2012 FINANCIAL REPORT

ARTIS
REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS

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, 2012 and 2011, and the notes thereto. This MD&A has been prepared taking into account material transactions and events up to and including February 28, 2013. 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"), Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO") 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"), as issued by the International Accounting Standards Board ("IASB").

Artis calculates Property NOI as revenues, measured 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 November 2012. Management considers FFO to be a valuable measure for evaluating the REIT's operating performance in achieving its objectives.

Management believes that AFFO is an important measure of performance for Artis and is introducing reporting on AFFO performance in the 2012 Annual Management's Discussion and Analysis. Artis calculates AFFO based on FFO for the period, net of allowances for normalized capital expenditures and leasing costs and excluding straight-line rent adjustments and unit-based compensation expense.

Property NOI, FFO and AFFO are not measures defined under IFRS. Property NOI, FFO and AFFO 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, FFO and AFFO as calculated by Artis may not be comparable to similar measures presented by other issuers.

OVERVIEW

On August 2, 2012, Artis converted to an unincorporated closed-end real estate investment trust, created under, and governed by, the laws of the Province of Manitoba. The REIT was created pursuant to the Declaration of Trust dated November 8, 2004, as most recently amended and restated on August 2, 2012 (the "Declaration of Trust").

Certain of the REIT's securities are listed on the Toronto Stock Exchange (the "TSX"). The REIT's trust units ("units") trade under the symbol AX.UN, the REIT's preferred units trade under the symbols AX.PR.A and AX.PR.C and the REIT's Series F and Series G convertible debentures trade under the symbols AX.DB.F and AX.DB.U respectively. As at February 28, 2013, there were 115,110,768 units, 3,636,813 options, 6,450,000 preferred units and 45,324 restricted units of Artis outstanding (refer to the *Outstanding Unit Data* section for further details).

PRIMARY OBJECTIVES

Artis' 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' units.

Artis' 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) will be set by the Trustees.

U.S. INVESTMENT STRATEGY

At December 31, 2012, approximately 20.4% of Artis' portfolio weighting by pro-forma 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.

The weighting of pro-forma Property NOI in the U.S. as at December 31, 2012 increased as a result of the closing of the Minneapolis Industrial Portfolio II during Q4-12.

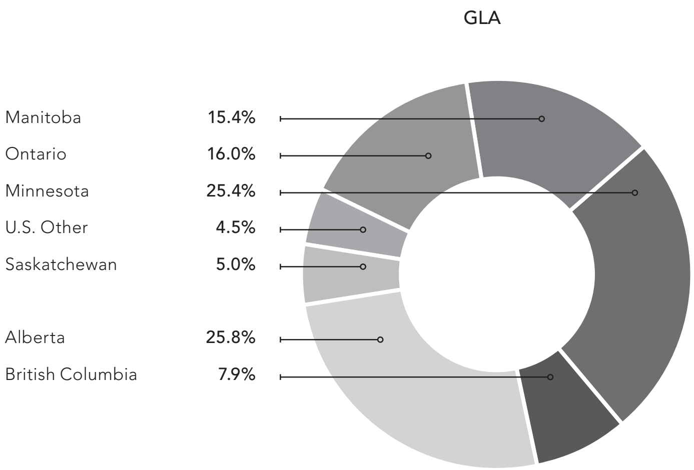
Artis' management believes that this window of opportunity will not be open for long and has adopted a disciplined approach in pursuing U.S. acquisitions while the opportunity exists, as follows:

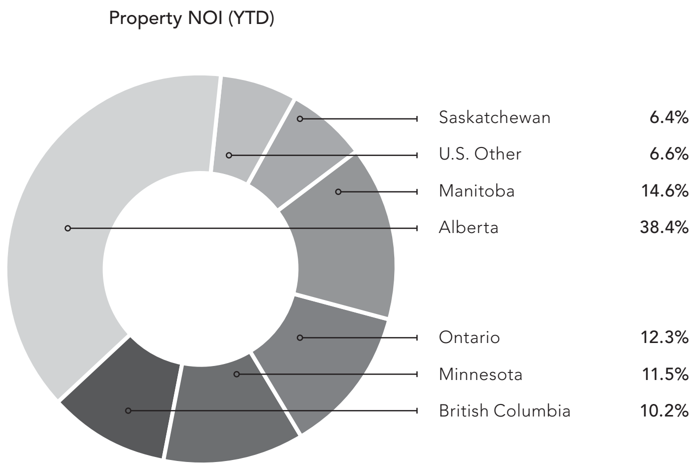
– total weighting of U.S. properties in Artis' portfolio will not exceed 30% by pro-forma Property NOI (increased from 20%).
– unlevered yield will be accretive, and higher than that available for a comparable property in Canada.
– low interest, conventional mortgage financing will be available.
– quality 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

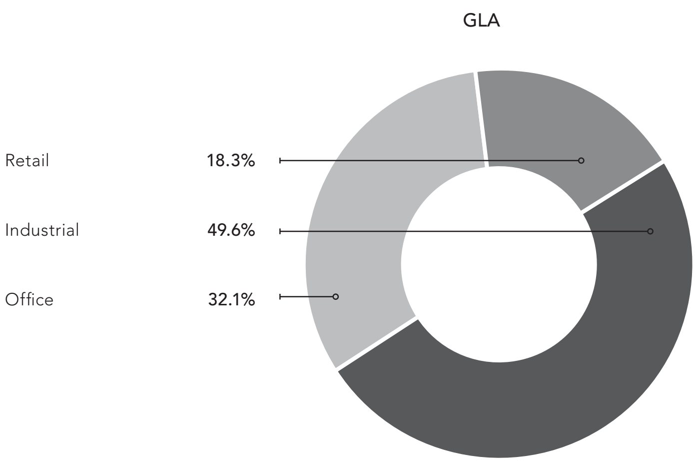
At December 31, 2012, the REIT's portfolio was comprised of 220 commercial properties totaling approximately 23.38 million square feet (S.F.) of gross leasable area ("GLA").

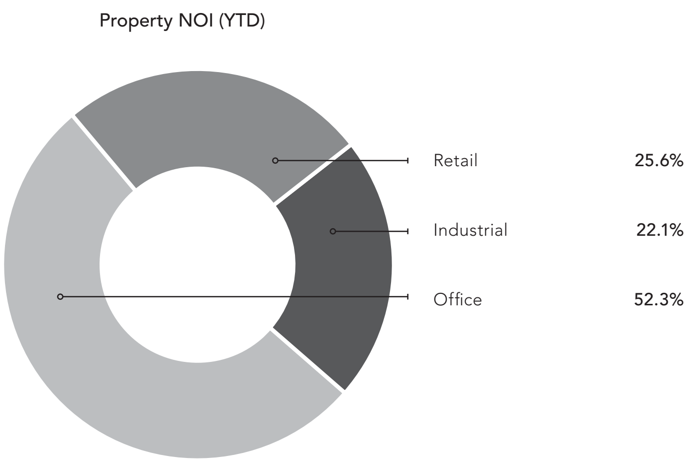
DIVERSIFICATION BY GEOGRAPHICAL REGION:





DIVERSIFICATION BY ASSET CLASS:





Portfolio by Asset Class as at December 31, 2012 (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	1.1%	100.0%	100.0%
	Airdrie	AB	1	27	0.1%	100.0%	100.0%
	Brampton	ON	1	301	1.3%	100.0%	100.0%
	Calgary	AB	7	596	2.5%	100.0%	100.0%
	Edmonton	AB	7	863	3.7%	98.4%	98.4%
	Mississauga	ON	1	158	0.7%	94.6%	94.6%
	Nisku	AB	1	23	0.1%	100.0%	100.0%
	Red Deer	AB	1	126	0.5%	100.0%	100.0%
	Saskatoon	SK	2	269	1.2%	100.0%	100.0%
	Toronto	ON	27	2,072	8.9%	98.1%	98.8%
	Winnipeg	MB	26	1,559	6.7%	95.9%	96.7%
Industrial total			76	6,259	26.8%	98.0%	98.4%
Office	Burnaby	BC	3	437	1.9%	97.6%	97.6%
	Calgary	AB	17	2,234	9.6%	95.0%	95.7%
	Edmonton	AB	1	29	0.1%	100.0%	100.0%
	Mississauga	ON	2	244	1.0%	78.2%	86.8%
	Nanaimo	BC	2	68	0.3%	100.0%	100.0%
	Ottawa	ON	1	181	0.8%	100.0%	100.0%
	Red Deer	AB	1	149	0.6%	96.6%	97.6%
	Saskatoon	SK	1	64	0.3%	100.0%	100.0%
	Toronto	ON	2	739	3.2%	95.3%	95.5%
	Vancouver	BC	1	174	0.7%	96.1%	96.1%
	Vaughan	ON	1	50	0.2%	100.0%	100.0%
	Winnipeg	MB	7	1,295	5.4%	97.5%	97.6%
Office total			39	5,664	24.1%	95.5%	96.2%
Retail	Calgary	AB	6	477	2.0%	98.2%	98.7%
	Coquitlam	BC	1	82	0.4%	92.3%	92.3%
	Cranbrook	BC	1	290	1.2%	94.3%	97.7%
	Delta	BC	1	75	0.3%	96.9%	96.9%
	Edmonton	AB	3	281	1.2%	95.8%	100.0%
	Edson	AB	1	20	0.1%	100.0%	100.0%
	Estevan	SK	1	38	0.2%	100.0%	100.0%
	Fort McMurray	AB	8	193	0.8%	98.1%	100.0%
	Grande Prairie	AB	4	378	1.6%	93.4%	93.4%
	Lethbridge	AB	1	53	0.2%	100.0%	100.0%
	Medicine Hat	AB	1	162	0.7%	97.2%	97.2%
	Moose Jaw	SK	1	38	0.2%	100.0%	100.0%
	Nanaimo	BC	2	90	0.4%	64.7%	64.7%
	Regina	SK	8	554	2.4%	98.6%	99.3%
	Saskatoon	SK	3	218	0.9%	98.3%	100.0%
	Spruce Grove	AB	1	112	0.5%	100.0%	100.0%
	St. Albert	AB	1	21	0.1%	100.0%	100.0%
	Vancouver	BC	1	91	0.4%	99.3%	99.3%
	Westbank / West Kelowna	BC	3	433	1.9%	98.6%	99.8%
	Whistler	BC	1	32	0.1%	91.1%	91.1%
	Winnipeg	MB	5	534	2.3%	96.4%	96.6%
Retail total			54	4,172	17.9%	96.4%	97.4%
Total Canadian portfolio			169	16,095	68.8%	96.7%	97.4%
Industrial	Minneapolis	MN	31	4,968	21.2%	92.3%	93.0%
	Phoenix	AZ	1	98	0.4%	100.0%	100.0%
Industrial total			32	5,066	21.6%	92.4%	93.1%
Office	Minneapolis	MN	4	866	3.7%	91.8%	94.2%
	New Hartford	NY	1	123	0.5%	100.0%	100.0%
	Phoenix	AZ	4	718	3.1%	95.6%	95.8%
	Tampa	FL	1	107	0.5%	100.0%	100.0%
Office total			10	1,814	7.8%	94.3%	95.6%
Retail	Minneapolis	MN	5	110	0.5%	95.2%	95.2%
Total U.S. portfolio			47	6,990	29.9%	93.0%	93.8%
Total Canadian and U.S.			216	23,085	98.7%	95.6%	96.3%

(1) Excluding properties in redevelopment.

(2) Percentage committed is based on occupancy plus commitments on vacant space as at December 31, 2012.

(In thousands of Canadian dollars, unless otherwise noted)

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	47.3%
Industrial	Delta	BC	1	70	0.3%	Cliveden	0.0%
Industrial	Winnipeg	MB	1	73	0.3%	1595 Buffalo Place	42.8%
Industrial	Winnipeg	MB	1	91	0.4%	27 81 Plymouth Street	58.0%
Industrial	Winnipeg	MB	1	37	0.2%	8 30 Plymouth Street	43.8%
Development properties total			4	290	1.3%		37.7%

(1) Percentage committed is based on occupancy plus commitments on vacant space as at December 31, 2012.

Properties under Construction (in 000's of S.F.)

Asset Class	City	Province / State	Project Name	S.F. under Construction	Pre leasing
Mixed	Winnipeg	MB	Centrepoint	49 (1)	73.0%

(1) Artis has a 50% ownership interest in the Centrepoint development, which is anticipated to comprise 130,375 square feet of leasable area when all phases are complete. Phase I of the construction project, which is currently underway, is expected to comprise 97,936 square feet of leasable area; completion is anticipated in September of 2014.

2012 – ANNUAL HIGHLIGHTS

PORTFOLIO GROWTH

Artis acquired 58 commercial properties, completed construction of over 176,000 square feet of new leasable area, and sold one industrial building during the course of 2012.

	Office		Retail		Industrial		Total	
	Number of Properties	S.F. (000's) (1)	Number of Properties	S.F. (000's) (1)	Number of Properties	S.F. (000's) (1)	Number of Properties	S.F. (000's) (1)
Portfolio properties at December 31, 2011	41	6,231	53	3,689	69	7,037	163	16,957
Acquisitions	8	1,266	6	561	44	4,439	58	6,266
New construction	–	–	–	32	–	144	–	176
Disposition	–	–	–	–	(1)	(24)	(1)	(24)
Portfolio properties at December 31, 2012	49	7,497	59	4,282	112	11,596	220	23,375

(1) Based on owned share of total leasable area.

Property acquisitions:

Property	Property Count	Acquisition Date	Location	Property Type	GLA (1)	Purchase Price
North 48 Commercial Complex	1	January 31, 2012	Saskatoon, SK	Office	63,571	$ 18,400
Aluma Systems Building	1	February 24, 2012	Edmonton, AB	Industrial	65,000	17,495
GSA Phoenix Professional Building	1	March 29, 2012	Phoenix, AZ	Office	210,202	US75,000
Westbank Hub Centre North (2)	–	April 16, 2012	West Kelowna, BC	Retail	256,821	14,200
Linden Ridge Shopping Centre	1	April 23, 2012	Winnipeg, MB	Retail	100,875	32,000
Trimac House	1	April 30, 2012	Calgary, AB	Office	238,087	100,907
Crowfoot Corner	1	April 30, 2012	Calgary, AB	Retail	51,048	35,500
MAX At Kierland	1	May 25, 2012	Scottsdale, AZ	Office	258,312	US79,000
LaSalle Office Portfolio	4	June 11, 2012	Calgary, AB	Office	495,621	185,000
Whistler Hilton Retail Plaza (3)	1	June 14, 2012	Whistler, BC	Retail	32,130	26,775
RER Industrial Portfolio	4	July 6, 2012	Minneapolis, MN	Industrial	500,524	US38,000
GTA Industrial Portfolio	17	July 17, 2012	Toronto, ON	Industrial	1,104,080	95,483
Westbank Hub Shopping Centre (4)	1	August 16, 2012	West Kelowna, BC	Retail	179,087	29,288
201 Edson	1	August 27, 2012	Saskatoon, SK	Industrial	105,600	9,600
Meadowvale Gateway Portfolio	5	September 20, 2012	Mississauga, ON	Industrial	376,736	33,500
Minneapolis Industrial Portfolio II	11	October 26, 2012	Minneapolis, MN	Industrial	1,989,746	US96,550
Namao South	1	October 31, 2012	Edmonton, AB	Retail	108,018	51,000
GTA West Portfolio	5	November 22, 2012	Toronto, ON	Industrial	296,795	26,500
Circle West	1	November 30, 2012	Saskatoon, SK	Retail	74,157	18,350

(1) S.F. of the property at the time of acquisition, before adjusting for owned share of total leasable area.
(2) The REIT acquired an additional 25% interest in this property, in a two-phased closing that occurred on April 16, 2012 and October 11, 2012, increasing the owned share of GLA to 192,617 post-closing.
(3) The REIT acquired an 85% interest in this property.
(4) The REIT acquired a 75% interest in this property.

Significant acquisitions in 2012 included two Arizona properties: the newly constructed Class A LEED certified building known as GSA Phoenix Professional Office Building, as well as MAX at Kierland, a newly constructed LEED certified Class A office tower located in North Scottsdale. The purchases of Trimac House, a Class A downtown Calgary office tower and the LaSalle Office Portfolio, a portfolio of four downtown Calgary office towers, were also significant acquisitions in 2012. Artis increased the size of its industrial portfolio significantly in 2012, through the acquisition of two large industrial portfolios: the 17-building GTA Industrial Portfolio in Ontario and the 11-building Minnesota Industrial Portfolio II, which together added nearly 3.1 million square feet of high-quality industrial property to the portfolio.

In Q4-12, Artis completed four acquisitions. On October 26, 2012, Artis acquired the Minnesota Industrial Portfolio II, a portfolio of 11 institutional quality buildings located in various sub-markets of Minneapolis and St. Paul, with occupancy at time of acquisition of 93.6%. On October 31, 2012, Artis acquired Namao South, a Class A retail development that is 100.0% leased to a diversified tenant roster with a weighted-average lease term to maturity of 9.1 years. On November 22, 2012, Artis acquired the GTA West Portfolio, a 100.0% occupied portfolio of 5 industrial buildings. On November 30, 2012, Artis acquired Circle West, a retail development that is 100.0% leased to high quality national tenants, such as CIBC and SportChek, with a weighted-average lease term to maturity of 9.8 years.

Property disposition:

On October 12, 2012, Artis sold an industrial property located in the Greater Toronto Area. The proceeds from the sale of the property, net of costs and related debt was $1,604. The gain recorded on the sale was $637.

Completed properties under construction:

In 2012, Artis completed construction of two new industrial buildings, adding 144,357 square feet of leasable area to the portfolio. Both buildings were constructed on excess lands in the portfolio, one on the site of the Caterpillar Building property in Minneapolis, Minnesota and the other on the site of the Fourell Building, in Edmonton, Alberta. Both projects were built to suit for new tenants, and are currently 100.0% occupied with long-term leases in place. Artis also completed the construction of a new format Shoppers Drug Mart on excess lands at 2190 McGillivray Boulevard in Winnipeg, Manitoba. The property comprises 18,568 square feet of leasable area, and is 100.0% occupied by Shoppers Drug Mart for a 20-year term. Also in 2012, Artis completed the construction of a new 269-stall parkade ancillary to an existing portfolio office property in Winnipeg, Manitoba.

In Q4-12, Artis completed construction of a new 7,842 square foot building on excess lands at Clareview Town Centre in Edmonton, Alberta. The building is 100.0% occupied by Kal-Tire Distributors Ltd., who entered into a new 15-year lease, with escalations. Artis also added 5,967 square feet of owned leasable area at Westbank Hub Shopping Centre in West Kelowna, BC. Construction of a new Swiss Chalet location was completed in Q4-12; the tenant is occupying the premises and has entered into a long-term lease, with escalations, until May 2022.

FINANCING ACTIVITIES

Short form base shelf prospectuses:

On July 28, 2010, the REIT issued a short form base shelf prospectus. The prospectus was valid for a period of 25-months, and during this time, the REIT issued common units under six offerings in the aggregate amount of $587,002 and a US$88,000 offering of convertible debentures.

On June 15, 2012, the REIT issued a new short form 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 $2,000,000 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, 2012, the REIT has issued common units under one offering of $69,080 and preferred units under two offerings in the amount of $86,250 and US$75,000 under this short form base shelf prospectus.

All offerings during 2012 were made under the supplement to the base shelf in effect at that time.

Common unit equity offerings:

Date	Number of Units Issued [1]		Price per Unit		Gross Proceeds
January 26, 2012	5,750,000	$	15.05	$	86,538
March 26, 2012	6,570,000		16.30		107,091
May 16, 2012	7,015,000		16.50		115,748
December 19, 2012	4,400,000		15.70		69,080
	23,735,000				378,457

[1] Includes units issued pursuant to the exercise of the underwriters' over-allotment option, if applicable.

Preferred unit equity offerings:

Date	Unit Series	Number of Units Issued [1]		Price per Unit		Gross Proceeds
August 2, 2012	Series A units	3,450,000	$	25.00	$	86,250
September 18, 2012	Series C units	3,000,000		US25.00		US75,000

[1] Includes units issued pursuant to the exercise of the underwriters' over-allotment option, if applicable.

Convertible debenture redemptions:

On March 15, 2012, Artis redeemed all outstanding Series C convertible redeemable 6.25% debentures pursuant to the trust indenture dated as of May 4, 2006. The REIT repaid the remaining $29,891 face value outstanding.

On June 29, 2012, Artis redeemed all outstanding Series E convertible redeemable 7.50% debentures pursuant to the trust indenture dated as of July 9, 2009. The REIT repaid the remaining $281 face value outstanding.

On September 21, 2012, $10,000 of the 5.00% Series D convertible debentures were redeemed for cash.

(In thousands of Canadian dollars, unless otherwise noted)

Debt financing and repayments:

In 2012, Artis obtained new or additional financing, net of financing costs, on seven properties in the amount of $104,572, repaid 11 maturing mortgages in the amount of $40,445 and received upward financing on a maturing mortgage of $8,192.

Revolving credit facility:

Artis replaced the $60,000 revolving acquisition line of credit that matured on September 28, 2012, with an $80,000 revolving credit facility, maturing September 6, 2014. During 2012, Artis repaid the balance of $37,900 that was drawn on the previous credit facility.

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 function. No fees or penalties were paid to Marwest Realty upon termination of this agreement. 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. No fees or penalties were paid to Marwest Management upon assignment of this agreement. The internalization of the asset and property management functions has had a beneficial impact on both property operating and corporate expenses.

DISTRIBUTIONS

Artis distributed a total of $117,948 to unitholders in 2012, of which $16,393 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,
		2012		2011
Revenue	$	372,469	$	290,512
Property NOI	$	240,409	$	182,813
Income for the period	$	340,339	$	321,289
Basic income per common unit	$	3.21	$	4.02
Diluted income per common unit	$	3.14	$	3.60
Distributions to common unitholders	$	114,968	$	87,183
Distributions per common unit	$	1.08	$	1.08
FFO	$	139,804	$	92,065
FFO per unit	$	1.30	$	1.13
FFO after adjustments (1)	$	140,146	$	99,955
FFO per unit after adjustments (1)	$	1.30	$	1.21
FFO payout ratio after adjustments (1)		83.1%		89.3%
AFFO (2)	$	122,702	$	–
AFFO per unit (2)	$	1.15	$	–

(1) Calculated after adjustments for transaction costs, current tax expense and the loss on equity securities.
(2) AFFO and AFFO per unit are calculated on a go-forward basis beginning in 2012.

Artis has been actively acquiring properties during 2011 and 2012. Due to this acquisition activity as well as same property revenue growth, 2012 revenues increased $81,957, or 28.2%, compared to 2011. Property NOI increased by $57,596, or 31.5% year-over-year.

FFO increased $47,739, or 51.9% compared to 2011. This increase is primarily attributed to the acquisitions completed in 2011 and 2012. Diluted FFO per unit increased $0.17 or 15.0% year-over-year. Adjusted FFO has increased $40,191, or 40.2% year-over-year. Diluted FFO per unit after adjustments has increased $0.09, or 7.4% compared to 2011.

Management believes that AFFO is an important measure of performance for Artis and is introducing reporting on AFFO performance for the first time in the 2012 Annual Management's Discussion and Analysis.

As a result of units issued from public offerings, units issued under the DRIP and conversion of convertible debentures, basic units outstanding for the calculation of FFO have 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, FFO and AFFO as acquisitions completed in 2012 contribute to operating results.

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.

Artis accounts for rent step-ups by straight-lining the incremental increases over the entire non-cancelable lease term. In 2012, straight-line rent adjustments of $5,473 (Q4-12 - $1,560) were recorded compared to $5,514 in 2011 (Q4-11 - $1,508).

In 2012, the REIT recorded amortization of $6,349 (Q4-12 - $1,954) as a reduction in revenue from tenant incentives compared to $4,559 (Q4-11 - $1,246) in 2011.

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 ANALYSIS

Same property comparison includes only stabilized investment properties owned on January 1, 2011, and excludes properties disposed of and properties held for sale subsequent to January 1, 2011.

	Three month period ended December 31,		Year ended December 31,	
	2012	2011	2012	2011
Revenue	$ 60,139	$ 60,802	$ 238,138	$ 238,301
Property operating expenses	23,742	23,001	89,765	88,284
Property NOI	36,397	37,801	148,373	150,017
Add (deduct) non cash and non-recurring revenue adjustments:				
Straight-line rent adjustment	(605)	(914)	(2,878)	(4,178)
Amortization of tenant inducements	1,576	1,077	5,325	4,007
Lease termination fees	(31)	(450)	(250)	(628)
Property NOI less revenue adjustments	$ 37,337	$ 37,514	$ 150,570	$ 149,218

Same Property NOI less Revenue Adjustments by Asset Class:

	Three month period ended December 31,				Year ended December 31,			
	2012	2011	Change	% Change	2012	2011	Change	% Change
Retail	$ 11,837	$ 11,349	$ 488	4.3%	$ 47,402	$ 46,559	$ 843	1.8%
Office	17,886	18,941	(1,055)	(5.6)%	73,506	74,244	(738)	(1.0)%
Industrial	7,614	7,224	390	5.4%	29,662	28,415	1,247	4.4%
Total	$ 37,337	$ 37,514	$ (177)	(0.5)%	$ 150,570	$ 149,218	$ 1,352	0.9%

In 2012, Artis achieved an increase of $1,352, or 0.9% in Property NOI less non-cash revenue adjustments over 2011. For Q4-12, Property NOI less non-cash revenue adjustments decreased $177 or 0.5% quarter-over-quarter.

Property NOI growth for the year was positive in both the retail and industrial segments. Property NOI growth for the office segment was offset by results in the Calgary office segment. Property NOI decreased $968 in 2012 (Q4-12 - decrease of $221) in the Calgary office segment. As anticipated, this decrease is primarily attributable to lease renewals that were completed at lower rates than those in place at expiry. Also contributing to the decrease is higher vacancy being carried in 2012 compared to 2011. Occupancy is anticipated to improve as new leases and expansion agreements commence over the course of early 2013.

Same Property NOI less Revenue Adjustments by Geographical Region:

	Three month period ended December 31,				Year ended December 31,			
	2012	2011	Change	% Change	2012	2011	Change	% Change
Alberta	$ 17,110	$ 16,861	$ 249	1.5%	$ 67,086	$ 66,310	$ 776	1.2%
British Columbia	5,083	5,288	(205)	(3.9)%	21,025	21,528	(503)	(2.3)%
Manitoba	7,121	7,227	(106)	(1.5)%	29,513	29,038	475	1.6%
Ontario	3,022	3,436	(414)	(12.0)%	12,905	13,479	(574)	(4.3)%
Saskatchewan	2,465	2,372	93	3.9%	9,993	9,811	182	1.9%
Minnesota	1,475	1,251	224	17.9%	5,745	4,876	869	17.8%
U.S. - Other	1,061	1,079	(18)	(1.7)%	4,303	4,176	127	3.0%
Total	$ 37,337	$ 37,514	$ (177)	(0.5)%	$ 150,570	$ 149,218	$ 1,352	0.9%

Property NOI decreased $1,008 (Q4-12 - decrease of $497) in two Ontario office properties and two British Columbia office properties mainly due to the expiration of vendor headleases during 2012. Management anticipates that this leasable area will successfully be leased in 2013.

Same Property Occupancy Comparison:

By Geographical Region

	As at December 31,	
	2012	2011
Alberta	98.0%	97.3%
British Columbia	95.4%	95.2%
Manitoba	96.5%	97.2%
Ontario	90.0%	91.3%
Saskatchewan	98.8%	98.4%
Minnesota	97.5%	93.5%
U.S. - Other	100.0%	100.0%
Total	96.7%	96.4%

By Asset Class

	As at December 31,	
	2012	2011
Retail	96.5%	96.7%
Office	95.9%	95.2%
Industrial	97.6%	97.4%
Total	96.7%	96.4%

(In thousands of Canadian dollars, unless otherwise noted)

PROPERTY NOI BY ASSET CLASS

In 2012, 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,	2012 Retail	2012 Office	2012 Industrial	2011 Retail	2011 Office	2011 Industrial
Revenue	$ 24,896	$ 55,439	$ 24,649	$ 20,107	$ 45,672	$ 17,161
Property operating expenses	8,242	21,881	8,256	6,775	18,270	5,734
Property NOI	$ 16,654	$ 33,558	$ 16,393	$ 13,332	$ 27,402	$ 11,427
Share of Property NOI	*25.0%*	*50.4%*	*24.6%*	*25.6%*	*52.5%*	*21.9%*

Year ended December 31,	2012 Retail	2012 Office	2012 Industrial	2011 Retail	2011 Office	2011 Industrial
Revenue	$ 89,369	$ 203,708	$ 79,165	$ 75,823	$ 154,432	$ 60,257
Property operating expenses	27,909	78,154	25,997	24,860	61,970	20,869
Property NOI	$ 61,460	$ 125,554	$ 53,168	$ 50,963	$ 92,462	$ 39,388
Share of Property NOI	*25.6%*	*52.3%*	*22.1%*	*27.9%*	*50.6%*	*21.5%*

PROPERTY NOI BY GEOGRAPHICAL REGION

In 2012, revenues and Property NOI increased in all regions in comparison to 2011. This growth is primarily attributable to acquisition activity.

Three month period ended December 31, 2012	Canada AB	Canada BC	Canada MB	Canada ON	Canada SK	U.S. MN	U.S. Other
Revenue	$ 38,159	$ 10,351	$ 16,308	$ 14,015	$ 6,105	$ 13,465	$ 6,581
Property operating expenses	12,563	3,797	7,640	5,591	2,098	5,275	1,415
Property NOI	$ 25,596	$ 6,554	$ 8,668	$ 8,424	$ 4,007	$ 8,190	$ 5,166
Share of Property NOI	*38.4%*	*9.8%*	*13.1%*	*12.6%*	*6.0%*	*12.3%*	*7.8%*

Three month period ended December 31, 2011	Canada AB	Canada BC	Canada MB	Canada ON	Canada SK	U.S. MN	U.S. 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%*

Year ended December 31, 2012	Canada AB	Canada BC	Canada MB	Canada ON	Canada SK	U.S. MN	U.S. Other
Revenue	$ 135,587	$ 37,767	$ 61,813	$ 47,715	$ 22,578	$ 45,403	$ 21,379
Property operating expenses	43,330	13,380	26,834	18,161	7,155	17,670	5,530
Property NOI	$ 92,257	$ 24,387	$ 34,979	$ 29,554	$ 15,423	$ 27,733	$ 15,849
Share of Property NOI	*38.4%*	*10.2%*	*14.6%*	*12.3%*	*6.4%*	*11.5%*	*6.6%*

Year ended December 31, 2011	Canada AB	Canada BC	Canada MB	Canada ON	Canada SK	U.S. MN	U.S. 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%*

PORTFOLIO OCCUPANCY

Occupancy levels impact the REIT's revenues and Property NOI. Occupancy and commitments at December 31, 2012 (excluding properties currently in redevelopment or under construction), and the previous four periods, are as follows:

Occupancy Report by Asset Class

	Q4-12 % Committed (1)	Q4-12	Q3-12	Q2-12	Q1-12	Q4-11
Retail	97.3%	96.4%	97.1%	96.7%	96.4%	96.6%
Office	96.1%	95.2%	95.0%	94.5%	96.2%	94.9%
Industrial	96.0%	95.5%	94.7%	93.4%	93.3%	94.3%
Total portfolio	96.3%	95.6%	95.3%	94.6%	95.0%	95.1%

Occupancy Report by Geographical Region

	Q4-12 % Committed (1)	Q4-12	Q3-12	Q2-12	Q1-12	Q4-11
Canada:						
Alberta	97.5%	96.9%	97.0%	96.1%	97.1%	97.4%
British Columbia	96.1%	95.3%	94.7%	93.7%	90.7%	90.6%
Manitoba	97.0%	96.6%	93.5%	94.5%	96.0%	97.0%
Ontario	97.4%	96.4%	96.6%	96.1%	97.5%	95.8%
Saskatchewan	99.7%	99.0%	98.2%	98.3%	98.0%	97.7%
U.S.:						
Minnesota	93.2%	92.3%	92.4%	89.8%	89.8%	90.0%
U.S. - Other	97.1%	97.0%	96.8%	96.6%	99.2%	98.9%
Total portfolio	96.3%	95.6%	95.3%	94.6%	95.0%	95.1%

(1) Percentage committed is based on occupancy plus commitments on vacant space as at December 31, 2012.

Occupancy, excluding properties in redevelopment, was 95.6% at December 31, 2012 compared to 95.3% at September 30, 2012 and 95.1% at December 31, 2011. During the current quarter, Artis acquired over 2.4 million square feet of leasable area at a weighted-average occupancy rate of 93.6%, which is lower than in the portfolio of properties owned at the start of the quarter. The resultant reduction in occupancy was offset by absorption during the period, particularly in the Alberta and British Columbia office segments, as well as the impact of reclassifying three Manitoba industrial properties into redevelopment.

PORTFOLIO LEASING ACTIVITY AND LEASE EXPIRIES

Renewal Summary (in S.F.)

	Three month period ended December 31,		Year ended December 31,	
	2012	2011	2012	2011
Leasable area renewed	362,049	586,707	1,578,867	1,509,261
% Increase in rent rate	4.5%	2.7%	2.6%	4.5%

The percentage change on renewal activity is calculated by comparing the rental rate in place at the end of the expiring term to the rental rate in place at the commencement of the new term. In many cases, leases are negotiated or renewed such that there are contractual rent escalations over the course of the new lease term. In these cases, the average rent over the new term will be higher than the rate at commencement, which is not reflected in the above table results.

Lease Expiries by Asset Class (in S.F.) (1)

	Current vacancy	Monthly tenants (2)	2013	2014	2015	2016	2017 & later	Total
Office - uncommitted	279,202	36,908	465,002	515,492	705,063	526,903	4,275,772	6,804,342
Office - committed	98,717	–	552,262	26,090	15,114	–	–	692,183
Total office	377,919	36,908	1,017,264	541,582	720,177	526,903	4,275,772	7,496,525
Retail - uncommitted	85,728	47,007	244,494	318,179	407,229	448,646	2,328,975	3,880,258
Retail - committed	70,349	–	156,899	68,630	–	5,321	101,114	402,313
Total retail	156,077	47,007	401,393	386,809	407,229	453,967	2,430,089	4,282,571
Industrial - uncommitted	619,970	109,883	1,078,351	1,668,937	1,582,280	1,798,364	3,689,953	10,547,738
Industrial - committed	127,783	–	659,920	75,038	185,776	–	–	1,048,517
Total industrial	747,753	109,883	1,738,271	1,743,975	1,768,056	1,798,364	3,689,953	11,596,255
Total - uncommitted	984,900	193,798	1,787,847	2,502,608	2,694,572	2,773,913	10,294,700	21,232,338
Total - committed	296,849	–	1,369,081	169,758	200,890	5,321	101,114	2,143,013
Total	1,281,749	193,798	3,156,928	2,672,366	2,895,462	2,779,234	10,395,814	23,375,351

(1) Based on owned share of total leasable area.
(2) Includes holdovers and renewals where term has not been negotiated.

(In thousands of Canadian dollars, unless otherwise noted)

In-Place Rents

In-place rents reflect the actual rental rate in effect for the leasable area as at December 31, 2012. 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 by Asset Class [1]

	2013	2014	2015	2016	2017 & later	Total
Office						
In-place rents	$ 19.47	$ 19.10	$ 16.57	$ 19.56	$ 17.69	$ 18.08
Market rents	19.91	21.04	18.94	21.75	19.64	19.87
Change	2.3%	10.2%	14.3%	11.2%	11.0%	9.9%
Revenue impact [2]	$ 446	$ 1,054	$ 1,707	$ 1,155	$ 8,331	$ 12,693
Retail						
In-place rents	$ 20.27	$ 18.64	$ 14.48	$ 20.88	$ 17.05	$ 17.69
Market rents	23.45	20.69	16.00	24.07	18.48	19.55
Change	15.7%	11.0%	10.5%	15.3%	8.4%	10.5%
Revenue impact [2]	$ 1,277	$ 792	$ 620	$ 1,446	$ 3,477	$ 7,612
Industrial						
In-place rents	$ 5.17	$ 6.52	$ 5.72	$ 7.13	$ 6.97	$ 6.42
Market rents	5.49	6.76	5.93	7.96	7.13	6.75
Change	6.3%	3.8%	3.8%	11.7%	2.3%	5.0%
Revenue impact [2]	$ 563	$ 432	$ 381	$ 1,499	$ 600	$ 3,475
Total portfolio						
In-place rents	$ 11.70	$ 10.82	$ 9.65	$ 11.73	$ 13.73	$ 12.29
Market rents	12.42	11.67	10.58	13.21	14.93	13.38
Change	6.2%	7.9%	9.7%	12.6%	8.7%	8.8%
Revenue impact [2]	$ 2,286	$ 2,278	$ 2,708	$ 4,100	$ 12,408	$ 23,780

[1] Based on owned share of total leasable area.

[2] This impact is based on the difference between the in-place rents and the market rents for the period. This excludes the impact of any straight-line rent adjustments on revenues.

Market rents at December 31, 2012 are estimated to be 8.8% above in-place rents across the portfolio, compared to 6.5% at September 30, 2012, and 4.3% at December 31, 2011. Today's market rents for the 2013 and 2014 lease expiries are estimated to be 6.2% and 7.9% respectively, above in-place rents. In the short term, rental rate growth is expected to be strongest in the retail portfolio; overall, the office portfolio is still expected to be the strongest contributor to incremental rental revenue over the long term.

Lease Expiries by Geographical Region (in S.F.) [1]

	Current Vacancy	Current monthly tenants [2]	2013	2014	2015	2016	2017 & later	Total
AB - uncommitted	137,334	29,025	385,413	622,493	543,253	907,333	2,901,870	5,526,721
AB - committed	66,582	–	387,005	27,152	15,114	5,321	–	501,174
Total Alberta	203,916	29,025	772,418	649,645	558,367	912,654	2,901,870	6,027,895
BC - uncommitted	116,945	29,688	85,241	177,053	207,158	104,110	788,058	1,508,253
BC - committed	36,802	–	178,798	17,089	–	–	100,046	332,735
Total British Columbia	153,747	29,688	264,039	194,142	207,158	104,110	888,104	1,840,988
MB - uncommitted	264,056	59,349	292,395	507,377	547,073	359,515	1,147,994	3,177,759
MB - committed	21,675	–	316,830	72,613	–	–	1,068	412,186
Total Manitoba	285,731	59,349	609,225	579,990	547,073	359,515	1,149,062	3,589,945
ON - uncommitted	69,673	35,257	129,000	411,510	456,224	633,169	1,663,274	3,398,107
ON - committed	65,379	–	281,431	–	–	–	–	346,810
Total Ontario	135,052	35,257	410,431	411,510	456,224	633,169	1,663,274	3,744,917
SK - uncommitted	4,018	11,216	79,734	57,825	67,767	74,276	635,579	930,415
SK - committed	7,504	–	108,591	29,029	105,600	–	–	250,724
Total Saskatchewan	11,522	11,216	188,325	86,854	173,367	74,276	635,579	1,181,139
MN - uncommitted	364,546	27,763	804,591	684,875	858,485	695,510	2,215,553	5,651,323
MN - committed	95,517	–	93,093	23,875	80,176	–	–	292,661
Total Minnesota	460,063	27,763	897,684	708,750	938,661	695,510	2,215,553	5,943,984
U.S. - Other - uncommitted	28,328	1,500	11,473	41,475	14,612	–	942,372	1,039,760
U.S. - Other - committed	3,390	–	3,333	–	–	–	–	6,723
Total U.S. - Other	31,718	1,500	14,806	41,475	14,612	–	942,372	1,046,483
Total - uncommitted	984,900	193,798	1,787,847	2,502,608	2,694,572	2,773,913	10,294,700	21,232,338
Total - committed	296,849	–	1,369,081	169,758	200,890	5,321	101,114	2,143,013
Total	1,281,749	193,798	3,156,928	2,672,366	2,895,462	2,779,234	10,395,814	23,375,351

[1] Based on owned share of total leasable area.

[2] Includes holdovers and renewals where term has not been negotiated.

Market Rents by Geographical Region (1)

	2013	2014	2015	2016	2017 & later	Total
Alberta						
In-place rents	$ 20.86	$ 15.08	$ 13.59	$ 17.70	$ 16.73	$ 16.95
Market rents	21.10	17.39	16.59	20.24	19.41	19.27
Change	1.1%	15.4%	22.0%	14.4%	16.1%	13.7%
Revenue impact (2)	$ 180	$ 1,505	$ 1,671	$ 2,321	$ 7,792	$ 13,469
British Columbia						
In-place rents	$ 17.41	$ 21.32	$ 17.49	$ 21.20	$ 12.77	$ 15.63
Market rents	18.53	21.40	17.74	22.10	12.94	16.00
Change	6.4%	0.4%	1.4%	4.2%	1.3%	2.3%
Revenue impact (2)	295	15	51	93	152	606
Manitoba						
In-place rents	$ 7.66	$ 7.88	$ 10.12	$ 12.75	$ 15.41	$ 11.42
Market rents	9.00	8.51	11.36	14.41	16.22	12.47
Change	17.5%	8.0%	12.3%	13.0%	5.3%	9.2%
Revenue impact (2)	$ 818	$ 368	$ 681	$ 597	$ 937	$ 3,401
Ontario						
In-place rents	$ 7.02	$ 9.58	$ 8.68	$ 7.72	$ 9.52	$ 8.81
Market rents	8.32	9.92	8.74	9.09	9.64	9.31
Change	18.5%	3.6%	0.7%	17.7%	1.3%	5.6%
Revenue impact (2)	$ 533	$ 142	$ 27	$ 864	$ 202	$ 1,768
Saskatchewan						
In-place rents	$ 19.06	$ 17.59	$ 11.12	$ 20.04	$ 13.58	$ 14.82
Market rents	21.47	19.25	11.82	21.06	14.64	16.09
Change	12.6%	9.5%	6.3%	5.1%	7.8%	8.6%
Revenue impact (2)	$ 454	$ 145	$ 121	$ 76	$ 676	$ 1,472
Minnesota						
In-place rents	$ 5.27	$ 5.65	$ 5.16	$ 4.73	$ 8.65	$ 6.60
Market rents	5.27	5.78	5.27	4.94	9.44	6.99
Change	0.0%	2.2%	2.1%	4.5%	9.2%	5.8%
Revenue impact (2)	$ 1	$ 89	$ 104	$ 149	$ 1,755	$ 2,098
U.S. - Other						
In-place rents	$ 23.69	$ 22.76	$ 31.41	$ –	$ 22.89	$ 23.02
Market rents	24.00	23.10	35.00	–	23.84	23.97
Change	1.3%	1.5%	11.4%	0.0%	4.1%	4.1%
Revenue impact (2)	$ 5	$ 14	$ 53	$ –	$ 894	$ 966
Total portfolio						
In-place rents	$ 11.70	$ 10.82	$ 9.65	$ 11.73	$ 13.73	$ 12.29
Market rents	12.42	11.67	10.58	13.21	14.93	13.38
Change	6.2%	7.9%	9.7%	12.6%	8.7%	8.8%
Revenue impact (2)	$ 2,286	$ 2,278	$ 2,708	$ 4,100	$ 12,408	$ 23,780

(1) Based on owned share of total leasable area.

(2) This impact is based on the difference between the in-place rents and the market rents for the period. 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, 2012, the four largest segments of the REIT's portfolio (by GLA) are Minneapolis industrial properties, Calgary office properties, GTA industrial properties and Winnipeg industrial properties.

Minneapolis industrial properties represent 21.2% of the overall portfolio by GLA. Direct vacancy in the Minneapolis industrial market, as reported by CBRE, was 6.0% at December 31, 2012, down from 7.0% at September 30, 2012 on positive net absorption over the quarter of 325,083 square feet. As per CBRE, this was the tenth consecutive quarter of positive absorption for this market. Average asking market lease rates increased slightly to $4.65 per square foot, up from $4.61 per square foot at September 30, 2012. Occupancy in this segment of the portfolio was 92.3% at December 31, 2012 compared to 92.6% at September 30, 2012. Artis has commitments in place for 19.4% of the unoccupied space. In 2013, 831,151 square feet comes up for renewal, which represents 3.6% of the portfolio's GLA; commitments are in place for 11.1% of the expiring space.

Calgary office properties represent 9.6% 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 Avison Young, was 4.5% at December 31, 2012, compared to 4.3% at September 30, 2012. At December 31, 2012, the Calgary office segment of Artis' portfolio was 95.0% occupied, compared to 94.3% occupancy at September 30, 2012. Artis has commitments in place for 13.7% of the unoccupied space. In 2013, 451,677 square feet comes up for renewal, which represents 1.9% of the portfolio's GLA; 61.0% has been renewed or committed to new leases. Approximately 45.6% of the Calgary office GLA expires in 2017 or later.

(In thousands of Canadian dollars, unless otherwise noted)

Lease Expiries for Calgary Office Segment (in S.F.) (1)

	Current vacancy	Current monthly tenants (2)	2013	2014	2015	2016	2017 & later	Total
Calgary - uncommitted	84,078	5,514	176,172	200,395	175,482	243,213	1,018,410	1,903,264
Calgary - committed	28,346	–	275,505	12,085	15,114	–	–	331,050
Total Calgary office	112,424	5,514	451,677	212,480	190,596	243,213	1,018,410	2,234,314
Other - uncommitted	195,124	31,394	288,830	315,097	529,581	283,690	3,257,362	4,901,078
Other - committed	70,371	–	276,757	14,005	–	–	–	361,133
Total other office	265,495	31,394	565,587	329,102	529,581	283,690	3,257,362	5,262,211

(1) Based on owned share of total leasable area.
(2) Includes holdovers and renewals where term has not been negotiated.

The market rents reported in the below table are reflective of management's estimates for today's market rent rates and they 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 for Calgary Office Segment (1)

	2013	2014	2015	2016	2017 & later	Total
Calgary office						
In-place rents	$ 24.64	$ 18.71	$ 15.63	$ 22.74	$ 19.42	$ 20.50
Market rents	23.32	23.54	22.30	24.85	24.09	23.80
Change	(5.4)%	25.8%	42.7%	9.3%	24.1%	16.1%
Revenue impact (2)	$ (596)	$ 1,025	$ 1,271	$ 513	$ 4,766	$ 6,979
Other office						
In-place rents	$ 15.35	$ 19.35	$ 16.91	$ 16.84	$ 17.15	$ 17.05
Market rents	17.19	19.44	17.73	19.10	18.25	18.20
Change	12.0%	0.5%	4.9%	13.4%	6.4%	6.8%
Revenue impact (2)	$ 1,042	$ 29	$ 436	$ 642	$ 3,565	$ 5,714

(1) Based on owned share of total leasable area.
(2) This impact is based on the difference between the in-place rents and the market rents for the period. This excludes the impact of any straight-line rent adjustments on revenues.

GTA industrial properties represent 9.6% of Artis' portfolio by GLA. Availability in the GTA industrial market, was 5.4% at December 31, 2012, a decrease from 5.6% at September 30, 2012. The average net rental rate in this market decreased to $4.63 per square foot, from $4.69 per square foot last quarter. Occupancy in this segment of the portfolio was 98.1% at December 31, 2012, compared to 97.5% at September 30, 2012. Artis has commitments in place for 40.4% of the unoccupied space. In 2013, 351,523 square feet comes up for renewal, which represents 1.5% of the portfolio's GLA; 73.1% has been renewed or committed to new leases.

Winnipeg industrial properties represent 7.6% of Artis' portfolio by GLA. Occupancy, excluding properties in redevelopment, was 95.9% at December 31, 2012, compared to 89.7% at September 30, 2012. In total, Artis has commitments in place for 18.0% of the unoccupied space. In 2013, 392,117 square feet comes up for renewal, which represents 1.7% of the portfolio's GLA; 64.6% has been renewed or committed to new leases.

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. Interest expense in 2012 has increased over 2011 due to additional mortgage financing obtained in connection with acquisitions completed in 2012 and 2011. 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, 2012 on mortgages and other loans secured by properties was 4.42%, compared to 4.79% at December 31, 2011. The weighted-average nominal interest rate at December 31, 2012 was 4.23% compared to 4.61% at December 31, 2011.

On August 2, 2012, the REIT amended its Declaration of Trust to become a closed-end trust thereby removing the redemption right attached to its common units. Prior to August 2, 2012, convertible debentures were recorded as a financial liability at fair value and interest expense was recorded on the face value of debentures outstanding. As a result of this amendment, the REIT's convertible debentures were reclassified from financial liabilities to compound financial instruments and, therefore, a portion of the convertible debentures outstanding was reclassified from liabilities to equity. Interest expense is now recorded on the carrying value of debentures outstanding. Artis recorded interest expense on debentures outstanding in 2012 of $11,443 (Q4-12 - $2,564), compared to $12,205 (Q4-11 - $3,748) in 2011.

The REIT's interest coverage ratio, defined as total revenues less property operating expenses and corporate expenses divided by interest expense, is 2.45 times for the year ended December 31, 2012 (Q4-12 - 2.60 times).

CORPORATE EXPENSE

	Three month period ended December 31, 2012	Three month period ended December 31, 2011	Year ended December 31, 2012	Year ended December 31, 2011
Accounting, legal and consulting	$ 468	$ 299	$ 1,525	$ 1,161
Advisory fees	–	1,689	–	6,037
Public company costs	264	187	1,101	853
Unit-based compensation	586	663	3,971	926
Salaries and benefits	981	–	2,817	–
Amortization	89	32	353	120
General and administrative	496	436	2,226	1,958
Total corporate expenses	$ 2,884	$ 3,306	$ 11,993	$ 11,055

Corporate expenses in 2012 were $11,993 (Q4-12 - $2,884), or 3.2% (Q4-12 - 2.7%) of gross revenues compared to $11,055 (Q4-11 - $3,306), or 3.8% (Q4-11 - 4.0%) of gross revenues in 2011. There are no advisory fees in 2012 due to the termination of the asset management agreement with Marwest Realty. As the asset management function has now been internalized, the REIT has expensed corporate salaries and benefits of $2,817 (Q4-12 - $981) in 2012.

The unit-based compensation expense recorded in 2012 was $3,971 (Q4-12 - $586) compared to $926 (Q4-11 - $663) in 2011. Prior to August 2, 2012, a liability for unit-based compensation was recognized and recorded at fair value at each reporting date and settlement date. Any fair value change of the liability was recognized as an expense for the period. On August 2, 2012, due to the amendment to the REIT's Declaration of Trust, the REIT's cash-settled unit-based payments for its unit options became equity-settled and the cash-settled unit-based compensation liability was reclassified to equity. The fair value of unvested options as at August 2, 2012 will be recognized as an expense over their remaining vesting period. An increase in the value of the REIT's units as well as additional options granted during 2011 and 2012 had caused an increase in the unit-based compensation expense for the period.

FOREIGN CURRENCY TRANSLATION (GAIN) LOSS

In 2012, the REIT held cash, deposits and the Series G debentures in US dollars. These assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. This resulted in a foreign currency translation gain of $2,396 (Q4-12 - loss of $240) in 2012, compared to a loss of $1,268 (Q4-11 - gain of $1,941) in 2011.

INCOME TAX

The REIT converted its U.S. subsidiary into 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 year ended December 31, 2012 and the year ended December 31, 2011. As a result, the REIT does not recognize any deferred income tax assets or liabilities for income tax purposes.

TRANSACTION COSTS

During 2012, $8,654 (Q4-12 - $1,511) of transaction costs were expensed compared to $16,451 (Q4-11 - $4,439) in 2011. Transaction costs in 2012 are primarily attributable to the acquisition of investment properties. In 2011, transaction costs also included Series G debentures transaction costs of $3,630 and a termination fee of $4,000 relating to taking over a third party property management company.

LOSS ON FINANCIAL INSTRUMENTS

In 2012, the REIT recorded an unrealized loss on convertible debentures of $13,915 (Q4-12 - $nil) compared to an unrealized gain of $650 (Q4-11 - loss of $14,036) in 2011.

The REIT holds a number of interest rate swaps to effectively lock the interest rate on a portion of floating rate debt. The REIT recorded an unrealized loss on the fair value adjustment of the interest rate swaps outstanding of $244 (Q4-12 - loss of $167) in 2012, compared to an unrealized loss of $4,347 (Q4-11 - loss of $259) in 2011. The REIT anticipates holding the mortgages and interest rate swap contracts until maturity.

In Q4-12, the REIT entered into a swap contract to exchange US$25,000 into Canadian funds and recorded an unrealized gain on the fair value adjustment of this contract of $78.

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 either the discounted cash flow method or 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 2012, the fair value gain on investment properties is $223,264 (Q4-12 - $60,400) compared to $246,094 (Q4-11 - $46,916) in 2011. Fair value changes in individual properties result from changes in the projected income and cash flow projections of those properties, as well as from changes in capitalization rates and discount rates applied. The size and mix of the 2012 portfolio is significantly different than the size and mix of the portfolio in 2011. Capitalization rate compression and increases to expected market rents in several portfolio segments have occurred over the course of 2011 and 2012 and have contributed to the fair value gain.

OTHER COMPREHENSIVE (LOSS) INCOME

Other comprehensive (loss) income includes the unrealized foreign currency translation loss in 2012 of $4,656 (Q4-12 - gain of $2,712) compared to a gain of $3,183 (Q4-11 - loss of $2,967) in 2011. Foreign currency translation gains and losses relate to the REIT's net investment in foreign operations in the U.S.

(In thousands of Canadian dollars, unless otherwise noted)

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.

	Three month period ended December 31, 2012	Year ended December 31, 2012	Year ended December 31, 2011	Year ended December 31, 2010
Cash flow from operations	$ 34,346	$ 135,920	$ 76,494	$ 24,187
Net income	$ 98,725	$ 340,339	$ 321,289	$ 33,224
Distributions declared [(1)]	$ 32,310	$ 117,948	$ 87,183	$ 46,503
Excess (shortfall) of cash flow from operations over distributions declared	$ 2,036	$ 17,972	$ (10,689)	$ (22,316)
Excess (shortfall) of net income over distributions declared	$ 66,415	$ 222,391	$ 234,106	$ (13,279)

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

For the year ended December 31, 2012, cash flow from operations exceeded distributions declared by $17,972 (Q4-12 - $2,036) 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 period.

Reconciliation of Cash Flows from Operations to FFO:

000's, except per unit amounts	Three month period ended December 31, 2012	Three month period ended December 31, 2011	Year ended December 31, 2012	Year ended December 31, 2011
Cash flow from operations	$ 34,346	$ 21,381	$ 135,920	$ 76,494
Add (deduct):				
Depreciation of property and equipment	(89)	(32)	(353)	(120)
Amortization of above- and below-market mortgages, net	465	290	1,537	862
Straight-line rent adjustment	1,560	1,508	5,473	5,514
Unrealized loss (gain) on equity securities	–	427	–	(1,569)
Realized foreign currency translation loss (gain)	341	(334)	(1,258)	(3,734)
Unrealized foreign currency gain (loss) from U.S. operations	167	(318)	(1,803)	2,662
Unit-based compensation expense	(586)	(663)	(3,971)	(926)
Accretion on liability component of convertible debentures	75	–	118	–
Accretion of financing costs included in interest	(798)	(562)	(2,777)	(1,974)
Defined benefit funding	647	–	–	–
Transaction costs on acquisitions	1,511	449	8,312	8,821
Additions to tenant inducements	4,408	1,969	15,566	8,666
Changes in non-cash operating items	(565)	2,382	(13,980)	(2,631)
Preferred unit distributions	(2,113)	–	(2,980)	–
FFO for the period	$ 39,369	$ 26,497	$ 139,804	$ 92,065
Add back:				
Transaction costs [(1)]	–	3,990	342	7,630
Current tax recovery	–	(1,710)	–	(30)
Loss on equity securities	–	(102)	–	290
FFO for the period after adjustments	$ 39,369	$ 28,675	$ 140,146	$ 99,955
FFO per unit				
Basic	$ 0.35	$ 0.31	$ 1.33	$ 1.15
Diluted	$ 0.34	$ 0.31	$ 1.30	$ 1.13
FFO per unit after adjustments				
Basic	$ 0.35	$ 0.34	$ 1.33	$ 1.25
Diluted	$ 0.34	$ 0.33	$ 1.30	$ 1.21
Weighted-average number of common units outstanding:				
Basic [(2)]	110,947	84,172	105,046	79,867
Diluted [(2)]	121,810	98,073	115,641	92,370

(1) Transaction costs added back are one time professional fees related to internalization and corporate matters and convertible debenture financing costs. On October 31, 2011, the REIT took over 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 group.
(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 common units to diluted common units and FFO to diluted FFO:

Diluted common units reconciliation:

	Three month period ended December 31, 2012	2011
Basic units	110,947	84,172
Add:		
Options [(1)]	268	–
Debentures [(1)]	10,595	13,901
Diluted units	121,810	98,073

[(1)] All debenture series and options are dilutive in Q4-12. All debenture series are dilutive in Q4-11.

Diluted FFO reconciliation:

	Three month period ended December 31, 2012	2011
FFO	39,369	26,497
Add:		
Options [(1)]	–	–
Debentures [(1)]	2,579	3,471
Diluted FFO	41,948	29,968

Diluted common units reconciliation:

	Year ended December 31, 2012	2011
Basic units	105,046	79,867
Add:		
Debentures [(1)]	10,595	12,503
Diluted units	115,641	92,370

[(1)] All debenture series are dilutive in 2012. All debenture series are dilutive in 2011.

Diluted FFO reconciliation:

	Year ended December 31 31, 2012	2011
FFO	139,804	92,065
Add:		
Debentures [(1)]	10,449	12,110
Diluted FFO	150,253	104,175

Reconciliation of GAAP Income to FFO:

	Three month period ended December 31,		Year ended December 31,	
	2012	2011	2012	2011
Income for the period	$ 98,725	$ 66,739	$ 340,339	$ 321,289
Add amortization on:				
Tenant inducements amortized to revenue	1,954	1,246	6,349	4,559
Add (deduct):				
Gain on disposal of investment properties	(637)	–	(637)	(736)
Deferred tax recovery	–	(8,997)	–	(439)
Fair value gain on investment properties	(60,400)	(46,916)	(223,264)	(246,094)
Foreign currency translation loss (gain)	240	(1,941)	(2,396)	1,268
Transaction costs on acquisitions	1,511	449	8,312	8,821
Unrealized loss on financial instruments	89	15,917	14,081	3,397
Preferred unit distributions	(2,113)	–	(2,980)	–
FFO for the period	$ 39,369	$ 26,497	$ 139,804	$ 92,065
Add back:				
Transaction costs [(1)]	–	3,990	342	7,630
Current tax recovery	–	(1,710)	–	(30)
Loss on equity securities	–	(102)	–	290
FFO for the period after adjustments	$ 39,369	$ 28,675	$ 140,146	$ 99,955

[(1)] Transaction costs added back are one time professional fees related to internalization and corporate matters and convertible debenture financing costs. On October 31, 2011, the REIT took over 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 group.

In 2012, FFO has increased $47,739 (Q4-12 - $12,872), or 51.9% (Q4-12 - 48.6%) over 2011. This increase is primarily attributed to acquisitions completed in 2011 and 2012. Basic FFO per unit has increased by $0.18 (Q4-12 - $0.04) or 15.7% (Q4-12 - 12.9%) over 2011. On a diluted basis, FFO per unit has increased $0.17 (Q4-12 - $0.03), or 15.0% (Q4-12 - 9.7%) over 2011.

During 2011, the REIT converted its U.S. subsidiary into a REIT for U.S. income tax purposes. The current tax expense and its reversal have been excluded from the calculation of adjusted FFO. In 2012, adjusted FFO has increased $40,191 (Q4-12 - $10,694), or 40.2% (Q4-12 - 37.3%) over 2011. Adjusted basic FFO per unit has increased by $0.08 (Q4-12 - $0.01) or 6.4% (Q4-12 - 2.9%). Adjusted diluted FFO per unit has increased by $0.09 (Q4-12 - $0.01) or 7.4% (Q4-12 - 3.0%).

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 2012 contribute to operating results.

ADJUSTED FUNDS FROM OPERATIONS ("AFFO")

Management believes that AFFO is an important measure of performance for Artis and is introducing reporting on AFFO performance in the 2012 Annual Management's Discussion and Analysis.

Artis calculates AFFO based on FFO for the period, net of allowances for normalized capital expenditures and leasing costs and excluding straight-line rent adjustments and unit-based compensation expense.

(In thousands of Canadian dollars, unless otherwise noted)

Actual capital expenditures, which are neither revenue enhancing nor recoverable from tenants in future periods, are by nature variable and unpredictable. The allowance applied in the calculation of AFFO reflects management's best estimate of a reasonable annual capital expenditure on a long-term basis, based on the asset class mix and age and quality of the Artis portfolio properties.

Actual leasing costs, which include tenant improvements that are not capital in nature, tenant allowances and commissions, are also variable in nature. Leasing costs will fluctuate depending on the square footage of leases rolling over, in-place rates at expiry, tenant retention and local market conditions in a given year. The allowance applied in the calculation of AFFO reflects management's estimate of normalized leasing costs over the long-term, based on the asset class mix, tenant mix and conditions in Artis' target markets.

Reconciliation of FFO to AFFO:

000's, except per unit amounts	Three month period ended December 31,		Year ended December 31,	
		2012		2012
FFO for the period, after adjustments	$	39,369	$	140,146
Add (deduct):				
Capital expenditures reserve		(792)		(2,813)
Leasing costs reserve		(3,694)		(13,129)
Straight-line rent adjustments		(1,560)		(5,473)
Unit-based compensation		586		3,971
AFFO for the period	$	33,909	$	122,702
AFFO per unit				
Basic	$	0.31	$	1.17
Diluted	$	0.30	$	1.15

ANALYSIS OF FINANCIAL POSITION

ASSETS

		December 31, 2012		December 31, 2011		Increase (decrease)
Non-current assets:						
Investment properties and investment properties under construction	$	4,217,747	$	3,024,067	$	1,193,680
Other non-current assets		22,928		24,063		(1,135)
Current assets:						
Cash, cash equivalents and cash held in trust		57,524		95,133		(37,609)
Investment properties held for sale		58,963		–		58,963
Other current assets		24,752		24,325		427
	$	4,381,914	$	3,167,588	$	1,214,326

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, 2011	$	3,003,604	$	20,463	$	3,024,067
Additions:						
Acquisitions		990,221		246		990,467
Capital expenditures		19,433		12,866		32,299
Leasing costs		6,447		–		6,447
Disposition		(2,790)		–		(2,790)
Reclassification of investment properties under construction		27,552		(27,552)		–
Reclassification of investment properties held for sale		(58,963)		–		(58,963)
Foreign currency translation loss		(11,678)		(56)		(11,734)
Straight-line rent adjustment		5,473		–		5,473
Tenant inducements, net of amortization		9,217		–		9,217
Fair value gain		220,622		2,642		223,264
Balance, December 31, 2012	$	4,209,138	$	8,609	$	4,217,747

Acquisitions:

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,			
		2012		2011		2012		2011
Cash consideration	$	96,608	$	21,869	$	509,227	$	278,129
Contingent consideration		–		713		200		713
Long-term debt, including acquired above- and below-market mortgages, net of financing costs		97,060		40,928		481,040		399,874
Investment properties and investment properties under construction	$	193,668	$	63,510	$	990,467	$	678,716

Capital expenditures:

Investment properties include certain capital expenditures related to sustaining building improvements not related to a specific lease or tenancy. Capital expenditures in 2012 totaled $32,299 (Q4-12 - $9,945) compared to $27,941 (Q4-11 - $12,821) in 2011. In 2012, revenue enhancing capital expenditures were $17,857 (Q4-12 - $4,334), which included investment properties under construction of $12,866 (Q4-12 - $2,509). Also included in revenue enhancing capital expenditures are costs incurred for properties that were classified as construction in progress and costs incurred towards the construction of new leasable area at existing properties. The remaining $14,442 (Q4-12 - $5,611) of capital expenditure primarily relate to elevator modernizations, HVAC unit replacements, boiler replacements, parking lot replacements and roof replacements. Approximately $9,394 (Q4-12 - $2,834) of these capital expenditures are recoverable from tenants in future periods.

Leasing costs and tenant inducements:

In 2012, Artis incurred $22,013 (Q4-12 - $6,777) of tenant inducements and leasing costs compared to $12,979 (Q4-11 - $2,968) in 2011. 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. The current year's tenant inducements include $3,777 relating to re-leasing activities at Northwest Centre I & II and the Britannia Building.

	Three month period ended December 31,				Year ended December 31,			
		2012		2011		2012		2011
Tenant inducements	$	4,408	$	1,969	$	15,566	$	8,666
Leasing costs		2,369		999		6,447		4,313
Total	$	6,777	$	2,968	$	22,013	$	12,979

Reclassification of investment properties under construction:

The REIT completed construction on several projects during the year which were reclassified from investment properties under construction to investment properties. A new parkade ancillary to an existing portfolio office property in Winnipeg, Manitoba and a new industrial building in Minneapolis, Minnesota were completed in Q1-12. In Q2-12, a new format Shoppers Drug Mart was built on an existing portfolio retail property in Winnipeg, Manitoba. The construction of Fourell Building #2 was completed on an existing portfolio industrial property in Edmonton, Alberta in Q3-12.

Reclassification of investment properties held for sale:

At December 31, 2012, the REIT has two investment properties listed for sale with an external broker. The fair value of these investment properties of $58,963 has been classified as held for sale at December 31, 2012.

Foreign currency translation loss:

In 2012, the foreign currency translation loss on investment properties was $11,734 (Q4-12 - gain of $7,301) due to the change in the period end US dollar to Canadian dollar exchange rate from 1.0170 at December 31, 2011 to 0.9949 at December 31, 2012.

Fair value gain on investment properties:

In 2012, the REIT recorded a gain on the fair value of investment properties of $223,264 (Q4-12 - $60,400). In 2011, the REIT recorded a gain of $246,094 (Q4-11 - $46,916). The increase in the fair value is primarily attributed to increases to expected market rents in several portfolio segments, most notably the Calgary office and Fort McMurray retail segments, as well as capitalization rate compression in the Toronto, Calgary and Winnipeg office segments, and Alberta industrial and retail segments.

Artis determines the fair value of investment properties, including investment properties held for sale, based upon either the discounted cash flow method or 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 5.25% 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.

(In thousands of Canadian dollars, unless otherwise noted)

	December 31, 2012			December 31, 2011		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Office:						
U.S.	8.50%	6.50%	7.14%	8.50%	7.00%	7.67%
Canada	8.25%	5.25%	6.15%	9.00%	5.50%	6.71%
Office total	8.50%	5.25%	6.34%	9.00%	5.50%	6.86%
Industrial:						
U.S.	8.00%	6.50%	7.10%	9.00%	7.00%	7.47%
Canada	8.00%	5.75%	6.59%	9.00%	6.00%	7.03%
Industrial total	8.00%	5.75%	6.74%	9.00%	6.00%	7.14%
Retail:						
U.S.	9.00%	6.25%	7.37%	8.50%	6.50%	7.58%
Canada	7.25%	5.50%	6.42%	8.00%	5.50%	6.71%
Retail total	9.00%	5.50%	6.44%	8.50%	5.50%	6.74%
Total:						
U.S. portfolio	9.00%	6.25%	7.13%	9.00%	6.50%	7.59%
Canadian portfolio	8.25%	5.25%	6.32%	9.00%	5.50%	6.77%
Total portfolio	9.00%	5.25%	6.46%	9.00%	5.50%	6.89%

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 also has a note receivable arising from the disposition of investment properties. The balance outstanding on all notes receivable at December 31, 2012 is $23,875 compared to $25,437 at December 31, 2011.

Cash and cash equivalents:

At December 31, 2012, the REIT had $54,705 of cash and cash equivalents on hand, compared to $94,094 at December 31, 2011. 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, 2012	December 31, 2011	Increase (decrease)
Non-current liabilities:			
Mortgages and loans payable	$ 1,860,606	$ 1,428,334	$ 432,272
Convertible debentures	182,344	235,746	(53,402)
Other non-current liabilities	76	78	(2)
Current liabilities:			
Current portion of mortgages and loans payable	213,001	139,065	73,936
Bank indebtedness	–	37,900	(37,900)
Other current liabilities	76,031	56,650	19,381
	$ 2,332,058	$ 1,897,773	$ 434,285

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.

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 property and equipment as disclosed in the balance sheet and notes thereto.

In connection with the U.S. restructuring, a subsidiary of the REIT issued US$77 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, 2012 was 47.3%, compared to 50.7% at December 31, 2011.

	December 31, 2012	December 31, 2011
GBV	$ 4,382,620	$ 3,167,941
Mortgages, loans and bank indebtedness	2,073,607	1,605,299
Mortgages, loans and bank indebtedness to GBV	47.3%	50.7%
Preferred share liabilities	$ 76	$ 78
Carrying value of convertible debentures	182,344	235,746
Total long-term debt and bank indebtedness	2,256,027	1,841,123
Total long-term debt and bank indebtedness to GBV	51.5%	58.1%

Artis REIT has an internal policy of maintaining a total debt to GBV ratio of 70% or lower. The Trustees have approved a guideline stipulating that for purposes of compliance with this policy, preferred units would be added to the debt component of the calculation. At December 31, 2012, the ratio of total long-term debt, bank indebtedness and preferred units to GBV was 54.9%.

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 2012, $41,903 (Q4-12 - $12,414) of principal repayments were made compared to $29,728 (Q4-11 - $8,783) in 2011.

During 2012, long-term debt including acquired above- and below-market mortgages, net of financing costs, added on acquisition of investment properties was $481,040 (Q4-12 - $97,060). In 2012, Artis obtained new or additional financing, net of financing costs, on seven properties in the amount of $104,572, repaid 11 maturing mortgages in the amount of $40,445 and received upward financing on a maturing mortgage of $8,192.

The weighted-average term to maturity at December 31, 2012 is 4.4 years, compared to 4.0 years at December 31, 2011.

Variable rate debt:

Management believes that a percentage of variable rate debt is prudent in managing a portfolio of debt. At various times, management feels that 5% to 20% of the portfolio could be held in variable rate instruments and provide the benefit of lower interest rates, while keeping the overall risk at a moderate level. With the exception of the line of credit, all the REIT's variable rate debt is term debt and cannot be called on demand. The REIT has the ability to refinance, or use interest rate swaps, at any given point without incurring penalties. Management believes that interest rates will remain low for some time yet before gradually starting to rise. Management anticipates gradually reducing the floating rate exposure over the next year as we begin to see upward pressure on interest rates.

At December 31, 2012, the REIT is a party to $529,660 of variable rate debt (December 31, 2011, $386,388), including the outstanding balance of bank indebtedness. At December 31, 2012, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with $173,472 of variable rate debt (December 31, 2011, $65,061). The variable rate debt less the portion protected by interest rate swaps is $356,188 or 15.8% of total debt.

The amount of variable rate debt on properties in the U.S. is $368,303, of which $29,847 is protected by an interest rate swap. Management believes that holding variable rate debt in the U.S. is particularly appropriate as it can be repaid at any time without penalty, and therefore, the REIT has flexibility in the event it were to ever exit the U.S. market. Management is of the view that the interest rate increases in the U.S. will lag the Canadian market, and as such, there will be ample time to reduce U.S. variable rate debt exposure if we see Canadian rates start to rise.

Convertible debentures:

Artis has three series of convertible debentures outstanding as at December 31, 2012, as follows:

				December 31, 2012		December 31, 2011	
	Issued	Maturity	Face rate	Carrying value	Face value	Carrying value	Face value
Series C	4-May-06	31-May-13	6.25%	$ –	$ –	$ 30,593	$ 29,920
Series D	30-Nov-07	30-Nov-14	5.00%	6,937	7,000	17,230	17,000
Series E	9-July-09	30-June-14	7.50%	–	–	14,093	9,333
Series F	22-Apr-10	30-June-20	6.00%	84,896	86,170	87,932	86,250
Series G	21-Apr-11	30-June-18	5.75%	90,511	87,551	85,898	89,496
				$ 182,344	$ 180,721	$ 235,746	$ 231,999

The carrying value of convertible debentures has decreased by $53,402 from December 31, 2011. This decrease is primarily due to the conversion of Series E convertible debentures, the early redemption of the Series C and the Series E convertible debentures and the redemption of $10,000 of the Series D convertible debentures. On August 2, 2012, the REIT amended its Declaration of Trust to become a closed-end trust thereby removing the redemption right attached to its common units. As a result of this amendment, the REIT's convertible debentures were reclassified from financial liabilities to compound financial instruments. Accordingly, at August 2, 2012, $11,587 was reclassified from liabilities to equity.

Other liabilities and bank indebtedness:

Included in other liabilities are security deposits paid by tenants, rents prepaid by tenants at December 31, 2012, accounts payable and accruals, as well as the December 31, 2012 distribution payable to unitholders of $10,340, subsequently paid on January 15, 2013. On September 6, 2012, the REIT replaced the $60,000 revolving acquisition line of credit that matured on September 28, 2012, with an $80,000 revolving credit facility, maturing September 6, 2014. This credit facility can be used for general corporate operating purposes, including the acquisition of commercial properties and the issuance of letters of credit. Amounts drawn on the facility bear interest at prime plus 1.00% or at the bankers' acceptance rate plus 2.00%. The credit facility is secured by a first charge on certain investment properties with a carrying value of $146,859 at December 31, 2012. At December 31, 2012, there is no balance drawn on the REIT's revolving term credit facility.

UNITHOLDERS' EQUITY

Unitholders' equity increased overall by $780,041 between December 31, 2011 and December 31, 2012. The increase was primarily due to the issuance of units for $533,579 and income for the period of $340,339. This increase was offset by distributions made to unitholders of $118,887.

LIQUIDITY AND CAPITAL RESOURCES

In 2012, Artis generated $135,920 of cash flows from operating activities. Cash flows from operations assisted in funding distributions to unitholders of $116,546 and for principal repayments on mortgages and loans of $41,903.

Cash of $54,312 was used for capital building improvements and for tenant inducements and leasing costs in 2012, compared to $40,920 in 2011.

At December 31, 2012, Artis had $54,705 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.

The REIT has a revolving term credit facility in the amount of $80,000 which may be utilized for general corporate operating purposes, including the acquisition of commercial properties and the issuance of letters of credit. As at December 31, 2012, the REIT does not have a balance drawn on the credit facility.

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, 2012.

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.

CONTRACTUAL OBLIGATIONS

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Accounts payable and other liabilities	$ 52,568	$ 52,568	$ –	$ –	$ –
Mortgages, loans and bank indebtedness	2,076,958	214,119	693,843	815,318	353,678
Convertible debentures [1]	180,721	–	7,000	–	173,721
Total	$ 2,310,247	$ 266,687	$ 700,843	$ 815,318	$ 527,399

[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, 2012, obligations due within one year include $52,568 of accounts payable and other liabilities, $163,712 of mortgages, and principal repayments on mortgages of $50,407.

SUMMARIZED QUARTERLY INFORMATION

$000's, except per unit amounts

	Q4-12	Q3-12	Q2-12	Q1-12	Q4-11	Q3-11	Q2-11	Q1-11
Revenue	$ 105,036	$ 98,466	$ 86,835	$ 82,132	$ 82,940	$ 78,427	$ 65,887	$ 63,258
Property operating expenses	38,379	34,937	29,454	29,290	30,779	29,316	23,358	24,246
Property NOI	66,657	63,529	57,381	52,842	52,161	49,111	42,529	39,012
Interest income	519	566	684	876	517	599	714	750
	67,176	64,095	58,065	53,718	52,678	49,710	43,243	39,762
Expenses (income):								
Interest	24,764	24,711	23,104	21,705	21,943	21,336	18,988	16,675
Corporate	2,884	2,604	3,057	3,448	3,306	2,663	2,573	2,513
Foreign currency translation loss (gain)	240	(4,759)	2,777	(654)	(1,941)	5,131	(2,025)	103
	27,888	22,556	28,938	24,499	23,308	29,130	19,536	19,291
Income before other items	$ 39,288	$ 41,539	$ 29,127	$ 29,219	$ 29,370	$ 20,580	$ 23,707	$ 20,471
Income tax recovery (expense)	–	–	–	–	10,707	(7,700)	(2,661)	123
Gain on disposal of investment properties	637	–	–	–	–	481	–	255
Transaction costs	(1,511)	(4,130)	(1,698)	(1,315)	(4,439)	(1,684)	(9,122)	(1,206)
(Loss) gain on financial instruments	(89)	(3,874)	(1,099)	(9,019)	(15,815)	16,785	(875)	(3,782)
Fair value gain on investment properties	60,400	54,003	51,990	56,871	46,916	35,043	47,975	116,160
Income for the period	$ 98,725	$ 87,538	$ 78,320	$ 75,756	$ 66,739	$ 63,505	$ 59,024	$ 132,021
Other comprehensive income (loss):								
Unrealized foreign currency translation gain (loss)	2,712	(9,538)	5,270	(3,100)	(2,967)	10,497	(2,278)	(2,069)
Comprehensive income for the period	$ 101,437	$ 78,000	$ 83,590	$ 72,656	$ 63,772	$ 74,002	$ 56,746	$ 129,952
Income per unit attributable to common unitholders:								
Basic	$ 0.87	$ 0.79	$ 0.74	$ 0.81	$ 0.79	$ 0.76	$ 0.77	$ 1.75
Diluted	$ 0.81	$ 0.77	$ 0.70	$ 0.80	$ 0.79	$ 0.49	$ 0.69	$ 1.63

The quarterly trend for revenues and property NOI has been impacted by acquisition and disposition activity. Management anticipates there will be further growth in revenues and Property NOI as acquisitions completed in 2012 contribute to operating results. Comprehensive income and per unit amounts are also impacted by the fair value gains on investment properties.

Reconciliation of GAAP Income to FFO:

000's, except per unit amounts

	Q4-12	Q3-12	Q2-12	Q1-12	Q4-11	Q3-11	Q2-11	Q1-11
Income for the period	$ 98,725	$ 87,538	$ 78,320	$ 75,756	$ 66,739	$ 63,505	$ 59,024	$ 132,021
Add amortization on:								
Tenant inducements amortized into revenue	1,954	1,645	1,425	1,325	1,246	1,199	1,094	1,020
Unrealized loss (gain) on financial instruments	89	3,874	1,099	9,019	15,917	(16,829)	720	3,589
Transaction costs on acquisitions	1,511	4,130	1,698	973	449	1,677	5,489	1,206
Fair value gain on investment properties	(60,400)	(54,003)	(51,990)	(56,871)	(46,916)	(35,043)	(47,975)	(116,160)
Gain on disposal of investment properties	(637)	–	–	–	–	(481)	–	(255)
Deferred tax (recovery) expense	–	–	–	–	(8,997)	6,817	1,790	(49)
Foreign currency translation loss (gain)	240	(4,759)	2,777	(654)	(1,941)	5,131	(2,025)	103
Preferred distributions	(2,113)	(867)	–	–	–	–	–	–
FFO for the period	$ 39,369	$ 37,558	$ 33,329	$ 29,548	$ 26,497	$ 25,976	$ 18,117	$ 21,475
Add back:								
Transaction costs [1]	–	–	–	342	3,990	7	3,633	–
Current tax (recovery) expense	–	–	–	–	(1,710)	883	871	(74)
(Gain) loss on equity securities	–	–	–	–	(102)	44	154	193
FFO for the period after adjustments	$ 39,369	$ 37,558	$ 33,329	$ 29,890	$ 28,675	$ 26,910	$ 22,775	$ 21,594
FFO per unit								
Basic	$ 0.35	$ 0.34	$ 0.32	$ 0.32	$ 0.31	$ 0.31	$ 0.24	$ 0.28
Diluted	$ 0.34	$ 0.33	$ 0.31	$ 0.31	$ 0.31	$ 0.30	$ 0.24	$ 0.28
FFO per unit after adjustments								
Basic	$ 0.35	$ 0.34	$ 0.32	$ 0.32	$ 0.34	$ 0.32	$ 0.30	$ 0.29
Diluted	$ 0.34	$ 0.33	$ 0.31	$ 0.31	$ 0.33	$ 0.31	$ 0.29	$ 0.28
Weighted-average number of common units outstanding:								
Basic [2]	110,947	109,993	105,468	93,657	84,172	83,380	76,173	75,613
Diluted [2]	121,810	120,588	116,631	105,632	98,073	97,400	83,929	85,209

(1) Transaction costs added back in Q1-12 are one time professional fees related to internalization and corporate matters. In 2011, transaction costs include a termination fee paid to a prior third party property management company upon the REIT taking over property management operations for several of its properties in Winnipeg, Manitoba and convertible debenture financing costs.

(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 2012 contribute to operating results.

(In thousands of Canadian dollars, unless otherwise noted)

RELATED PARTY TRANSACTIONS

	Three month period ended December 31,		Year ended December 31,	
	2012	2011	2012	2011
Advisory fees	$ –	$ 1,690	$ –	$ 6,037
Acquisition fees	–	305	552	3,361
Property management fees	79	3,149	317	11,155
Recoverable property management salaries and wages	–	477	–	2,078
Capitalized office furniture and fixtures	163	–	1,554	–
Capitalized office equipment	–	–	343	–
Capitalized leasing commissions	492	108	1,351	743
Capitalized building improvements	2,366	6,661	11,059	18,089
Capitalized tenant inducements	628	739	1,451	2,996
Disposition of surplus land	–	–	(750)	–
Property tax assessment consulting fees	3	160	191	224
Consulting fees	–	62	–	137
Legal fees	590	212	2,851	1,481
Rental revenues	(561)	(666)	(2,245)	(2,627)

Effective January 1, 2012, the REIT internalized its asset and property management functions. The asset management agreement with Marwest Realty Advisors Inc. (''Marwest Realty''), a company owned and controlled by certain trustees and officers of the REIT, was terminated effective December 31, 2011. No fees or penalties were paid to Marwest Realty upon termination of this agreement. On December 31, 2011, the omnibus property management agreement was assigned to the REIT from Marwest Management Canada Ltd. (''Marwest Management''), a company owned and controlled by certain trustees and officers of the REIT, which encompasses all investment properties owned by the REIT. No fees or penalties were paid to Marwest Management upon assignment of this agreement.

Prior to the termination of the asset management agreement, Marwest Realty was 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. Acquisition fees incurred during the year ended December 31, 2012 relate to acquisitions which were unconditional prior to the termination of the agreement. The REIT was obligated to pay Marwest Realty for services provided in respect to these acquisitions. The amount payable at December 31, 2012 is $nil (December 31, 2011, $567). There are no further outstanding obligations related to this agreement.

The REIT incurred property management fees, leasing commission fees and tenant improvement fees under property management agreements with Marwest Management for three properties owned by the REIT. The amount payable at December 31, 2012 is $26.

On January 1, 2012, the REIT entered into a one-year leasing services agreement with Marwest Management. The amount payable at December 31, 2012 is $756.

Prior to the assignment of the property management agreement, the agreement entitled Marwest Management to property management fees, recoverable property management salaries and wages, leasing commission fees, and tenant improvement fees. The amount payable at December 31, 2011 was $1,949.

The REIT incurred costs for building improvements and tenant inducements paid to Marwest Construction Ltd., Marwest Development Corporation, and Nova 3 Engineering, companies related to certain trustees and officers of the REIT. The amount payable at December 31, 2012 is $1,137 (December 31, 2011, $354).

The REIT purchased $1,297 of office furniture and fixtures and $343 of office equipment from Marwest Management as a result of the internalization of the asset and property management functions. The REIT also incurred costs for office furniture and fixtures paid to Marwest Construction Ltd. The amount payable at December 31, 2012 is $42.

The REIT sold surplus land at an investment property to a company controlled by a trustee of the REIT. The amount receivable at December 31, 2012 is $nil.

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, 2012 is $nil (December 31, 2011, $13).

The consulting fees represent work performed by Marwest Realty on IFRS accounting work.

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, 2012 is $705 (December 31, 2011, $200).

The REIT collects office rents from Marwest Management and a law firm associated with 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 February 28, 2013 is as follows:

Units outstanding at December 31, 2012	114,884,469
Units issued (DRIP)	189,737
Units issued on exercise of options	36,562
Units issued on conversion of debentures	–
Units outstanding at February 28, 2013	115,110,768

The balance of options outstanding as of February 28, 2013 is as follows:

	Options outstanding	Options exercisable
$11.28 options, issued February 25, 2010	146,313	81,500
$13.30 options, issued September 10, 2010	331,250	141,750
$13.44 options, issued October 15, 2010	342,250	152,250
$14.10 options, issued June 17, 2011	1,055,000	257,000
$16.36 options, issued April 13, 2012	1,762,000	–
	3,636,813	632,500

As of February 28, 2013, the balance of Series A preferred units outstanding is 3,450,000 and the balance of Series C preferred units outstanding is 3,000,000.

The balance of restricted units outstanding as of February 28, 2013 is 45,324. None of these restricted units are vested at this time.

OUTLOOK

Artis continues 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. As the value proposition for U.S. investment opportunities remains attractive and real estate fundamentals continue to improve, Artis may increase its portfolio weighting in the U.S. over the course of 2013.

According to the Scotiabank Global Economic Research report of January 31, 2013, real GDP in Canada is forecast to grow 1.7% in 2013. Forecast GDP growth for the Canadian provinces where Artis owns properties is also positive, as follows: Manitoba, 1.7%; Saskatchewan, 2.6%; Alberta, 2.7%; British Columbia, 1.6% and Ontario, 1.6%. Real GDP in the U.S. is forecast to grow 1.9% in 2013; national year-over-year unemployment for January 2013 decreased to 7.9% from 8.2%. For Minnesota and Arizona, where Artis' U.S. properties are concentrated, year-over-year unemployment at December 31, 2012 decreased to 5.4% from 5.7% and to 6.7% from 8.0%, respectively.

Access to equity capital is expected to remain stable in 2013; investors continue to perceive commercial real estate holdings as relatively lower risk and are attracted to the yields that are available from REIT investments. Artis has the ability to issue both new trust units and preferred equity, which provides flexibility in accessing the capital markets depending on current investor sentiment and preference.

Access to debt capital is also expected to remain healthy in 2013. Management anticipates interest rates will continue to moderately fluctuate in a low trading range and that there will continue to be opportunities to term out debt at very attractive low long-term financing rates. In the U.S., term floating rate debt remains an attractive option, particularly when loans are flexible and allow for early repayment or the ability to add interest rate swaps without penalty at any time. However, management's overall goal is to reduce the REIT's un-hedged floating rate debt as a percentage of total debt over the course of 2013.

DBRS has assigned an Issuer Rating of BBB (low) with a Stable trend to Artis REIT. DBRS has also assigned a rating of Pfd-3 (low) with a Stable trend to Artis' preferred units. Management anticipates that having the DBRS credit rating will be beneficial for accessing the debt and equity capital markets.

Capitalization rates on Canadian investment opportunities continued to compress into early 2013, and competition for quality properties remains strong. However, barring unforeseen volatility in the economy and/or capital markets, Artis expects to grow externally during 2013 and is targeting an additional $400 to $600 million in new accretive acquisitions.

Management anticipates that real estate fundamentals in Canada and the U.S. will remain healthy, with vacancy in major markets remaining stable or potentially decreasing. Market rent expectations have also improved significantly. As a result, we expect that both Property NOI growth and Same Property NOI will trend up over the course of 2013.

As at December 31, 2012, Artis had $54,705 of cash and cash equivalents on hand and $80,000 available on the line of credit. Subsequent to December 31, 2012, the following transactions took place:

- On January 15, 2013, the REIT acquired 1110 Pettigrew which is located in Regina, Saskatchewan. The property was acquired for $12,200 and the purchase price was satisfied with cash.
- On January 15, 2013, the balance owing on one of the REIT's notes receivable was repaid in the amount of $1,653.
- On February 1, 2013, the REIT repaid maturing mortgages on two properties in the amount of $23,534. On February 8, 2013, the REIT received new financing on one of these properties in the amount of $25,000.
- On February 11, 2013, the REIT closed the first part of the acquisition of Century Crossing III. This property is located in Spruce Grove, Alberta. The first part was acquired for $16,650, which was satisfied with cash. The total purchase price for this property is $26,400. The second part is expected to close in July 2013.
- On February 11, 2013, the REIT extended its swap contract to exchange US$25,000 into Canadian funds.
- Subsequent to December 31, 2012, the REIT drew a net balance of $40,000 on its revolving term credit facility.
- The REIT entered into agreements with respect to the acquisition of properties located in Alberta, Manitoba and Ontario. The total purchase price of these properties is $100,513. The REIT anticipates that the acquisitions will close in March, April, May and June of 2013, and will be financed through a combination of cash consideration and either existing or new mortgage financing.
- Distributions in the amount of $0.09 per unit for January and February 2013 were declared subsequent to December 31, 2012.

(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 carefully monitoring the amount of variable rate debt. The REIT has the majority of its mortgage payable and debentures in fixed rate terms. At December 31, 2012, the REIT is a party to $529,660 of variable rate debt, (December 31, 2011, $386,388), including the outstanding balance of bank indebtedness. At December 31, 2012, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with $173,472 of variable rate debt (December 31, 2011, $65,061). The REIT has the ability to place interest rate swaps on top of variable rate debt at any time in order to effectively fix the interest rate.

The REIT's ratio of mortgages, loans and bank indebtedness to GBV is 47.3%, down from 50.7% at December 31, 2011. Approximately 9.2% of Artis' maturing mortgage debt comes up for renewal in 2013, and 12.4% in 2014. Management is in discussion with various lenders with respect to the renewal or refinancing of the 2013 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 nearly 2,000 tenant leases with a weighted-average term to maturity of 4.8 years. Approximately 62.0% of the REIT's gross revenue is derived from 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 2011 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 £3.0 billion.

Top Twenty Tenants By Gross Revenue

Tenant	% of Total Gross Revenue	Owned Share of GLA (in 000's of S.F.)	% of Total GLA	Weighted-Average Remaining Lease Term
MTS Allstream	2.2%	322	1.4%	10.2
AMEC Americas Ltd. [1]	2.1%	200	0.9%	0.7
TransAlta Corporation	1.2%	336	1.5%	10.4
Shoppers Drug Mart	1.1%	155	0.7%	6.0
Home Depot	1.0%	158	0.7%	9.6
TD Bank	0.9%	123	0.5%	7.4
IHS Energy (Canada) Ltd.	0.9%	78	0.3%	4.8
Sobeys	0.9%	190	0.8%	8.2
Fairview Health Services	0.9%	179	0.8%	10.7
PMC - Sierra, Inc [1]	0.9%	148	0.6%	0.7
CGI Sys & Mgmnt Consultants Inc.	0.9%	64	0.3%	2.9
Cara Operations Limited	0.8%	50	0.2%	15.9
CB Richard Ellis, Inc.	0.8%	103	0.4%	5.8
3M Canada Company	0.8%	319	1.4%	7.3
Birchcliff Energy	0.8%	59	0.3%	4.9
ABB Inc.	0.8%	318	1.4%	1.9
Bell Canada	0.7%	76	0.3%	3.5
Credit Union Central	0.7%	86	0.4%	9.0
Sport Alliance of Ontario	0.6%	85	0.4%	11.5
Cineplex Entertainment LP	0.6%	108	0.5%	9.9
Total	19.6%	3,157	13.8%	7.0

[1] Tenant has exercised their renewal option.

Government Tenants By Gross Revenue

Tenant	% of Total Gross Revenue	Owned Share of GLA (in 000's of S.F.)	% of Total GLA	Weighted-Average Remaining Lease Term
Federal Government	4.5%	897	3.9%	5.5
Provincial Government	2.7%	379	1.6%	3.7
Civic or Municipal Government	0.5%	122	0.5%	14.4
Total	7.7%	1,398	6.0%	5.8
Weighted-average term to maturity (entire portfolio)				4.8

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:

	Canada						U.S.		
Expiry Year	AB	BC	MB	SK	ON	*Calgary Office Only*	MN	Other	Total
2013	3.3%	1.1%	2.6%	0.8%	1.8%	*1.9%*	3.8%	0.1%	13.5%
2014	2.7%	0.8%	2.5%	0.4%	1.8%	*0.9%*	3.0%	0.2%	11.4%
2015	2.4%	0.9%	2.3%	0.7%	2.0%	*0.8%*	4.0%	0.1%	12.4%
2016	3.9%	0.4%	1.5%	0.3%	2.8%	*1.0%*	3.0%	0.0%	11.9%
2017	2.0%	0.8%	1.3%	0.4%	1.9%	*1.0%*	2.8%	1.2%	10.4%
2018	1.8%	0.3%	0.5%	0.6%	0.3%	*0.7%*	0.9%	0.6%	5.0%
2019 & later	8.5%	2.7%	3.1%	1.8%	4.9%	*2.8%*	5.8%	2.3%	29.1%
Month-to-month	0.2%	0.1%	0.1%	0.0%	0.2%	*0.0%*	0.1%	0.0%	0.7%
Vacant	0.8%	0.4%	0.5%	0.0%	0.6%	*0.5%*	2.0%	0.1%	4.4%
Properties in Redevelopment	0.1%	0.3%	0.8%	0.0%	0.0%	*0.0%*	0.0%	0.0%	1.2%
Total	25.7%	7.8%	15.2%	5.0%	16.3%	*9.6%*	25.4%	4.6%	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, Calgary office properties and GTA industrial properties.

Over 43.0% of leasable area expiring in 2013 has been renewed or committed to new leases.

TAX RISK

On June 22, 2007, the SIFT Rules (discussed in more detail above under the heading "Income Tax Recovery") 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 year ended December 31, 2012 and the year ended December 31, 2011. 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, 2012, Artis US Holdings, Inc. owes US$95,514 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.

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. The REIT's Series C preferred units are also denominated in US dollars.

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 period. Artis determines the fair value of investment properties based upon either the discounted cash flow method or 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 8.02% at December 31, 2011 and 7.68% at December 31, 2012. 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 7.08% at December 31, 2011 and 6.46% at December 31, 2012.

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 all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

ALLOCATION OF CONVERTIBLE DEBENTURES

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

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 year ended December 31, 2012 and the year ended December 31, 2011.

CHANGES IN ACCOUNTING POLICIES

In June 2011, the IASB amended IAS 19 – *Employee Benefits*. The amendments eliminate an option to defer the recognition of gains and losses, known as the 'corridor method'; streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhance the disclosure requirements for defined benefit plans, effective for annual periods beginning on or after January 1, 2013. The REIT does not expect that this standard will result in a material impact on the consolidated financial statements.

In December 2011, the IASB amended IAS 32 - *Offsetting Financial Assets and Liabilities*. The amendment clarifies certain aspects of offsetting and net and gross settlement, and is effective for annual periods beginning on or after January 1, 2014. The REIT is currently evaluating the impact of this amended standard.

IFRS 7 - *Financial Instruments*: *Disclosures*, as amended by the IASB in December 2011 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, 2013. The REIT does not expect that this standard will result in material impact on the consolidated financial statements.

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. The REIT is currently evaluating the impact of this new standard.

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. This standard is not expected to have an impact on unitholders' equity or net income going forward but is expected to have a presentation impact on the consolidated financial statements.

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. The REIT does not expect that this standard will result in material impact on the consolidated financial statements.

CONTROLS AND PROCEDURES

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 period ended December 31, 2012.

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, 2012, 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 period ended December 31, 2012.

ARTIS
REIT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

The Board of Trustees is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Trustees carries out this responsibility principally through its Audit Committee, composed entirely of outside and unrelated trustees. The Audit Committee meets regularly with management of the R EIT 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 LLP, have been appointed by the unitholders to audit the consolidated financial statements and express an opinion thereon.

ARMIN MARTENS, P.ENG., MBA
President and Chief Executive Officer
February 28, 2013

JIM GREEN, CA
Chief Financial Officer
February 28, 2013

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF ARTIS REAL ESTATE INVESTMENT TRUST

We have audited the accompanying consolidated financial statements of Artis Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2012, December 31, 2011, and the consolidated statements of operations, consolidated statements of changes in unitholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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, 2012, December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Deloitte LLP
Chartered Accountants
February 28, 2013
Winnipeg, Manitoba

Member of the Deloitte Touche Tohmatsu

(In thousands of Canadian dollars)	December 31, 2012	December 31, 2011
ASSETS		
Non-current assets:		
Investment properties (note 4)	$ 4,209,138	$ 3,003,604
Investment properties under construction (note 4)	8,609	20,463
Property and equipment (note 5)	2,397	311
Notes receivable (note 6)	20,531	23,752
	4,240,675	3,048,130
Current assets:		
Investment properties held for sale (note 4)	58,963	–
Deposits on investment properties	2,397	5,614
Prepaid expenses	5,732	5,150
Notes receivable (note 6)	3,344	1,685
Accounts receivable and other receivables (note 7)	13,279	11,876
Cash held in trust	2,819	1,039
Cash and cash equivalents	54,705	94,094
	141,239	119,458
	$ 4,381,914	$ 3,167,588
LIABILITIES AND UNITHOLDERS' EQUITY		
Non-current liabilities:		
Mortgages and loans payable (note 8)	$ 1,860,606	$ 1,428,334
Convertible debentures (note 9)	182,344	235,746
Preferred share liability	76	78
	2,043,026	1,664,158
Current liabilities:		
Mortgages and loans payable (note 8)	213,001	139,065
Security deposits and prepaid rent	23,463	14,160
Accounts payable and other liabilities (note 10)	52,568	42,490
Bank indebtedness (note 11)	–	37,900
	289,032	233,615
	2,332,058	1,897,773
Unitholders' equity	2,049,856	1,269,815
Commitments and guarantees (note 23)		
Subsequent events (note 26)		
	$ 4,381,914	$ 3,167,588

See accompanying notes to consolidated financial statements.

(In thousands of Canadian dollars, except unit and per unit amounts)	2012	2011
Revenue (note 14)	$ 372,469	$ 290,512
Property operating expenses	132,060	107,699
	240,409	182,813
Interest income	2,645	2,580
	243,054	185,393
Expenses (income):		
Interest	94,284	78,942
Corporate	11,993	11,055
Foreign currency translation (gain) loss	(2,396)	1,268
	103,881	91,265
Income before other items	139,173	94,128
Income tax recovery (note 20)	-	469
Transaction costs (note 15)	(8,654)	(16,451)
Loss on financial instruments (note 16)	(14,081)	(3,687)
Gain on disposal of investment properties (note 3)	637	736
Fair value gain on investment properties (note 4)	223,264	246,094
Income for the year	340,339	321,289
Other comprehensive (loss) income:		
Unrealized foreign currency translation (loss) gain	(4,656)	3,183
Comprehensive income for the year	$ 335,683	$ 324,472
Basic income per unit attributable to common unitholders (note 12 (d))	$ 3.21	$ 4.02
Diluted income per unit attributable to common unitholders (note 12 (d))	$ 3.14	$ 3.60
Weighted-average number of common units outstanding (note 12 (d)):		
Basic	105,046,401	79,867,112
Diluted	115,641,044	92,413,015

See accompanying notes to consolidated financial statements.

(In thousands of Canadian dollars)	Common units capital contributions	Equity component of convertible debentures	Equity (deficit)	Accumulated other comprehensive (loss) income	Contributed surplus	Total common equity	Total preferred equity	Total
Unitholders' equity, December 31, 2010	$ 875,234	$ –	$ (20,694)	$ (310)	$ –	$ 854,230	$ –	$ 854,230
Changes for the year:								
Issuance of units, net of issue costs	171,433	–	–	–	–	171,433	–	171,433
Conversion of convertible debentures	6,863	–	–	–	–	6,863	–	6,863
Income	–	–	321,289	–	–	321,289	–	321,289
Other comprehensive income	–	–	–	3,183	–	3,183	–	3,183
Distributions	–	–	(87,183)	–	–	(87,183)	–	(87,183)
Unitholders' equity, December 31, 2011	1,053,530	–	213,412	2,873	–	1,269,815	–	1,269,815
Changes for the year:								
Issuance of units, net of issue costs	381,829	–	–	–	(117)	381,712	151,867	533,579
Reclassification of convertible debentures liability to equity (note 9)	–	11,587	–	–	–	11,587	–	11,587
Reclassification of unit-based payments liability to equity (note 18 (c)(i))	–	–	–	–	3,530	3,530	–	3,530
Unit-based compensation	–	–	–	–	941	941	–	941
Redemption of convertible debentures	–	(328	–	–	–	(328)	–	(328)
Conversion of convertible debentures	13,942	(6)	–	–	–	13,936	–	13,936
Income	–	–	340,339	–	–	340,339	–	340,339
Other comprehensive loss	–	–	–	(4,656)	–	(4,656)	–	(4,656)
Distributions	–	–	(118,887)	–	–	(118,887)	–	(118,887)
Unitholders' equity, December 31, 2012	$ 1,449,301	$ 11,253	$ 434,864	$ (1,783)	$ 4,354	$ 1,897,989	$ 151,867	$ 2,049,856

See accompanying notes to consolidated financial statements.

(In thousands of Canadian dollars)	2012	2011
Cash provided by (used in):		
Operating activities:		
Income for the year	$ 340,339	$ 321,289
Adjustments for non-cash items:		
Fair value gain on investment properties	(223,264)	(246,094)
Depreciation of property and equipment	353	120
Amortization:		
Tenant inducements amortized to revenue	6,349	4,559
Above- and below-market mortgages, net	(1,537)	(862)
Accretion on liability component of convertible debentures	(118)	–
Straight-line rent adjustment	(5,473)	(5,514)
Unrealized foreign currency translation loss	665	2,340
Gain on disposal of investment properties (note 3)	(637)	(736)
Unrealized fair value loss on financial instruments	14,081	4,966
Unit-based compensation expense	3,971	926
Accretion of financing costs included in interest	2,777	1,974
Deferred tax recovery	–	(439)
	137,506	82,529
Additions to tenant inducements	(15,566)	(8,666)
Changes in non-cash operating items (note 17)	13,980	2,631
	135,920	76,494
Investing activities:		
Acquisition of investment properties, net of related debt (note 3)	(509,227)	(278,129)
Proceeds from disposition of investment properties, net of costs and related debt (note 3)	2,354	8,146
Additions to investment properties	(19,433)	(8,333)
Additions to investment properties under construction	(12,866)	(19,608)
Purchase of investment in equity securities	–	(5,683)
Proceeds from sale of equity securities	–	15,298
Advance of notes receivable	(149)	–
Notes receivable principal repayments	1,711	1,705
Net change to property and equipment	(2,439)	(83)
Additions to leasing costs	(6,447)	(4,313)
Change in deposits on investment properties	3,153	10,599
	(543,343)	(280,401)
Financing activities:		
Issuance of common units, net of issue costs	381,089	171,357
Issuance of preferred units, net of issue costs	151,867	–
Issuance of convertible debentures	–	83,767
Repayment of convertible debentures	(40,172)	–
Change in bank indebtedness	(37,900)	29,900
Distributions paid on common units	(113,566)	(85,977)
Distributions paid on preferred units	(2,980)	–
Mortgages and loans principal repayments	(41,903)	(29,728)
Repayment of mortgages and loans payable	(40,445)	(4,828)
Advance of mortgages and loans payable, net of financing costs	112,764	44,230
Issuance of preferred shares	–	78
	368,754	208,799
Foreign exchange (loss) gain on cash held in foreign currency	(720)	878
(Decrease) increase in cash and cash equivalents	(39,389)	5,770
Cash and cash equivalents at beginning of year	94,094	88,324
Cash and cash equivalents at end of year	$ 54,705	$ 94,094
Supplemental cash flow information:		
Interest paid	$ 92,105	$ 76,674
Interest received	2,647	2,580
Taxes paid	–	152

See accompanying notes to consolidated financial statements.

1. ORGANIZATION:

Artis Real Estate Investment Trust (the "REIT") is an unincorporated closed-end real estate investment trust created under, and governed by, the laws of the Province of Manitoba. The REIT was created pursuant to the Declaration of Trust dated November 8, 2004, as most recently amended and restated on August 2, 2012 (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. The amount distributed annually (currently $1.08 per common unit, $1.3125 per Series A preferred unit and US$1.3125 per Series C preferred unit) will be set by the Board of Trustees.

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(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 unless otherwise indicated. The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements. Standards issued but not yet effective for the current accounting period are described in note 2 (t).

The consolidated financial statements are prepared on the historical cost basis with the exception of investment properties, derivative financial instruments and the cash-settled unit-based payments liability, 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; the liability component of its convertible debentures, mortgages and loans payable, preferred share liabilities, accounts payable and other liabilities and bank indebtedness as other liabilities. The REIT does not hold any financial instruments classified as fair value through profit or loss, 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. Borrowing costs associated with direct expenditures on properties under construction are capitalized from the commencement of the construction until the date of practical completion. The REIT considers practical completion to have occurred when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

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) Property and equipment:

Office equipment and software are carried at cost less accumulated depreciation, and are depreciated on a straight-line basis over their useful life which is estimated to be 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 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. Rental revenue from investment properties includes all amounts earned from tenants related to lease agreements, including base rent, 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 income for the year attributable to common unitholders by the weighted-average common units outstanding during the reporting period. Diluted earnings per unit is calculated based on the weighted-average number of common 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 the average market price exceeds the 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 common units during the period. The dilution impact of convertible debentures is 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 tax and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive (loss) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(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, officers, 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.

For equity-settled unit-based payment transactions, the REIT measures compensation expense using the fair value at the grant date, recognized over the vesting period.

(q) Defined benefit liability:

The cost of the REIT's defined benefit pension plans are accrued based on estimates, using actuarial techniques, of the amount of benefits employees have earned in return for their services in the current and prior periods. The present value of the defined benefit liability and current service cost is determined by discounting the estimated benefits using the projected unit credit method to determine the fair value of the plan assets and total actuarial gains and losses and the proportion thereof which will be recognized. The fair value of the plan assets is based on current market values. The present value of the defined benefit liability is based on the discount rate determined by reference to the yield of high quality corporate bonds of similar currency, having terms of maturity which align closely with the period of maturity of the liability.

(r) 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 20.

– Allowance for doubtful accounts - The critical estimates and assumptions underlying the value of the allowance for doubtful accounts are described in note 25 (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 25 (b).

– Allocation of convertible debentures - The critical estimates and assumptions underlying the allocation of convertible debentures are described in note 9.

(s) Accounting policies adopted during the year:

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 was effective for annual periods beginning on or after January 1, 2012. This standard did not result in a material impact on the consolidated financial statements.

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 was effective for annual periods beginning on or after January 1, 2012. This standard did not result in a material impact on the consolidated financial statements.

(t) Future changes in accounting policies:

In June 2011, the IASB amended IAS 19 – *Employee Benefits*. The amendments eliminate an option to defer the recognition of gains and losses, known as the 'corridor method'; streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhance the disclosure requirements for defined benefit plans, effective for annual periods beginning on or after January 1, 2013. The REIT does not expect that this standard will result in a material impact on the consolidated financial statements.

In December 2011, the IASB amended IAS 32 - *Offsetting Financial Assets and Liabilities*. The amendment clarifies certain aspects of offsetting and net and gross settlement, and is effective for annual periods beginning on or after January 1, 2014. The REIT is currently evaluating the impact of this amended standard.

IFRS 7 - *Financial Instruments: Disclosures*, as amended by the IASB in December 2011 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, 2013. The REIT does not expect that this standard will result in a material impact on the consolidated financial statements.

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. The REIT is currently evaluating the impact of this new standard.

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. This standard is not expected to have an impact on unitholders' equity or net income going forward but is expected to have a presentation impact on the consolidated financial statements.

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. The REIT does not expect that this standard will result in a material impact on the consolidated financial statements.

3. ACQUISITIONS AND DISPOSITIONS OF INVESTMENT PROPERTIES:

Acquisitions:

The REIT acquired the following properties during the year ended December 31, 2012:

Property	Property count	Location	Acquisition date	Type
North 48 Commercial Complex	1	Saskatoon, SK	January 31, 2012	Office
Aluma Systems Building	1	Edmonton, AB	February 24, 2012	Industrial
GSA Phoenix Professional Office Building	1	Phoenix, AZ	March 29, 2012	Office
Westbank Hub Centre North (1)	–	West Kelowna, BC	April 16, 2012	Retail
Linden Ridge Shopping Centre	1	Winnipeg, MB	April 23, 2012	Retail
Trimac House	1	Calgary, AB	April 30, 2012	Office
Crowfoot Corner	1	Calgary, AB	April 30, 2012	Retail
MAX at Kierland	1	Scottsdale, AZ	May 25, 2012	Office
LaSalle Office Portfolio	4	Calgary, AB	June 11, 2012	Office
Whistler Hilton Retail Plaza (2)	1	Whistler, BC	June 14, 2012	Retail
RER Industrial Portfolio	4	Minneapolis, MN	July 6, 2012	Industrial
GTA Industrial Portfolio	17	Toronto, ON	July 17, 2012	Industrial
Westbank Hub Shopping Centre (3)	1	West Kelowna, BC	August 16, 2012	Retail
201 Edson	1	Saskatoon, SK	August 27, 2012	Industrial
Meadowvale Gateway Portfolio	5	Mississauga, ON	September 20, 2012	Industrial
Minneapolis Industrial Portfolio II	11	Minneapolis, MN	October 26, 2012	Industrial
Namao South	1	Edmonton, AB	October 31, 2012	Retail
GTA West Portfolio	5	Toronto, ON	November 22, 2012	Industrial
Circle West	1	Saskatoon, SK	November 30, 2012	Retail

(1) The REIT acquired an additional 25% interest in this property in a two-phased closing that occurred on April 16, 2012 and October 11, 2012.
(2) The REIT acquired an 85% interest in this property.
(3) The REIT acquired a 75% interest in this property.

On March 20, 2012, the REIT entered into a 50% joint venture agreement for the Centrepoint development project located in Winnipeg, Manitoba.

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

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

Acquisitions (continued):

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

Property	Property count	Location	Acquisition date	Type
ADT Building	1	Calgary, AB	January 7, 2011	Industrial
Dominion Construction Building	1	Calgary, AB	January 7, 2011	Industrial
EMC Building	1	Edmonton, AB	February 28, 2011	Office
Stinson Office Park	1	Minneapolis, MN	March 31, 2011	Office
Minneapolis Industrial Portfolio	9	Minneapolis, MN	March 31, 2011	Industrial
Cara Foods Building [(1)]	1	Vaughan, ON	April 15, 2011	Office
3M Distribution Facility	1	Toronto, ON	April 29, 2011	Industrial
1165 Kenaston	1	Ottawa, ON	May 27, 2011	Office
Victoria Square Shopping Centre	1	Regina, SK	May 31, 2011	Retail
Ryan Retail Portfolio	5	Minneapolis, MN	May 31, 2011	Retail
605 Waterford Park	1	Minneapolis, MN	June 1, 2011	Office
2190 McGillivray Boulevard	1	Winnipeg, MB	June 10, 2011	Retail
415 Yonge Street	1	Toronto, ON	June 28, 2011	Office
Union Hills Office Plaza	1	Phoenix, AZ	June 30, 2011	Office
201 Westcreek Boulevard	1	Toronto, ON	June 30, 2011	Industrial
Plymouth Corporate Campus	1	Minneapolis, MN	July 6, 2011	Industrial
Stampede Station	1	Calgary, AB	July 26, 2011	Office
MTS Place	1	Winnipeg, MB	August 31, 2011	Office
7499 East Paradise Lane	1	Phoenix, AZ	September 15, 2011	Industrial
Two MarketPointe	1	Minneapolis, MN	December 22, 2011	Office

[(1)] The REIT acquired a 50% interest in this property.

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, 2012	Year ended December 31, 2011
Investment properties	$ 990,221	$ 678,716
Investment property under construction	246	-
Long-term debt, including acquired above- and below-market mortgages, net of financing costs	(481,040)	(399,874)
Contingent consideration	(200)	(713)
Cash consideration	$ 509,227	$ 278,129
Transaction costs expensed	$ 8,312	$ 8,821

In accordance with the purchase and sale agreement for the GSA Phoenix Professional Office Building, the purchase price will be adjusted if the net operating income ("NOI") during the first full calendar year is not equal to US$5,621. Should the NOI be less than US$5,621, the vendor will pay the REIT the product of the shortfall and 13.33. Should the NOI exceed US$5,621, the REIT will pay the vendor the product of the overage and 13.33. The REIT has estimated this contingent liability to be $nil at December 31, 2012.

In accordance with the purchase and sale agreement for the Linden Ridge Shopping Centre, the REIT is obligated to pay development fees should the REIT develop certain excess lands acquired. The REIT estimated this contingent liability to be $200 at the date of acquisition.

In accordance with the purchase and sale agreement for the Whistler Hilton Retail Plaza, the purchase price will be adjusted should the REIT develop a commercial building on certain leasehold lands. Should specific conditions be satisfied prior to June 14, 2014, the REIT shall pay to the vendor 50% of the average annual base or minimum rent payable by the tenant occupying the new building for the term to a maximum of 5 years divided by a capitalization rate of 7.0% less specified costs. The REIT has estimated this contingent liability to be $nil at December 31, 2012.

Dispositions:

The REIT disposed of the following property during the year ended December 31, 2012:

Property	Location	Disposition date	Type
112 Pennsylvania Avenue	Toronto, ON	October 12, 2012	Industrial

The proceeds from the sale of 112 Pennsylvania Avenue, net of costs and related debt, were $1,604. The assets and liabilities associated with the property were derecognized and a gain on sale of property in the amount of $637 was recorded. The previous unrealized fair value gain recorded on this property was recognized as a realized gain during the year ended December 31, 2012.

The REIT also disposed of surplus land at an investment property during the year ended December 31, 2012. The proceeds from the sale, net of costs, were $750. The assets and liabilities associated with the land were derecognized.

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, 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.

4. INVESTMENT PROPERTIES AND INVESTMENT PROPERTIES UNDER CONSTRUCTION:

	Year ended December 31, 2012		Year ended December 31, 2011	
	Investment properties	Investment properties under construction	Investment properties	Investment properties under construction
Balance, beginning of period	$ 3,003,604	$ 20,463	$ 2,052,780	$ 5,405
Additions:				
Acquisitions (note 3)	990,221	246	678,716	–
Capital expenditures	19,433	12,866	8,333	19,608
Leasing costs	6,447	–	4,313	–
Dispositions	(2,790)	–	(13,002)	–
Reclassification of investment properties under construction	27,552	(27,552)	4,550	(4,550)
Reclassification of investment properties held for sale	(58,963)	–	–	–
Foreign currency translation (loss) gain	(11,678)	(56)	12,199	–
Straight-line rent adjustment	5,473	–	5,514	–
Tenant inducements additions, net of amortization	9,217	–	4,107	–
Fair value gain	220,622	2,642	246,094	–
Balance, end of period	$ 4,209,138	$ 8,609	$ 3,003,604	$ 20,463

External valuations are performed quarterly on a rotational basis over a four year cycle. For the fourth quarter cycle, 12 investment properties with an aggregate fair value of $92,942 at December 31, 2012 (December 31, 2011, $145,425) were appraised by qualified external valuation professionals.

The REIT determined the fair value of investment properties based upon either the discounted cash flow method or 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 capitalized at a rate appropriate for each investment property.

The key valuation assumptions for investment properties, including investment properties held for sale, are as follows:

	December 31, 2012 [1]			December 31, 2011 [2]		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Discount rate	9.75%	6.50%	7.68%	9.50%	7.25%	8.02%
Terminal capitalization rate	9.00%	5.50%	6.73%	9.00%	6.00%	7.04%
Capitalization rate	9.00%	5.25%	6.46%	8.50%	6.25%	7.08%
Investment horizon (years)	20.0	10.0	10.7	20.0	10.0	10.6

(1) Key valuation assumptions at December 31, 2012 reflect rates that represent the REIT's entire portfolio of investment properties.

(2) Key valuation assumptions at December 31, 2011 reflect discount and terminal capitalization rates that represent the investment properties whose recorded values were based on the discounted cash flow method. The assumptions reflect capitalization rates that represent the investment properties whose recorded values were based upon the overall capitalization method.

At December 31, 2012, the REIT has two investment properties listed for sale with an external broker. The fair value of these investment properties of $58,963 has been classified as held for sale at December 31, 2012.

At December 31, 2012, included in investment properties is $19,663 (December 31, 2011, $14,234) 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 $88,334 at December 31, 2012 (December 31, 2011, $45,777).

At December 31, 2012, investment properties with a fair value of $4,137,932 (December 31, 2011, $2,913,117) are pledged as security under mortgage agreements and the credit facility.

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

5. PROPERTY AND EQUIPMENT:

		December 31, 2012		December 31,2011
Office furniture and fixtures	$	2,072	$	–
Office equipment and software		1,031		664
Accumulated depreciation		(706)		(353)
	$	2,397	$	311

6. NOTES RECEIVABLE:

		December 31, 2012		December 31, 2011
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.	$	22,072	$	23,719
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.		1,673		1,718
Other notes receivable		130		–
		23,875		25,437
Current portion		3,344		1,685
Non-current portion	$	20,531	$	23,752

7. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES:

		December 31, 2012		December 31, 2011
Rents receivable (note 25 (a)(ii))	$	3,837	$	2,429
Allowance for doubtful accounts (note 25 (a)(ii))		(162)		(157)
Accrued recovery income		2,561		4,167
Other amounts receivable		7,043		5,437
	$	13,279	$	11,876

8. MORTGAGES AND LOANS PAYABLE:

		December 31, 2012		December 31, 2011
Mortgages and loans payable	$	2,076,958	$	1,569,857
Net above- and below-market mortgage adjustments		6,145		4,620
Financing costs		(9,496)		(7,078)
		2,073,607		1,567,399
Current portion		213,001		139,065
Non-current portion	$	1,860,606	$	1,428,334

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 4.42% and the weighted-average nominal rate is 4.23% at December 31, 2012 (December 31, 2011, 4.79% and 4.61%, respectively). Maturity dates range from January 1, 2013 to February 14, 2032.

9. 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. During the year ended December 31, 2012, Series C convertible debentures with a face value of $29 were converted and the REIT issued 1,681 units at the exercise price of $17.25 per unit. None of the Series C convertible debentures were converted into units of the REIT in fiscal 2011. On March 15, 2012, the REIT redeemed all outstanding Series C convertible debentures and repaid the $29,891 face value outstanding.

In conjunction with the purchase of the Fort McMurray portfolio effective November 30, 2007, the REIT issued a Series D convertible redeemable 5.00% debenture totaling $20,000. Interest is paid semi-annually on May 30 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. 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 2012 or 2011. On September 21, 2012, the REIT redeemed $10,000 of the Series D convertible debentures for cash.

In conjunction with the prospectus that closed on July 9, 2009, the REIT issued Series E convertible redeemable 7.50% 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. During the year ended December 31, 2012, Series E convertible debentures with a face value of $9,052 were converted and the REIT issued 973,311 units at the exercise price of $9.30 per unit. 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. On June 29, 2012, the REIT redeemed all outstanding Series E convertible debentures and repaid the $281 face value outstanding.

In conjunction with the prospectus that closed on April 22, 2010, the REIT issued Series F convertible redeemable 6.00% 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 November 30, 2007. During the year ended December 31, 2012, Series F convertible debentures with a face value of $80 were converted and the REIT issued 5,159 units at the exercise price of $15.50 per unit. None of the Series F convertible debentures were converted into units of the REIT in fiscal 2011.

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$18.96 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 November 30, 2007 and April 22, 2010. None of the Series G convertible debentures were converted into units of the REIT in fiscal 2012 or 2011.

On August 2, 2012, the REIT amended its Declaration of Trust to become a closed-end trust thereby removing the redemption right attached to its common units. As a result of this amendment, the REIT's convertible debentures were reclassified from financial liabilities to compound financial instruments. As a part of this reclassification, the REIT estimated the fair values of the convertible debentures on August 2, 2012 in whole and separated the fair values into liability and equity components. The fair value of the convertible debentures was estimated using the market price of the debentures, or if no market price existed, an estimate based on the present value of future interest and principal payments due under the terms of the convertible debenture using a discount rate for similar debt instruments.

The Series D and Series F convertible debentures were separated into liability and equity components based on the estimated fair value of the liability components. The fair value of the liability components were estimated based on the present value of future interest and principal payments due under the terms of the convertible debenture using a discount rate for similar debt instruments without a conversion feature. The value assigned to the equity component is the residual of the fair value of the liability component and the fair value of the whole financial instrument. On August 2, 2012, $558 and $11,029 was reclassified from liabilities to equity for the Series D and Series F convertible debentures, respectively. Interest expense on the convertible debentures is determined by applying an effective interest rate to the outstanding liability component of 5.50% on the Series D convertible debentures and 6.25% on the Series F convertible debentures. The difference between actual cash interest payments and interest expense is accreted to the liability component.

On August 2, 2012, the fair value of the Series G convertible debentures were recorded as a liability with no value assigned to equity as these convertible debentures are denominated in US dollars with no fixed conversion rate to Canadian dollars. Interest expense on the Series G convertible debentures is determined by applying an effective rate of 5.04% to the outstanding liability balance. The difference between actual cash interest payments and interest expense is accreted to the liability.

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

Convertible redeemable debenture issue	Issue date	Maturity date	Interest rate
Series D	November 30, 2007	November 30, 2014	5.00%
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	Equity portion	Liability portion	Accretion	Carrying value	Current portion	Non-current portion
Series D	$ 7,000	$ 230	$ 6,918	$ 19	$ 6,937	$ –	$ 6,937
Series F	86,170	11,023	84,841	55	84,896	–	84,896
Series G	87,551	–	90,703	(192)	90,511	–	90,511
December 31, 2012	$ 180,721	$ 11,253	$ 182,462	$ (118)	$ 182,344	$ –	$ 182,344
December 31, 2011	231,999	–	235,746	–	235,746	–	235,746

For the year ended December 31, 2012, no transaction costs related to the issuance of convertible debentures were expensed (2011, $3,630).

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

10. ACCOUNTS PAYABLE AND OTHER LIABILITIES:

		December 31, 2012		December 31,2011
Accounts payable and accrued liabilities	$	42,198	$	33,334
Distributions payable		10,340		7,999
Cash-settled unit-based payments liability		30		1,157
	$	52,568	$	42,490

11. BANK INDEBTEDNESS:

On September 6, 2012, the REIT entered into a revolving term credit facility in the amount of $80,000, which can be utilized for general corporate operating purposes, including the acquisition of commercial properties and the issuance of letters of credit. The credit facility matures on September 6, 2014. Amounts drawn on the facility bear interest at prime plus 1.00% or at the bankers' acceptance rate plus 2.00%. The credit facility is secured by a first charge on certain investment properties with a carrying value of $146,859 at December 31, 2012. At December 31, 2012, the REIT had no balance drawn on the facility. At December 31, 2011, the REIT had $37,900 drawn on its previous credit facility.

12. UNITHOLDERS' EQUITY:

(a) Common units:

(i) Authorized:

In accordance with the Declaration of Trust, the REIT may issue an unlimited number of common units, with each unit representing an equal undivided 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 restrictions.

(ii) Issued and outstanding:

	Number of units		Amount
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
Public offerings, net of issue costs of $16,754	23,735,000		361,702
Conversion of Series C convertible debentures	1,681		29
Conversion of Series E convertible debentures	973,311		13,824
Conversion of Series F convertible debentures	5,159		89
Options exercised	248,625		4,005
Distribution Reinvestment and Unit Purchase Plan	1,047,788		16,122
Balance at December 31, 2012	114,884,469	$	1,449,301

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

(iii) Normal course issuer bid:

On December 13, 2012, 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 10,940,334 units, representing 10% of the REIT's float of 109,403,338 units on November 30, 2012. 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 16, 2013, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the year ended December 31, 2012, the REIT did not acquire units through the normal course issuer bid. Since December 14, 2007, the REIT has acquired 410,200 units for cancellation.

(iv) At-the-market equity financing:

The REIT has entered into an Equity Distribution Agreement dated September 17, 2010, as amended and restated on September 18, 2012, with an exclusive agent for the issuance and sale, from time to time, until July 15, 2014 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, 2012, no units have been issued pursuant to this arrangement.

(b) Preferred units:

In accordance with the Declaration of Trust, the REIT may issue an unlimited number of preferred units.

(i) Series A:

On August 2, 2012, the REIT issued 3,000,000 Cumulative Rate Reset Preferred Trust Units, Series A (the "Series A Units") for aggregate gross proceeds of $75,000. On August 10, 2012, the underwriting syndicate exercised in full its over-allotment option and a further 450,000 Series A Units were issued for gross proceeds of $11,250. The Series A Units pay a cumulative distribution yield of 5.25% per annum, payable quarterly, as and when declared by the Board of Trustees of the REIT, for the initial five-year period ending September 30, 2017. The distribution rate will be reset on September 30, 2017 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 4.06%.

The REIT may redeem the Series A Units on September 30, 2017 and on September 30 every five years thereafter. The holders of Series A Units have the right to reclassify their Series A Units to Preferred Units, Series B (the "Series B Units"), subject to certain conditions, on September 30, 2017 and on September 30 every five years thereafter. The Series B Units pay floating rate cumulative preferential distributions on a quarterly basis, at the discretion of the Board of Trustees. The holders of Series B Units have the right to reclassify their Series B Units to Series A Units on September 30, 2022 and on September 30 every five years thereafter.

(ii) Series C:

On September 18, 2012, the REIT issued 3,000,000 Cumulative Rate Reset Preferred Trust Units, Series C (the "Series C Units") for aggregate gross proceeds of US$75,000. The Series C Units pay a fixed cumulative distribution yield of 5.25% per annum, payable quarterly, as and when declared by the Board of Trustees of the REIT, for the initial approximately five and a half-year period ending March 31, 2018. The distribution rate will be reset on March 31, 2018 and every five years thereafter at a rate equal to the sum of the then five-year United States Government bond yield and 4.46%.

The REIT may redeem the Series C Units on March 31, 2018 and on March 31 every five years thereafter. The holders of Series C Units have the right to reclassify their Series C Units to Preferred Units, Series D ("the Series D Units"), subject to certain conditions, on March 31, 2018 and on March 31 every five years thereafter. The Series D Units pay floating rate cumulative preferential distributions on a quarterly basis, at the discretion of the Board of Trustees. The holders of Series D Units have the right to reclassify their Series D Units to Series C Units on March 31, 2023 and on March 31 every five years thereafter.

The Series A Units and Series C Units rank equally with each other and with the outstanding Series B Units and Series D Units into which they may be reclassified, and rank in priority to the trust units.

(c) Short form base shelf prospectus:

On July 28, 2010, the REIT issued a short form 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, 2012, the REIT has issued common units under six offerings in the aggregate amount of $587,002 and a US$88,000 offering of convertible debentures under this short form base shelf prospectus.

On June 15, 2012, the REIT issued a new short form 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 $2,000,000 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, 2012, the REIT has issued common units under one offering in the amount of $69,080 and preferred units under two offerings in the amount of $86,250 and US$75,000 under this short form base shelf prospectus.

(d) Weighted-average common units:

		Year ended December 31, 2012		Year ended December 31, 2011
Income for the year	$	340,339	$	321,289
Adjustment for distributions to preferred unitholders		(2,980)		–
Income for the year attributable to common unitholders		337,359		321,289
Adjustment for unit options		–		150
Adjustment for convertible debentures		25,251		11,460
Diluted income attributable to common unitholders for the year	$	362,610	$	332,899
The weighted-average number of common units outstanding was as follows:				
Basic common units		105,046,401		79,867,112
Effect of dilutive securities:				
Unit options		–		43,311
Convertible debentures		10,594,643		12,502,592
Diluted common units		115,641,044		92,413,015
Income per unit attributable to common unitholders:				
Basic	$	3.21	$	4.02
Diluted	$	3.14	$	3.60

The computation of diluted income per unit attributable to common unitholders only includes unit options when these instruments are dilutive.

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

13. DISTRIBUTIONS TO UNITHOLDERS:

Total distributions declared to unitholders for the years ended December 31, are as follows:

	2012		2011	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	$ 114,968	$ 1.08	$ 87,183	$ 1.08
Preferred unitholders - Series A	1,864	0.54	–	–
Preferred unitholders - Series C	1,116	0.37	–	–

14. REVENUE:

The REIT leases industrial, retail 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, 2012	December 31, 2011
Not later than one year	$ 266,310	$ 198,154
Later than one year and not later than five years	786,082	592,130
Later than five years	594,208	441,661
	$ 1,646,600	$ 1,231,945

15. TRANSACTION COSTS:

The REIT incurred transaction costs in relation to the following:

	Year ended December 31, 2012	Year ended December 31, 2011
Acquisitions of investment properties	$ (8,312)	$ (8,821)
Issuance of convertible debentures	–	(3,630)
Termination fee	–	(4,000)
Other transaction costs	(342)	–
	$ (8,654)	$ (16,451)

16. LOSS ON FINANCIAL INSTRUMENTS:

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

	Year ended December 31, 2012	Year ended December 31, 2011
Fair value (loss) gain:		
Convertible debentures	$ (13,915)	$ 650
Commodity derivatives	–	196
Interest rate swaps	(244)	(4,347)
Forward and swap contracts	78	104
Investment in equity securities	–	(290)
	$ (14,081)	$ (3,687)

17. CHANGES IN NON-CASH OPERATING ITEMS:

	Year ended December 31, 2012	Year ended December 31, 2011
Prepaid expenses	$ (695)	$ (2,819)
Accounts receivable and other receivables	(1,419)	(5,330)
Cash held in trust	(1,780)	(255)
Security deposits and prepaid rent	9,377	4,485
Accounts payable and other liabilities	8,497	6,550
	$ 13,980	$ 2,631

18. EMPLOYEE BENEFITS:

(a) Defined benefit pension plans:

At December 31, 2012, the REIT has defined benefit plans providing pension benefits to certain employees. The ultimate retirement benefit is defined by a formula that provides a unit of benefit for each year of service. Employer contributions are not specified or defined within the plan text; they are based on the result of actuarial valuations which determine the level of funding required to meet the total obligation as estimated at the time of valuation. The REIT uses December 31 as a measurement date for accounting purposes for its defined benefit pension plans.

The fair value of the plan assets at December 31, 2012 is $1,696. The recognized pension obligation, net of plan assets at December 31, 2012 is $nil. The net expense for the defined benefit plans for the year ended December 31, 2012 is $1,042, and is included in corporate expenses.

(b) Short-term employee benefits:

		Year ended December 31, 2012		Year ended December 31, 2011
Trustees	$	689	$	493
Key management personnel		3,837		3,030
Other employees		9,188		–
	$	13,714	$	3,523

Short-term employee benefits include salaries, bonuses and other short-term benefits. In 2011, 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. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the REIT, directly or indirectly.

(c) Unit-based compensation:

		Year ended December 31, 2012		Year ended December 31, 2011
Trustees	$	1,040	$	131
Key management personnel		2,033		488
Other employees		898		307
	$	3,971	$	926

Under the REIT's equity incentive plan, there may be grants of unit options, restricted units, deferred units or installment units, which are subject to certain restrictions. Under this incentive plan, the total number of units reserved for issuance may not exceed 7.0% of the units outstanding.

(i) Unit options:

On August 2, 2012, the REIT amended its Declaration of Trust to become a closed-end trust thereby removing the redemption right attached to its common units. As a result of this amendment, the REIT's cash-settled unit-based payments related to its unit options became equity-settled and the liability of $3,530 was reclassified to equity at August 2, 2012.

The following weighted-average assumptions were used with the Black-Scholes option pricing model to calculate the cash-settled unit-based payments liability at August 2, 2012: expected option life of 3.6 years, risk-free interest rate of 1.20%, distribution yield of 6.46%, and expected volatility of 22.96%. At December 31, 2011, the weighted-average assumptions used to calculated the cash-settled unit-based payments liability were the following: expected option life of 3.9 years, risk-free interest rate of 1.19%, distribution yield of 7.72%, and expected volatility of 23.38%. Expected volatility is estimated by considering the REIT's historic average unit price volatility.

Unit-based compensation expense related to unit options granted under the equity incentive plan for the year ended December 31, 2012 amounted to $3,941 (2011, $926). These unit options granted vest equally over a four-year period.

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

	2012			2011		
	Units		Weighted- average exercise price	Units		Weighted- average exercise price
Balance, beginning of period	2,164,250	$	13.52	1,070,250	$	12.84
Granted	1,849,500		16.36	1,200,000		14.10
Exercised	(248,625)		13.49	(30,500)		11.28
Expired	(75,250)		14.90	(75,500)		13.98
Balance, end of period	3,689,875	$	14.92	2,164,250	$	13.52
Options exercisable at end of period	604,750			234,938		

The weighted-average unit price at the date of exercise for unit options exercised during the year ended December 31, 2012 was $16.54 (2011, $13.84).

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

18. EMPLOYEE BENEFITS (CONTINUED):

(c) Unit-based compensation (continued):

(i) Unit options: (continued)

Options outstanding at December 31, 2012 consist of the following:

Exercise price	Number outstanding	Weighted-average remaining contractual life	Options outstanding weighted-average exercise price	Number exercisable
$ 11.28	175,125	2.25 years	$ 11.28	45,500
$ 13.30	332,750	2.75 years	$ 13.30	143,250
$ 13.44	347,000	3.00 years	$ 13.44	157,000
$ 14.10	1,061,500	3.50 years	$ 14.10	259,000
$ 16.36	1,773,500	4.25 years	$ 16.36	–
	3,689,875		14.92	604,750

(ii) Restricted units:

Unit-based compensation expense related to restricted units granted under the equity incentive plan for the year ended December 31, 2012 amounted to $30 (2011, $nil). Restricted units vest on and after the third anniversary of the date of grant. The restricted units accrue additional restricted units during the vesting period, and are credited when the restricted units vest. Each restricted unit is valued at the closing price of the REIT's common units on the balance sheet date.

A summary of the REIT's restricted units outstanding for the years ended December 31, are as follows:

	2012	2011
	Units	Units
Balance, beginning of period	–	–
Granted	44,735	–
Accrued	325	–
Balance, end of period	45,060	–
Restricted units vested at end of period	–	–

At December 31, 2012, no deferred units or installment units have been granted under the REIT's equity incentive plan.

19. RELATED PARTY TRANSACTIONS:

The REIT may issue unit-based awards to trustees, officers, employees and consultants (note 18).

Other related party transactions are outlined as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Advisory fees	$ –	$ 6,037
Acquisition fees	552	3,361
Property management fees	317	11,155
Recoverable property management salaries and wages	–	2,078
Capitalized office furniture and fixtures	1,554	–
Capitalized office equipment	343	–
Capitalized leasing commissions	1,351	743
Capitalized building improvements	11,059	18,089
Capitalized tenant inducements	1,451	2,996
Disposition of surplus land	(750)	–
Property tax assessment consulting fees	191	224
Consulting fees	–	137
Legal fees	2,851	1,481
Rental revenues	(2,245)	(2,627)

Effective January 1, 2012, the REIT internalized its asset and property management functions. The asset management agreement with Marwest Realty Advisors Inc. (''Marwest Realty"), a company owned and controlled by certain trustees and officers of the REIT, was terminated effective December 31, 2011. No fees or penalties were paid to Marwest Realty upon termination of this agreement. On December 31, 2011, the omnibus property management agreement was assigned to the REIT from Marwest Management Canada Ltd. (''Marwest Management"), a company owned and controlled by certain trustees and officers of the REIT, which encompasses all investment properties owned by the REIT. No fees or penalties were paid to Marwest Management upon assignment of this agreement.

Prior to the termination of the asset management agreement, Marwest Realty was 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. Acquisition fees incurred during the year ended December 31, 2012 relate to acquisitions which were unconditional prior to the termination of the agreement. The REIT was obligated to pay Marwest Realty for services provided in respect to these acquisitions. The amount payable at December 31, 2012 is $nil (December 31, 2011, $567). There are no further outstanding obligations related to this agreement.

The REIT incurred property management fees, leasing commission fees and tenant improvement fees under property management agreements with Marwest Management for three properties owned by the REIT. The amount payable at December 31, 2012 is $26.

On January 1, 2012, the REIT entered into a one-year leasing services agreement with Marwest Management. The amount payable at December 31, 2012 is $756.

Prior to the assignment of the property management agreement, the agreement entitled Marwest Management to property management fees, recoverable property management salaries and wages, leasing commission fees, and tenant improvement fees. The amount payable at December 31, 2011 was $1,949.

The REIT incurred costs for building improvements and tenant inducements paid to Marwest Construction Ltd., Marwest Development Corporation, and Nova 3 Engineering, companies related to certain trustees and officers of the REIT. The amount payable at December 31, 2012 is $1,137 (December 31, 2011, $354).

The REIT purchased $1,297 of office furniture and fixtures and $343 of office equipment from Marwest Management as a result of the internalization of the asset and property management functions. The REIT also incurred costs for office furniture and fixtures paid to Marwest Construction Ltd. The amount payable at December 31, 2012 is $42.

The REIT sold surplus land at an investment property to a company controlled by a trustee of the REIT. The amount receivable at December 31, 2012 is $nil.

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, 2012 is $nil (December 31, 2011, $13).

The consulting fees represent work performed by Marwest Realty on IFRS accounting work.

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, 2012 is $705 (December 31, 2011, $200).

The REIT collects office rents from Marwest Management and a law firm associated with 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:

		Ownership interest
Name of entity	December 31, 2012	December 31, 2011
Artis General Partner Ltd.	100%	100%
AX L.P.	100%	100%
Artis US Holdings, Inc.	100%	100%
Osborne Street Call Centre Partnership	–	100%
Winnipeg Square Leaseco Inc.	100%	100%
AX Property Management L.P.	100%	100%
Artis Property Management General Partner Ltd.	100%	100%
AX Longboat G.P. Inc.	50%	–
AX Longboat L.P.	50%	–

20. 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, 2012 and December 31, 2011. As a result, the REIT does not recognize any deferred income tax assets or liabilities for income tax purposes.

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

21. 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, 2012. 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:

		Ownership interest	
Name of entity	Principal purpose	December 31, 2012	December 31, 2011
Centre 70 Building	Investment property	85%	85%
Kincaid Building	Investment property	50%	50%
Cliveden Building	Investment property	50%	50%
Westbank Hub Centre North [1]	Investment property	75%	50%
Cara Foods Building	Investment property	50%	50%
Centrepoint	Investment property	50%	–
Whistler Hilton Retail Plaza	Investment property	85%	–
Westbank Hub Shopping Centre	Investment property	75%	–

[1] The REIT acquired an additional 25% interest in this property in 2012.

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

	December 31, 2012	December 31, 2011
Non-current assets	$ 178,121	$ 98,816
Current assets	3,975	1,223
	182,096	100,039
Non-current liabilities	77,973	50,637
Current liabilities	17,920	2,145
	$ 95,893	$ 52,782

	Year ended December 31, 2012	Year ended December 31, 2011
Revenue	$ 12,427	$ 9,385
Expenses	7,931	6,071
	4,496	3,314
Unrealized fair value (loss) gain on investment properties	(290)	8,691
Operating income from properties	$ 4,206	$ 12,005
Cash flows provided by operating activities	$ 4,349	$ 3,139
Cash flows used in investing activities	(39,493)	(8,985)
Cash flows provided by financing activities	35,761	6,502

22. 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, 2012					
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Revenue	$ 173,354	$ 84,391	$ 47,715	$ 66,782	$ 227	$ 372,469
Property operating expenses	56,710	33,989	18,161	23,200	–	132,060
	116,644	50,402	29,554	43,582	227	240,409
Interest income	1,441	41	45	303	815	2,645
	118,085	50,443	29,599	43,885	1,042	243,054
Interest expense	40,963	18,483	9,848	12,459	12,531	94,284
Corporate expenses	–	–	–	–	11,993	11,993
Foreign currency translation gain	–	–	–	–	(2,396)	(2,396)
	40,963	18,483	9,848	12,459	22,128	103,881
	77,122	31,960	19,751	31,426	(21,086)	139,173
Transaction costs	(1,894)	(773)	(4,463)	(1,182)	(342)	(8,654)
Loss on financial instruments	–	–	–	–	(14,081)	(14,081)
Gain on disposal of investment property	–	–	637	–	–	637
Fair value gain on investment properties	142,833	35,787	27,291	17,353	–	223,264
Income (loss) for the period	$ 218,061	$ 66,974	$ 43,216	$ 47,597	$ (35,509)	$ 340,339
Acquisitions of investment properties	$ 465,416	$ 80,688	$ 155,483	$ 288,880	$ –	$ 990,467
Additions to investment properties and investment properties under construction	13,591	13,540	1,365	3,803	–	32,299
Additions to leasing costs	2,918	2,016	687	826	–	6,447
Additions to tenant inducements	7,764	4,321	800	2,681	–	15,566

	December 31, 2012					
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Total assets	$ 2,218,029	$ 830,544	$ 554,603	$ 756,065	$ 22,673	$ 4,381,914
Total liabilities	1,014,065	384,279	280,716	454,720	198,278	2,332,058

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

22. SEGMENTED INFORMATION (CONTINUED):

	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
Fair value gain on investment properties	160,641	31,321	28,154	25,978	–	246,094
Income (loss) for the period	$ 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

	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

23. COMMITMENTS AND GUARANTEES:

(a) Letters of credit:

As of December 31, 2012, the REIT had issued letters of credit in the amount of $225 (December 31, 2011, $1,728).

(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, 2012 is $5,584 (December 31, 2011, $5,733), with an estimated weighted-average remaining term of 4.9 years (December 31, 2011, 5.9 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.

24. 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, 2012, the ratio of such indebtedness to gross book value was 47.3% (December 31, 2011, 50.7%), 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 adjusted unitholders' equity of $750,000 for the purposes of the credit facility (note 11). As at December 31, 2012, the REIT was in compliance with these requirements.

The REIT's mortgage providers also have various financial covenants. The REIT monitors these covenants and is in compliance with these requirements.

The total managed capital for the REIT is summarized below:

	December 31, 2012	December 31, 2011
Mortgages and loans payable	$ 2,073,607	$ 1,567,399
Convertible debentures	182,344	235,746
Bank indebtedness	–	37,900
Total debt	2,255,951	1,841,045
Unitholders' equity	2,049,856	1,269,815
	$ 4,305,807	$ 3,110,860

25. 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 monitoring 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, 2012, the REIT is a party to $529,660 of variable rate debt (December 31, 2011, $386,388), including the outstanding balance of bank indebtedness. At December 31, 2012, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with $173,472 of variable rate debt (December 31, 2011, $65,061).

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	$ 3,186
Fixed rate debt due within one year	1,653
	$ 4,839

(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 0.9974 for the year ended December 31, 2012, respectively, and the period end exchange rate of 0.9949 at December 31, 2012 would have increased net income by approximately $3,554 for the year ended December 31, 2012. A $0.10 weakening in the US dollar against the Canadian dollar would also have increased other comprehensive loss by approximately $35,266 for the year ended December 31, 2012. 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, deposits on investment properties and accounts receivable and other receivables.

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 $249 during the year ended December 31, 2012 (2011, $231). The credit quality of the accounts receivable and other receivables amount is considered adequate.

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

25. RISK MANAGEMENT AND FAIR VALUES (CONTINUED):

(a) Risk management (continued):

(ii) Credit risk (continued):

The aging of accounts receivable is summarized as follows:

		December 31, 2012		December 31, 2011
Past due 0 - 30 days	$	2,767	$	1,516
Past due 31 - 90 days		342		301
Past due more than 91 days		728		612
		3,837		2,429
Allowance for doubtful accounts		(162)		(157)
	$	3,675	$	2,272

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, 2012 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	$	52,568	$	52,568	$	–	$	–	$	–
Mortgages, loans and bank indebtedness		2,076,958		214,119		693,843		815,318		353,678
Convertible debentures		180,721		–		7,000		–		173,721
	$	2,310,247	$	266,687	$	700,843	$	815,318	$	527,399

(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, 2012 has been estimated at $25,506 (December 31, 2011, $23,974), compared with the carrying value of $23,875 (December 31, 2011, $25,437).

The fair value of mortgages and loans payable has been determined by discounting the cash flows of these financial obligations using period 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, 2012 has been estimated at $2,137,855 (December 31, 2011, $1,629,144) compared with the carrying value of $2,073,607 (December 31, 2011, $1,567,399).

The fair value of the REIT's convertible debentures is $187,055 (December 31, 2011, $235,746) compared to its face value of $180,721 (December 31, 2011, $231,999) at December 31, 2012. 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 REIT entered into interest rate swaps on six mortgages. The swaps are not designated in a hedge relationship. An unrealized loss of $244 for year ended December 31, 2012 (2011, loss of $4,347) in relation to the fair value of these interest rate swaps, resulting in a fair value liability at December 31, 2012 of $4,099 (December 31, 2011, $3,853).

On December 11, 2012, the REIT entered into a swap contract to exchange US$25,000 into Canadian funds. An unrealized gain of $78 was recorded for the year ended December 31, 2012 in relation to this contract.

Under the fair value hierarchy of financial instruments measured at fair value on the consolidated balance sheet, convertible debentures excluding Series D are measured using a Level 1 methodology and 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.

26. SUBSEQUENT EVENTS:

On January 15, 2013, the REIT acquired 1110 Pettigrew which is located in Regina, Saskatchewan. The property was acquired for $12,200 and the purchase price was satisfied with cash.

On January 15, 2013, the balance owing on one of the REIT's notes receivable was repaid in the amount of $1,653.

On February 1, 2013, the REIT repaid maturing mortgages on two properties in the amount of $23,534. On February 8, 2013, the REIT received new financing on one of these properties in the amount of $25,000.

On February 11, 2013, the REIT closed the first part of the acquisition of Century Crossing III. This property is located in Spruce Grove, Alberta. The first part was acquired for $16,650, which was satisfied with cash. The total purchase price for this property is $26,400. The second part is expected to close in July 2013.

On February 11, 2013, the REIT extended its swap contract to exchange US$25,000 into Canadian funds.

Subsequent to December 31, 2012, the REIT drew a net balance of $40,000 on its revolving term credit facility.

The REIT entered into agreements with respect to the acquisition of properties located in Alberta, Manitoba and Ontario. The total purchase price of these properties is $100,513. The REIT anticipates that the acquisitions will close in March, April, May and June of 2013, and will be financed through a combination of cash consideration and either existing or new mortgage financing.

Distributions in the amount of $0.09 per unit for January and February 2013 were declared subsequent to December 31, 2012.

27. APPROVAL OF FINANCIAL STATEMENTS:

The consolidated financial statements were approved by the Board of Trustees and authorized for issue on February 28, 2013.

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