed or traded partnership or trust, such as an income trust.

Under the SIFT Rules, certain distributions from a SIFT are not deductible in computing a SIFT's taxable income, and a SIFT is 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 tax.

The SIFT Rules do not apply to a REIT that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the 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 SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the years ended December 31, 2011 and December 31, 2010. As a result, the REIT does not recognize any deferred income tax assets or liabilities for income tax purposes.

In respect of assets and liabilities of the REIT and its flow through entities, the net book value of net assets for accounting purposes exceeds their tax basis by approximately \$412,084 at December 31, 2011 (December 31, 2010, \$89,008). This balance includes non-capital losses available for carryforward in the amount of \$18,873, which may be used to offset taxable income in future periods, and allowable capital losses available for carryforward in the amount of \$2,656, which may be used to offset taxable capital gains in the future periods.

20. JOINTLY CONTROLLED ASSETS:

These consolidated financial statements include the REIT's share of assets, liabilities, revenues, expenses and cash flows of jointly controlled assets as at December 31, 2011. The REIT is contingently liable for the obligations of its joint venturers in certain jointly controlled assets. Management believes that the jointly controlled assets available are sufficient for the purpose of satisfying such obligations. The REIT has interests in the following jointly controlled assets:

Name of entity	Principal purpose	Ownership interest		
		December 31, 2011	December 31, 2010	January 1, 2010
Centre 70 Building	Investment property	85%	85%	85%
Kincaid Building	Investment property	50%	50%	50%
Cliveden Building	Investment property	50%	50%	50%
Winnipeg Square / 360 Main Street ⁽¹⁾	Investment property	–	–	38%
Westbank Hub Centre North	Investment property	50%	50%	–
Cara Foods Building	Investment property	50%	–	–

⁽¹⁾ The REIT acquired the remaining 62% interest in this property on June 30, 2010.

The REIT's share of these jointly controlled assets is summarized as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Non-current assets	\$ 98,816	\$ 68,401	\$ 89,177
Current assets	1,223	392	1,109
	100,039	68,793	90,286
Non-current liabilities	87,568	68,946	85,256
Current liabilities	2,145	1,527	2,287
	\$ 89,713	\$ 70,473	\$ 87,543

	Year ended December 31, 2011	Year ended December 31, 2010
Revenue	\$ 9,385	10,725
Expenses	6,071	8,116
	3,314	2,609
Unrealized fair value gain (loss) on investment properties	8,691	(2,033)
Operating income from properties	\$ 12,005	576
Cash flows provided by operating activities	\$ 3,139	2,214
Cash flows used in investing activities	(8,985)	(8,133)
Cash flows provided by financing activities	6,502	6,505

21. SEGMENTED INFORMATION:

The REIT owns and operates various properties located in Canada and the U.S. Information related to these geographical locations is presented below. Western Canada includes British Columbia and Alberta; Central Canada includes Saskatchewan and Manitoba; and Eastern Canada includes Ontario. REIT expenses as well as interest relating to the convertible debentures have not been allocated to the segments.

	Year ended December 31, 2011					
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Revenue	\$ 144,957	\$ 73,349	\$ 36,786	\$ 35,420	\$ –	\$ 290,512
Property operating expenses	49,819	30,346	14,759	12,775	–	107,699
	95,138	43,003	22,027	22,645	–	182,813
Interest income	1,469	42	21	27	1,021	2,580
	96,607	43,045	22,048	22,672	1,021	185,393
Interest expense	35,854	16,266	7,151	5,785	13,886	78,942
Corporate expenses	–	–	–	–	11,055	11,055
Foreign currency translation loss	–	–	–	–	1,268	1,268
	35,854	16,266	7,151	5,785	26,209	91,265
	60,753	26,779	14,897	16,887	(25,188)	94,128
Income tax recovery	–	–	–	469	–	469
Transaction costs	(799)	(780)	(4,658)	(2,584)	(7,630)	(16,451)
Loss on financial instruments	–	–	–	–	(3,687)	(3,687)
Gain on disposal of investment properties	–	255	–	481	–	736
Unrealized fair value gain on investment properties	160,641	31,321	28,154	25,978	–	246,094
Income (loss) for the year	\$ 220,595	\$ 57,575	\$ 38,393	\$ 41,231	\$ (36,505)	\$ 321,289
Acquisitions of investment properties	\$ 110,839	\$ 119,530	\$ 165,920	\$ 282,427	\$ –	\$ 678,716
Additions to investment properties and investment properties under construction	7,223	16,086	786	3,846	–	27,941
Additions to leasing costs	1,975	893	324	1,121	–	4,313
Additions to tenant inducements	3,394	3,594	326	1,352	–	8,666

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21. SEGMENTED INFORMATION (CONTINUED):

December 31, 2011						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Total assets	\$ 1,578,327	\$ 691,319	\$ 367,215	\$ 448,835	\$ 81,892	\$ 3,167,588
Total liabilities	765,084	360,868	212,832	271,036	287,953	1,897,773
Year ended December 31, 2010						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Revenue	\$ 113,996	\$ 55,123	\$ 3,310	\$ 2,646	\$ –	\$ 175,075
Property operating expenses	36,749	23,017	1,352	914	–	62,032
	77,247	32,106	1,958	1,732	–	113,043
Interest income	1,567	13	1	2	966	2,549
	78,814	32,119	1,959	1,734	966	115,592
Interest expense	30,213	12,457	459	525	25,787	69,441
Corporate expenses	–	–	–	–	7,225	7,225
Foreign currency translation loss	–	–	–	–	2,945	2,945
	30,213	12,457	459	525	35,957	79,611
	48,601	19,662	1,500	1,209	(34,991)	35,981
Income tax expense	–	–	–	(298)	–	(298)
Transaction costs	(3,402)	(6,030)	(4,764)	(1,596)	(3,754)	(19,546)
Loss on financial instruments	–	–	–	–	(19,278)	(19,278)
Unrealized fair value gain on investment properties	20,523	11,529	3,094	1,219	–	36,365
Income (loss) for the year	\$ 65,722	\$ 25,161	\$ (170)	\$ 534	\$ (58,023)	\$ 33,224
Acquisitions of investment properties	\$ 429,134	\$ 174,230	\$ 162,650	\$ 121,777	\$ –	\$ 887,791
Additions to investment properties and investment properties under construction	6,374	4,637	–	–	–	11,011
Additions to leasing costs	1,526	964	31	28	–	2,549
Additions to tenant inducements	8,622	1,143	60	218	–	10,043
December 31, 2010						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Total assets	\$ 1,289,799	\$ 521,111	\$ 168,849	\$ 123,671	\$ 108,166	\$ 2,211,596
Total liabilities	706,329	291,877	107,882	81,073	170,205	1,357,366

22. COMMITMENTS AND GUARANTEES:

(a) Letters of credit:

As of December 31, 2011, the REIT had issued letters of credit in the amount of \$1,728 (December 31, 2010, \$1,701).

(b) Guarantees:

AX L.P. has guaranteed certain debt assumed by a purchaser in connection with the disposition of a property. This guarantee will remain until the debt is modified, refinanced or extinguished. Credit risk arises in the event that the purchaser defaults on repayment of their debt since it is guaranteed by the REIT. This credit risk is mitigated as the REIT has recourse under this guarantee in the event of default by the purchaser, in which case the REIT would have a claim against the underlying property. The estimated amount of debt subject to the guarantee at December 31, 2011 is \$5,733 (December 31, 2010, \$5,873), with an estimated weighted-average remaining term of 5.9 years (December 31, 2010, 6.9 years). No liability in excess of the fair value of the guarantee has been recognized in these consolidated financial statements as the estimated fair value of the borrower's interests in the underlying property is greater than the mortgage payable for which the REIT provided the guarantee.

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 deferred tax liability arising out of any indirect acquisitions, calculated in accordance with generally accepted accounting principles". As at December 31, 2011, the ratio of such indebtedness to gross book value was 50.7% (December 31, 2010, 52.6%), which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

In addition to the covenant outlined in the Declaration of Trust, the REIT must maintain a debt to gross book value ratio of 70%, a debt service coverage ratio of 1.4, and minimum unitholders' equity of \$275,000 for the purposes of the credit facility (note 10). As at December 31, 2011, 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, 2011	December 31, 2010	January 1, 2010
Mortgages and loans payable	\$ 1,567,399	\$ 1,156,092	\$ 612,263
Convertible debentures	235,746	153,889	103,225
Bank indebtedness	37,900	8,000	30,700
Total debt	1,841,045	1,317,981	746,188
Unitholders' equity (deficit)	1,269,815	854,230	(7,414)
	\$ 3,110,860	\$ 2,172,211	\$ 738,774

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 the gross book value of the REIT's total assets 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, 2011, the REIT is a party to \$386,388 of variable rate debt, including the outstanding balance of bank indebtedness (December 31, 2010, \$183,584). At December 31, 2011, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$65,061 of variable rate debt (December 31, 2010, \$66,584).

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24. RISK MANAGEMENT AND FAIR VALUES (CONTINUED):

(a) Risk management (continued):

(i) Market risk (continued):

(a) Interest rate risk (continued):

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	\$	2,321
Fixed rate debt due within one year		985
	\$	3,306

(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 as well as the Series G convertible debentures are 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 0.9960 for the year ended December 31, 2011 and the year end exchange rate of 1.017 at December 31, 2011 would have decreased the unrealized foreign currency translation loss included in net income by approximately \$8,419 and increased other comprehensive loss by approximately \$13,642 for the year ended December 31, 2011. 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.

(ii) Credit risk:

The REIT's maximum exposure to credit risk is equivalent to the carrying value of each class of financial asset as separately presented in cash and cash equivalents, cash held in trust, notes receivable, accounts receivable and other receivables, and investment in equity securities.

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 properties are diversified across the industrial, retail and office asset classes, and geographically diversified with properties owned across five Canadian provinces and four U.S. states. Included in property operating expenses is an impairment loss on accounts receivable and other receivables of \$231 during the year ended December 31, 2011 (2010, \$167). The credit quality of the accounts receivable and other receivables amount is considered adequate.

The aging of accounts receivable is summarized as follows:

	December 31, 2011		December 31, 2010	
Past due 0 - 30 days	\$	1,516	\$	502
Past due 31 - 90 days		301		134
Past due more than 91 days		612		608
		2,429		1,244
Allowance for doubtful accounts		(157)		(174)
	\$	2,272	\$	1,070

The REIT is also exposed to credit risk as a holder of notes receivable. Management mitigates this risk by carrying out 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 non-derivative financial liabilities at December 31, 2011 including 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	\$ 42,490	\$ 42,490	\$ -	\$ -	\$ -
Mortgages, loans and bank indebtedness	1,607,757	177,982	464,332	603,962	361,481
Convertible debentures	231,999	-	56,253	-	175,746
	\$ 1,882,246	\$ 220,472	\$ 520,585	\$ 603,962	\$ 537,227

(b) Fair values:

The fair value of the REIT's accounts receivable 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 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, 2011 has been estimated at \$23,974 (December 31, 2010, \$26,689), compared with the carrying value of \$25,437 (December 31, 2010, \$27,142).

The fair value of 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, 2011 has been estimated at \$1,629,144 (December 31, 2010, \$1,183,292) compared with the carrying value of \$1,567,399 (December 31, 2010, \$1,156,092).

The fair value of the REIT's convertible debentures is \$235,746 (December 31, 2010, \$153,889) compared to its face value of \$231,999 (December 31, 2010, \$147,164) at December 31, 2011. 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, 2011, the REIT has no natural gas and electrical contracts recognized as financial instruments. As at December 31, 2010, the REIT had entered into natural gas and electrical contracts with a fair value liability of \$196. The REIT recorded an unrealized fair value gain of \$196 for the year ended December 31, 2011 (2010, \$47).

The REIT entered into interest rate swaps on four mortgages. The swaps are not designated in a hedge relationship. An unrealized loss of \$4,347 was recorded for the year ended December 31, 2011 (2010, unrealized gain of \$494) in relation to the fair value of these interest rate swaps, resulting in a fair value liability at December 31, 2011 of \$3,853 (December 31, 2010, fair value asset of \$494).

As at December 31, 2011, the REIT had fully liquidated its investment in equity securities. At December 31, 2010, the fair value of equity securities was \$11,184. A loss of \$290 was recorded for the year ended December 31, 2011 (2010, gain of \$1,569).

Under the fair value hierarchy of financial instruments measured at fair value on the consolidated balance sheet, investment in equity securities, the trust unit liabilities and convertible debentures excluding Series D are measured using a Level 1 methodology and natural gas and electrical contracts, interest rate swaps and Series D convertible debentures are valued using a Level 2 methodology. There are no financial instruments valued using a Level 3 methodology.

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25. SUBSEQUENT EVENTS:

On January 1, 2012, the REIT fully internalized the asset management functions.

On January 1, 2012, the REIT internalized the property management operations for 78 properties that were previously directly managed by Marwest Management.

On January 3, 2012, the REIT refinanced a mortgage on a retail property in Calgary, Alberta, obtaining additional proceeds of \$5,691.

On January 26, 2012, the REIT issued 5,750,000 units at a price of \$15.05 per unit for aggregate gross proceeds of \$86,538 (inclusive of 750,000 units issued pursuant to the exercise in full of the underwriter's over-allotment option).

On January 31, 2012, the REIT acquired the North 48 Commercial Complex which is located in Saskatoon, Saskatchewan. The office property was acquired for \$18,400 and the purchase price was satisfied with cash.

On February 1, 2012, the REIT repaid a maturing mortgage on an office property in Winnipeg, Manitoba in the amount of \$2,750.

On February 3, 2012, the REIT repaid the balance drawn on the revolving term credit facility.

On February 13, 2012, the REIT announced that it intends to redeem all of its outstanding Series C convertible debentures effective March 15, 2012.

On February 24, 2012, the REIT acquired the Aluma Systems Building which is located in Edmonton, Alberta. The industrial property was acquired for \$17,495 and the purchase price was satisfied with cash.

The REIT has an agreement with respect to the acquisition of a property located in Arizona. The purchase price of the property is US\$75,000. The REIT anticipates that the acquisition will close in March of 2012, and will be financed through a combination of cash consideration and new mortgage financing.

The REIT has an agreement with respect to the acquisition of a property located in Manitoba. The purchase price of the property is \$32,000. The REIT anticipates that the acquisition will close in April of 2012, and will be financed through a combination of cash consideration and new mortgage financing.

Distributions in the amount of \$0.09 per unit for each of January 2012 and February 2012 were declared subsequent to December 31, 2011.

Subsequent to December 31, 2011, Series E convertible debentures with a face value of \$1,173 were converted and the REIT issued 126,119 units at the price of \$9.30 per unit.

26. APPROVAL OF FINANCIAL STATEMENTS:

The consolidated financial statements were approved by the Board of Trustees and authorized for issue on March 14, 2012.

27. TRANSITION TO IFRS:

As stated in note 2(a), these are the REIT's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 2 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 2010 (the REIT's date of transition).

In preparing its opening IFRS balance sheet, the REIT has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the REIT's financial position, operating results and cash flows is set out in the following tables and the accompanying notes.

The following is a reconciliation of unitholders' equity reported in accordance with previous Canadian GAAP to unitholders' equity reported in accordance with IFRS at the transition date:

	Capital contributions	Equity component of convertible debentures	Deficit	Contributed surplus	Total
Unitholders' equity as reported under previous Canadian GAAP, December 31, 2009	\$ 485,000	\$ 9,926	\$ (137,497)	\$ 3,477	\$ 360,906
Adjustments:					
Investment properties (note 27 (c))	–	–	76,055	–	76,055
Unit-based payments (note 27 (d))	–	–	1,537	(1,714)	(177)
Convertible debentures (note 27 (e))	–	(9,926)	(7,267)	–	(17,193)
Trust units (note 27 (f))	(485,000)	–	59,758	(1,763)	(427,005)
Unitholders' deficit as reported under IFRS, January 1, 2010	\$ –	\$ –	\$ (7,414)	\$ –	\$ (7,414)

The following is a reconciliation of unitholders' equity reported in accordance with previous Canadian GAAP to unitholders' equity reported in accordance with IFRS at December 31, 2010:

	Capital contributions	Equity component of convertible debentures	Deficit	Accumulated other comprehensive loss	Contributed surplus	Total
Unitholders' equity as reported under previous Canadian GAAP, December 31, 2010	\$ 909,331	\$ 11,442	\$ (204,604)	\$ (273)	\$ 3,815	\$ 719,711
Adjustments:						
Investment properties (note 27 (c))	–	–	153,523	–	–	153,523
Unit-based payments (note 27 (d))	7	–	1,171	–	(1,486)	(308)
Convertible debentures (note 27 (e))	4,531	(11,442)	(10,721)	–	(566)	(18,198)
Trust units (note 27 (f))	(38,635)	–	40,398	–	(1,763)	–
Deferred taxes (note 27 (g))	–	–	(498)	–	–	(498)
Foreign currency translation (note 27 (h))	–	–	37	(37)	–	–
Unitholders' equity as reported under IFRS, December 31, 2010	\$ 875,234	\$ –	\$ (20,694)	\$ (310)	\$ –	\$ 854,230

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27. TRANSITION TO IFRS (CONTINUED):

The following is a reconciliation of comprehensive income reported in accordance with previous Canadian GAAP to comprehensive income reported in accordance with IFRS for the year ended December 31, 2010:

	Year ended December 31, 2010	
Comprehensive loss for the year as reported under previous Canadian GAAP	\$	(4,048)
Adjustments:		
Investment properties (note 27 (c))		77,508
Unit-based payments (note 27 (d))		(368)
Convertible debentures (note 27 (e))		(3,454)
Trust units (note 27 (f))		(36,189)
Deferred taxes (note 27 (g))		(498)
Foreign currency translation (note 27 (h))		(37)
Comprehensive income for the year as reported under IFRS	\$	32,914

(a) Elected exemptions from full retrospective application:

In preparing the consolidated financial statements in accordance with IFRS 1, the REIT has elected to apply IFRS prospectively to all business combinations that occurred on or after the January 1, 2010 transition date. The remaining optional exemptions are either not applicable to the REIT or not utilized in the transition to IFRS.

(b) Mandatory exceptions from full retrospective application:

In accordance with IFRS 1, the REIT has applied the mandatory exception from full retrospective application of IFRS with respect to estimates. Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the REIT under Canadian GAAP are consistent with their application under IFRS at January 1, 2010. The remaining mandatory exceptions are not applicable to the REIT.

(c) Investment properties and investment properties under construction:

The REIT considers its commercial properties to be investment properties under IAS 40 - *Investment Property*. Investment property is property held to earn rental income or for capital appreciation, or both.

Consistent with the REIT's accounting policy, investment properties have been recognized at fair value at the date of transition. Under previous Canadian GAAP investment properties were measured on an amortized cost basis.

The adjustment to equity represents the cumulative unrealized gain in respect of the REIT's investment properties, inclusive of related intangible assets, leasing costs, intangible liabilities, straight-line rent receivable, tenant inducements and tenant improvements which were recorded separately under previous GAAP.

Under IFRS, investment properties under construction are separately presented in the balance sheet.

In accordance with IFRS, acquisitions of properties that constitute a business are accounted for as business combinations using the acquisition method. Transaction costs associated with business combinations have been expensed as incurred. Under previous Canadian GAAP, transaction costs associated with property acquisitions were capitalized.

The impact arising from the change is summarized as follows:

	Year ended December 31, 2010	
Consolidated statement of operations:		
Elimination of amortization expense	\$	(70,872)
Decrease in revenue		13,937
Unrealized fair value gain		(36,365)
Increase in transaction costs		15,792
<hr/>		
Increase in comprehensive income for the year	\$	(77,508)
<hr/>		
	January 1, 2010	December 31, 2010
Consolidated balance sheet:		
Increase in investment properties	\$ 119,886	\$ 332,009
Increase in investment properties under construction	-	5,405
Decrease in other assets	(119,440)	(266,707)
Decrease in intangible liabilities	81,523	91,568
Decrease in other receivables	(5,914)	(8,752)
<hr/>		
Increase in equity	\$ 76,055	\$ 153,523

(d) Unit-based payments:

The REIT's unit options are to be settled by redeemable trust units. In accordance with IFRS 2 - *Share-Based Payment*, these unit-based payments are considered to be cash-settled, and are therefore recorded as a liability at fair value at each reporting date. Any change in the fair value of the liability is recognized as compensation expense in net income for the year. Unit options granted by the REIT vest equally over a four-year period. In accordance with IFRS, the REIT treats each installment as a separate unit option grant as each installment has a different vesting period. Under previous GAAP, the fair value at the grant date of options granted and vested under the unit option plan were recorded to contributed surplus, and unit option installments were not treated as separate unit option grants.

(e) Convertible debentures:

The REIT's convertible debentures are to be settled by redeemable trust units. Consistent with the REIT's accounting policy, convertible debentures are recorded as a liability at fair value at each reporting date, with gains and losses recognized in net income. Transaction costs are recognized immediately in net income. Under previous GAAP, convertible debentures were recorded as compound financial instruments and allocated between a liability and equity component at the time of issue. Transaction costs were included in the carrying value of the liability at inception and amortized over the expected life of the debentures using the effective interest method.

(f) Trust units:

In accordance with IAS 32 - *Financial Instruments: Presentation*, the REIT's trust units are classified as liabilities as they represent puttable financial instruments that include a contractual obligation to redeem the trust units for cash on exercise of the put, and are measured at fair value with gains and losses recognized in net income. On May 14, 2010, the REIT amended its Declaration of Trust in order to make distributions non-mandatory, and thereby, permit classification of the trust units as equity. Distributions paid to unitholders during the period from January 1 to May 13, 2010 are classified as interest expense. Under previous GAAP, trust units and distributions on those units were classified as equity.

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27. TRANSITION TO IFRS (CONTINUED):

(f) Trust units (continued):

The impact arising from the change is summarized as follows:

	Year ended December 31, 2010	
Consolidated statement of operations:		
Increase in interest expense	\$	16,828
Increase in unrealized fair value loss		19,361
<hr/>		
Decrease in comprehensive income for the year	\$	36,189
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	January 1, 2010	December 31, 2010
Consolidated balance sheet:		
Increase in trust unit liabilities	\$ 427,005	\$ -
<hr/>		
Decrease in equity	\$ 427,005	\$ -
<hr/>		

(g) Deferred taxes:

The change in deferred taxes recorded under IFRS compared with previous Canadian GAAP relates to the change in the measurement of the carrying value of investment properties from amortized cost to fair value.

(h) Foreign currency translation:

The change in other comprehensive income recorded under IFRS compared with previous Canadian GAAP relates to the change in the measurement of the carrying value of investment properties from amortized cost to fair value.

(i) Classification:

Under previous GAAP, the REIT did not present a classified balance sheet. Under IAS 1 - *Presentation of Financial Statements*, the REIT presents current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet.

(j) Changes to the cash flow statement:

There were no material adjustments to the cash flow statement as a result of the transition to IFRS, other than the impact of the adjustments discussed in note 27 (c) through (h).





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