ARTIS
REIT

2006 ANNUAL REPORT

PROPERTIES OF SUCCESS

ARTIS
REIT

OUR STORY BUILDS

Since its inception in 2004 as a Canadian real estate investment trust, Westfield REIT has successfully built a portfolio of high-quality commercial property with a strong focus in Western Canada.

Through accretive acquisitions and the effective management and development of its properties, the REIT provides opportunities to invest in high-quality Western Canadian office, retail and industrial properties. In turn, this results in monthly cash distributions to our unitholders that are stable, tax-efficient and growing over time.

In recognition of our unique investment proposition, the REIT was rebranded in February 2007 with a similarly distinct name and image.

Introducing ARTIS REAL ESTATE INVESTMENT TRUST.


Pizza Hut
Sobeys
FUTURE SHOP
CANADA
POST
Home Outfitters

ARTIS
REIT

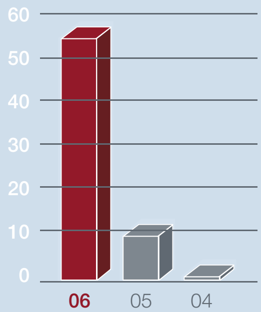
A STRONG FOUNDATION

At Artis, our portfolio is built on a foundation of investment strength which includes a:

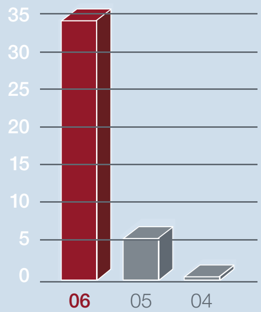
- Regional focus on Western Canada
- Major focus in the Province of Alberta
- Quality property portfolio diversified across multiple asset classes
- Strong record of acquiring and integrating properties
- Consistent history of generating reliable cash flow
- Solid financial position with a well-structured balance sheet
- Proven management team with experience in Western Canada
- Beneficial asset management relationship with Marwest Management Canada Ltd.
- Management team with over 150 years of collective experience in construction, development and management of commercial and other properties in Canada and the United States.

GROWTH HIGHLIGHTS
2004-2006

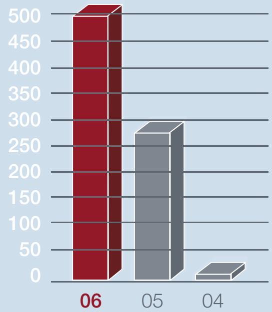
REVENUES ($000's)



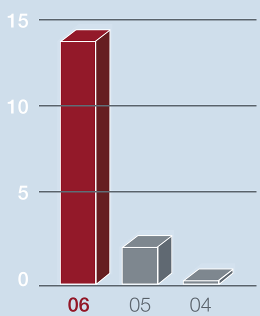
PROPERTY NOI ($000's)



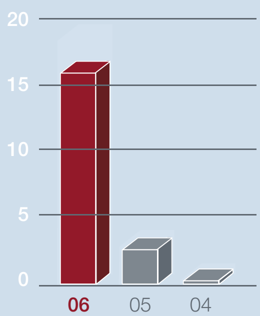
TOTAL ASSETS ($000's)



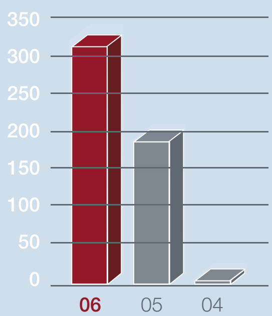
FUNDS FROM OPERATIONS ($000's)



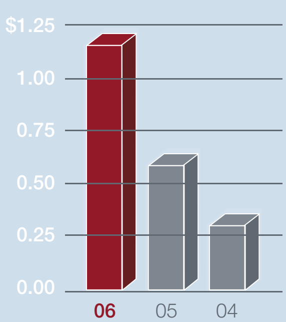
DISTRIBUTABLE INCOME ($000's)



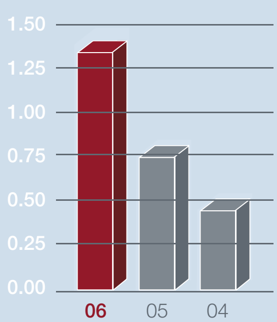
LONG-TERM DEBT ($000's)



FUNDS FROM OPERATIONS PER UNIT



DISTRIBUTABLE INCOME PER UNIT



Artis REIT trades on the Toronto Stock Exchange under the symbol AX.UN

2006
FINANCIAL HIGHLIGHTS

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

MESSAGE FROM THE CHAIRMAN

During 2006 Artis REIT achieved its objectives of strong external and internal growth, while paying monthly cash distributions to unitholders at an annual rate of $1.05 per unit. The Artis growth strategy remained focused, with the result that unitholder value was significantly enhanced during the year.

Some of the noteworthy highlights that define 2006 for the REIT include: the acquisition of 11 properties which increased the gross book value of Artis to $523 million; agreements signed to acquire nine properties in 2007 for an additional $195 million; the consolidation of trust units on a 15:1 basis; the completion of three significant public offerings; the graduation of the REIT from the TSX Venture Exchange to the Toronto Stock Exchange, which bolstered our trading liquidity; and the change of our trust structure from closed-end to open-end.

This solid performance derives from a dedicated management team and board who uphold high standards of corporate governance. The board's committees work closely with management to apply these standards. Both individually and as a group, the trustees oversee management in matters that include audit procedures, financial performance, disclosure policy and investment. In addition, we work to ensure that the REIT and its people conduct business in accordance with the highest standards of moral and ethical conduct.

Consistent with its commitment to good governance, six of the eight board members are independent of management and all committees of the board are comprised solely of independent trustees. During 2006 Artis added two new independent trustees with diversified skills and competencies: Andre Kuzmicki, a real estate professional and executive with 30 years of experience; and Del Crewson, a chartered accountant who is a former Vice Chair of an international accounting firm. The board comprises depth of talent with expertise in the areas of real estate, construction, accounting, financial services, engineering and law.

As we look to the year ahead, Artis plans to continue its growth strategy in Western Canada, continue to pay distributions and continue to enhance unitholder value. We look forward to reporting on our performance next year.

Edward L. Warkentin
CHAIRMAN

MESSAGE FROM THE PRESIDENT AND C.E.O.

For Artis REIT, 2006 was a year of disciplined growth, increasing revenues, financial strength and above all, unitholder value creation.

This solid performance enabled the REIT to achieve its three stated objectives of

- generating stable, growing, tax-efficient monthly cash distributions,
- achieving external growth through accretive acquisitions; and
- internal growth through active asset management and development.

During 2006 – our second full year as a REIT – Artis achieved significant, accretive year-over-year growth. At our top line, revenues increased to $53.5 million from $9.6 million in 2005. At our bottom line, distributable income ("DI") advanced to $15.9 million from $2.5 million. On a per-unit basis that was $1.32 (basic), versus $0.74 last year, an increase of 78.4%. Funds from operations ("FFO") also increased significantly in 2006, from $2.0 million to $14.0 million. FFO per unit increased 96.6% over 2005 to close out the year at $1.16.

Funds from operations per unit increased 96.6% to $1.16

EXTERNAL GROWTH: DISCIPLINED & ACCRETIVE ACQUISITIONS IN OUR TARGET MARKETS

The tremendous growth of Artis REIT during 2006 was principally due to a series of disciplined and accretive property acquisitions. Artis began the year with 27 developed properties totaling 1.9 million square feet of leasable space. By year end, including all 2006 acquisitions and dispositions, the portfolio had grown to 36 developed properties holding 2.9 million square feet.

Gross book value increased 88.1% to $523.1 million

Artis acquired 11 properties in 2006 adding over 1 million square feet of leasable area to the porfolio

Artis REIT achieved this expansion by aggressively applying our growth strategy toward properties that meet our strict acquisition criteria:

- Geographical location only in Western Canada, primarily in Alberta
- High quality office, retail and industrial assets;
- Diversified by tenant mix and location within our target markets;

DIVERSIFIED, QUALITY TENANTS

- Sears
- Shoppers Drugmart
- Cineplex Odeon
- Home Outfitters
- Sobeys
- Future Shop
- The Brick
- Jacobs Canada
- Columbia College Corp.
- London Drugs

- Long term, quality tenants;
- Stable cash flow with a conservative risk profile;
- In-place property rents well below market levels; and

Distributable income per unit increased 78.4% to $1.32

- Immediate accretion to distributable cash per unit.

MESSAGE FROM THE PRESIDENT AND C.E.O.

These criteria show that Artis REIT has concentrated almost exclusively on fully developed commercial properties, with excellent upside potential.

INTERNAL GROWTH: IN-PLACE RENTS WELL BELOW MARKET, AND NEW DEVELOPMENT PIPELINE

The REIT's strategy of investing only in western Canada, with a major focus in the province of Alberta, is paying off handsomely. Our occupancy level and net rental income are increasing at a strong pace. In fact, current market rents are higher than when we first acquired our current portfolio of properties.

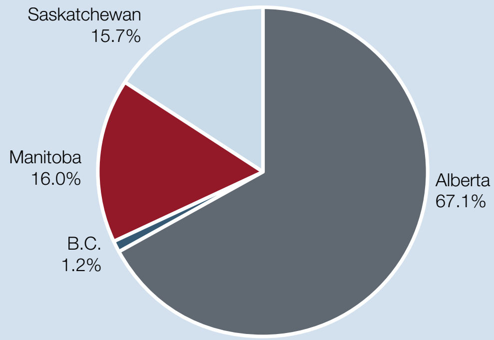
Occupancy increased from 92.5% at the start of 2006 to 95.8% at the end of 2006

In addition, Artis REIT is now also pursuing new project development opportunities – mainly in Alberta. The REIT has forward-purchased a 225,000 square foot, Class A office building to be completed in 2008 at an accretive capitalization rate. In addition, Artis REIT has acquired vacant zoned land in the Calgary region and entered into a co-ownership agreement that will see the development of a new 211,000 square feet, Class A office building to be completed in 2009. Additional new development opportunities exist within the REIT's current portfolio that will serve to improve the overall internal rate of return for our investors. The REIT's pipeline of new developments thus far is nearly 350,000 square feet. This is a new and exciting dimension of our growth strategy that we will be mobilizing in 2007.

WESTERN CANADA: A STELLAR GROWTH MARKET

The REIT's market territory is solely Western Canada. Within that region our main focus is Alberta. Currently almost 70% of our portfolio is in Alberta, of which 53% is in the city of Calgary.

Focused on Western Canada, primarily in Alberta



There are several reasons. First and foremost, Western Canada is the fastest-growing region of Canada and we believe that will continue for decades to come. Alberta, in particular, enjoys the strongest economic fundamentals and best demographic outlook in Canada. Calgary - the economic capital of Western Canada - hosts the strongest office market in North America. Lastly, it is a market we are very familiar with and where we have developed a broad range of business contacts that are important to the REIT's operation and growth.

Mortgage debt to gross book value decreased from 60.7% at the close of 2005 to 52.1% at December 31, 2006

To finance our expansion, Artis REIT deployed a creative blend of low cost commercial mortgages, term debt and financings. The financings consisted of two unit offerings and one debenture offering totaling $124.3 million. The financings supported transactions that were clearly accretive, as evidenced by higher year-over-year FFO per unit and DI per unit results. As well, the REIT has held debt well within the guidelines set out in its Declaration of Trust, reducing the ratios of debt to gross book value significantly during the year. At year end, Artis had substantial capacity to pay monthly distributions, fund current obligations and finance further growth.

THE OUTLOOK: DISCIPLINED GROWTH IN OUR TARGET MARKETS

Artis REIT enters 2007 with a quality property portfolio, solid operating results, a strong financial position and thriving target markets. We have continued to aggressively implement the REIT's growth strategy in the first quarter of the new fiscal year. The REIT has just acquired nine commercial properties (six in Alberta) for $195.5 million, accretively financed with an $92.0 million offering of newly issued units. Going forward, we will continue to operate in our target markets seeking acquisition and development opportunities for external and internal growth. We will also continue to actively manage our portfolio of properties and maximize rental revenue as our leases come up for renewal.

Centre 70 – acquired February 28, 2007
CALGARY, ALBERTA

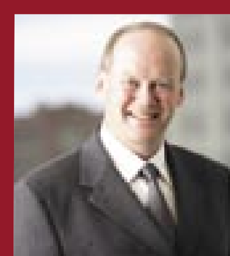
Within two years, Artis REIT has emerged as a prominent REIT in Western Canada. We believe our exceptionally strong performance during this period has demonstrated the power and viability of our business model and the economic strength of our markets. It also indicates the business acumen of our management, the wise counsel of our Board of Trustees, the diligence of our staff and the confidence placed in Artis REIT by our unitholders. I sincerely thank them all and look forward to reporting further achievement of the REIT's objectives in 2007.

Armin Martens
PRESIDENT AND CHIEF EXECUTIVE OFFICER

MANAGEMENT

Armin Martens, P.Eng., M.B.A.
President and Chief Executive Officer

Cornelius Martens, P.Eng.
Executive Vice-President

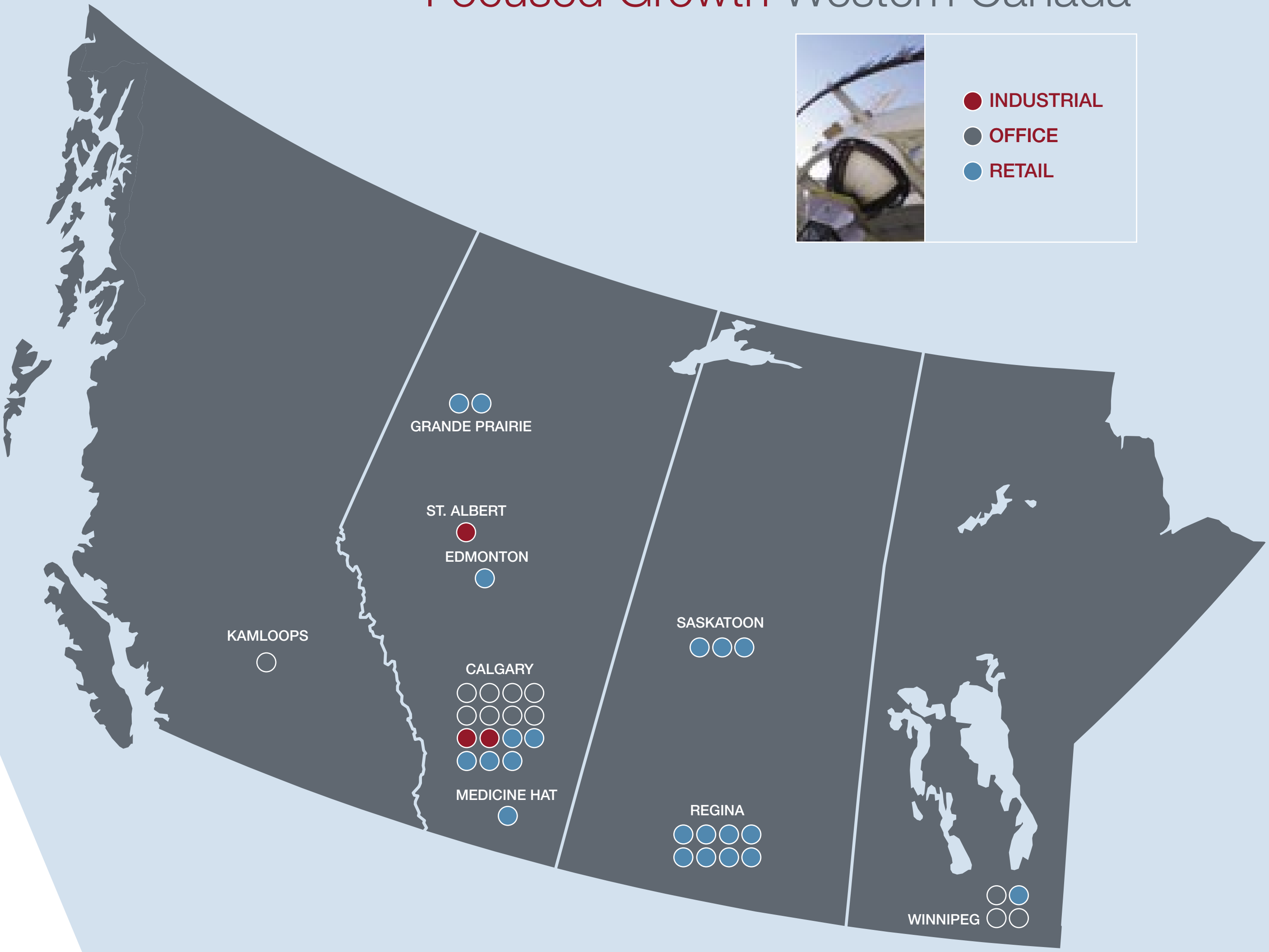


Jim Green, CA
Chief Financial Officer

Kirsty Stevens, CMA
Senior Vice-President, Administration/Investor Relations

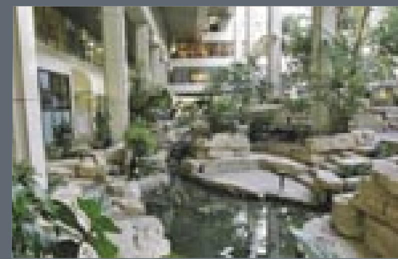
PORTFOLIO SUMMARY

Focused Growth Western Canada

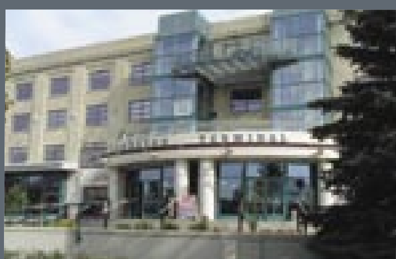


Campana Place
CALGARY, ALBERTA

Heritage Square
CALGARY, ALBERTA



Heritage Square
CALGARY, ALBERTA



Johnston Terminal
WINNIPEG, MANITOBA

Landmark Shoppers
REGINA, SASKATCHEWAN

Plainsman Building
KAMLOOPS, BRITISH COLUMBIA

Sunridge Spectrum
CALGARY, ALBERTA

West Landing Mall
REGINA, SASKATCHEWAN

Reenders Square
WINNIPEG, MANITOBA

Willowglen Business Park
CALGARY, ALBERTA

McKnight Village
CALGARY, ALBERTA

Interplex II - Development Project
CALGARY, ALBERTA

CORPORATE GOVERNANCE

Artis has a strong board of trustees who collectively bring a solid background in real estate and prior public company experience to the table. A majority of the trustees are independent of management and in 2006, the REIT added two additional and independent members to the board: Andre Kuzmicki and Delmore Crewson.

The Artis board strives to follow best practices in corporate governance. Key governance initiatives in 2006 included the formalization of a Code of Conduct and the addition of a third committee – the Investment Committee. Each of the Audit Committee, the Governance and Compensation Committee and the Investment Committee have adopted charters, as described on the page following.

(1) Member of Audit Committee
(2) Member of Governance and Compensation Committee
(3) Member of Investment Committee

AUDIT COMMITTEE

The Audit Committee is charged with the responsibility for oversight of the annual audit, management's reporting on internal controls, annual and interim financial reporting and the review and recommendation for approval of financial statements and other public disclosures of a financial nature. All of the committee's members are independent of management and the committee is chaired by Mr. Crewson, FCA.

CORPORATE GOVERNANCE AND COMPENSATION COMMITTEE

The Corporate Governance and Compensation committee is charged with responsibility for the development of effective corporate governance practices, including matters related to trust stewardship, board size and composition, and trustees' remuneration. The committee is also responsible for management's remuneration, unit option plans and succession planning. All of the committees' members are independent of management, and the committee is chaired by Mr. Warkentin.

The Governance and Compensation Committee has established a sub-committee called the Disclosure Committee. The disclosure committee is comprised of the President and CEO of Artis, the Chairman of Artis and the Chief Financial Officer of Artis. The sub-committee has adopted a disclosure policy to address, among other things, the timely and accurate public dissemination of material information and the protection of confidential information.

INVESTMENT COMMITTEE

The Investment Committee is responsible for reviewing all proposals regarding investments, dispositions and financings of the REIT and making recommendations to the board with a view to achieving the strategic objective of acquiring a portfolio of quality assets and delivering the benefits of such asset ownership to unitholders.

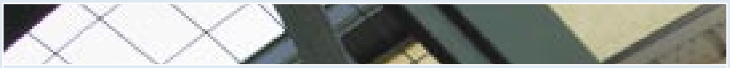
All of the committees' members are independent of management and the committee is chaired by Mr. Townsend.

The Investment Committee operates within the detailed investment and operating policies set out in the REIT's Declaration of Trust.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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



Forward-Looking Disclaimer

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

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

Overview

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

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

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

ARTIS REIT’S PRIMARY OBJECTIVES

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

The REIT’s primary objectives are:

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

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

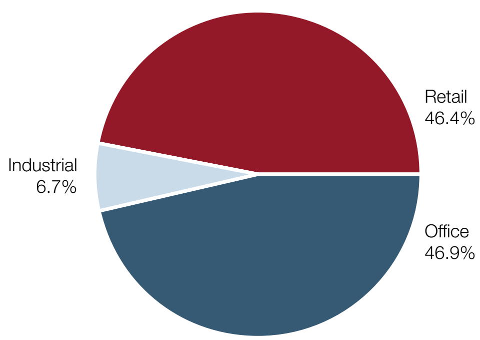
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

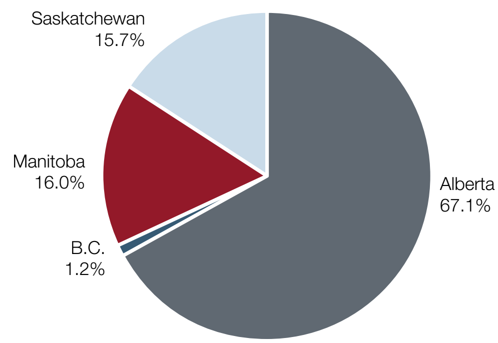
ARTIS REIT'S PORTFOLIO SUMMARY

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

GLA by Asset Class



GLA by Province



Lease Expiries By Asset Class

(in 000's of s.f.)	Office		Retail		Industrial		Total	
	GLA	%	GLA	%	GLA	%	GLA	%
2007*	181	13.2%	76	5.6%	12	6.1%	269	9.2%
2008	350	25.6%	114	8.4%	16	8.2%	480	16.5%
2009	161	11.8%	179	13.2%	37	18.9%	377	12.9%
2010	129	9.4%	282	20.9%	28	14.3%	439	15.1%
2011	330	24.1%	171	12.7%	71	36.2%	572	19.6%
2012 & Later	138	10.1%	488	36.1%	28	14.3%	654	22.4%
	1,289	94.2%	1,310	97.0%	192	98.0%	2,791	95.8%
Vacancies	78	5.8%	41	3.0%	4	2.0%	123	4.2%
Total GLA	1,367	100.0%	1,351	100.0%	196	100.0%	2,914	100.0%

*including month-to-month leases

Lease Expiries By Province

(in 000's of s.f.)	Alberta		British Columbia		Manitoba		Saskatchewan	
	GLA	%	GLA	%	GLA	%	GLA	%
2007*	121	6.2%	7	20.0%	98	21.0%	42	9.2%
2008	372	19.0%	2	5.7%	36	7.7%	70	15.3%
2009	267	13.7%	4	11.4%	49	10.5%	57	12.5%
2010	289	14.8%	12	34.3%	48	10.3%	89	19.5%
2011	464	23.7%	8	22.9%	54	11.6%	47	10.3%
2012 & Later	404	20.7%	2	5.7%	124	26.6%	125	27.4%
Total	1,917	98.0%	35	100.0%	409	87.8%	430	94.1%
Vacancies	39	2.0%	–	0.0%	57	12.2%	27	5.9%
Total GLA	1,956	100.0%	35	100.0%	466	100.0%	457	100.0%

*including month-to-month leases

HISTORICAL WEIGHTED AVERAGE PORTFOLIO OCCUPANCY

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

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

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

NOTICE RESPECTING NON-GAAP MEASURES

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

Artis REIT calculates Distributable Income, or "DI", to reflect distributable cash which is defined in the REIT's Declaration of Trust as net income in accordance with GAAP, subject to certain adjustments as set out in the Declaration of Trust, including: (i) adding back amortization (excluding leasing costs) and accretion to the carrying value of debt and (ii) excluding gains or losses on the disposition of any asset, and (iii) adding or deducting other adjustments as determined by the Trustees at their discretion. The definition of DI used by Artis REIT may not be the same as that used by other REIT's. Readers are further cautioned that DI is not a measure defined under GAAP, and cannot be construed as an alternate measure to earnings or cash flow from operations defined under GAAP. However, given that one of the REIT's objectives is to provide stable cash flows to investors, management believes that DI is an indicative measure for evaluating the REIT's operating performance in achieving its objectives.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

Investors are invited to visit our website at **www.artisreit.com** or SEDAR at **www.sedar.ca** for further information.

2006 ANNUAL HIGHLIGHTS

PORTFOLIO GROWTH

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

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

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

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

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

FINANCING ACTIVITIES

Artis REIT raised significant capital through the issuance of new units and convertible debentures in 2006. Artis REIT filed its first short-form prospectus on February 27, 2006, and issued 3,862,000 units at a price of $14.00 per unit for gross proceeds of $54,068. On May 4, 2006, Artis REIT issued by way of prospectus $30,000 of 6.25% Series C convertible debentures in a bought-deal arrangement through a syndicate of underwriters. On October 3, 2006, Artis REIT filed another short-form prospectus, issuing an additional

2,795,138 units at a price of $14.40 per unit for gross proceeds of $40,250 in a bought-deal arrangement through a syndicate of underwriters. Capital raised through these financing activities was primarily allocated to the financing of acquisitions, and a portion was used to pay down existing mortgages and for working capital purposes.

OTHER SIGNIFICANT ACTIVITIES

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

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

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

DISTRIBUTIONS

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

SELECTED ANNUAL INFORMATION

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

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

MANAGEMENT’S DISCUSSION AND ANALYSIS

All amounts are in $000’s, unless otherwise noted

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

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

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

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

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

ANALYSIS OF OPERATING RESULTS

($000’s, except unit and per unit amounts) Year ended December 31,

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

Revenues and Property NOI

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

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

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

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

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

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

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

PROPERTY NOI BY ASSET CLASS AND PROVINCE

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

Property NOI by Asset Class

($000's) Year ended December 31,

	2006			2005		
	Retail	Office	Industrial	Retail	Office	Industrial
Revenue	$ 25,356	$ 26,353	$ 889	$ 5,519	$ 3,677	$ –
Property operating expenses	7,082	11,940	249	1,389	2,035	–
Property NOI	$ 18,274	$ 14,413	$ 640	$ 4,130	$ 1,642	$ –
Share of Property NOI	54.8%	43.3%	1.9%	71.6%	28.4%	–

Property NOI by Province

($000's) Year ended December 31,

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

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

Interest

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

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

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

Corporate Expenses

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

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

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

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

Amortization

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

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

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

Comparison to Forecast

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

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

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

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

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

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

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

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

Distributable Income (DI):

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

Reconciliation of GAAP Loss to DI:

($000's, except unit and per unit amounts)	Year ended December 31, 2006	2005
Loss for the year	$ (11,153)	$ (2,519)
Add:		
Amortization (excluding amortized leasing costs)	25,133	4,527
Amortized financing costs on convertible debentures	533	105
Accretion to carrying value of debt	1,094	238
Unit-based compensation expense	502	157
Gain on disposal of income-producing properties	(828)	–
Other adjustments [1]	597	–
DI	$ 15,878	$ 2,508
DI per unit		
Basic	$ 1.32	$ 0.74
Diluted	$ 1.26	$ 0.73
Weighted average number of units:		
Basic [2]	12,015,853	3,399,747
Diluted [2]	14,844,073	3,420,353

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

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

Reconciliation of Cash Flows from Operations to DI:

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Funds from Operations (FFO):

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

Reconciliation of GAAP loss to FFO:

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

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

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

Reconciliation of FFO to Cash flows from operations:

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

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

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

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

ANALYSIS OF FINANCIAL POSITION

ASSETS

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

Income-producing properties and related intangible assets:

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

Property	Location	Acquisition Date	Type
Northwest Centre	4500 and 4520 - 16th Ave. NW, Calgary, AB	February 28, 2006	Office
Southwood Corner	10233 Elbow Drive, Calgary, AB	March 31, 2006	Retail
Circle 8	3120, 3124, 3126, 3134 - 8th St. E, Saskatoon, SK	March 31, 2006	Retail
Reenders Square	3 - 11 Reenders Drive, Winnipeg, MB	March 31, 2006	Retail
Sunridge Spectrum	2555 - 32nd St. NE, Calgary, AB	May 31, 2006	Retail
McCall Lake	1338 - 36 Ave. NE, Calgary, AB	June 30, 2006	Industrial
Heritage Square	8500 MacLeod Trail SE, Calgary, AB	July 13, 2006	Office
Franklin Showcase Warehouse	700 - 33rd Street NE & 3501 - 8th Avenue NE, Calgary, AB	July 14, 2006	Industrial
Horizon Heights	3508 - 32nd Avenue NE, Calgary, AB	July 17, 2006	Retail
Liberton Square	504, 506 & 506A St. Albert Trail, St. Albert, AB	November 1, 2006	Retail
Delta Centre	16515 -116th Avenue, Edmonton, AB	December 31, 2006	Industrial

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

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

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

Property under development:

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

Capital expenditures

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

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

Tenant Inducements and leasing costs:

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

($000's)	Year ended December 31,	
	2006	2005
Tenant inducements	$ 2,848	$ 293
Leasing commissions	813	49
Total	$ 3,661	$ 342

Deferred recoverable operating costs:

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

Deposits on income-producing properties:

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

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

Cash and cash equivalents:

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

LIABILITIES

($000's)	December 31, 2006	December 31, 2005	Change
Long-term debt	$ 312,844	$ 190,834	$ 122,010
Other liabilities	21,976	13,073	8,903
	$ 334,820	$ 203,907	$ 130,913

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

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

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

Prior period has been restated to conform to current year's presentation

($000'S)	December 31, 2006	December 31, 2005
GBV	$ 523,081	$ 278,065
Mortgages and loans secured by properties (1)	$ 272,341	$ 168,889
Mortgages and loans to GBV	52.1%	60.7%
Carrying value of convertible debentures	$ 40,503	$ 21,945
Total long-term debt	$ 312,844	$ 190,834
Total long-term debt to GBV	59.8%	68.6%

(1) Includes $613 mark-to-market on above-market mortgages (2005, $175)

Mortgages:

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

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

Convertible debentures:

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

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

($000's) At December 31,

				2006		2005	
	Issued	Maturity	Face rate	Carrying value	Face value	Carrying value	Face value
$875 convertible	3 Aug 05	3 Aug 06	7.25%	$ –	$ –	$ 847	$ 875
Series A	4 Aug 05	4 Aug 10	7.75%	8,699	10,185	12,339	15,000
Series B	9 Nov 05	9 Nov 10	7.50%	9.093	10,862	8,759	10,862
Series C	4 May 06	31 May 13	6.25%	22,711	30,000	–	–
				$ 40,503	$ 51,047	$ 21,945	$ 26,737

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

During the year, Series A convertible debentures with a face value of $4,815 were converted and 382,138 units were issued at the exercise price of $12.60 per unit. The carrying value was reduced by $4,071.

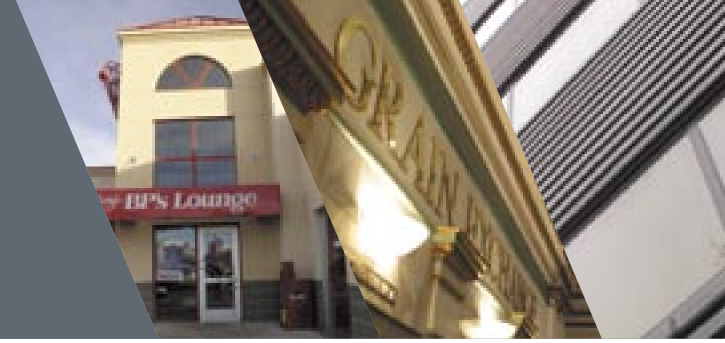
Other liabilities:

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

NON-CONTROLLING INTEREST

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

In October of 2006, AXLP issued 543,781 Class B units as consideration for the interim purchase price of $7,800 under the Interplex II purchase and sale agreement. Interplex II is a Class A office building under construction in Calgary, Alberta, and upon completion (estimated November, 2008), Artis REIT will acquire the property



at a price calculated on a pre-determined formula based on in-place leases at completion. Pursuant to the purchase and sale agreement, the REIT is entitled to earn $100 per month in property rents from the vendor. Distributions paid or payable to the vendor on the Class B units ($143 in 2006) are first netted against the property rents, the remaining net property rents are recorded as a reduction to the deposit on property.

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

UNITHOLDERS’ EQUITY

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

($000’s)

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

(1) Not including $613 of mark-to-market on mortgages.

(2) It is assumed that none of the debentures convert and that they are paid out in cash on maturity.

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

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

SUMMARIZED QUARTERLY INFORMATION AND Q4-06 ANALYSIS

($000's, except per unit amounts)

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

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

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

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

Reconciliation of GAAP loss to DI:

($000's, except per unit amounts)

	Q4-06	Q3-06	Q2-06	Q1-06	Q4-05	Q3-05	Q2-05	Q1-05
Loss for the period	$ (3,259)	$ (3,275)	$ (3,110)	$ (1,509)	$ (2,199)	$ (145)	$ (104)	$ (71)
Add:								
Amortization (excluding amortized leasing costs)	7,504	7,260	5,686	4,683	3,193	626	477	231
Amortized financing costs on convertible debentures	163	163	115	92	65	37	3	–
Accretion to carrying value of debt	172	399	326	197	162	73	–	3
Unit based compensation expense	382	40	40	40	157	–	–	–
(Gain) loss on disposal of income-producing properties	–	–	113	(941)	–	–	–	–
Other adjustments	200(1)	–	397(2)	–	–	–	–	–
DI	$ 5,162	$ 4,587	$ 3,567	$ 2,562	$ 1,378	$ 591	$ 376	$ 163
DI per unit								
Basic	$ 0.34	$ 0.38	$ 0.30	$ 0.29	$ 0.20	$ 0.14	$ 0.30	$ 0.14
Diluted	$ 0.33	$ 0.35	$ 0.28	$ 0.27	$ 0.20	$ 0.14	$ 0.30	$ 0.14
Weighted average number of units:								
Basic	15,153,247(3)	12,072,151	11,850,099	8,918,795	6,993,641	4,122,383	1,269,728	1,140,980
Diluted	18,577,492	15,609,760	15,003,921	11,502,700	7,030,560	4,152,154	1,270,131	1,142,227

(1) Added back to Q4-06 DI is property rent. Property rent is cash revenue earned pursuant to the Interplex II purchase and sale agreement not recorded as revenue in the REIT's Consolidated Statement of Operations and Deficit due to the project being in the development phase.

(2) Added back to Q2-06 DI is $397 of costs attributable to an unsuccessful bid on a portfolio of assets.

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

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

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

Reconciliation of GAAP loss to FFO:

($000's, except per unit amounts)

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

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

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

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

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

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

RELATED PARTY TRANSACTIONS

Year ended December 31,

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

The REIT incurred legal fees with a law firm associated with a Trustee of the REIT in connection with the prospectus offerings, the property acquisitions and general business matters. The amount payable at December 31, 2006 is $12 (2005, $314).

The REIT incurred advisory fees and acquisition fees under the asset management agreement with Marwest Management Canada Ltd. ("Marwest"), a company owned and controlled by certain trustees and officers of the REIT. The amount payable at December 31, 2006 is $116 (2005, $224). Under the asset management agreement, Marwest is entitled to an annual advisory fee payable quarterly equal to 0.25% of the adjusted cost base of the REIT's assets and to an acquisition fee equal to 0.5% of the cost of each property acquired.

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

The REIT incurred property management fees, leasing commission fees, and renovation fees under the property management agreement with Marwest. The amount payable at December 31, 2006 is $78 (2005, $80). Marwest acts as the general property manager for the REIT's properties and is entitled to management fees, leasing renewal commissions and tenant improvement fees at commercially reasonable rates.

The REIT incurred costs for building improvements paid to Marwest Construction Ltd., a company related to certian trustees and officers of the REIT. The amount payable at December 31, 2006 is $115 (2005, nil).

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

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

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

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

OUTSTANDING UNIT DATA

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

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

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

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

2007 OUTLOOK

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

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

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

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

Subsequent Events

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

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

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

($000's)

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

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

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

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

RISKS AND UNCERTAINTIES

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

Tax Risk:

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

Under the Proposals, certain distributions from a "specified investment flow-through" trust or partnership (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, the Proposals provide that distributions paid by a SIFT as returns of capital should not be subject to the tax.

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

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

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

In respect of assets and liabilities of the REIT, and its flow through entities, the tax basis of net assets exceeds their net book value for accounting purposes by approximately $25,540 at December 31, 2006.

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

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

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

Credit Risk and Tenant Concentration:

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

Lease Rollover Risk:

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

Approximately 38.6% of the REIT's GLA will come up for renewal in 2007 through 2009; approximately 67.5% of those expiries are in the province of Alberta. Management believes there is substantial upside to be realized from the below-market leases coming up for renewal in Alberta, particularly in the strong Calgary office market. Alberta, particularly Calgary, has seen steadily declining vacancy rates with corresponding and substantial increases in market rent rates across all categories of commercial real estate.

Other Risks:

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

Top Ten Tenants by GLA	Share
Jacobs Canada	5.1%
Sears	3.6%
Credit Union Central	2.9%
Shoppers Drug Mart	2.8%
Cineplex Odeon	2.2%
Komex International	1.7%
Columbia College Corp	1.5%
Home Outfitters	1.4%
Hycal Energy Labs	1.3%
Sobey's	1.3%
Total of Top Ten by GLA	23.9%

Top Ten Tenants by Gross Revenue	Share
Jacobs Canada	6.3%
Credit Union Central	4.0%
Shoppers Drug Mart Total	3.3%
Cineplex Odeon	2.8%
Komex International	2.1%
Columbia College Corp	1.4%
Cooperators General Insurance	1.4%
Home Outfitters	1.4%
Sobey's	1.3%
Bank of Montreal	1.2%
Total of Top Ten by Gross Revenue	25.3%

Government Entities by GLA	Share
Federal Government	4.8%
Provincial Government	4.9%
Civic or Municipal Gov't	2.8%
Total Government by GLA	12.5%

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

CRITICAL ACCOUNTING ESTIMATES

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

Allocation of purchase price of income-producing properties:

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

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

Amortization:

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

Allocation of convertible debentures:

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

CHANGES IN ACCOUNTING POLICIES

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

Section 3855, "Financial Instruments – Recognition and Measurements" establishes standards for the recognition and measurement of financial assets, financial liabilities and non-financial derivatives. Financial instruments will ordinarily be measured at fair value on initial recognition. Subsequent measurement is determined by the classification of the financial instrument as held to maturity, loans and receivables, held-for trading or available-for-sale.

Impacts on the REIT include:

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

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

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

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

CONTROLS AND PROCEDURES

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

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

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

2006 FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Artis Real Estate Investment Trust is responsible for the preparation and integrity of the consolidated financial statements contained in the annual report. These consolidated financial statements have been prepared in accordance with 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 financial statements. To fulfill its responsibility, management maintains internal accounting controls and systems and establishes policies and procedures to ensure the reliability of financial information and to safeguard assets.

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

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

Armin Martens, P.Eng., MBA
PRESIDENT AND CHIEF EXECUTIVE OFFICER
March 1, 2007

Jim Green, CA
CHIEF FINANCIAL OFFICER
March 1, 2007

AUDITORS' REPORT

To the Unitholders of Artis Real Estate Investment Trust

We have audited the consolidated balance sheets of Artis Real Estate Investment Trust as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of Artis Real Estate Investment Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Artis Real Estate Investment Trust as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
CHARTERED ACCOUNTANTS

Winnipeg, Canada
March 1, 2007

CONSOLIDATED BALANCE SHEETS

As at December 31, 2006 and 2005

(In thousands of dollars)		2006		2005
ASSETS				
Income-producing properties (note 4)	$	388,845	$	209,658
Other assets (note 5)		70,348		47,984
Deferred financing costs, net of accumulated amortization of $871 (2005, $124)		4,057		2,523
Deposits on income-producing properties (note 6)		10,343		425
Prepaid expenses		812		271
Rent and other receivables		2,956		1,446
Cash held in trust		327		1,033
Cash and cash equivalents		15,252		9,927
	$	492,940	$	273,267
LIABILITIES AND UNITHOLDERS' EQUITY				
Liabilities:				
Mortgages and loans payable (note 7)	$	272,341	$	168,889
Convertible debentures (note 8)		40,503		21,945
Intangible liabilities (note 9)		13,341		7,299
Security deposits and prepaid rent		1,402		964
Accounts payable and other liabilities (note 10)		7,233		4,810
		334,820		203,907
Non-controlling interest (note 11)		10,368		–
Unitholders' equity:				
Capital contributions (note 12(b))		165,288		70,151
Contributed surplus (note 12(c))		649		176
Equity component of convertible debentures (note 8)		11,659		5,024
Deficit		(29,844)		(5,991)
		147,752		69,360
Contingent consideration (note 18)				
Subsequent events (note 21)				
	$	492,940	$	273,267

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Armin Martens – Trustee

Delmore Crewson – Trustee

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years ended December 31, 2006 and 2005

(In thousands of dollars, except per unit amounts)		2006		2005
Revenue	$	53,522	$	9,644
Property operating expenses		19,271		3,424
		34,251		6,220
Interest		17,003		3,165
		17,248		3,055
Expenses:				
Corporate		3,081		913
Amortization		26,148		4,661
		29,229		5,574
Loss before the undernoted		(11,981)		(2,519)
Gain on disposal of income-producing properties (note 3)		828		–
Loss for the year		(11,153)		(2,519)
Deficit, beginning of year		(5,991)		(142)
		(17,144)		(2,661)
Distributions (note 13)		(12,700)		(3,330)
Deficit, end of year	$	(29,844)	$	(5,991)
Basic and diluted loss per unit	$	(0.94)	$	(0.74)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2006 and 2005

(In thousands of dollars)	2006	2005
Cash provided by (used for):		
Operating activities:		
Loss for the year	$ (11,153)	$ (2,519)
Adjustments for non-cash items:		
Amortization:		
Income-producing properties	10,106	1,900
Office equipment	4	1
Above-market rent	213	67
Acquired in-place leases	15,004	2,597
Customer relationships	23	30
Deferred financing costs	765	124
Below-market rent	(3,249)	(715)
Tenant inducements and leasing costs	246	9
Above-market mortgages	(81)	(9)
Accretion on liability component of convertible debentures	1,094	238
Straight-line rent adjustment	(1,063)	(207)
Gain on disposal of income-producing properties	(828)	–
Unit-based compensation expense	502	157
Units issued for Trustee compensation	15	–
	11,598	1,673
Changes in non-cash operating items (note 14)	2,022	3,033
	13,620	4,706
Investing activities:		
Acquisition of income-producing properties, net of related debt (note 3)	(85,200)	(83,638)
Dispositions of income-producing properties, net of mortgages and costs (note 3)	3,440	–
Additions to income-producing properties	(1,741)	–
Additions to office equipment	(15)	(5)
Additions to tenant inducements and leasing costs	(3,319)	(342)
Change in deposits on income-producing properties	(2,118)	(158)
	(88,953)	(84,143)
Financing activities:		
Issuance of REIT units, net of issue costs	89,192	64,715
Costs incurred on issuance of Class B units (note 11)	(13)	–
Issuance of convertible debentures	30,000	26,737
Distributions paid on REIT units	(12,700)	(3,330)
Distributions paid on Class B units, charged to non-controlling interest (note 11)	(31)	–
Mortgages and loans principal repayments	(4,261)	(554)
Repayment of mortgages and loans payable	(19,230)	(20,920)
Proceeds from mortgage refinancing	–	22,088
Deferred financing costs	(2,299)	(2,642)
	80,658	86,094
Increase in cash and cash equivalents	5,325	6,657
Cash and cash equivalents at beginning of year	9,927	3,270
Cash and cash equivalents at end of year	$ 15,252	$ 9,927
Supplemental cash flow information:		
Interest paid, net of interest received	$ 14,212	$ 1,795
Non-cash investing and financing activities:		
Deposit on income-producing property and related issuance of Class B units are excluded from investing and financing activities	7,800	–

See accompanying notes to consolidated financial statements.

1. ORGANIZATION

Artis Real Estate Investment Trust (the "REIT"), formerly Westfield Real Estate Investment Trust, is an unincorporated open-end real estate investment trust (note 12) created under, and governed by, the laws of the province of Manitoba and was created pursuant to the Declaration of Trust dated November 8, 2004, subsequently amended and restated on October 31, 2006 (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.

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation:

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

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

Income-producing properties include tangible and intangible assets.

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

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

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

Property under development includes initial acquisition costs, other direct costs and realty taxes, interest, and operating revenue and expenses during the period of development.

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

ASSET	BASIS	RATE/YEARS
Buildings	Straight-line	up to 40
Building Improvements	Straight-line	up to 20
Tenant Improvements	Straight-line	Remaining term of lease agreement and renewal years where applicable
Leasehold interest	Straight-line	40
Parking lots	Straight-line	20
Office equipment	Straight-line	5
Acquired in-place leases	Straight-line	Remaining term of lease agreement and renewal years where applicable
Above-market rent	Straight-line	Remaining term of lease agreement and fixed-rate non-cancelable renewal years
Below-market rent	Straight-line	Remaining term of lease agreement and fixed-rate non-cancelable renewal years
Tenant inducements and leasing costs	Straight-line	Term of lease agreement
Customer relationships	Straight-line	Remaining term of lease agreement and renewal years where applicable

(c) Deferred costs:

Deferred recoverable operating costs are deferred and amortized over the period which they are recoverable from tenants.

Deferred financing costs represent costs incurred relating to the issuance of the convertible debentures and the financing by way of mortgage or vendor take-back loans related to the REIT's income-producing properties. Amortization is provided on a straight-line basis, over the term of the related debt.

(d) Cash and cash equivalents:

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

(e) Revenue recognition:

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

(f) Co-ownership:

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

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

(g) Earnings per unit:

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

(h) Unit-based compensation:

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

(i) Income taxes:

The REIT became an open-ended real estate investment trust (note 12) during 2006. The REIT is taxed as a mutual fund trust for income tax purposes. Pursuant to the terms of the Declaration of Trust, the trustees intend to make distributions not less than the amounts necessary to ensure that the REIT will not be liable to pay income taxes. Therefore, no provision for income taxes is required on income earned by the REIT and its flow through entities (note 16).

(j) Use of estimates:

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

3. ACQUISITIONS AND DISPOSITIONS OF INCOME-PRODUCING PROPERTIES:

Acquisitions:

The REIT acquired the following properties during 2006:

PROPERTY	LOCATION	ACQUISITION DATE	TYPE
Northwest Centre	4500 and 4520 - 16th Ave. NW, Calgary, AB	February 28, 2006	Office
Southwood Corner	10233 Elbow Drive, Calgary, AB	March 31, 2006	Retail
Circle 8	3120, 3124, 3126, 3134 8th St. E, Saskatoon, SK	March 31, 2006	Retail
Reenders Square	3 - 11 Reenders Drive, Winnipeg, MB	March 31, 2006	Retail
Sunridge Spectrum	2555 - 32nd St. NE, Calgary, AB	May 31, 2006	Retail
McCall Lake	1338 - 36 Ave. NE, Calgary, AB	June 30, 2006	Industrial
Heritage Square	8500 MacLeod Trail SE, Calgary, AB	July 13, 2006	Office
Franklin Showcase Warehouse	700 - 33rd Street NE & 3501 8th Avenue NE, Calgary, AB	July 14, 2006	Industrial
Horizon Heights	3508 - 32nd Avenue NE, Calgary, AB	July 17, 2006	Retail
Liberton Square	504, 506, & 506A St. Albert Trail, St. Albert, AB	November 1, 2006	Retail
Delta Centre	16515 - 116th Avenue, Edmonton, AB	December 31, 2006	Industrial

The REIT also acquired an undivided 50% interest in certain lands located in Calgary, Alberta (note 11).

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

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

The REIT acquired the following properties during 2005:

PROPERTY	LOCATION	ACQUISITION DATE	TYPE
Royal Square	15 Worobetz Place, Saskatoon, SK	February 1, 2005	Retail
Capital City Centre	1825 &1875 E. Victoria Ave., Regina, SK	February 2, 2005	Retail
Johnston Terminal	25 Forks Market Road, Winnipeg, MB	August 1, 2005	Office
Sears Centre	12429 - 99 Street, Grande Prairie, AB	August 15, 2005	Retail
Southview Centre	3201 - 13th Avenue SE, Medicine Hat, AB	August 31, 2005	Retail
Airways Business Park	1935 - 32nd Avenue NE, Calgary, AB	September 16, 2005	Office
Edgemont Mall	34 Edgedale Drive NW, Calgary, AB	September 30, 2005	Retail
Landmark Shoppers	4150 Albert Street, Regina, SK	September 30, 2005	Retail
Strathcona Shoppers	2202 Broad Street, Regina, SK	September 30, 2005	Retail
Canarama Mall	7 Assiniboine Drive, Saskatoon, SK	September 30, 2005	Retail
Grain Exchange Building	167 Lombard Ave, Winnipeg, MB	September 30, 2005	Office
Hamilton Building	395 Main Street, Winnipeg, MB	September 30, 2005	Office
McKnight Village	5220 Falsbridge Dr. NE, Calgary, AB	October 31, 2005	Retail
Hillhurst Building	301 - 14th Street NW, Calgary, AB	October 31, 2005	Office
Campana Place	609 - 14th Street NW, Calgary, AB	October 31, 2005	Office
Xentel Building	417 - 14th Street NW, Calgary, AB	October 31, 2005	Office
Willowglen Business Park	Manning Road and Manning Close NE, Calgary, AB	November 15, 2005	Office
Plainsman Building	301 Victoria, Kamloops, BC	November 30, 2005	Office
Gateway Power Centre	100 & 105A Avenue, Grande Prairie, AB	December 1, 2005	Retail
Albert Street Mall	111 Albert St., Regina, SK	December 15, 2005	Retail
East Landing Mall	2525 Quance St., Regina, SK	December 15, 2005	Retail
East Landing Plaza	2525 Quance St., Regina, SK	December 15, 2005	Retail
Fleet Street Enterprises	2220 Victoria Ave., Regina, SK	December 15, 2005	Retail
West Landing Mall	570 University Park Drive, Regina, SK	December 15, 2005	Retail
Keystone Village Mall	1300 - 18th Street, Brandon, MB	December 15, 2005	Retail
Centre 15 Building	1509 Centre Street S, Calgary, AB	December 16, 2005	Office

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

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

The net assets acquired including acquisition costs were as follows:

	2006	2005
Land	$ 56,837	$ 51,164
Buildings	119,666	127,349
Leasehold interest	6	8,009
Parking lots	3,800	4,270
Property under development	2,632	–
Tenant improvements	10,800	14,351
Acquired in-place leases	35,460	48,091
Above-market rent	201	925
Customer relationships	–	97
Below-market rent	(9,379)	(7,959)
Long-term debt including acquired above-market mortgage	(132,211)	(162,659)
Total consideration	$ 87,812	$ 83,638
Issuance of Class B units (note 11)	(2,612)	–
Cash consideration	$ 85,200	$ 83,638
Acquisition costs included above	$ 9,141	$ 4,570

Dispositions:

During 2006, the REIT disposed of the following properties:

PROPERTY	LOCATION	DISPOSITION DATE	TYPE
Edgemont Mall	34 Edgedale Drive NW, Calgary, AB	January 12, 2006	Retail
Keystone Village Mall	1300 - 18th Street, Brandon, MB	June 15, 2006	Retail

The proceeds from the sale of Edgemont Mall, net of costs, were $5,117. Consideration received was the assumption of the existing mortgage in the amount of $2,976 and cash in the amount of $2,141. The assets, intangible assets and liabilities associated with the property were removed from the books and a gain on sale of property in the amount of $941 was recorded.

The proceeds from the sale of Keystone Village Mall, net of costs, were $3,510. Consideration received was the assumption of the existing mortgage in the amount of $2,211 and cash in the amount of $1,299. The assets, intangible assets and liabilities associated with the property were removed from the books and a loss on sale of property in the amount of $113 was recorded.

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

4. INCOME-PRODUCING PROPERTIES:

	December 31, 2006		
	Cost	Accumulated amortization	Net book value
Land	$ 108,066	$ –	$ 108,066
Buildings and building improvements	247,942	5,708	242,234
Leasehold interest	8,015	286	7,729
Tenant improvements	26,225	5,694	20,531
Parking lots	8,020	367	7,653
Propoerty under development	2,632	–	2,632
	$ 400,900	$ 12,055	$ 388,845

	December 31, 2005		
	Cost	Accumulated amortization	Net book value
Land	$ 52,365	$ –	$ 52,365
Buildings and building improvements	131,167	834	130,333
Leasehold interest	8,009	83	7,926
Tenant improvements	15,776	1,064	14,712
Parking lots	4,370	48	4,322
	$ 211,687	$ 2,029	$ 209,658

5. OTHER ASSETS:

	December 31, 2006		
	Cost	Accumulated amortization	Net book value
Acquired in-place leases	$ 82,898	$ 17,489	$ 65,409
Above-market rent	1,179	283	896
Customer relationships	115	54	61
Tenant inducements and leasing costs	3,661	255	3,406
Deferred recoverable operating costs	557	–	557
Office equipment	24	5	19
	$ 88,434	$ 18,086	$ 70,348

	December 31, 2005		
	Cost	Accumulated amortization	Net book value
Acquired in-place leases	$ 49,302	$ 2,658	$ 46,644
Above-market rent	985	70	915
Customer relationships	115	31	84
Tenant inducements and leasing costs	342	9	333
Office equipment	9	1	8
	$ 50,753	$ 2,769	$ 47,984

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

6. DEPOSITS ON INCOME-PRODUCING PROPERTIES:

	2006	2005
Deposit on income-producing property (note11):		
Initial deposit	$ 7,800	$ –
Property rent	(200)	–
Distributions on 543,781 Class B units of AX L.P.	143	–
	7,743	–
Deposits on other income-producing properties	2,600	425
	$ 10,343	$ 425

7. MORTGAGES AND LOANS PAYABLE:

Substantially all of the REIT's assets have been pledged as security under mortgages and other security agreements. The mortgages and loans payable bear interest at fixed rates, with a weighted average rate of 5.46% at December 31, 2006 (2005, 5.24%) and maturity dates ranging from December 15, 2007 to November 1, 2016.

Principal payment requirements on the mortgages and loans payable are as follows:

2007	$ 9,415
2008	15,445
2009	10,444
2010	32,728
2011	26,321
2012 and thereafter	177,375
	271,728
Above-market mortgage adjustments	613
	$ 272,341

The acquisition in the prior year of one property, known as Sears Centre, was concluded on an agreement for sale basis. Title to the Sears Centre property was held in escrow pending satisfaction of the outstanding vendor loan. On October 15, 2006, the outstanding vendor loan was repaid and ownership of the property was transferred to the REIT effective that date.

8. CONVERTIBLE DEBENTURES:

In conjunction with the conclusion of the Johnston Terminal Headsublease transaction on August 1, 2005 and the exercise of the prepayment of rent privilege on August 3, 2005, the REIT issued a 7.25% convertible debenture in the amount of $875 convertible into units of the REIT at $6 per unit, to the vendor, an entity controlled by certain Trustees of the REIT. The convertible debenture was a compound financial instrument and the proceeds of the issue were allocated between a liability and equity component in the amount of $829 and $46, respectively. The equity component reflected the equity value of the conversion option embedded in the convertible debenture. On August 3, 2006 the convertible debenture matured and the holder exercised its option and converted the debenture into 145,833 units at an exercise price of $6 per unit. The carrying value of the debenture on maturity of $875, together with the equity component attributed to the debenture of $46, was recorded as a capital contribution in the year.

In conjunction with the private placement offering that closed August 4, 2005, the REIT issued Series A convertible redeemable 7.75% debentures totaling $15,000. Interest is paid semi-annually on February 4 and August 4. The convertible debentures are convertible into units of the REIT by the holder at $12.60 after August 4, 2006, and redeemable for cash at the option of the REIT at any time after August 4, 2007 provided that the market price of the units exceeds 150% of the conversion price, and will be redeemable at the option of the REIT at any time after August 4, 2009 provided that the market price of the units exceeds 125% of the conversion price. Debentures that are not converted into units of the REIT are to be repaid in cash on maturity, being August 4, 2010. The convertible debentures are compound financial instruments and the proceeds of the offering, at the time of issue, were allocated between a liability and equity component in the amount of $12,169 and $2,831, respectively. The equity component reflects the equity value of the conversion option embedded in the convertible debentures. During the year, Series A convertible debentures with a face value of $4,815 were converted and the REIT issued 382,138 units at the exercise price of $12.60 per unit. The carrying value of the debt component was reduced by $4,071 and the equity component was reduced by $909, with an offsetting increase to capital contributions of $4,980. An additional 13 units were issued in lieu of accrued interest.

In conjunction with the private placement offering that closed November 9, 2005, the REIT issued Series B convertible redeemable 7.5% debentures totaling $10,862. Interest is paid semi-annually on May 9 and November 9. The convertible debentures are convertible into units of the REIT by the holder after November 9, 2007 at a price of $13.50 per unit. The debentures are redeemable for cash at the option of the REIT (i) at any time after November 9, 2007 provided that the market price of the units exceeds 150% of the conversion price; and (ii) at any time after November 9, 2009 provided that the market price of the units exceeds 125% of the conversion price. The debentures rank pari passu with the convertible debentures issued August 4, 2005. Debentures that are not converted into units of the REIT are to be repaid in cash on maturity, being November 9, 2010. The convertible debentures are compound financial instruments and the proceeds of the offering, at the time of issue, were allocated between a liability and equity component in the amount of $8,715 and $2,147, respectively. The equity component reflects the equity value of the conversion option embedded in the convertible debentures. None of the Series B convertible debentures were converted into units of the REIT in fiscal 2006.

In conjunction with the prospectus that closed May 4, 2006, the REIT issued Series C convertible redeemable 6.25% debentures totaling $30,000. Interest is paid semi-annually on May 31 and November 30. The convertible debentures are convertible into units of the REIT by the holder after May 31, 2009 at a price of $17.25 per unit. The debentures are redeemable for cash at the option of the REIT (i) at any time after May 31, 2009 provided that the market price of the units exceeds 125% of the conversion price; and (ii) at any time after May 31, 2011. The debentures rank pari passu with the convertible debentures issued August 4, 2005 and November 9, 2005. Debentures that are not converted into units of the REIT are to be repaid in cash on maturity, being May 31, 2013. The convertible debentures are compound financial instruments and the proceeds of the offering, at the time of issue, were allocated between a liability and equity component in the amount of $22,410 and $7,590, respectively. The equity component reflects the equity value of the conversion option embedded in the convertible debentures. None of the Series C convertible debentures were converted into units of the REIT in fiscal 2006.

Using a term until maturity, the liability portion of the debentures at the date of issuance represents the present value of the mandatory cash payments of interest plus the present value of the principal amount due under the terms of the debentures discounted at 13%, or in the case of the Series C debentures, 11.75%, being the rate of interest that would be applicable to a debt-only instrument of comparable term and risk. The equity component, which represents the value ascribed to the conversion option issued, is calculated as the difference between the amount issued and the liability component. Interest expense is determined by applying the discount rate against the outstanding liability component of the debentures. The difference between actual interest payments and interest expense is treated as an addition to the liability component of the debentures.

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

Particulars of the REIT's outstanding convertible debentures as at December 31, 2006 are as follows:

Convertible debenture issue	Series A convertible redeemable	Series B convertible redeemable	Series C convertible redeemable	2006	2005
Issue date	August 4, 2005	November 9, 2005	May 4, 2006		
Interest rate	7.75%	7.5%	6.25%		
Face value	$ 10,185	$ 10,862	$ 30,000	$ 51,047	$ 26,737
Equity portion	1,922	2,147	7,590	11,659	5,024
Liability portion	8,263	8,715	22,410	39,388	21,712
Accretion to December 31	436	378	301	1,115	233
Carrying value December 31	$ 8,699	$ 9,093	$ 22,711	$ 40,503	$ 21,945

Accretion to the carrying value of the debt component was $1,094 (2005, $238) during the year ended December 31, 2006.

9. INTANGIBLE LIABILITIES:

	December 31, 2006		
	Cost	Accumulated amortization	Net book value
Below-market rent	$ 17,302	$ 3,961	$ 13,341

	December 31, 2005		
	Cost	Accumulated amortization	Net book value
Below-market rent	$ 8,018	$ 719	$ 7,299

10. ACCOUNTS PAYABLE AND OTHER LIABILITIES:

	2006	2005
Accounts payable and accrued liabilities	$ 5,727	$ 4,114
Distributions payable (note 13)	1,506	696
	$ 7,233	$ 4,810

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

11. NON-CONTROLLING INTEREST:

Non-controlling interest represents the amount of equity related to the Class B units of a subsidiary, AX L.P. ("AXLP."). This non-controlling interest has been accounted for in accordance with EIC-151, Exchangeable Securities Issued by Subsidiaries of Income Trusts. The accounts of AXLP are consolidated in these consolidated financial statements. Class B units of AXLP are only exchangeable on a one-for-one basis, at the option of the holder, into REIT units, and are transferable to third parties with the REIT's consent.

Holders of the Class B units of AXLP are entitled to receive distributions on a per unit amount equal to a per REIT unit amount provided to holders of REIT units.

Effective October 31, 2006, the REIT entered into a purchase and sale agreement with a third party whereby the vendor will develop a Class A office building in Calgary, Alberta. Upon completion (estimated as November, 2008), the REIT will acquire the income-producing property based on a predetermined formula as set out in the agreement. In accordance with the agreement, the REIT paid $7,800 as an interim payment towards the purchase price of the income-producing property, and recorded this amount as a deposit on income-producing properties. As consideration, the REIT issued 543,781 Class B units of AXLP at a price of $14.34 per unit, and the REIT issued an equal number of special voting units as consideration. The Class B units have been released to the vendors, subject to trading restrictions as set out in the purchase and sale agreement. The aggregate purchase price of the income-producing property is estimated at $90,000. In accordance with the agreement, the REIT receives monthly property rent of $100 from the vendor, with a total of $2,400 to be received during construction of the income-producing property. Distributions paid to the vendor on the Class B units are netted against property rent and any remaining difference is recorded as a reduction to the deposit on the income-producing property.

Effective November 30, 2006, the REIT acquired, through AXLP, an undivided 50% interest in certain lands located in Calgary, Alberta. AXLP entered into a co-ownership agreement with the vendor with respect to a 50% interest in, and the development of, a Class A office building. Both the REIT and the vendor transferred their 50% interest in the lands into the co-ownership. Construction is anticipated to commence in the first half of 2007, for completion in 2009. To facilitate the development of the income-producing property, the REIT may provide up to $6,500 of mezzanine financing to the co-ownership, bearing interest at a rate of ten percent per annum. As payment for its interest in the lands, AXLP issued 177,566 Class B units at a price of $14.71 per unit for aggregate consideration of $2,612. The REIT also issued an equal number of special voting units.

The details of the non-controlling interest are as follows:

Issuance of 543,781 Class B units of AXLP on October 31, 2006	$	7,800
Issuance of 177,566 Class B units of AXLP on November 30, 2006		2,612
Costs relating to the issuance of Class B units of AXLP		(13)
Distributions on 177,566 Class B units of AXLP		(31)
Balance at December 31, 2006	$	10,368

12. CAPITAL CONTRIBUTIONS:

(a) Authorized:

The REIT completed its conversion into an open-end mutual fund trust under the provisions of the Income Tax Act (Canada) effective October 31, 2006. In accordance with the Amended and Restated Declaration of Trust, the REIT may issue an unlimited number of units, with each unit representing an equal fractional undivided beneficial interest in any distributions from the REIT, and in the net assets in the event of termination or wind-up of the REIT. All units are of the same class with equal rights and privileges. The units are redeemable at any time at the option of the holder at a price defined in the Amended and Restated Declaration of Trust, subject to a maximum of $30 in cash redemptions by the REIT in any one month. Redemptions in excess of this amount will be paid by way of a distribution of notes of the REIT, or a wholly-owned subsidiary of the REIT.

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

In accordance with the Amended and Restated Declaration of Trust, the REIT may also issue a class of special voting units, which are non-participating voting units of the REIT, to be issued to holders of securities which are exchangeable for units of the REIT (note 11). Special voting units are cancelled on the issuance of REIT units on exercise, conversion or cancellation of the corresponding exchangeable securities.

Effective February 1, 2006, the REIT consolidated its units on a 15 for one basis. All unit and per unit disclosures are presented on a post-consolidation basis.

(b) Issued and outstanding:

Units stated on a post-consolidation basis	Number of units		Amount
Balance at December 31, 2004	1,080,799	$	4,886
Private placements, net of issue costs of $4,739	6,683,564		64,172
Conversion of convertible debentures	101,571		526
Warrants exercised	29,889		179
Broker warrants exercised	27,991		151
Options exercised	36,000		237
Balance at December 31, 2005	7,959,814		70,151
Public offerings, net of issue costs of $5,624	6,657,138		88,693
Conversion of $875 convertible debenture	145,833		921
Conversion of Series A convertible debentures	382,151		4,980
Options exercised	69,000		469
Distribution Reinvestment Plan (“DRIP”)	4,264		59
Units issued for Trustee compensation	1,066		15
Fractional units eliminated on consolidation	(5)		–
Balance at December 31, 2006	15,219,261	$	165,288

At December 31, 2006, there were 721,347 special voting units issued and outstanding (note 11). There is no value assigned to the special voting units.

On June 27, 2006, the REIT announced its new Distribution Reinvestment Plan (“DRIP”). Under the terms of the DRIP, Unitholders now have the option to elect to receive all or a portion of their regular monthly distributions in additional REIT units.

(c) Contributed surplus:

		2006		2005
Balance, beginning of year	$	176	$	44
Unit-based compensation expense		502		157
Value of options exercised		(29)		(25)
Balance, end of year	$	649	$	176

Contributed surplus arises as a result of recording the fair value of options granted under the unit option plan (see note 12(d)). The fair value of the options is recorded to contributed surplus as the options vest. Upon exercise, the proceeds received, as well as any balance previously recorded to contributed surplus, is credited to capital contributions.

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

(d) Unit options:

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

A summary of the REIT's unit options are as follows:

	2006		2005	
	Units	**Weighted average exercise price**	Units	Weighted average exercise price
Balance at beginning of year	348,393	$ 10.29	100,000	$ 6.00
Granted	450,000	14.40	284,393	11.25
Exercised	(69,000)	6.38	(36,000)	6.00
Balance at end of year	729,393	$ 13.20	348,393	$ 10.29
Options exercisable at end of year	178,598		135,098	
Weighted average fair value per unit of options granted during the year		$ 2.16		$ 2.10

Options outstanding at December 31, 2006 consist of the following:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Options oustanding weighted average exercise price	Number exercisable
$ 11.25	279,393	4.00 years	$ 11.25	66,098
$ 14.40	450,000	4.75 years	$ 14.40	112,500
	729,393		$ 13.20	178,598

The compensation expense related to unit options granted under the unit option plan for the year ended December 31, 2006 amounted to $502 (2005, $157). The balance of contributed surplus at December 31, 2006 relates to unexercised options. The compensation expense was determined based on the fair value of the options at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2006	2005
Expected option life	5 years	5 years
Risk-free interest rate	4.01%	4%
Dividend yield	7.3%	9.3%
Expected volatility	31.83%	41.12%

(e) Weighted average units:

The weighted average number of units outstanding for the year ended December 31, 2006 is 11,907,917 (2005, 3,399,747). The computation of diluted loss per unit for the years ended December 31, 2006 and 2005 does not include convertible debentures and unit options as these instruments are anti-dilutive.

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

13. DISTRIBUTIONS TO UNITHOLDERS:

Distributable Income, which is defined in the Declaration of Trust, means net income in accordance with generally accepted accounting principles, subject to certain adjustments as set out in the Declaration of Trust, including: (i) adding back amortization (excluding leasing costs) and accretion to the carrying value of debt and (ii) excluding gains or losses on the disposition of any asset, and (iii) adding or deducting other adjustments as determined by the Trustees at their discretion. Distributable Income is not a generally accepted accounting principles financial measure and should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with generally accepted accounting principles as an indicator of the REIT's performance.

The REIT declared distributions to REIT unitholders of record in the amount of $12,700 for the year ended December 31, 2006 (2005, $3,330). The REIT declared distributions to the holders of Class B units of AXLP in the amount of $174 for the year ended December 31, 2006 (2005, nil). Total distributions payable at December 31, 2006 are $1,506 (2005, $696).

14. CHANGES IN NON-CASH OPERATING ITEMS:

	2006	2005
Deferred recoverable operating costs	$ (557)	$ –
Prepaid expenses	(541)	(229)
Rent and other receivables	(447)	(1,229)
Cash held in trust	706	(1,033)
Security deposits and prepaid rent	438	891
Accounts payable and other liabilities	2,423	4,633
	$ 2,022	$ 3,033

15. RELATED PARTY TRANSACTIONS:

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

The REIT incurred legal fees with a law firm associated with a Trustee of the REIT in connection with the prospectus offerings, the property acquisitions and general business matters. The amount payable at December 31, 2006 is $12 (2005, $314).

The REIT incurred advisory fees and acquisition fees under the asset management agreement with Marwest Management Canada Ltd. ("Marwest"), a company owned and controlled by certain trustees and officers of the REIT. The amount payable at December 31, 2006 is $116 (2005, $224). Under the asset management agreement, Marwest is entitled to an annual advisory fee equal to 0.25% of the adjusted cost base of the REIT's assets and an acquisition fee equal to 0.5% of the cost of each property acquired.

The REIT incurred property management fees, leasing commission fees, and tenant improvement fees under the property management agreement with Marwest. The amount payable at December 31, 2006 is $78 (2005, $80). Marwest acts as the general property manager for the REIT's properties and is entitled to management fees, leasing renewal commissions and tenant improvement fees at commercially reasonable rates.

The REIT incurred costs for building improvements paid to Marwest Construction Ltd., a company related to certain trustees and officers of the REIT. The amount payable at December 31, 2006 is $115 (2005, nil).

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

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

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

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

16. INCOME TAXES:

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

Under the Proposals, certain distributions from a “specified investment flow-through” trust or partnership (a “SIFT”) will no longer be deductible in computing a SIFT’s taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, the Proposals provide that distributions paid by a SIFT as returns of capital should not be subject to the tax.

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

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

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

In respect of assets and liabilities of the REIT, and its flow-through entities, the tax basis of net assets exceeds their net book value for accounting purposes by approximately $25,540 at December 31, 2006. At December 31, 2005, the net book value for accounting purposes of net assets exceeds their tax basis by approximately $7,060.

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

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

17. SEGMENTED INFORMATION:

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

	Year ended December 31, 2006				
	Retail	Office	Industrial	REIT	Total
Revenue	$ 25,356	$ 26,353	$ 889	$ 924	$ 53,522
Property operating expenses	7,082	11,940	249	–	19,271
	18,274	14,413	640	924	34,251
Interest	6,920	5,551	275	4,257	17,003
Corporate expenses	–	–	–	3,081	3,081
Amortization	11,672	13,402	518	556	26,148
	18,592	18,953	793	7,894	46,232
	(318)	(4,540)	(153)	(6,970)	(11,981)
Gain on disposal of income-producing properties	828	–	–	–	828
Income (loss) for the year	$ 510	$ (4,540)	$ (153)	$ (6,970)	$ (11,153)
Total assets	$ 246,932	$ 204,085	$ 20,712	$ 21,211	$ 492,940

	Year ended December 31, 2005			
	Retail	Office	REIT	Total
Revenue	$ 5,519	$ 3,677	$ 448	$ 9,644
Property operating expenses	1,389	2,035	–	3,424
	4,130	1,642	448	6,220
Interest	1,608	566	991	3,165
Corporate expenses	131	126	656	913
Amortization	2,801	1,754	106	4,661
	4,540	2,446	1,753	8,739
Loss for the year	$ (410)	$ (804)	$ (1,305)	$ (2,519)
Total assets	$ 145,695	$ 117,094	$ 10,478	$ 273,267

18. CONTINGENT CONSIDERATION

In accordance with the purchase and sale agreement for Heritage Square, the vendor is entitled to a purchase price adjustment related to future events. The purchase and sale agreement provides for contingent consideration based on certain leases expiring prior to June 30, 2011 and being re-leased at a higher rental rate, net of leasing costs. The calculation provides for the difference in rate to be capitalized at 7.5% and 30% of that amount paid to the vendor. The amount and timing of the contingent consideration are not determinable at this time, and when determinable, will be recorded as an intangible asset.

19. 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) Interest rate risk:

The REIT is exposed to interest rate risk on its borrowings. It minimizes this risk by restricting total debt to 70% of gross book value and by attaining long-term fixed rate debt to replace short-term floating rate borrowings. In addition, management considers the weighted average term to maturity of long-term debt relative to the remaining average lease terms.

(ii) Credit risk:

The REIT is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. Management has diversified the REIT's holdings so that it owns several categories of properties (retail, office and industrial) and acquires properties throughout Western Canada.

(b) Fair values:

The fair value of the REIT's cash and cash equivalents, cash held in trust, rent and other receivables, accounts payable and other liabilities, and security deposits and prepaid rent approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments.

The fair value of the mortgages and loans payable has been determined by discounting the cash flows of these financial obligations using year end market rates for debt of similar terms and credit risks. Based on these assumptions, the fair value of mortgages and loans payable at December 31, 2006 has been estimated at $275,679 (2005, $170,289) compared with the carrying value of $272,341 (2005, $168,889)

The fair value of the REIT's convertible debentures is $53,169 (2005, $26,970) compared to its face value of $51,047 (2005, $26,737) at December 31, 2006. Fair value is based on the market price of the debentures.

20. FUTURE CHANGES IN ACCOUNTING POLICIES:

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

(a) Financial Instruments - Recognition and Measurement:

Section 3855, "Financial Instruments - Recognition and Measurement" establishes standards for the recognition and measurement of financial assets, financial liabilities and non-financial derivatives. Financial instruments will ordinarily be measured at fair value on initial recognition. Subsequent measurement is determined by the classification of the financial instrument as held-to-maturity, loans and receivables, held-for-trading or available-for-sale.

Impacts on the REIT include:

(i) Interest on debt instruments is recognized at the effective interest rate, with deferred finance costs netted against the related debt;

(ii) Embedded derivative features in lease agreements would be valued at market;

(iii) Any embedded derivative features in debt agreements, including mortgage or debenture agreements, would be valued at market.

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

(b) Comprehensive Income:

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

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

21. SUBSEQUENT EVENTS:

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

On February 8, 2007, the REIT granted to its trustees, officers and management personnel, options to acquire an aggregate of 293,000 units at a price of $15.85 per unit. 25% of the options vested immediately, with the balance vesting in equal amounts on the first, second and third anniversaries of the date of grant. The options expire on February 8, 2012.

On January 12, 2007, the REIT acquired the CDI College Building, located in Winnipeg, Manitoba. The property was acquired for $4,590 and the purchase price was satisfied with a combination of cash and new mortgage financing in the amount of $3,100 bearing interest at a rate of 5.15% per annum.

On January 31, 2007, the REIT acquired Keewatin Distribution Centre, located in Winnipeg, Manitoba. The property was acquired for $9,600 and the purchase price was satisfied with a combination of cash and new mortgage financing in the amount of $6,500 bearing interest at a rate of 5.09% per annum.

On February 1, 2007, the REIT acquired Clareview Town Centre, located in Edmonton, Alberta. The property was acquired for $13,800 and the purchase price was satisfied with a combination of cash and new mortgage financing in the amount of $8,280 bearing interest at a rate of 5.22% per annum.

On February 28, 2007, the REIT acquired Centre 70, located in Calgary, Alberta. The property was acquired for $31,500 and the purchase price was satisfied with a combination of cash and new mortgage financing in the amount of $18,750 bearing interest at a rate of 5.25% per annum.

On February 28, 2007, the REIT acquired the BWT Honeywell Building, located in Calgary, Alberta. The property was acquired for $15,841 and the purchase price was satisfied with a combination of cash and existing mortgage financing in the amount of $2,660 bearing interest at a rate of 7.24% per annum. The existing mortgage was subsequently repaid and new mortgage financing in the amount of $9,653 was assumed bearing interest at a rate of 5% per annum.

On February 28, 2007, the REIT acquired Millenium Centre, located in Red Deer, Alberta. The property was acquired for $25,500 and the purchase price was satisfied with a combination of cash and existing mortgage financing in the amount of $13,109 bearing interest at a rate of 4.89% per annum.

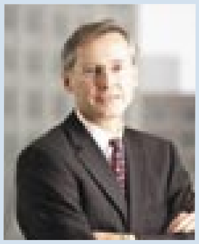
On March 1, 2007, the REIT acquired Bower Centre, located in Red Deer, Alberta. The property was acquired for $15,784 and the purchase price was satisfied with a combination of cash and new mortgage financing in the amount of $10,300 bearing interest at a rate of 5.17% per annum.

The REIT has also entered into agreements to acquire 2 properties for purchase prices aggregating approximately $78,850. These acquisitions are expected to close in March, 2007, and will be financed through a combination of mortgage financing and cash consideration.

TRUSTEES

Edward L. Warkentin, B.A., LL.B.
CHAIRMAN OF THE BOARD AND TRUSTEE

Mr. Warkentin of Winnipeg, Manitoba holds an undergraduate degree from the University of Winnipeg, a law degree from the University of Manitoba and has been a member of each of the Bars of Ontario and Manitoba for more than 25 years. Mr. Warkentin is the Managing Partner of Aikins, MacAulay & Thorvaldson LLP and practices in the area of corporate and commercial law. He is a former director and chair of Youth for Christ (Winnipeg) Inc., former director of Manitoba Mineral Resources Ltd. and former Director of Grace Hospital Board of Management. He is currently a director or officer of several private corporations, private foundations and public partnerships. Mr. Warkentin is currently the Secretary of EIIF Management GP, which is responsible for the management of Exchange Industrial Income Fund, a TSX Venture Exchange listed issuer and a director of All in West! Capital Corporation, a TSX Venture Exchange-listed issuer.



Armin Martens, P.Eng., M.B.A
PRESIDENT, CHIEF EXECUTIVE OFFICER AND TRUSTEE

A long time resident of Manitoba, Mr. Martens graduated from the University of Manitoba with a Bachelor of Science degree in Civil Engineering in 1977. Thereafter, he began to work in the construction and real estate development field and became a member of the Association of Professional Engineers & Geologists of Manitoba (APEGM) in 1979.

Mr. Martens continued his career in the field of commercial real estate development until taking a leave to complete his Master of Business Administration (M.B.A) degree at the International Institute for Management Development (IMD) in Lausanne, Switzerland.

Mr. Martens also served as a director of the Bank of Canada, Canada's central bank.

Mr. Martens is the President and Chief Executive Officer of Marwest Development Corporation, based in Winnipeg, Manitoba, a position he has held since 1994. The Marwest Group of Companies is engaged in development, construction and management of income-producing properties, including office buildings, shopping centres, residential and mixed-use properties both in Canada and the United States. Mr. Martens also serves as a Director of All in West! Capital Corporation, a TSX Venture Exchange-listed issuer.

Cornelius Martens, P.Eng.
EXECUTIVE VICE-PRESIDENT AND TRUSTEE

A long time resident of Manitoba, Mr. Martens graduated from the University of Manitoba with a Bachelor of Science degree in Civil Engineering in 1965. He became a member of the Association of Professional Engineers & Geologists of Manitoba (APEGM) in 1967.

Mr. Martens began his career in the field of commercial real estate development, construction and property management in 1968, when he together with his father incorporated what today is known as The Marwest Group of Companies. The Marwest Group of Companies is engaged in the development, construction and management of income-producing properties, including office buildings, shopping centres, residential and mixed-use properties both in Canada and the United States.

In his capacity as President of the Marwest Group of Companies during the last 35 years, Mr. Martens has acquired extensive and valuable business experience, particularly in the field of real estate.

During the years of 1996 to 2001 Mr. Martens was a Director of Consolidated Properties Ltd, a publicly traded corporation listed under the symbol "COP" on the Toronto Stock Exchange.

Mr. Martens is currently President and Chief Executive Officer of numerous companies including Marwest Construction Ltd. and Marwest Management Canada Ltd., all based in Winnipeg, Manitoba. Mr. Martens is also a Director and the President and Chief Executive Officer of All in West! Capital Corporation, a TSX Venture Exchange-listed issuer.

Wayne Townsend, CFP
TRUSTEE

Mr. Townsend is a Partner at Lawton Partners Financial Planning Services Limited and has over 27 years of experience in the financial planning industry.

Mr. Townsend holds a Bachelor of Arts degree from the University of Manitoba, the Certified Financial Planner (CFP) designation, the Chartered Life Underwriter (C.L.U.) designation, the Chartered Financial Consultants (Ch.F.C.) designation and is a graduate of the Canadian Securities Course.

Mr. Townsend is past board member at Misericordia General Hospital Foundation and Past Vice-Chair at Misericordia General Hospital. Mr. Townsend is also a Director of All in West! Capital Corporation, a TSX Venture Exchange-listed issuer.

Victor Thielmann, P.Eng.
TRUSTEE

A long time resident of Manitoba, Mr. Thielmann graduated from the University of Manitoba with a Bachelor of Science degree in Electrical Engineering in 1977. He began work in the electrical construction and professional consulting industry and became a member of the Association of Professional Engineers of Manitoba (APEM) in 1979.

Mr. Thielmann was founding President of Tri-Star Electrical Contractors Ltd. of Manitoba. During his tenure from 1979 to 1982 he was able to complete his Electrical Journeyman Certification as well as Professional Engineering (P.Eng) requirements.

In 1982, Mr. Thielmann founded Nova 3 Engineering Ltd. of Manitoba and continued his career as a professional consultant in the field of electrical engineering. Over the years, under his direction, Nova 3 Engineering Ltd. expanded its scope of services to include Mechanical and Fire Protection Engineering, as well as Electrical Engineering. Mr. Thielmann is currently a member of numerous professional organizations across Canada.

During his 28 working years Mr. Thielmann has acquired extensive professional and business experience related to design, construction and real estate. Mr. Thielmann also served on the board of directors of the Forks North Portage Partnership, a crown corporation owned by the three levels of Government. He is currently President and Chief Executive Officer of Nova 3 Engineering Ltd., and a Director of All in West! Capital Corporation, a TSX Venture Exchange-listed issuer.

Allan McLeod
TRUSTEE

Mr. McLeod is the President & Chief Executive Officer of Tribal Councils Investment Group of Manitoba Ltd. and its group of wholly-owned subsidiaries, including Arctic Beverages Limited, First Canadian Health Management Corporation, First Canadian Fuels Ltd., First Canadian Water & Infrastructure Inc., and First Nations Financial Services Inc. Mr. McLeod also holds this position for the Radisson Hotel Winnipeg. He is also a Director of Perimeter Aviation Ltd., a wholly-owned subsidiary of Exchange Industrial Income Fund, a TSX Venture Exchange-listed issuer, and is a Director of EIIF Management GP, which is responsible for the management of Exchange Industrial Income Fund. Mr McLeod also serves as a Director of Paragon Pharmacies Ltd., a TSX Venture Exchange-listed issuer. In 2003 Mr. McLeod was honoured with the Top 40 Under 40 award for Canada.

Andre Kuzmicki
TRUSTEE

Mr. Kuzmicki is the Executive Director of the Program in Real Property at the Schulich School of Business, York University where he teaches real estate finance and investment. He also serves on the boards of Bentall Capital GP, Chartwell Master Care Corporation, which is the operating mind of Chartwell Seniors Housing REIT, and RealNet Canada Inc. Mr. Kuzmicki was one of the founding directors of the Institute of Canadian Real Estate Investment Managers (ICREIM) and is a Past President of the Greater Toronto Chapter of the National Association of Industrial and Office Properties (NAIOP).

Delmore Crewson, FCA
TRUSTEE

Mr. Crewson is a former senior partner and Vice-Chair of Deloitte and Touche LLP. He is a member of the Institute of Chartered Accountants of Manitoba and has been elected a “Fellow” of the Institute. Mr. Crewson serves on the Board of Directors and Chair of the Audit Committee of The Wawanesa Mutual Insurance Company. He is also a Trustee and Chair of the Audit Committee of Pollard Banknote Income Fund. He serves on the Audit Committee of the University of Winnipeg and is a member of the Institute of Corporate Directors. He is the past President of the Institute of Chartered Accountants of Manitoba and is a former Canadian Institute of Chartered Accountants Board and Executive Committee member. Mr. Crewson has also served on numerous community boards and has held leadership positions in a number of organizations including the Manitoba Museum of Man and Nature (Board, Chair of Finance and Vice-Chair of the Board), and the Associates of the Faculty of Management, University of Manitoba (Board and Chair). He also served as a Director on the Board of Management and chaired the Audit Committee of Canada Customs and Revenue Agency

CORPORATE INFORMATION

MANAGEMENT

Armin Martens, P.Eng., M.B.A.
President and Chief Executive Officer

Cornelius Martens, P.Eng.
Executive Vice-President

Jim Green, CA
Chief Financial Officer

Kirsty Stevens, CMA
Senior Vice-President,
Administration/Investor Relations

Douglas McGregor
Vice President – Leasing

Dennis Wong, CFA
Vice President – Porfolio Manager

Douglas Hare, CA
Corporate Controller

HEAD OFFICE

300 - 360 Main Street
Winnipeg, Manitoba, R3C 3Z3
Phone 204-947-1250
Fax 204-947-0453
info@artisreit.com

TRADING SYMBOLS

Toronto Stock Exchange
AX.UN – Units
AX.DB.A – Series A Convertible Debentures
AX.DB.B – Series B Convertible Debentures
AX.DB.C – Series C Convertible Debentures

TRANSFER AGENT

CIBC Mellon Trust Company
Phone 416-643-5500 or 1-800-387-0825
(Toll free throughout North America)
Fax 416-643-5501
inquiries@cibcmellon.ca

AUDITORS

KPMG LLP

LEGAL COUNSEL

Aikins, MacAulay & Thorvaldson LLP

PRINCIPAL BANKER

Scotiabank

INVESTOR RELATIONS

Kirsty Stevens, CMA
Senior Vice-President,
Administration/Investor Relations
Phone 204-947-1250
Fax 204-947-0453
kstevens@artisreit.com

FISCAL 2006 MONTHLY DISTRIBUTIONS (1)

January	$ 0.0875 (1)	July	$ 0.0875
February	$ 0.0875	August	$ 0.0875
March	$ 0.0875	September	$ 0.0875
April	$ 0.0875	October	$ 0.0875
May	$ 0.0875	November	$ 0.0875
June	$ 0.0875	December	$ 0.0875

(1) Distribution presented on a post-consolidation basis.

Annual General Meeting

Oxford Conference Centre
Main Floor – 360 Main Street
Winnipeg, Manitoba
Monday, May 14, 2007
2:30 pm (CST)

PORTFOLIO BY CITY

City	Asset Class	Leasable Area (000's Sq. Ft.)	% Occupied
CALGARY			
417-14th Street Building	Office	16	100.0%
Airways Business Park	Office	63	91.1%
Campana Place	Office	49	98.1%
Centre 15 Building	Office	78	96.3%
Franklin Showcase Warehouse	Industrial	69	93.3%
Heritage Square	Office	298	99.8%
Hillhurst Building	Office	63	100.0%
Horizon Heights	Retail	74	100.0%
McCall Lake Industrial	Industrial	92	100.0%
McKnight Village Mall	Retail	86	91.3%
Northwest Centre I & II	Office	78	100.0%
Southwood Corner	Retail	111	100.0%
Sunridge Home Outfitters	Retail	51	100.0%
Sunridge Spectrum	Retail	129	98.4%
Willowglen Business Park	Office	286	96.0%
		1,543	**97.7%**
EDMONTON			
Delta Centre	Industrial	35	100.0%
		35	**100.0%**
GRANDE PRAIRIE			
Gateway Power	Retail	61	100.0%
Sears Centre	Retail	131	100.0%
		192	**100.0%**
KAMLOOPS			
Plainsman Building	Office	35	100.0%
		35	**100.0%**
MEDICINE HAT			
Southview Centre	Retail	165	97.3%
		165	**97.3%**
REGINA			
Albert Street	Retail	18	100.0%
Capital City Centre	Retail	44	100.0%
East Landing Mall	Retail	41	100.0%
East Landing Plaza	Retail	24	93.4%
Fleet Street Crossing	Retail	38	94.0%
Shoppers Landmark Centre	Retail	49	100.0%
Strathcona Shoppers Centre	Retail	22	100.0%
West Landing Mall	Retail	39	79.9%
		275	**95.7%**
SASKATOON			
Canarama Mall	Retail	64	95.6%
Circle 8 Centre	Retail	77	88.7%
Royal Square	Retail	41	91.0%
		182	**91.6%**
ST. ALBERT			
Liberton Square	Retail	21	100.0%
		21	**100.0%**
WINNIPEG			
Grain Exchange Building	Office	262	78.4%
Hamilton Building	Office	66	100.0%
Johnston Terminal	Office	72	100.0%
Reenders Square	Retail	66	100.0%
		466	**87.9%**
TOTAL GLA		**2,914**	**95.8%**

ARTIS
REIT

300 - 360 Main Street
Winnipeg, Manitoba R3C 3Z3
T | 1.204.947.1250 F | 1.204.947.0453
www.artisreit.com