



2008 FINANCIAL REPORT

- ▶ MANAGEMENT'S DISCUSSION AND ANALYSIS
- ▶ CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007



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**(b) Fair values:**

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

The fair value of the notes receivable has been determined by discounting the cash flows of these financial assets using year end market rates for assets of similar terms and credit risks. Based on these assumptions, the fair value of notes receivable at December 31, 2008 has been estimated at \$29,203 (December 31, 2007, \$30,530), compared with the carrying value of \$28,830 (December 31, 2007, \$30,494).

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, 2008 has been estimated at \$675,918 (December 31, 2007, \$607,981) compared with the carrying value of \$676,369 (December 31, 2007, \$612,996).

The fair value of the REIT's convertible debentures is \$39,867 (December 31, 2007, \$66,072) compared to its face value of \$52,853 (December 31, 2007, \$63,952) at December 31, 2008. Fair value is based on the market price of the debentures, or if no market price exists, fair value is determined by discounting the cash flows of these financial obligations using year end market rates for debt of similar terms and credit risks.

As at December 31, 2008, the REIT had entered into natural gas and electrical contracts with a fair value of \$223.

**25. FUTURE CHANGES IN ACCOUNTING POLICIES:**

The CICA has issued a new accounting standard, Section 3064, Goodwill and Intangible Assets, which clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset. The REIT is in the process of evaluating the impact of this standard on its consolidated financial statements. Section 1000, Financial Statement Concepts, was also amended to provide consistency with this new standard. The new and amended standards will be effective for the REIT in the first quarter of 2009.

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

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

**26. SUBSEQUENT EVENTS:**

The REIT has entered into an unconditional agreement to dispose of the Plainsman Building for proceeds of \$8,050. The REIT anticipates that the disposition will close on March 31, 2009, and the sale price will be financed through a combination of the assumption of existing mortgage financing and cash consideration. The carrying value of the assets to be disposed of is \$7,465.

The REIT has completed the refinancing of the mortgage related to Sunridge Home Outfitters. The mortgage is for \$6,500, with an interest rate of 4.65% and a term of 3 years. The refinancing replaces the previous mortgage of \$5,134, which carried interest at 6.176%.

**27. COMPARATIVE FIGURES:**

Certain 2007 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2008.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Artis Real Estate Investment Trust ("Artis" or the "REIT") should be read in conjunction with the REIT's audited annual consolidated financial statements for the years ended December 31, 2008 and 2007, and the notes thereto. This MD&A has been prepared taking into account material transactions and events up to and including March 17, 2009. Additional information about Artis, including the REIT's most recent Annual Information Form, has been filed with applicable Canadian securities regulatory authorities and is available at [www.sedar.com](http://www.sedar.com) or on our web site at [www.artisreit.com](http://www.artisreit.com).

### FORWARD-LOOKING DISCLAIMER

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

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

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### OVERVIEW

Artis, formerly Westfield Real Estate Investment Trust, is an unincorporated open-end real estate investment trust created under, and governed by, the laws of the province of Manitoba. On February 15, 2007, the REIT underwent a name change from "Westfield Real Estate Investment Trust" to "Artis Real Estate Investment Trust".

Certain of the REIT's securities are listed on the Toronto Stock Exchange ("the TSX"). The REIT's trust units ("units") trade under the symbol AX.UN, and the REIT's Series A, Series B and Series C convertible debentures trade under the symbols AX.DB.A, AX.DB.B and AX.DB.C, respectively. As at March 17, 2009, there were 32,401,032 units, and 1,458,336 options of Artis outstanding as well as 721,347 Class B limited partnership units ("Class B units") of the REIT's subsidiary AX LP, ("AXLP") (refer to the *Outstanding Unit Data* section for further details).

### PRIMARY OBJECTIVES

Artis focuses on primary and growing secondary markets in western Canada. The REIT focuses exclusively on commercial properties; retail, office and industrial, with strong tenancies in place.

The REIT's primary objectives are:

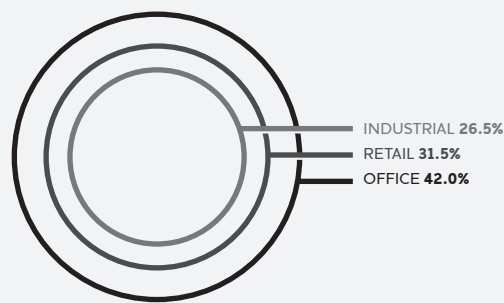
- to provide unitholders with stable and growing cash distributions, payable monthly and, to the maximum extent practicable, income tax deferred, from investments in a diversified portfolio of income-producing office, retail and industrial properties located in western Canada;
- to enhance the value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

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

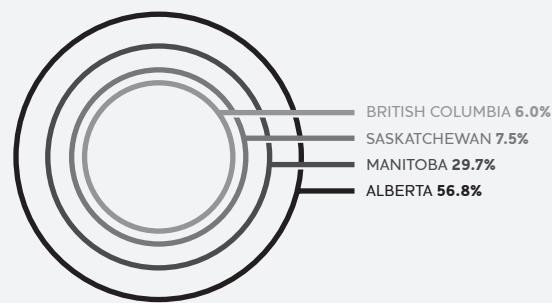
### PORTFOLIO SUMMARY

At December 31, 2008, the REIT's portfolio was comprised of 89 commercial properties located across western Canada totaling approximately 6.56 million square feet (s.f.) of gross leasable area ("GLA").

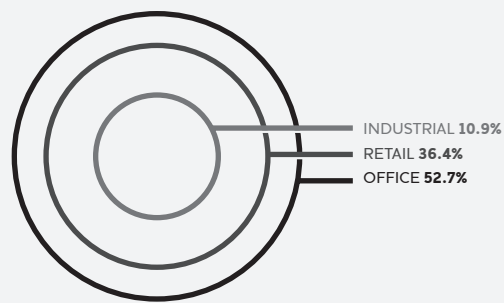
#### GLA by Asset Class



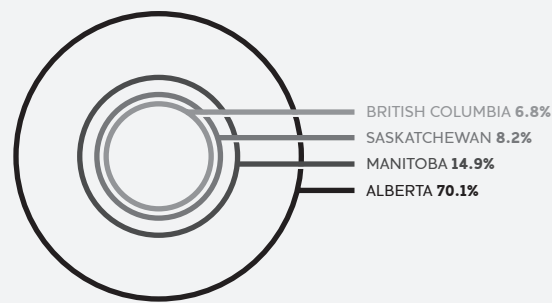
#### GLA by Province



#### Property NOI by Asset Class



#### Property NOI by Province



**Lease Expires by Asset Class (in 000's of s.f.) <sup>(1)(2)</sup>**

	Office		Retail		Industrial		Total	
	GLA	%	GLA	%	GLA	%	GLA	%
2009*	331	12.0%	234	11.3%	255	14.7%	820	12.5%
2010	413	15.0%	325	15.7%	283	16.3%	1,021	15.6%
2011	543	19.7%	229	11.1%	288	16.6%	1,060	16.2%
2012	220	8.0%	193	9.3%	66	3.8%	479	7.3%
2013	361	13.1%	256	12.4%	265	15.3%	882	13.4%
2014+	708	25.8%	809	39.0%	554	31.8%	2,071	31.5%
	2,576	93.6%	2,046	98.8%	1,711	98.5%	6,333	96.5%
Vacancies	177	6.4%	25	1.2%	27	1.5%	229	3.5%
Total GLA	2,753	100.0%	2,071	100.0%	1,738	100.0%	6,562	100.0%

\* Including month-to-month leases

**Lease Expires by Province (in 000's of s.f.) <sup>(1)(2)</sup>**

	Alberta		British Columbia		Manitoba		Saskatchewan	
	GLA	%	GLA	%	GLA	%	GLA	%
2009*	398	10.7%	77	19.5%	289	14.7%	56	11.4%
2010	488	13.1%	37	9.3%	412	21.1%	84	17.0%
2011	645	17.3%	26	6.6%	340	17.4%	49	10.0%
2012	278	7.5%	85	21.5%	93	4.7%	23	4.8%
2013	472	12.7%	18	4.5%	273	14.0%	119	24.1%
2014+	1,280	34.4%	150	37.6%	484	25.0%	157	32.0%
	3,561	95.7%	393	99.0%	1,891	96.9%	488	99.3%
Vacancies	161	4.3%	4	1.0%	60	3.1%	4	0.7%
Total GLA	3,722	100.0%	397	100.0%	1,951	100.0%	492	100.0%

\* Including month-to-month leases

**Historical Weighted-Average Portfolio Occupancy <sup>(1)</sup>**

	Q1-07	Q2-07	Q3-07	Q4-07	Q1-08	Q2-08	Q3-08	Q4-08
	96.3%	97.2%	97.1%	97.4%	97.5%	97.8%	97.3%	96.5%

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

(2) Based on expiries remaining in 2008 without deduction for future lease commitments

**NOTICE RESPECTING NON-GAAP MEASURES**

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

Artis calculates Distributable Income, or "DI", to reflect distributable cash which is defined in the REIT's Declaration of Trust as net income in accordance with GAAP, subject to certain adjustments as set out in the Declaration of Trust, including: (i) adding back amortization (excluding leasing costs) and accretion to the carrying value of debt and (ii) excluding gains or losses on the disposition of any asset, and (iii) adding or deducting other adjustments as determined by the Trustees at their discretion. Given that one of the REIT's objectives is to provide stable cash flows to investors, management believes that DI is an indicative measure for evaluating the REIT's operating performance in achieving its objectives.

Artis calculates Property NOI as revenues, prepared in accordance with GAAP, less property operating expenses such as taxes, utilities, repairs and maintenance. Property NOI does not include charges for interest and amortization. Management considers Property NOI to be a valuable measure for evaluating the operating performance of the REIT's properties.

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





## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

### 2008 – ANNUAL HIGHLIGHTS

#### PORTFOLIO GROWTH

In 2008, Artis acquired nine commercial properties in western Canada, adding approximately 498,000 square feet of leasable area.

	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, 2007	24	2,652	31	1,828	25	1,584	80	6,064
Q1-08 acquisitions	–	–	4	211	–	–	4	211
Q2-08 acquisitions	–	–	2	32	–	–	2	32
Q3-08 acquisitions	1	47	–	–	1	154	2	201
Q4-08 acquisition	1	14	–	–	–	–	1	14
Millennium expansion	–	40	–	–	–	–	–	40
Total 2008 acquisitions	2	101	6	243	1	154	9	498
Portfolio properties at December 31, 2008	26	2,753	37	2,071	26	1,738	89	6,562

Highlights of the REIT's 2008 acquisition activity include the purchase of King Edward Centre, a three-building retail development located in Coquitlam, BC. King Edward Centre is comprised of over 81,000 square feet of leasable area. Artis acquired the Maynard Technology Centre, a multi-tenant flex industrial property located in Calgary, AB which is comprised of approximately 154,000 square feet of leasable area. Artis also acquired the Willingdon Green Building, a 47,000 square foot office building well-located in the Willingdon Green Executive Park in Burnaby, BC.

#### DISTRIBUTIONS

Artis distributed a total of \$34,352 to unitholders and AXLP, the REIT's subsidiary, distributed \$771 to Class B unitholders in 2008. Effective May 31, 2008, the REIT increased the distribution rate from \$0.0875 per month to \$0.09 per month (\$1.05 to \$1.08 on an annualized basis).

#### SELECTED FINANCIAL INFORMATION

\$000's, except unit and per unit amounts	Year ended December 31,	
	2008	2007
Revenue	\$ 142,976	\$ 97,708
Property NOI	\$ 97,731	\$ 66,657
Income (loss) for the year	\$ (6,790)	\$ 6,157
Basic income (loss) per unit	\$ (0.21)	\$ 0.25
Distributions (including Class B units)	\$ 35,123	\$ 27,106
Distributions per unit	\$ 1.07	\$ 1.05
DI	\$ 54,706	\$ 37,638
DI per unit	\$ 1.67	\$ 1.49
DI payout ratio	64.1%	70.5%
FFO	\$ 54,136	\$ 35,670
FFO per unit	\$ 1.65	\$ 1.41
FFO payout ratio	64.8%	74.5%
Weighted-average units:		
Weighted-average units (basic)	32,088,592	24,616,119
Weighted-average units (basic) including Class B units	32,809,939	25,337,466





Artis acquired nine income-producing properties in 2008 and 45 in 2007. Primarily as a result of this on-going acquisition activity, Artis increased 2008 revenues \$45,268, or 46.3% compared to 2007 results. Artis increased Property NOI \$31,074, or 46.6% compared to 2007 results. As well, DI and FFO increased \$17,068, or 45.4% and \$18,466, or 51.8%, respectively.

On a per unit basis, basic DI increased \$0.18 or 12.1% compared to 2007 results. Basic FFO increased \$0.24 or 17.0% compared to 2007 results. As a result of the issue of units to property vendors, units issued under the DRIP plan and through debenture conversions, basic units outstanding for the calculation of DI and FFO has increased. This has diluted the impact of strong growth in revenues, Property NOI, DI and FFO on per unit results. Management anticipates there will be further growth in revenues, Property NOI, DI and FFO as below-market leases are renewed at higher rates, particularly in Alberta, where the gap between in-place rents and market rents is highest.

### ANALYSIS OF OPERATING RESULTS

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

	Three month period ended December 31,				Year ended December 31,			
	2008	% of Revenue	2007	% of Revenue	2008	% of Revenue	2007	% of Revenue
Revenue	\$ 38,142		\$ 31,257		\$ 142,976		\$ 97,708	
Property operating expenses	12,733	33.4%	9,517	30.4%	45,245	31.6%	31,051	31.8%
Property NOI	25,409	66.6%	21,740	69.6%	97,731	68.4%	66,657	68.2%
Interest	10,717	28.1%	8,635	27.6%	41,047	28.7%	27,922	28.6%
Expenses:	14,692		13,105		56,684		38,735	
Corporate	1,350	3.5%	1,382	4.4%	4,969	3.5%	4,798	4.9%
Amortization	14,541		12,517		58,139		40,557	
Unrealized (gain) loss on commodity derivatives	68		—		(223)		—	
	15,959		13,899		62,885		45,355	
Loss before the undermoted	(1,267)		(794)		(6,201)		(6,620)	
Future income tax (expense) recovery	253		(985)		(457)		10,833	
Non-controlling interest	(69)		—		(247)		—	
Income (loss) from discontinued operations	(14)		(559)		115		1,944	
Income (loss) for the period	\$ (1,097)		\$ (2,338)		\$ (6,790)		\$ 6,157	
Basic income (loss) per unit	\$ (0.03)		\$ (0.08)		\$ (0.21)		\$ 0.25	
Diluted income (loss) per unit	\$ (0.03)		\$ (0.08)		\$ (0.21)		\$ 0.24	
Weighted-average number of units:								
Basic	32,360,909		30,411,628		32,088,592		24,616,119	
Diluted	32,360,909		30,411,628		32,088,592		25,477,421	



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### REVENUE AND PROPERTY NOI

Revenue includes all amounts earned from tenants related to lease agreements, including basic rent, parking, operating cost and realty tax recoveries, as well as adjustments for the straight-lining of rents and above- or below-market rate adjustments recorded in accordance with GAAP.

In accordance with GAAP, Artis accounts for rent step-ups by straight-lining the incremental increases over the entire non-cancelable lease term. In 2008, straight-line rent adjustments of \$1,960 (Q4-08 - \$459) were recorded compared to \$1,369 in 2007 (Q4-07 - \$465).

On the acquisition of properties, Artis records intangible assets and liabilities resulting from above- and below-market rent leases. These intangible assets and liabilities are amortized to revenue over the term of the related leases. Artis acquired nine commercial properties in 2008 and 45 in 2007; in-place rent rates in a number of the acquisitions are considered to be below market rent rates. As a result, in 2008, the adjustment to market rents was \$13,885 (Q4-08 - \$3,219) compared to \$9,554 in 2007 (Q4-07 - \$3,352).

Included in revenue in 2008 is interest income of \$2,600 (Q4-08 - \$591) compared to \$3,093 in 2007 (Q4-07 - \$1,100).

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

### SAME PROPERTY NOI GROWTH

\$000's	Three month period ended December 31, <sup>(1)</sup>		Year ended December 31, <sup>(1)</sup>	
	2008	2007	2008	2007
Revenue	\$ 17,280	\$ 16,486	\$ 68,092	\$ 64,692
Property operating expenses	6,500	6,024	24,808	23,550
Property NOI	10,780	10,462	43,284	41,142
Add (deduct) non-cash revenue adjustments:				
Straight-line rent adjustment	(145)	(84)	(408)	(581)
Amortization of tenant inducements	109	-	109	-
Above- and below-market rent	(591)	(879)	(3,141)	(3,636)
Property NOI less non-cash revenue adjustments	\$ 10,153	\$ 9,499	\$ 39,844	\$ 36,925

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

In 2008, Artis achieved an increase of \$2,142 (Q4-08 - \$318), or 5.2% (Q4-08 - 3.0%) of Property NOI over 2007. As well, Artis also achieved an increase of \$2,919 (Q4-08 - \$654), or 7.9% (Q4-08 - 6.9%) of Property NOI less non-cash revenue adjustments over 2007. These improvements are primarily the result of rate increases achieved on lease rollovers, particularly in Alberta. Also included in 2008 is the impact of the re-leasing of approximately 174,000 square feet of space in Heritage Square at a significantly higher rate. These results do not include the impact of growth realized on lease turnovers in properties acquired throughout fiscal 2008 and 2007.



#### PROPERTY NOI BY ASSET CLASS

Property NOI results by asset class have been impacted by acquisitions concluded during 2008 and 2007, as well as growth realized from lease turnovers.

\$000's	Year ended December 31,					
	2008			2007		
	Retail	Office	Industrial	Retail	Office	Industrial
Revenue	\$ 49,678	\$ 77,627	\$ 15,090	\$ 33,067	\$ 55,449	\$ 7,118
Property operating expenses	14,289	26,418	4,538	9,669	19,644	1,738
Property NOI	\$ 35,389	\$ 51,209	\$ 10,552	\$ 23,398	\$ 35,805	\$ 5,380
Share of Property NOI	36.4%	52.7%	10.9%	36.2%	55.5%	8.3%

#### PROPERTY NOI BY PROVINCE

\$000's	Year ended December 31,							
	2008				2007			
	MB	SK	AB	BC	MB	SK	AB	BC
Revenue	\$ 25,860	\$ 11,448	\$ 95,382	\$ 9,705	\$ 15,609	\$ 10,534	\$ 66,425	\$ 3,066
Property operating expenses	11,368	3,445	27,357	3,075	6,986	3,580	19,537	948
Property NOI	\$ 14,492	\$ 8,003	\$ 68,025	\$ 6,630	\$ 8,623	\$ 6,954	\$ 46,888	\$ 2,118
Share of Property NOI	14.9%	8.2%	70.1%	6.8%	13.4%	10.8%	72.5%	3.3%

The REIT's portfolio Property NOI is weighted more heavily to Alberta. The Alberta weighting has declined slightly over last year, reflecting additional acquisitions in British Columbia and Manitoba. Management believes that there is further growth inherent in the REIT's portfolio that will be realized as below-market leases are renewed at higher rates.

#### PORTFOLIO OCCUPANCY AND LEASING ACTIVITY

Occupancy levels impact the REIT's revenues and Property NOI. At December 31, 2008 portfolio occupancy remained very high at 96.5% (97.4% including committed space). These results include the newly developed 40,000 square feet in the Millennium Centre in Red Deer which is unoccupied at December 31, 2008; lease commitments for over 36,000 square feet of the new space are in place.

Growth in revenues and Property NOI is achieved as leases are rolled over at higher rental rates than rates in-place at the time of expiry. In 2008, over 923,000 square feet of space expired; the weighted-average in-place rental rate at expiry was \$11.27. The weighted-average rental rates achieved on the new leases or renewals was \$16.46, representing an increase of 46.1%.

	Q1-08		Q2-08		Q3-08		Q4-08		2008	
	S.F.	In-Place Rent	S.F.	In-Place Rent	S.F.	In-Place Rent	S.F.	In-Place Rent	S.F.	In-Place Rent
New/renewed	166,790	\$ 13.61	165,448	\$ 12.64	395,511	\$ 18.80	137,891	\$ 17.79	865,640	\$ 16.46
Expiring	183,441	\$ 11.26	142,079	\$ 11.72	435,932	\$ 10.79	161,764	\$ 12.20	923,216	\$ 11.27
Change		\$ 2.35		\$ 0.92		\$ 8.01		\$ 5.59		\$ 5.19
Change %		20.9%		7.8%		74.2%		45.8%		46.1%



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Artis' real estate is diversified across the four western provinces, and across the office, retail and industrial asset classes. Economic fundamentals in 2009 will impact both occupancy and market rent levels in all Canadian markets. As GDP growth slows, tenant demand for commercial space will also slow, and some tenants may seek to downsize their premises, or not renew their leases when their current terms expire. Sublet space may also increase in the market. These factors will put additional pressure on rental rates.

Calgary office properties represent 26.8% of the overall portfolio by GLA. Artis' office properties are Class A, B and C buildings, in downtown, beltline and suburban locations. Overall vacancy in the Calgary office market rose to 3.4% at the close of the year, after hitting a historic low in 2007 of 0.9%. Although there may be variances across Calgary office sub-markets, management believes the Calgary office market, in general, will continue to be under pressure in 2009, as supply is added to inventory; increasing vacancy and some softening of asking rents can be expected. Artis has 2.3%, or approximately 151,000 square feet of leases coming up for renewal in the Calgary office market in 2009. To date, approximately 42.6% of those leases have been renewed at rates above the in-place rents at expiry.

Winnipeg industrial properties represent 17.5% of the overall portfolio by GLA. Although new supply was added in 2008, vacancy decreased to 2.3% at the end of 2008, from its traditional 3 - 4% range. Some increase in vacancy may be seen in 2009, dependent upon the impact of economic conditions on Winnipeg's manufacturing and distribution tenants. Approximately 130,000 square feet (less than 2% of the portfolio's GLA), comes up for renewal in this market in 2009; 60% has already been renewed. Artis notes that the in-place rental rates in this market are significantly lower than the weighted-average across the portfolio.

Winnipeg office properties represent 10.7% of the overall portfolio by GLA. The office market in 2008 finished on a very strong note, as the downtown vacancy rate reached a new 10-year low. As economic conditions unfold, occupancy in the traditionally stable Class A office market is expected to remain strong, with some weakness developing in Class B and Heritage space. Artis has minimal exposure in this market in 2009, with less than 75,000 square feet coming up for renewal. Many of Artis' Class A and Heritage office properties in downtown Winnipeg have single tenants on long-term leases.

### INTEREST

The current year's interest on long-term debt is attributable to mortgages and other loans secured against the income-producing properties, as well as convertible debentures outstanding and the balance drawn on the credit facility. Interest expense has increased over 2007 due to additional mortgage financing obtained in connection with acquisitions during 2008 and 2007, and amounts drawn on the credit facility. In accordance with GAAP, financing costs are netted against the related debt, and interest and financing costs are recorded on an effective-interest basis.

The REIT's weighted-average effective rate for the year ended December 31, 2008 on mortgages and other debt secured by properties was 5.52% compared to 5.51% in 2007. The weighted-average nominal interest rate at December 31, 2008 was 5.42% compared to 5.42% at December 31, 2007.

At the time of issue, the convertible debentures are allocated between their equity and liability components in accordance with GAAP. Artis recorded interest expense of \$4,697 (Q4-08 - \$1,134) on the carrying value of debentures outstanding in 2008, compared to \$4,958 in 2007 (Q4-07 - \$1,245).

### CORPORATE EXPENSES

\$000's	Three month period ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Accounting, legal, consulting	\$ 192	\$ 393	\$ 758	\$ 1,123
Advisory fees	656	529	2,514	1,693
Public company costs	130	106	514	576
Unit-based compensation	144	262	567	1,039
General and administrative	228	92	616	367
Total corporate expenses	\$ 1,350	\$ 1,382	\$ 4,969	\$ 4,798

In 2008 advisory fees increased \$821 (Q4-08 - \$127) over 2007, reflecting the increased asset base of the REIT. Corporate expenses in 2008 were \$4,969 (Q4-08 - \$1,350), or 3.5% (Q4-08 - 3.5%) of gross revenues compared to \$4,798 (Q4-07 - \$1,382), or 4.9% (Q4-07 - 4.4%) of gross revenues in 2007.



#### AMORTIZATION

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

At the time of acquisition, Artis allocates a portion of the purchase price of properties to income-producing properties, and a portion to intangible assets. Income-producing properties are amortized on a straight-line basis over their useful lives, resulting in amortization expense of \$26,842 (Q4-08 - \$6,744) in 2008 compared to \$18,898 (Q4-07 - \$6,014) in 2007. Intangible assets, such as the value of in-place operating leases and customer relationship values, are amortized on a straight-line basis over the term of the underlying lease agreements. In 2008, Artis recorded \$30,636 (Q4-08 - \$7,387) for the amortization of intangible assets, compared to \$21,536 (Q4-07 - \$6,626) in 2007. These increases were the result of the increased asset base of the REIT.

In 2008, amortization expense relating to tenant inducements and leasing commissions totaled \$1,351 (Q4-08 - \$409), compared to \$784 in 2007 (Q4-07 - \$231). Included in the Q4-08 amount was \$110 that was treated as an incentive that reduced revenue. These increases were the result of the increased asset base of the REIT.

#### UNREALIZED GAIN (LOSS) ON COMMODITY DERIVATIVES

In accordance with GAAP, in 2008 the REIT has recorded an unrealized gain on commodity derivatives of \$223 (Q4-08 - loss of \$68) on utility supply contracts. As the REIT anticipates holding these utility contracts until maturity, the unrealized gain is expected to reverse in the future.

#### FUTURE INCOME TAXES

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

On June 22, 2007, new legislation relating to, among other things, the federal income taxation of a specified investment flow-through trust or partnership (a "SIFT") was enacted (such legislation, as amended, referred to as the "New SIFT Rules"). A SIFT includes a publicly-listed or traded partnership or trust, such as an income trust. Under the New SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as returns of capital should generally not be subject to the tax. A qualifying SIFT is a trust which was a SIFT on October 31, 2006. The application of the SIFT Rules to a qualifying trust is delayed until the earlier of the trust's 2011 taxation year and the first taxation year in which it exceeds certain specified growth guidelines. In the case of the REIT, its subsequent offerings have exceeded the specified growth guidelines. Therefore, commencing on January 1, 2007, subject to the REIT's ability to meet the REIT Conditions, the REIT is subject to tax on certain income which may adversely impact the level of cash otherwise available for distribution. Please refer to the REIT's Annual Information Form for a more detailed discussion of the New SIFT Rules and their application to the REIT.

The New SIFT Rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT Conditions in the New SIFT Rules do not fully accommodate the current business structures used by many Canadian REITs, and contain a number of technical tests that many Canadian REITs may find difficult to satisfy.

It is unclear if the REIT satisfied all of the REIT Conditions in 2007 or 2008. However, the REIT Conditions are applied on an annual basis. Accordingly, even though the REIT may not have previously satisfied the REIT Conditions, it may be able to do so in a subsequent year. Prior to the end of 2008, the REIT undertook various restructuring activities to attempt to meet the requirements of the REIT Conditions, and the REIT intends to comply with the REIT Conditions so that the New SIFT Rules will not apply to the REIT in 2009 and subsequent years. Although management of the REIT believes that the REIT will meet the REIT Conditions in 2009, there can be no assurances that the REIT will be able to satisfy the REIT Conditions such that the REIT will not be subject to the tax imposed by the New SIFT Rules in 2009 or in future years.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### NON-CONTROLLING INTEREST

Non-controlling interest represents an allocation of net income or loss to the Class B unitholders.

### INCOME FROM DISCONTINUED OPERATIONS

The REIT has entered into an unconditional agreement to sell two office properties in Calgary, Alberta; Airways Business Plaza and Glenmore Commerce Court. The properties will be sold for an aggregate of \$24,900, to be satisfied with the assumption of mortgages payable and cash consideration, of which \$10,000 has been received at December 31, 2008. The sale will result in an estimated gain of \$6,400 (or \$0.20 per unit). The disposition was originally expected to close in the third quarter of 2008, however the closing has been rescheduled to the first quarter of 2009. In accordance with GAAP, the REIT has separately disclosed the results of operations from these properties, and as well, disclosed the assets and liabilities for these properties. In 2008, the REIT disposed of a portion of an income-producing property for a loss of \$197. In 2007, the REIT disposed of an income-producing property for a gain of \$2,511.

### DISTRIBUTABLE INCOME ("DI") AND DISTRIBUTIONS

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

#### Reconciliation of cash flow from operations to DI:

\$000's, except unit and per unit amounts	Three month period ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Cash flow from operations	\$ 5,879	\$ 11,386	\$ 37,170	\$ 28,586
Deduct amortization of:				
Office equipment	(2)	(2)	(8)	(7)
Above-market rent	(120)	(68)	(339)	(226)
Below-market rent	3,339	3,420	14,224	9,780
Tenant inducements and leasing costs	(409)	(231)	(1,351)	(784)
Tenant inducements amortized into revenue	(110)	–	(110)	–
Above-market mortgage	45	12	178	96
Add: Straight-line rent adjustment	459	465	1,960	1,369
Add (deduct):				
Changes in non-cash operating items	4,716	(2,534)	2,195	(2,147)
Financing costs, non-debenture, included in interest expense	(131)	(67)	(413)	(229)
Other adjustment				
Property rent <sup>(1)</sup>	300	300	1,200	1,200
DI for the period	\$ 13,966	\$ 12,681	\$ 54,706	\$ 37,638
DI per unit				
Basic	\$ 0.42	\$ 0.41	\$ 1.67	\$ 1.49
Diluted	\$ 0.41	\$ 0.39	\$ 1.61	\$ 1.42
Weighted-average number of units				
Basic <sup>(2)</sup>	33,082,256	31,132,975	32,809,939	25,337,466
Diluted <sup>(2)</sup>	36,164,049	35,114,445	35,905,127	29,382,503

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

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



**Reconciliation of GAAP income (loss) to DI:**

\$000's, except unit and per unit amounts	Three month period ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Income (loss) for the period	\$ (1,097)	\$ (2,338)	\$ (6,790)	\$ 6,157
Add:				
Amortization (excluding amortized leasing costs)	14,131	12,640	57,478	40,434
Accretion on liability component of convertible debentures	355	374	1,464	1,713
Unit-based compensation expense	144	262	567	1,039
Gain (loss) on disposal of income-producing properties	197	10	197	(2,511)
Future income tax (expense) recovery	(211)	1,433	548	(10,394)
Other adjustments				
Property rent <sup>(1)</sup>	300	300	1,200	1,200
Non-controlling interest <sup>(2)</sup>	79	–	265	–
Unrealized (gain) loss on commodity derivatives <sup>(3)</sup>	68	–	(223)	–
DI for the period	\$ 13,966	\$ 12,681	\$ 54,706	\$ 37,638

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

(2) Included in DI is income allocated to the non-controlling interest, as it relates to Class B units that are included in the weighted-average units outstanding for the purpose of this calculation.

(3) Included in (excluded from) DI is an unrealized (gain) loss on the increase in fair value of commodity derivatives.

In 2008, DI increased \$17,068 (Q4-08 - \$1,285), or 45.3% (Q4-08 - 10.1%), over 2007. This increase is primarily attributed to the impact of acquisitions during 2008 and 2007, as well as internal growth achieved as below-market leases roll over at current market rates. Basic DI per unit increased \$0.18 (Q4-08 - \$0.01), or 12.1% (Q4-08 - 2.4%), over 2007. On a diluted basis, DI has increased \$0.19 (Q4-08 - \$0.02), or 13.4% (Q4-08 - 5.1%), over 2007.

Artis has a strong embedded growth profile. Management anticipates there will be further growth in DI as a significant proportion of the REIT's leases are at below-market rates and management expects to renew expiring leases at higher rates.

**DISTRIBUTIONS**

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

\$000's	Three month period ended December 31,	Year ended December 31,	Year ended December 31,	Year ended December 31,
	2008	2008	2007	2006
Cash flow from operations	\$ 5,879	\$ 37,170	\$ 28,586	\$ 13,620
Net income (loss)	\$ (1,097)	\$ (6,790)	\$ 6,157	\$ (11,153)
Distributions declared	\$ 8,916	\$ 35,123	\$ 27,106	\$ 12,874
Excess (shortfall) of cash flow from operations over distributions declared	\$ (3,037)	\$ 2,047	\$ 1,480	\$ 746
Excess of distributions declared over net income (loss)	\$ (10,013)	\$ (41,913)	\$ (20,949)	\$ (24,027)





## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

For the year ended December 31, 2008, cash flow from operations exceeded distributions declared by \$2,047. For the three months ended December 31, 2008, distributions declared exceeded cash flow from operations by \$3,037 as a result of changes in the balances of working capital items at period end.

For the year and three months ended December 31, 2008, distributions declared exceeded net loss. These differences are mainly comprised of amortization and other non-cash adjustments.

### FUNDS FROM OPERATIONS ("FFO")

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

#### Reconciliation of cash flows from operations to FFO:

\$000's, except unit and per unit amounts	Three month period ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Cash flow from operations	\$ 5,879	\$ 11,386	\$ 37,170	\$ 28,586
Deduct amortization of:				
Office equipment	(2)	(2)	(8)	(7)
Above-market rent	(120)	(68)	(339)	(226)
Below-market rent	3,339	3,420	14,224	9,780
Above-market mortgages	45	12	178	96
Add:				
Straight-line rent adjustment	459	465	1,960	1,369
Deduct:				
Accretion on liability component of convertible debentures	(355)	(374)	(1,464)	(1,713)
Unit-based compensation expense	(144)	(262)	(567)	(1,039)
Amortization of financing costs included in interest	(131)	(67)	(413)	(229)
Changes in non-cash operating items	4,716	(2,534)	2,195	(2,147)
Other adjustment				
Property rent <sup>(1)</sup>	300	300	1,200	1,200
<b>FFO for the period</b>	<b>\$ 13,986</b>	<b>\$ 12,276</b>	<b>\$ 54,136</b>	<b>\$ 35,670</b>
FFO per unit				
Basic	\$ 0.42	\$ 0.39	\$ 1.65	\$ 1.41
Diluted	\$ 0.42	\$ 0.39	\$ 1.63	\$ 1.38
Weighted-average number of units:				
Basic <sup>(2)</sup>	33,082,256	31,132,975	32,809,939	25,337,466
Diluted <sup>(2)</sup>	34,209,017	31,197,012	33,950,095	25,716,657

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

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

**Reconciliation of GAAP income (loss) to FFO:**

\$000's, except unit and per unit amounts	Three month period ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Income (loss) for the period	\$ (1,097)	\$ (2,338)	\$ (6,790)	\$ 6,157
Add amortization on:				
Income-producing properties	6,744	6,014	26,842	18,898
Acquired in-place leases	7,385	6,620	30,618	21,514
Customer relationships	2	6	18	22
Tenant inducements and leasing costs	409	231	1,351	784
Tenant inducements amortized to revenue	110	–	110	–
Gain (loss) on disposal of income-producing properties	197	10	197	(2,511)
Future income tax (expense) recovery	(211)	1,433	548	(10,394)
Other adjustments				
Property rent <sup>(1)</sup>	300	300	1,200	1,200
Non-controlling interest <sup>(2)</sup>	79	–	265	–
Unrealized (gain) loss on commodity derivatives <sup>(3)</sup>	68	–	(223)	–
<b>FFO for the period</b>	<b>\$ 13,986</b>	<b>\$ 12,276</b>	<b>\$ 54,136</b>	<b>\$ 35,670</b>

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

(2) Included in FFO is income allocated to the non-controlling interest, as it relates to Class B units that are included in the weighted-average units outstanding for the purpose of this calculation.

(3) Included in (excluded from) FFO is an unrealized (gain) loss on the increase in fair value of commodity derivatives.

In 2008, FFO has increased \$18,466 (Q4-08 - \$1,710), or 51.8% (Q4-08 - 13.9%), over 2007. This increase is attributed to the impact of acquisitions during 2008 and 2007, as well as internal growth achieved as below-market leases roll over at current market rates. Basic FFO per unit has increased by \$0.24 (Q4-08 - \$0.03), or 17.0% (Q4-08 - 7.7%), over 2007. On a diluted basis, FFO per unit has increased \$0.25 (Q4-08 - \$0.03), or 18.1% (Q4-08 - 7.7%), over 2007.

Artis has a strong embedded growth profile. Management anticipates there will be further growth in FFO as a significant proportion of the REIT's leases are at below-market rates and management expects to renew expiring leases at higher rates.

**ANALYSIS OF FINANCIAL POSITION****ASSETS**

\$000's	December 31,		
	2008	2007	Increase (decrease)
Income-producing properties	\$ 1,025,010	\$ 944,612	\$ 80,398
Other assets, including intangibles	204,841	201,768	3,073
Cash, cash equivalents and cash held in trust	14,435	30,068	(15,633)
	<b>\$ 1,244,286</b>	<b>\$ 1,176,448</b>	<b>\$ 67,838</b>





## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### Income-producing properties and related intangible assets:

The REIT's income-producing properties and related intangible assets increased in 2008, due to the acquisition of the following properties:

Property	Location	Acquisition Date	Type
King Edward Centre	15 & 25 King Edward Centre, Coquitlam, BC	January 15, 2008	Retail
Leon's Building	6461 Metral Drive, Nanaimo, BC	February 1, 2008	Retail
Estevan Sobeys <sup>(1)</sup>	440 King Street, Estevan, SK	March 20, 2008	Retail
Moose Jaw Sobeys <sup>(1)</sup>	769 Thatcher Drive East, Moose Jaw, SK	March 20, 2008	Retail
Edson Shoppers	303 - 54th Street and 2nd Avenue, Edson, AB	April 15, 2008	Retail
Raleigh Shopping Centre	686 Springfield Road, Winnipeg, MB	April 15, 2008	Retail
Maynard Technology Centre	1930 Maynard Road, Calgary, AB	August 29, 2008	Industrial
Willingdon Green Building	3175/3185 Willingdon Green, Burnaby, BC	September 2, 2008	Office
Bridges Place	736 - 1st Avenue NE, Calgary, AB	December 17, 2008	Office

(1) Estevan Sobeys and Moose Jaw Sobeys were acquired as a portfolio.

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

\$000's	Year ended December 31,	
	2008	2007
Cash consideration	\$ 46,411	\$ 197,680
Issuance of units	2,100	–
Issuance of Series D convertible debenture	–	20,000
New or assumed mortgages including above- and below-market mortgages	68,121	349,230
<b>Net assets acquired</b>	<b>\$ 116,632</b>	<b>\$ 566,910</b>
Allocated to income-producing properties	\$ 96,482	\$ 575,340
Allocated to other assets	26,280	87,334
Allocated to intangible liabilities	(6,130)	(95,764)
<b>Net assets acquired</b>	<b>\$ 116,632</b>	<b>\$ 566,910</b>

### Property under development:

Included in income-producing properties is property under development of \$2,725 which represents a 50% undivided interest in land in Calgary, Alberta. The lands are to be developed into a 211,000 square foot Class A office building (known as Interplex III) in accordance with a co-ownership agreement between the vendor of the lands and the REIT's subsidiary, AXLP. The development is anticipated to commence once a sufficient level of pre-leasing has been achieved.





**Notes receivable:**

In conjunction with the 2007 acquisition of TransAlta Place, the REIT acquired a note receivable in the amount of \$31,000. The note bears interest at 5.89% per annum and is repayable in varying blended monthly instalments of principal and interest. The note is transferable at the option of the REIT and matures in May, 2023.

**Capital expenditures:**

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

These non-recoverable capital expenditures in 2008 totaled \$12,094 (Q4-08 - \$4,134) compared to \$984 in 2007 (Q4-07 - \$555). The current period costs were primarily related to the 40,000 square foot two-storey addition to the Millennium Centre located in downtown Red Deer, Alberta. Approximately 36,000 square feet of the newly developed space is committed under leases commencing in 2009.

**Tenant inducements and leasing costs:**

Other assets of the REIT at December 31, 2008 include \$11,693 of unamortized tenant inducement and leasing costs related to the leasing or re-leasing of space, compared to \$5,906 at December 31, 2007. Of this total, \$11,540 relates to properties in use, and \$153 relates to properties available for sale. 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 amortized over the terms of the underlying leases.

In 2008, Artis incurred \$7,255 (Q4-08 - \$2,470) of tenant inducements and leasing costs compared to \$3,469 in 2007 (Q4-07 - \$1,228). Leasing commissions paid during the year relate to both leases commencing during the year ended December 31, 2008, and subsequent periods.

\$000's	Year ended December 31,	
	2008	2007
Tenant inducements	\$ 3,459	\$ 1,955
Leasing commissions	3,796	1,514
Total	\$ 7,255	\$ 3,469

**Recoverable operating costs:**

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 capitalized when incurred and amortized to recoverable expenses over the planned period of recovery. In 2008, Artis incurred \$3,819 (Q4-08 - \$1,452) of recoverable operating costs compared to \$2,029 in 2007 (Q4-07 - \$996).

**Future income tax assets:**

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

\$000's	December 31,	
	2008	2007
Future income tax assets (liabilities):		
Income-producing properties, other assets and intangible liabilities	\$ 10,654	\$ 8,395
Unit issue costs	2,679	4,282
Other	(2,206)	(1,168)
Future income tax assets	\$ 11,127	\$ 11,509



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### Deposits on income-producing properties:

Included in deposits on income-producing properties at December 31, 2008, is \$6,712 which represents an interim payment, net of adjustments, made towards the final purchase price of the Interplex II property, currently under development. The initial payment of \$7,800 was paid by issuing Class B units of the REIT's subsidiary AXLP. In accordance with GAAP, the initial deposit has been reduced by the \$2,600 earned by the REIT under the terms of the Interplex II purchase and sale agreement up to December 31, 2008, offset by the \$1,297 distributions paid (or payable) on the Class B units issued and the \$215 of costs that were incurred related to this project.

At December 31, 2008, Artis had made \$nil of deposits on other income-producing properties, compared to \$4,496 at December 31, 2007.

### Cash and cash equivalents:

At December 31, 2008, the REIT had \$13,847 of cash and cash equivalents on hand, compared to \$29,386 at December 31, 2007.

The balance is anticipated to be primarily used for working capital purposes. All of the REIT's cash and cash equivalents are held in current accounts and/or bank guaranteed investment certificates. The REIT does not invest in asset-backed commercial paper.

### LIABILITIES

\$000's	December 31,		
	2008	2007	Increase
Long-term debt	\$ 721,275	\$ 665,728	\$ 55,547
Other liabilities	121,117	115,038	6,079
Bank indebtedness	32,500	–	32,500
	\$ 874,892	\$ 780,766	\$ 94,126

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

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

Artis' debt (excluding convertible debentures) to GBV ratio at December 31, 2008 was 51.6%, compared to 49.2% at December 31, 2007.

\$000's	December 31,	
	2008	2007
GBV	\$ 1,374,377	\$ 1,247,047
Mortgages, loans and bank indebtedness	708,869	612,996
Mortgages and loans to GBV	51.6%	49.2%
Carrying value of convertible debentures	\$ 44,906	\$ 52,732
Total long-term debt and bank indebtedness	753,775	665,728
Total long-term debt to GBV	54.8%	53.4%

### Mortgages:

Artis finances acquisitions in part through the assumption of mortgage financing and consequently, substantially all of the REIT's income-producing properties are pledged as security under mortgages and other loans. In 2008, Artis assumed or obtained new mortgage financing, net of financing costs, of \$68,121 (Q4-08 - \$4,228) in conjunction with the 2008 acquisitions. In 2008, \$12,773 (Q4-08 - \$4,612) of principal repayments were made, compared to \$6,665 in 2007 (Q4-07 - \$2,065). In Q4-08, the REIT refinanced the mortgages on two income-producing properties. The weighted-average interest rate on the mortgages decreased from 6.04% to 5.57%. These mortgages were renewed for terms of one year.

The weighted-average term to maturity at December 31, 2008 is 5.0 years, compared to 6.0 years at December 31, 2007.



**Convertible debentures:**

Artis has four series of convertible debentures outstanding as at December 31, 2008, as follows:

\$000's	Issued	Maturity	Face rate	December 31, 2008		December 31, 2007	
				Carrying value	Face value	Carrying value	Face value
Series A	4-Aug-05	4-Aug-10	7.75%	\$ 555	\$ 620	\$ 2,644	\$ 3,170
Series B	9-Nov-05	9-Nov-10	7.50%	2,034	2,313	8,976	10,862
Series C	4-May-06	31-May-13	6.25%	23,336	29,920	22,274	29,920
Series D	30-Nov-07	30-Nov-14	5.00%	18,981	20,000	18,838	20,000
				\$ 44,906	\$ 52,853	\$ 52,732	\$ 63,952

In accordance with GAAP, Artis reduced the carrying value of its debentures by \$1,269 at December 31, 2008, (\$1,946 at December 31, 2007), netting the financing costs against the carrying value of the debentures. Interest and financing costs are amortized on an effective interest basis; this accretion increased the carrying value by \$1,464 in 2008 (Q4-08 - \$355), compared to \$1,713 in 2007 (Q4-07 - \$373). The weighted-average effective rate of the debentures at December 31, 2008 was 10.33%, a decrease from the rate of 11.06% at December 31, 2007.

During 2008, Series A and B convertible debentures with a face value of \$11,099 (Q4-08 - \$nil) were converted and 837,341 (Q4-08 - nil) units were issued upon such conversions. The carrying value was reduced by \$9,290 (Q4-08 - \$355). During 2007, Series A and C convertible debentures with a face value of \$7,095 (Q4-07 - \$70) were converted and 566,174 (Q4-07 - 4,177) units were issued upon such conversions. The carrying value was reduced by \$7,021 (Q4-07 - \$61).

**Other liabilities including bank indebtedness:**

Other liabilities include the unamortized below-market rent intangible liability of \$91,186 at December 31, 2008. This decreased \$8,094 from \$99,280 at December 31, 2007, as a result of amortization, net of acquisition activity recorded in the year. Also included in other liabilities are security deposits paid by tenants, rents prepaid by tenants at December 31, 2008, accounts payable and accruals, as well as the December 31, 2008 distribution payable to unitholders of \$2,976, subsequently paid on January 15, 2009. Also included in accounts payable and accruals are \$10,000 of non-refundable deposits received on the sale transaction of two Class "B" suburban office properties in Calgary, with the sale expected to close in the 1st quarter of 2009. Bank indebtedness relates to the balance drawn on the REIT's revolving term credit facility. At December 31, 2008, Artis had drawn \$32,500 on its credit facility in conjunction with 2008 acquisitions. The loan bears interest at a floating rate equal to Canadian dollar bankers' acceptances with a term to maturity of 30 days, plus 3.40% per annum.

**Non-controlling interest:**

In accordance with GAAP, the amount of equity related to the issue of 721,347 Class B units of a subsidiary, AXLP, (net of costs of issuance) was recorded as a non-controlling interest of the REIT. The Class B units are exchangeable on a one-for-one basis with units of Artis, and holders of the Class B units of AXLP are entitled to receive distributions at a per unit amount equal to the per unit amount payable to holders of Artis trust units. The balance of non-controlling interest at December 31, 2008, after making certain adjustments required under GAAP, is \$10,258 (see Note 13 of the Consolidated Financial Statements for further details).

**Unitholders' equity:**

Unitholders' equity decreased overall by \$26,364 between December 31, 2008 and December 31, 2007. The decrease is due to the net loss for the year of \$6,790, the distributions made to unitholders of \$34,352, and units repurchased made under the Normal Course Issuer Bid ("NCIB") of \$2,459, net of the adjustments below.

Unitholders' equity increased \$9,479 between December 31, 2008 and December 31, 2007, as a result of the conversion of a principal amount of \$11,099 Series A and Series B convertible debentures. Other transactions which increased Unitholders' equity during the year by \$7,758, included the issuance of new units to a vendor in one of the Q1-08 acquisitions, issuance of units on the exercise of options, issuance of units under the DRIP, and adjustments to contributed surplus to reflect unit-based compensation expense in the year.





## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### LIQUIDITY AND CAPITAL RESOURCES

In 2008, Artis generated \$37,170 (Q4-08 - \$5,879) of cash flows from operating activities compared to \$28,586 in 2007 (Q4-07 - \$11,386). Cash flows from operations assisted in funding distributions to Unitholders of \$34,352 (Q4-08 - \$8,722), distributions to Class B unitholders of \$771 (Q4-08 - \$194), and for principal repayments on mortgages and loans of \$12,773 (Q4-08 - \$4,612). As the current year's acquisitions were not owned for the full year, management anticipates that cash flows from operations will increase in future periods as a result of these acquisitions.

Cash on hand and deposits on income-producing properties at the beginning of the year together with new bank indebtedness, were used to finance the cash portion of acquisitions of income-producing properties in the year, totaling \$46,411 (Q4-08 - \$2,945) compared to \$197,680 in 2007 (Q4-07 - \$71,232). Cash of \$19,349 (Q4-08 - \$6,604) was used for substantive capital building improvements and for tenant inducements and leasing costs compared to \$4,453 in 2007 (Q4-07 - \$1,783).

At December 31, 2008, Artis had \$13,847 of cash and cash equivalents on hand. Management anticipates that the cash on hand will be primarily used for working capital purposes.

On September 28, 2008, Artis entered into an agreement to renew its revolving term credit facility for a total amount of \$60,000 which may be utilized to fund acquisitions of office, retail and industrial properties. The credit facility may be extended for an additional year at the REIT's option; if the option is not exercised, the credit facility matures on September 28, 2009. \$27,500 of the facility is undrawn and available for future acquisitions. \$10,000 of the facility can be utilized for general corporate purposes; \$10,000 may be utilized to provide mezzanine financing; and \$7,500 can be utilized to purchase units under the REIT's NCIB. As at December 31, 2008, the REIT had incurred bank indebtedness of \$32,500, representing amounts drawn on the available credit facility used to fund current year acquisitions.

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

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

### CONTRACTUAL OBLIGATIONS

\$000's	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Mortgages, loans and bank indebtedness	\$ 710,466	\$ 91,754	\$ 140,203	\$ 228,354	\$ 250,155
Convertible debentures <sup>(1)</sup>	52,853	-	2,933	29,920	20,000
Total	\$ 763,319	\$ 91,754	\$ 143,136	\$ 258,274	\$ 270,155

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

At December 31, 2008, obligations due within one year include \$36.7 million of mortgages due in 2009, of which \$5.1 million was replaced by new mortgage financing in the amount of \$6.5 million subsequent to year end. The remaining \$31.6 million of mortgages due in 2009 mature during the latter half of the year. Total current obligations also include \$32.5 million drawn on the revolving term credit facility. At the REIT's option, the credit facility may be extended to September, 2010. \$10.5 million of the obligations due within one year relate to the mortgages on Airways Business Plaza and Glenmore Commerce Court. These mortgages have a weighted-average term to maturity of 6 years and have been classified as current as the mortgages are to be assumed by the purchaser on the closing of the sale transaction. The remaining balance represents scheduled principal repayments. The REIT is currently in discussions with various lenders regarding the remaining 2009 mortgage renewals. None of the REIT's mortgages are held by conduit lenders and none have been securitized by the lender.

Management is of the view that refinancing risk is the paramount concern facing the real estate sector in the near term. The pressures many of the U.S.-based REITs are facing today are not due to declining rental rates or higher vacancies, but to a lack of available capital. While banks and insurance companies have pulled back on commercial real estate lending, they are not adverse to refinancing performing mortgages or financing new properties with strong operating fundamentals.



## FUTURE COMMITMENTS

Under the terms of the Interplex II purchase and sale agreement, the final purchase price of the income-producing property is to be calculated in accordance with a pre-determined formula, based on approved leases in place. Should the property be fully leased at the date of acquisition, the purchase price is estimated at \$89,900. The purchase and sale agreement contains a scheduled closing date of November 1, 2008, with the vendor having the option to extend closing for up to an additional 12 months. Once the purchase price is known, the remaining consideration will be required to be financed through a combination of mortgage financing and cash consideration.

## SUMMARIZED QUARTERLY INFORMATION:

\$000's, except unit and per unit amounts <sup>(1)</sup>

	Q4-08	Q3-08	Q2-08	Q1-08	Q4-07	Q3-07	Q2-07	Q1-07
Revenue	\$ 38,142	\$ 36,063	\$ 35,310	\$ 33,461	\$ 31,258	\$ 26,687	\$ 22,442	\$ 17,321
Property operating expenses	12,733	11,398	10,936	10,178	9,517	8,186	7,505	5,842
Property NOI	25,409	24,665	24,374	23,283	21,741	18,501	14,937	11,479
Interest	10,717	10,308	10,186	9,836	8,611	7,629	6,311	5,371
	14,692	14,357	14,188	13,447	13,130	10,872	8,626	6,108
Expenses:								
Corporate	1,350	1,137	1,342	1,140	1,382	1,257	1,061	1,098
Amortization	14,541	14,125	14,313	15,160	12,541	11,042	9,313	7,661
Unrealized (gain) loss on commodity derivatives	68	1,092	(455)	(928)	—	—	—	—
	15,959	16,354	15,200	15,372	13,923	12,299	10,374	8,759
Loss before the undernoted	(1,267)	(1,997)	(1,012)	(1,925)	(793)	(1,427)	(1,748)	(2,651)
Gain (loss) on disposal of income-producing properties	—	—	—	—	(10)	2,521	—	—
Non-controlling interest	(69)	(23)	(10)	(145)	—	—	—	—
Income (loss) before income taxes and discontinued operations	\$ (1,336)	\$ (2,020)	\$ (1,022)	\$ (2,070)	\$ (803)	\$ 1,094	\$ (1,748)	\$ (2,651)
Future income tax (expense) recovery	253	(92)	(992)	374	(1,466)	(206)	12,027	(2)
Income (loss) from discontinued operations	(14)	172	72	(115)	(69)	(11)	(3)	(4)
Income (loss) for the period	\$ (1,097)	\$ (1,940)	\$ (1,942)	\$ (1,811)	\$ (2,338)	\$ 877	\$ 10,276	\$ (2,657)
Basic income (loss) per unit	\$ (0.03)	\$ (0.06)	\$ (0.06)	\$ (0.06)	\$ (0.03)	\$ 0.03	\$ 0.45	\$ (0.40)
Diluted income (loss) per unit	\$ (0.03)	\$ (0.06)	\$ (0.06)	\$ (0.06)	\$ (0.03)	\$ 0.03	\$ 0.45	\$ (0.14)

(1) The above summarized quarterly information has been reclassified to reflect discontinued operations.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### Reconciliation of GAAP income (loss) to DI:

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

	Q4-08	Q3-08	Q2-08	Q1-08	Q4-07	Q3-07	Q2-07	Q1-07
Income (loss) for the period	\$ (1,097)	\$ (1,940)	\$ (1,942)	\$ (1,811)	\$ (2,338)	\$ 877	\$ 10,276	\$ (2,657)
Add:								
Amortization (excluding amortized leasing costs)	14,131	13,750	14,168	15,429	12,640	10,962	9,219	7,614
Accretion on liability component of debentures	355	349	384	376	374	391	490	457
Unit-based compensation expense	144	143	144	136	262	261	322	194
Unrealized (gain) loss on commodity derivatives	68	1,092	(455)	(928)	—	—	—	—
(Gain) loss on disposal of income-producing properties	197	—	—	—	10	(2,521)	—	—
Future income tax expense (recovery)	(211)	156	1,020	(417)	1,433	201	(12,028)	—
Other adjustments								
Property rent <sup>(1)</sup>	300	300	300	300	300	300	300	300
Non-controlling interest <sup>(2)</sup>	79	34	14	138	—	—	—	—
Distributable income (DI)	\$ 13,966	\$ 13,884	\$ 13,633	\$ 13,223	\$ 12,681	\$ 10,471	\$ 8,579	\$ 5,908
DI per unit								
Basic	\$ 0.42	\$ 0.42	\$ 0.42	\$ 0.41	\$ 0.41	\$ 0.38	\$ 0.37	\$ 0.31
Diluted	\$ 0.41	\$ 0.41	\$ 0.40	\$ 0.39	\$ 0.39	\$ 0.37	\$ 0.35	\$ 0.30
Weighted-average number of units:								
Basic <sup>(3)</sup>	33,082,256	33,000,148	32,780,236	32,345,506	31,132,975	27,546,303	23,325,672	19,189,433
Diluted <sup>(3)</sup>	36,164,049	36,151,772	35,982,991	35,781,651	35,114,445	30,519,959	26,412,775	22,630,256

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

(2) Included in DI is income allocated to the non-controlling interest, as it relates to Class B units that are included in the weighted-average units outstanding for the purpose of this calculation.

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

**Reconciliation of GAAP income (loss) to FFO:**

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

	Q4-08	Q3-08	Q2-08	Q1-08	Q4-07	Q3-07	Q2-07	Q1-07
Income (loss) for the period	\$ (1,097)	\$ (1,940)	\$ (1,942)	\$ (1,811)	\$ (2,338)	\$ 877	\$ 10,276	\$ (2,657)
Add amortization on:								
Income-producing properties	6,744	6,734	6,564	6,800	6,014	5,284	4,340	3,260
Acquired in-place leases	7,385	7,011	7,598	8,624	6,620	5,673	4,874	4,348
Customer relationships	2	5	6	5	6	5	5	6
Tenant inducements and leasing costs	409	374	307	261	231	194	191	146
Tenant inducements amortized into revenue	110	–	–	–	–	–	–	–
Unrealized (gain) loss on commodity derivatives	68	1,092	(455)	(928)	–	–	–	–
(Gain) loss on disposal of income-producing properties	197	–	–	–	10	(2,521)	–	–
Future income tax expense (recovery)	(211)	156	1,020	(417)	1,433	201	(12,028)	–
Other adjustments								
Property rent <sup>(1)</sup>	300	300	300	300	300	300	300	300
Non-controlling interest <sup>(2)</sup>	79	34	14	138	–	–	–	–
Funds from operations (FFO)	\$ 13,986	\$ 13,766	\$ 13,412	\$ 12,972	\$ 12,276	\$ 10,013	\$ 7,958	\$ 5,403
FFO per unit								
Basic	\$ 0.42	\$ 0.42	\$ 0.41	\$ 0.40	\$ 0.39	\$ 0.36	\$ 0.34	\$ 0.28
Diluted	\$ 0.42	\$ 0.41	\$ 0.40	\$ 0.40	\$ 0.39	\$ 0.36	\$ 0.34	\$ 0.28
Weighted-average number of units:								
Basic <sup>(3)</sup>	33,082,256	33,000,148	32,780,236	32,345,506	31,132,975	27,546,303	23,325,672	19,189,433
Diluted <sup>(3)</sup>	34,209,017	34,196,740	34,020,022	32,391,916	31,197,012	27,725,159	23,512,419	19,325,025

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

(2) Included in FFO is income allocated to the non-controlling interest, as it relates to Class B units that are included in the weighted-average units outstanding for the purpose of this calculation.

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

Artis has executed an aggressive but disciplined external growth strategy, resulting in strong growth in revenues, Property NOI, DI and FFO over the past eight quarters. Q4-08 diluted FFO results were the strongest in the REIT's history.

Management expects that there will be further growth in revenues, Property NOI, FFO and DI in future periods as growth inherent in the REIT's portfolio is realized as below-market leases are renewed at higher rates.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### RELATED PARTY TRANSACTIONS

\$000's	Year ended December 31,	
	2008	2007
Legal fees expensed	\$ 151	\$ 101
Capitalized legal fees	480	1,775
Advisory fees	2,514	1,693
Capitalized acquisition fees	535	3,047
Property management fees	5,056	3,052
Capitalized leasing commissions	3,796	2,224
Capitalized building improvements	11,675	760
Capitalized tenant inducements	114	642
Recoverable operating costs	187	—

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, 2008 is \$nil (December 31, 2007, \$nil).

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, 2008 is \$nil (December 31, 2007, \$nil). Under the asset management agreement, Marwest is entitled to an annual advisory fee equal to 0.25% of the adjusted cost base of the REIT's assets and an acquisition fee equal to 0.5% of the cost of each property acquired.

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

The REIT incurred property management fees, leasing commission fees, and tenant improvement fees under the property management agreement with Marwest. The amount payable at December 31, 2008 is \$546 (December 31, 2007, \$nil). Marwest acts as the general property manager for the REIT's properties and is entitled to management fees, leasing renewal commissions and tenant improvement fees at commercially reasonable rates.

The REIT incurred costs for building improvements and tenant inducements paid to Marwest Construction Ltd., a company related to certain trustees and officers of the REIT. The amount payable at December 31, 2008 is \$292 (December 31, 2007, \$nil).

During 2008, the REIT acquired an income producing property from entities under the control of certain Trustees of the REIT for an aggregate purchase price of \$1,500.

### OUTSTANDING UNIT DATA

The balance of units outstanding as of March 17, 2009, not including Class B units, is as follows:

Units outstanding at December 31, 2008	32,306,766
Units issued (DRIP)	110,666
Units acquired and cancelled through normal course issuer bid subsequent to December 31, 2008	(16,400)
Units outstanding at March 17, 2009	32,401,032







The balance of options outstanding as of March 17, 2009 is as follows:

	Options outstanding	Options exercisable
\$11.25 options, issued December 8, 2005	217,036	145,938
\$14.40 options, issued October 11, 2006	380,500	281,000
\$15.85 options, issued February 8, 2007	269,750	201,250
\$17.60 options, issued June 11, 2007	319,050	159,524
\$17.75 options, issued October 17, 2007	272,000	68,000
	1,458,336	855,712

## 2009 OUTLOOK

Many of the challenges that Canadian REITs faced in 2008, such as limited access to equity capital markets and tightening credit availability, are expected to persist in 2009. New challenges will be presented as global economies, and Canada's economy specifically, work through a recessionary period and toward recovery and a return to long-term economic growth. The depth of the recession and length of the recovery period is not foreseeable and a matter of speculation for the experts.

Artis, like other Canadian REITs, will face a number of challenges in 2009, including financing risk, credit risk and lease rollover risk. Artis believes it is well positioned to address these challenges for the following reasons:

- The mortgage debt to gross book value ratio is 51.6%, and only 5.4% of its mortgage debt matures in 2009. None of these mortgages are held by conduit lenders or have been securitized by the lender;
- No tenants in the portfolio account for more than 5% of the REIT's gross revenue. At December 31, 2008, 52.5% of the REIT's GLA is occupied by national tenants and 9.4% is occupied by government tenants;
- 12.5% of the portfolio GLA expires in 2009. To date, approximately 42.6% of these lease expiries have been renewed or new lease commitments secured. The weighted-average rate increases achieved on the lease rollovers thus far is approximately 22.5%. As well, approximately 14.0% of the lease expiries occurring in 2010 have already been renewed or new lease commitments secured.

Artis believes that there is further potential for growth in revenues, Property NOI, DI and FFO as a result of its strong embedded growth profile. Artis estimates that the weighted-average market rent rates at December 31, 2008, for all 2009 lease expiries are approximately 22% higher than the rates in place at expiry.

At December 31, 2008, Artis has \$13.8 million of cash and cash equivalents on hand. In addition, Artis has \$27.5 million of its line of credit facility available; \$10 million of the undrawn facility can be utilized for general corporate purposes, \$10 million may be used to provide mezzanine financing and \$7.5 million can be utilized to purchase units under the REIT's NCIB plan.

Prior to the end of 2008, the REIT undertook various restructuring activities to attempt to meet the requirements of the REIT Conditions (discussed in more detail above under the heading "Future Income Taxes"). Management of the REIT intends to comply with the REIT Conditions so that the New SIFT Rules will not apply to the REIT in 2009 and subsequent years and accordingly previously recorded future income tax balances can be reversed. Although management of the REIT believes that the REIT will satisfy the REIT Conditions in 2009, there can be no assurances that the REIT will be able to satisfy the REIT Conditions such that the REIT will not be subject to the tax imposed by the New SIFT Rules in 2009 or in future years.

The previously announced disposition of Airways Business Plaza and Glenmore Commerce Court, originally expected to close in the third quarter of 2008, has been rescheduled to the first quarter of 2009.

The REIT has entered into an unconditional agreement to dispose of the Plainsman Building for proceeds of \$8,050. The REIT anticipates that the disposition will close on March 31, 2009, and the sale price will be financed through a combination of the assumption of existing mortgage financing and cash consideration. The carrying value of the assets to be disposed of is \$7,465.

The REIT has completed the refinancing of the mortgage related to Sunridge Home Outfitters. The mortgage is for \$6,500, with an interest rate of 4.65% and a term of 3 years. The refinancing replaces the previous mortgage of \$5,134, which carried interest of 6.176%.

The Interplex II purchase and sale agreement contains a scheduled closing date of November 1, 2008, with the vendor having the option to extend closing for up to an additional 12 months. The vendor has not yet scheduled a closing date. Once the purchase price is known, the remaining consideration will be required to be financed through a combination of mortgage financing and cash consideration.

The REIT's management expects to meet all of its on going obligations and capital commitments with respect to properties through funds generated from operations, from the proceeds of mortgage refinancing, and from the available credit facility and cash on hand. The proceeds from the sale of the Plainsman Building may also be used for working capital purposes.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### RISKS AND UNCERTAINTIES

#### REAL ESTATE OWNERSHIP

All real property investments are subject to elements of risk. General economic conditions, local real estate markets, supply and demand for leased premises, competition from other available premises and various other factors affect such investments. The REIT's properties are located in western Canada, with a significant majority of our properties, measured by gross leasable area, located in the province of Alberta. As a result, our properties are impacted by factors specifically affecting the real estate markets in Alberta, British Columbia, Saskatchewan and Manitoba. These factors may differ from those affecting the real estate markets in other regions of Canada. If real estate conditions in western Canada were to decline relative to real estate conditions in other regions, this could more adversely impact our revenues and results of operations than those of other more geographically diversified REITs in Canada. Our ability to manage risk through geographical diversification is currently limited. According to the Conference Board of Canada, Canada's economy is expected to continue to contract, resulting in a 0.5% decline in GDP in 2009. While Manitoba and Saskatchewan are expected to record modest growth during the year, economic contraction in British Columbia and Alberta may have an impact on the REIT's results.

#### DEBT FINANCING

Artis will be subject to the risks associated with debt financing. In the current economic environment, lenders may tighten their lending standards such that less financing is available, or terms are less favourable than the current indebtedness. There can be no assurance that Artis will be able to refinance its existing indebtedness on terms that are as or more favourable to Artis as the terms of existing indebtedness. The inability to replace financing of debt on maturity would have an adverse impact on the financial condition and results of Artis.

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

#### CREDIT RISK AND TENANT CONCENTRATION

Artis is exposed to risk as tenants may be unable to pay their contracted rents. Management mitigates this risk by seeking to acquire properties across several asset classes. As well, management seeks to acquire properties with strong tenant covenants in place. As at December 31, 2008, government tenants contribute 9.2% to the REIT's overall gross revenue and occupy 8.4% of total GLA. The REIT's ten top tenants (excluding government tenants) are primarily high credit rated national retailers or businesses. As indicated below, the largest tenant is AMEC, a global supplier of consultancy, engineering and project management services to the energy, power and process industries. AMEC is a London Exchange listed entity with a market capitalization in excess of \$3 billion. The second largest tenant is TransAlta Corporation, a Standard & Poor's BBB rated multi national corporation with a market capitalization of nearly \$4.5 billion.

Top Ten Tenants by GLA	Share	Top Ten Tenants by Gross Revenue	Share
TransAlta Corporation	5.1%	AMEC	4.8%
Red River Packaging	3.0%	TransAlta Corporation	3.6%
Reliance Products	2.7%	Birchcliff Energy	2.3%
AMEC	2.6%	Sobeys	2.2%
Sobeys	2.3%	Shoppers Drug Mart	2.0%
Shoppers Drug Mart	1.6%	Credit Union Central	1.9%
Sears	1.6%	MTS Allstream	1.4%
Credit Union Central	1.3%	Bell Canada	1.4%
Bell Canada	1.2%	Cineplex Odeon	1.3%
MTS Allstream	1.2%	Komex International	1.1%
<b>Total of Top Ten by GLA</b>	<b>22.6%</b>	<b>Total of Top Ten by Gross Revenue</b>	<b>22.0%</b>
Government Entities by GLA	Share	Government Entities by Gross Revenue	Share
Federal Government	3.0%	Federal Government	3.3%
Provincial Government	4.1%	Provincial Government	4.8%
Civic or Municipal Government	1.3%	Civic or Municipal Government	1.3%
<b>Total Government by GLA</b>	<b>8.4%</b>	<b>Total Government by Gross Revenue</b>	<b>9.4%</b>





### 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. A contraction in the Canadian economy would negatively impact demand for space in retail, office and industrial properties across Canada, consequently increasing the risk that leases expiring in the near term will not be renewed.

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

Expiry Year	British Columbia	Saskatchewan	Manitoba	Alberta	Calgary Office Only	Total
2009	11%	0.9%	4.4%	6.1%	2.3%	12.5%
2010	0.6%	1.3%	6.3%	7.4%	2.4%	15.6%
2011	0.4%	0.8%	5.2%	9.8%	5.9%	16.2%
2012	1.3%	0.4%	1.4%	4.2%	2.3%	7.3%
2013	0.3%	1.7%	4.2%	7.2%	4.5%	13.4%
2014 & later	2.2%	2.3%	7.4%	19.5%	7.9%	31.4%
Vacant	0.1%	0.1%	0.8%	2.5%	1.5%	3.5%
Total Square Feet	396,696	492,499	1,950,576	3,721,858	1,757,896	6,561,629

A number of new building projects are underway in the Calgary office market with completion dates expected in 2009 through to 2012. Not all of this new inventory has been committed under lease, and certain of the REIT's properties will compete with the new inventory, creating additional lease rollover risk. Artis' exposure to lease rollover risk in the Calgary office market is limited to approximately 151,000 square feet in 2009, and approximately 157,500 square feet in 2010.

In total, only 12.5% of the portfolio's leasable area will expire in 2009. To date, approximately 42.6% of 2009 lease expiries, and 14.0% of 2010 lease expiries, have been renewed or new lease commitments secured. The weighted-average term to maturity of all leases in the portfolio is 5.1 years; for the top ten tenants (who account for 22% of the portfolio's gross revenues), the weighted-average lease term is 10.2 years.

### TAX RISK

On June 22, 2007, the New SIFT Rules (discussed in more detail above under the heading "Future Income Taxes") were enacted. Under the New SIFT Rules, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as returns of capital should generally not be subject to the tax.

The New SIFT Rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). In order to meet the REIT Conditions, a trust must meet a number of technical tests that do not fully accommodate common real estate and business structures. Prior to the end of 2008, the REIT undertook various restructuring activities in order to attempt to meet the requirements of the REIT Conditions, and the REIT intends to comply with the REIT Conditions so that the New SIFT Rules will not apply to the REIT in 2009 and subsequent years. There can be no assurances, however, that the REIT will be able to satisfy the REIT Conditions such that the REIT will not be subject to the tax imposed by the New SIFT Rules.

Under the New SIFT Rules, a flow-through subsidiary of the REIT may also be a SIFT. Certain technical amendments to the SIFT definition to exclude certain flow-through subsidiaries of a SIFT that are able to meet certain ownership conditions were passed into law on March 12, 2009.

### OTHER RISKS

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

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





## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### CRITICAL ACCOUNTING ESTIMATES

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

#### ALLOCATION OF PURCHASE PRICE OF INCOME-PRODUCING PROPERTIES

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

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

#### IMPAIRMENT OF ASSETS

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

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

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

#### AMORTIZATION

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

#### ALLOCATION OF CONVERTIBLE DEBENTURES

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

#### FUTURE INCOME TAX VALUATION

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

#### CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the REIT has adopted three new accounting standards: Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments - Disclosure", and Section 3863 "Financial Instruments - Presentation".

Section 1535 includes required disclosures of an entity's objectives, policies and processes for managing capital, and quantitative data about what the entity regards as capital.

Sections 3862 and 3863 replace the existing Section 3861, Financial Instruments - Disclosure and Presentation. These new sections revise and enhance disclosure requirements, and carryforward unchanged existing presentation requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.



In addition, a new accounting standard was issued in February, 2008. Section 3064, "Goodwill and Intangible Assets" replaces the existing Sections 3062 "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs". This new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This standard is effective for the REIT's 2009 fiscal year.

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

The REIT has commenced the process to transition from current GAAP to IFRS. It has established a project team that is led by the Chief Financial Officer, and will include representatives from various areas of the organization as necessary to plan for and achieve a smooth transition to IFRS. Regular progress reporting to the Audit Committee of the Board of Trustees on the status of the IFRS implementation project has begun.

Key elements of the plan that are currently in progress include, but are not limited to:

- On-going education and training sessions for employees;
- An assessment of the application of IFRS 1, First-time Adoption of International Financial Reporting Standards, which provides guidance for an entity's initial adoption of IFRS, and provides for limited optional exemptions in specified areas of certain IFRS standards;
- An assessment of the impact of IFRS accounting standards on business activities;
- The development of a real estate valuations strategy and process; and
- The conversion to information systems that are compatible with IFRS requirements.

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

## CONTROLS AND PROCEDURES

### DISCLOSURE CONTROLS AND PROCEDURES

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

As of December 31, 2008, an evaluation was carried out, under the supervision of and with the participation of Management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the REIT's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings). Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the REIT's disclosure controls and procedures were effective as at December 31, 2008.

### INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Chief Executive Officer and Chief Financial Officer evaluated, or caused to be evaluated, the design of the REIT's internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2008.

During the year ended December 31, 2008, no changes to internal controls over financial reporting have materially affected, or are reasonable likely to materially affect, internal controls over financial reporting.

All control systems have inherent limitations, and evaluation of a control system cannot provide absolute assurance that all control issues have been detected, including risks of misstatement due to error or fraud. As a growing enterprise, management anticipates that the REIT will be continually evolving and enhancing its systems of controls and procedures.

## 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 17, 2009



Jim Green, CA  
CHIEF FINANCIAL OFFICER  
March 17, 2009



## 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, 2008 and 2007 and the consolidated statements of operations, unitholders' equity 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, 2008 and 2007 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 17, 2009



## CONSOLIDATED BALANCE SHEETS

As at December 31, 2008 and 2007

(In thousands of dollars)	2008	2007
<b>ASSETS</b>		
Income-producing properties (note 4)	\$ 1,025,010	\$ 944,612
Other assets (note 5)	144,981	140,070
Future income taxes (note 18)	11,127	11,509
Deposits on income-producing properties (note 6)	6,712	11,826
Prepaid expenses	2,332	1,326
Notes receivable (note 7)	28,830	30,494
Rent and other receivables	10,859	6,543
Cash held in trust	588	682
Cash and cash equivalents	13,847	29,386
	<b>\$ 1,244,286</b>	<b>\$ 1,176,448</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
Liabilities:		
Mortgages and loans payable (note 8)	\$ 676,369	\$ 612,996
Convertible debentures (note 9)	44,906	52,732
Intangible liabilities (note 10)	91,186	99,280
Security deposits and prepaid rent	4,822	4,033
Accounts payable and other liabilities (note 11)	25,109	11,725
Bank indebtedness (note 12)	32,500	-
	<b>874,892</b>	<b>780,766</b>
Non-controlling interest (note 13)	10,258	10,182
Unitholders' equity	359,136	385,500
	<b>\$ 1,244,286</b>	<b>\$ 1,176,448</b>

See accompanying notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2008 and 2007

(In thousands of dollars, except per unit amounts)	<b>2008</b>	2007
Revenue	\$ 142,976	\$ 97,708
Property operating expenses	45,245	31,051
	97,731	66,657
Interest	41,047	27,922
	56,684	38,735
Expenses (Income):		
Corporate	4,969	4,798
Amortization	58,139	40,557
Unrealized gain on commodity derivatives	(223)	-
	62,885	45,355
Loss before income taxes	(6,201)	(6,620)
Future income tax (expense) recovery (note 18)	(457)	10,833
Income (loss) before non-controlling interest and discontinued operations	(6,658)	4,213
Non-controlling interest (note 13)	(247)	-
Income (loss) from continuing operations	(6,905)	4,213
Income from discontinued operations (note 21)	115	1,944
Income (loss) and comprehensive income (loss) for the year	\$ (6,790)	\$ 6,157
Basic income (loss) per unit (note 14 (e))		
Continuing operations	\$ (0.22)	\$ 0.17
Discontinued operations	\$ 0.01	\$ 0.08
Diluted income (loss) per unit (note 14 (e))		
Continuing operations	\$ (0.22)	\$ 0.16
Discontinued operations	\$ 0.01	\$ 0.08

See accompanying notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

Years ended December 31, 2008 and 2007

(In thousands of dollars, except unit amounts)	Number of Units	Capital Contributions	Equity Component of Convertible Debentures	Deficit	Contributed Surplus	Total
Unitholders' equity, December 31, 2006	15,219,261	\$ 164,991	\$ 11,659	\$ (29,533)	\$ 649	\$ 147,766
Issuance of units	15,385,633	250,348	—	—	(170)	250,178
Unit-based compensation	—	—	—	—	1,039	1,039
Issuance of convertible debentures	—	—	1,125	—	—	1,125
Conversion of convertible debentures	566,174	7,123	(1,344)	—	—	5,779
Units acquired through normal course issuer bid, not cancelled at year end	(13,000)	(196)	—	—	—	(196)
Income for the year	—	—	—	6,157	—	6,157
Distributions for the year	—	—	—	(26,348)	—	(26,348)
Unitholders' equity, December 31, 2007	31,158,068	422,266	11,440	(49,724)	1,518	385,500
Issuance of units	552,357	7,238	—	—	(47)	7,191
Unit-based compensation	—	—	—	—	567	567
Conversion of convertible debentures	837,341	11,651	(2,172)	—	—	9,479
Units acquired and cancelled through normal course issuer bid	(197,400)	(2,673)	—	(112)	552	(2,233)
Units acquired through normal course issuer bid, not cancelled at year end	(43,600)	(226)	—	—	—	(226)
Loss for the year	—	—	—	(6,790)	—	(6,790)
Distributions for the year	—	—	—	(34,352)	—	(34,352)
Unitholders' equity, December 31, 2008	32,306,766	\$ 438,256	\$ 9,268	\$ (90,978)	\$ 2,590	\$ 359,136

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2008 and 2007

(In thousands of dollars)	2008	2007
Cash provided by (used for):		
Operating activities:		
Income (loss) for the year	\$ (6,790)	\$ 6,157
Adjustments for non-cash items:		
Amortization:		
Income-producing properties	26,842	18,898
Office equipment	8	7
Above-market rent	339	226
Acquired in-place leases	30,618	21,514
Customer relationships	18	22
Below-market rent	(14,224)	(9,780)
Tenant inducements and leasing costs	1,351	784
Tenant inducements amortized to revenue	110	-
Above- and below-market mortgages, net	(178)	(96)
Accretion on liability component of convertible debentures	1,464	1,713
Straight-line rent adjustment	(1,960)	(1,369)
(Gain) loss on disposal of income-producing property	197	(2,511)
Unrealized gain on commodity derivatives	(223)	-
Unit-based compensation expense	567	1,039
Amortization of financing costs included in interest	413	229
Future income tax expense (recovery)	548	(10,394)
Non-controlling interest (note 13)	265	-
	39,365	26,439
Changes in non-cash operating items (note 16)	(2,195)	2,147
	37,170	28,586
Investing activities:		
Acquisition of income-producing properties, net of related debt and issuance of units (note 3)	(46,411)	(197,680)
Disposition of income-producing properties, net of mortgage and costs	1,139	2,552
Additions to income-producing properties	(12,094)	(984)
Deposits on income-producing properties held for sale (notes 11 and 21)	10,000	-
Repayment of mortgage receivable	-	14,000
Advances of note and mortgage receivable	-	(45,000)
Notes receivable principal repayments	1,664	816
Additions to office equipment and software	(497)	(31)
Additions to tenant inducements and leasing costs	(7,255)	(3,469)
Change in deposits on income-producing properties	5,114	(1,374)
	(48,340)	(231,170)
Financing activities:		
Issuance of units, net of issue costs	5,115	248,893
Purchase of units under normal course issuer bid	(2,460)	-
Bank indebtedness	32,500	-
Distributions paid on REIT units	(34,352)	(26,348)
Distributions paid on Class B units, charged to non-controlling interest (note 13)	(189)	(186)
Mortgages and loans principal repayments	(12,773)	(6,665)
Advance of mortgage payable	7,790	1,024
	(4,369)	216,718
Increase (decrease) in cash and cash equivalents	(15,539)	14,134
Cash and cash equivalents at beginning of year	29,386	15,252
Cash and cash equivalents at end of year	\$ 13,847	\$ 29,386
Supplemental cash flow information:		
Interest paid, net of interest received	\$ 37,128	\$ 22,094

See accompanying notes to consolidated financial statements.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (In thousands of dollars, except unit and per unit amounts)

### 1. ORGANIZATION:

Artis Real Estate Investment Trust (the "REIT") is an unincorporated open-end real estate investment trust (note 14) created under, and governed by, the laws of the province of Manitoba and was created pursuant to the Declaration of Trust dated November 8, 2004, subsequently amended and restated on October 31, 2006 (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 (currently \$1.08 per unit) will be an amount not less than the amount of distributable income in the year set down in a policy by the Trustees.

### 2. SIGNIFICANT ACCOUNTING POLICIES:

#### (a) Principles of consolidation:

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

#### (b) Changes in accounting policies:

The CICA has issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments - Disclosures, and Handbook Section 3863, Financial Instruments - Presentation, which were adopted by the REIT on January 1, 2008.

Section 1535 includes required disclosures of an entity's objectives, policies and processes for managing capital, and quantitative data about what the entity regards as capital (note 23).

Sections 3862 and 3863 replace the existing Section 3861, Financial Instruments - Disclosure and Presentation. These new sections revise and enhance disclosure requirements, and carryforward unchanged existing presentation requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks (note 24).

The new standards have no impact on the classification and valuation of the REIT's financial instruments.

#### (c) Financial Instruments - Recognition and Measurement:

Section 3855 provides guidance on recognizing financial instruments and non-financial derivatives on the consolidated balance sheet. The standard also specifies how financial instrument gains and losses are presented. Initially, all financial assets and liabilities must be recorded on the consolidated balance sheet at fair value. Subsequent measurement is determined by the classification of each financial asset and liability. Under this standard, all financial instruments are classified as one of: (a) held-to-maturity; (b) loans and receivables; (c) held-for-trading; (d) available-for-sale or (e) other liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial instruments classified as held-to-maturity, loans and receivables, and other liabilities are measured at amortized cost. Available-for-sale financial instruments are measured at fair value, with unrealized gains and losses recognized in comprehensive income.

Upon adoption of this standard, the REIT designated its cash and cash equivalents and cash held in trust as held-for-trading; notes receivable and rent and other receivables as loans and receivables; mortgages and loans payable, convertible debentures, and accounts payable and other liabilities as other liabilities. The REIT has neither available-for-sale, nor held-to-maturity instruments.

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

All derivative instruments, including embedded derivatives, are recorded in the consolidated statement of operations at fair value unless the criteria for exemption from such treatment under Section 3855 is met.

#### (d) Comprehensive Income:

Section 1530 requires a component of unitholders' equity, comprehensive income, to be included in the REIT's consolidated financial statements. In addition, the standard requires a statement of comprehensive income. The major components of the statement of comprehensive income may include items such as unrealized gains and losses on financial assets classified as available-for-sale, deferred gains and losses arising from the settlement of historic cash flow hedging transactions and changes in the fair value of the effective position of cash flow hedging instruments.

The REIT had no "other comprehensive income or loss" transactions during the years ended December 31, 2008 and 2007, and no opening or closing balances of accumulated other comprehensive income or loss.



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

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

**(f) Other assets:**

Recoverable operating costs are recorded at cost and are deferred and amortized over the period which they are recoverable from tenants.

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

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (In thousands of dollars, except unit and per unit amounts)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

#### (g) Disposal of long-lived assets:

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

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

#### (h) 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.

#### (i) 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.

#### (j) Co-ownerships:

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

#### (k) 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.

#### (l) Income taxes:

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

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



**(m) 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.

**(n) Use of estimates:**

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

The significant areas of estimation include:

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

**3. ACQUISITIONS OF INCOME-PRODUCING PROPERTIES:****Acquisitions:**

The REIT acquired the following properties during the year ended December 31, 2008:

PROPERTY	LOCATION	ACQUISITION DATE	TYPE
King Edward Centre	15 & 25 King Edward Centre, Coquitlam, BC	January 15, 2008	Retail
Leon's Building	6461 Metral Drive, Nanaimo, BC	February 1, 2008	Retail
Estevan Sobeys <sup>(l)</sup>	440 King Street, Estevan, SK	March 20, 2008	Retail
Moose Jaw Sobeys <sup>(l)</sup>	769 Thatcher Drive East, Moose Jaw, SK	March 20, 2008	Retail
Edson Shoppers	303-54th Street and 2nd Avenue, Edson, AB	April 15, 2008	Retail
Raleigh Shopping Centre	686 Springfield Road, Winnipeg, MB	April 15, 2008	Retail
Maynard Technology Centre	1930 Maynard Road, Calgary, AB	August 29, 2008	Industrial
Willingdon Green Building	3175/3185 Willingdon Green, Burnaby, BC	September 2, 2008	Office
Bridges Place	736-1st Avenue NE, Calgary, AB	December 17, 2008	Office

(l) Estevan Sobeys and Moose Jaw Sobeys were acquired as a portfolio.





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (In thousands of dollars, except unit and per unit amounts)

### 3. ACQUISITIONS OF INCOME-PRODUCING PROPERTIES (CONTINUED):

The REIT acquired the following properties during the year ended December 31, 2007:

PROPERTY	LOCATION	ACQUISITION DATE	TYPE
CDI College Building	280 Main Street, Winnipeg, MB	January 13, 2007	Office
Keewatin Distribution Centre	959 & 989 Keewatin Street, Winnipeg, MB	January 31, 2007	Industrial
Clareview Town Centre	50th Street & 137th Avenue, Edmonton, AB	February 1, 2007	Retail
Centre 70 Building <sup>(1)</sup>	7015 Macleod Tr. SW & 555-69th St. SW, Calgary, AB	February 28, 2007	Office
Honeywell Building	2840-2nd Avenue SE, Calgary, AB	February 28, 2007	Industrial
Millennium Centre	4909-49th St. & 4902-48th St., Red Deer, AB	February 28, 2007	Office
Bower Centre	2319 Taylor Dr. & 2310 Gaetz Ave., Red Deer, AB	March 1, 2007	Industrial
Britannia Building <sup>(2)</sup>	703-6th Avenue SW, Calgary, AB	March 31, 2007	Office
Sierra Place <sup>(2)</sup>	706-7th Avenue SW, Calgary, AB	March 31, 2007	Office
MTS Call Centre	365 Osborne Street, Winnipeg, MB	April 1, 2007	Office
488 Albert Street <sup>(3)</sup>	488 Albert Street, Nanaimo, BC	June 19, 2007	Office
6475 Metral Drive <sup>(3)</sup>	6475 Metral Drive, Nanaimo, BC	June 19, 2007	Office
Aulds Corner <sup>(3)</sup>	6551 Aulds Road, Nanaimo, BC	June 19, 2007	Retail
Can-K Building <sup>(4)</sup>	8220 Davies Road, Edmonton, AB	June 30, 2007	Industrial
Mayfield Industrial Plaza <sup>(4)</sup>	11304/24-163 Street, Edmonton, AB	June 30, 2007	Industrial
TransAlta Place <sup>(5)</sup>	110-12th Avenue SW, Calgary, AB	July 5, 2007	Office
Winnipeg Square <sup>(6)</sup>	360 Main Street, Winnipeg, MB	August 29, 2007	Office/Retail
Pepco Building	608-17th Avenue, Nisku, AB	September 15, 2007	Industrial
Delta Shoppers Mall	8037-120th Street, Delta, BC	September 24, 2007	Retail
Glenmore Commerce Court	2880 Glenmore Trail SE, Calgary, AB	November 9, 2007	Office
Winnipeg Industrial Portfolio <sup>(7)</sup>	Various locations in Winnipeg, MB	November 15, 2007	Industrial
Brick Centre	11226-100th Avenue, 11245-104th Avenue & 11345/53-104th Avenue, Grande Prairie, AB	November 30, 2007	Retail
Fort McMurray Portfolio <sup>(8)</sup>	Various locations in Edmonton and Fort McMurray, AB	November 30, 2007	Retail
Paramount Building	630-4th Avenue SW, Calgary, AB	December 1, 2007	Office

(1) The REIT acquired an undivided 85% interest in Centre 70, which is proportionately consolidated in the accounts of the REIT.

(2) The Britannia Building and Sierra Place were acquired together as the Dome Britannia Portfolio.

(3) 488 Albert Street, 6475 Metral Drive and Aulds Corner were acquired as a portfolio.

(4) Can-K Building and Mayfield Industrial Plaza were acquired as a portfolio.

(5) The acquisition of TransAlta Place also included the acquisition of a note receivable for \$31,000 (note 7).

(6) The REIT acquired an undivided 38% interest in the air rights leasehold with respect to Winnipeg Square, which is proportionately consolidated in the accounts of the REIT.

(7) The Winnipeg Industrial Portfolio is comprised of 8 single-tenant and 8 multi-tenant properties.

(8) The Fort McMurray Portfolio is comprised of one property in Edmonton and 6 properties in Fort McMurray.







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

The net assets acquired including acquisition costs were as follows:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Land	\$ 24,010	\$ 126,881
Buildings	61,403	419,975
Parking lots	5,587	7,512
Improvements	5,482	20,972
Acquired in-place leases	26,042	86,925
Above-market rent	238	409
Below-market rent	(6,130)	(95,764)
Long-term debt including acquired above- and below-market mortgages	(68,121)	(349,230)
Series D convertible debenture	-	(20,000)
Total consideration	48,511	197,680
Issuance of units (note 14)	(2,100)	-
Cash consideration	\$ 46,411	\$ 197,680
Acquisition costs included above	\$ 1,593	\$ 9,251

#### Dispositions:

The REIT disposed of land and building, which comprised a portion of an income-producing property, during the year ended December 31, 2008. The proceeds from the sale, net of costs, were paid in cash in the amount of \$1,139, which were used to reduce the outstanding mortgage. The assets associated with the land and building were removed from the books and a loss on sale of property in the amount of \$197 was recorded.

The REIT disposed of the following property during the year ended December 31, 2007:

PROPERTY	LOCATION	DISPOSITION DATE	TYPE
Royal Square	15 Worobetz Place, Saskatoon, SK	September 1, 2007	Retail

The proceeds from the sale of Royal Square, net of costs, were \$4,591. Consideration received was the assumption, by the purchaser, of the existing mortgage in the amount of \$1,729, a promissory note in the amount of \$310 (note 7), and cash in the amount of \$2,552. The assets, intangible assets and liabilities associated with the property were removed from the books and a gain on sale of property in the amount of \$2,511 was recorded.





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (In thousands of dollars, except unit and per unit amounts)

### 4. INCOME-PRODUCING PROPERTIES:

	December 31, 2008		
	Cost	Accumulated amortization	Net book value
Land	\$ 254,501	\$ —	\$ 254,501
Buildings and building improvements	727,833	33,867	693,966
Leasehold interest	8,015	692	7,323
Tenant improvements	51,218	20,227	30,991
Parking lots	21,661	1,877	19,784
Property under development	2,725	—	2,725
	1,065,953	56,663	1,009,290
Income-producing properties held for sale (note 21)	16,425	705	15,720
	\$ 1,082,378	\$ 57,368	\$ 1,025,010

	December 31, 2007		
	Cost	Accumulated amortization	Net book value
Land	\$ 234,301	\$ —	\$ 234,301
Buildings and building improvements	667,846	16,944	650,902
Leasehold interest	8,015	489	7,526
Tenant improvements	46,807	12,199	34,608
Parking lots	15,513	963	14,550
Property under development	2,725	—	2,725
	\$ 975,207	\$ 30,595	\$ 944,612

**5. OTHER ASSETS:**

	December 31, 2008		
	Cost	Accumulated amortization	Net book value
Acquired in-place leases	\$ 191,242	\$ 67,437	\$ 123,805
Above-market rent	1,795	821	974
Customer relationships	105	86	19
Tenant inducements and leasing costs	13,886	2,346	11,540
Recoverable operating costs	5,896	592	5,304
Office equipment and software	551	20	531
	213,475	71,302	142,173
Other assets held for sale (note 21)	4,229	1,421	2,808
	\$ 217,704	\$ 72,723	\$ 144,981

	December 31, 2007		
	Cost	Accumulated amortization	Net book value
Acquired in-place leases	\$ 168,892	\$ 38,319	\$ 130,573
Above-market rent	1,573	498	1,075
Customer relationships	105	68	37
Tenant inducements and leasing costs	6,864	958	5,906
Recoverable operating costs	2,585	149	2,436
Office equipment and software	55	12	43
	\$ 180,074	\$ 40,004	\$ 140,070



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (In thousands of dollars, except unit and per unit amounts)

### 6. DEPOSITS ON INCOME-PRODUCING PROPERTIES:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Deposit on income-producing property (note 13):		
Balance, beginning of year	\$ 7,330	\$ 7,743
Property rent	(1,200)	(1,200)
Costs incurred	-	215
Distributions on 543,781 Class B units of AX L.P.	582	572
	6,712	7,330
Deposits on other income-producing properties	-	4,496
	\$ 6,712	\$ 11,826

### 7. NOTES RECEIVABLE:

	December 31, 2008	December 31, 2007
Note receivable from tenant maturing in May 2023, bearing interest at 5.894% per annum, repayable in varying blended monthly installments of principal and interest. The note is unsecured and is transferable at the option of the holder. A default under the terms of the note constitutes a default of the lease of the tenant.	\$ 28,536	\$ 30,187
Note receivable maturing in November 2010, bearing interest at 5.06% per annum, repayable in blended monthly installments of principal and interest of \$2 and is unsecured. The note was received as partial consideration for the sale of Royal Square.	294	307
	\$ 28,830	\$ 30,494



**8. 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 effective rate of 5.52% at December 31, 2008, a weighted average nominal rate of 5.42% at December 31, 2008 (effective and nominal at December 31, 2007, 5.51% and 5.42%, respectively), and maturity dates ranging from July 1, 2009 to June 1, 2024.

Principal payment requirements on the mortgages and loans payable as at December 31, 2008 are as follows:

2009	\$	48,762
2010		89,852
2011		50,351
2012		112,743
2013		115,611
2014 and thereafter		250,155
		<hr/>
		667,474
Net above- and below-market mortgage adjustments		781
Financing costs		(2,378)
Mortgages payable on assets held for sale (note 21)		10,492
		<hr/>
	\$	676,369

**9. CONVERTIBLE DEBENTURES:**

In conjunction with the private placement offering that closed August 4, 2005, the REIT issued Series A convertible redeemable 7.75% debentures totaling \$15,000. 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 \$2,550 (2007, \$7,015) were converted and the REIT issued 202,379 (2007, 561,538) units at the exercise price of \$12.60 per unit. The carrying value of the debt component was reduced by \$2,133 (2007, \$5,701), the equity component was reduced by \$482 (2007, \$1,323), future income taxes were increased by \$41 (2007, \$26), with an offsetting increase to capital contributions of \$2,656 (2007, \$7,050) (note 14(b)).

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. During the year, Series B convertible debentures with a face value of \$8,549 were converted and the REIT issued 634,962 units at the exercise price of \$13.50 per unit. The carrying value of the debt component was reduced by \$7,157, the equity component was reduced by \$1,690, future income taxes were increased by \$125, accrued interest was reduced by \$23 for units issued in lieu of interest payable, with an offsetting increase to capital contributions of \$8,995 (note 14(b)). None of the Series B convertible debentures were converted into units of the REIT in fiscal 2007.





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (In thousands of dollars, except unit and per unit amounts)

### 9. CONVERTIBLE DEBENTURES (CONTINUED):

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. During the prior year, Series C convertible debentures with a face value of \$80 were converted and the REIT issued 4,636 units at the exercise price of \$17.25 per unit. The carrying value of the debt component was reduced by \$52 and the equity component was reduced by \$21, with an offsetting increase to capital contributions of \$73 (note 14(b)). None of the Series C convertible debentures were converted into units of the REIT in fiscal 2008.

In conjunction with the purchase of the Fort McMurray portfolio (note 3) effective November 30, 2007, the REIT issued a Series D convertible redeemable 5% debenture totaling \$20,000. Interest is paid semi-annually on May 31 and November 30. The convertible debenture is convertible into units of the REIT by the holder after November 30, 2009 at a price of \$17.75 per unit. The debenture is redeemable for cash at the option of the REIT at any time prior to maturity provided that the market price of the units exceeds 120% of the conversion price. The debenture ranks pari passu with the convertible debentures issued August 4, 2005, November 9, 2005 and May 4, 2006. If the debenture is not converted into units of the REIT it is to be repaid in cash on maturity, being November 30, 2014. The convertible debenture is a compound financial instrument and the proceeds of the offering, at the time of issue, were allocated between a liability and equity component in the amount of \$18,875 and \$1,125, respectively. The equity component reflects the equity value of the conversion option embedded in the convertible debenture. None of the Series D convertible debenture was converted into units of the REIT in fiscal 2008 or 2007.

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.

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





Particulars of the REIT's outstanding convertible debentures as at December 31, 2008 and December 31, 2007 are as follows:

Convertible debenture issue	Series A convertible redeemable	Series B convertible redeemable	Series C convertible redeemable	Series D convertible redeemable	2008	2007
Issue date	August 4, 2005	November 9, 2005	May 4, 2006	November 30, 2007		
Maturity date	August 4, 2010	November 9, 2010	May 31, 2013	November 30, 2014		
Interest rate	7.75%	7.50%	6.25%	5.00%		
Face value	\$ 620	\$ 2,313	\$ 29,920	\$ 20,000	\$ 52,853	\$ 63,952
Equity portion	116	457	7,570	1,125	9,268	11,440
Liability portion	504	1,856	22,350	18,875	43,585	52,512
Accretion to December 31, 2008 and December 31, 2007	78	286	2,080	146	2,590	2,166
Financing costs	(27)	(108)	(1,094)	(40)	(1,269)	(1,946)
Carrying value at December 31, 2008 and December 31, 2007	\$ 555	\$ 2,034	\$ 23,336	\$ 18,981	\$ 44,906	\$ 52,732

Accretion to the carrying value of the debt component was \$1,464 (2007, \$1,713) during the year ended December 31, 2008. The weighted-average effective rate of the debentures at December 31, 2008 is 10.33% (December 31, 2007, 11.06%).

#### 10. INTANGIBLE LIABILITIES:

	December 31, 2008		
	Cost	Accumulated amortization	Net book value
Below-market rent on income-producing properties	\$ 118,260	\$ 27,622	\$ 90,638
Below-market rent on assets held for sale (note 21)	821	273	548
Below-market rent	\$ 119,081	\$ 27,895	\$ 91,186
	December 31, 2007		
	Cost	Accumulated amortization	Net book value
Below-market rent	\$ 112,954	\$ 13,674	\$ 99,280

#### 11. ACCOUNTS PAYABLE AND OTHER LIABILITIES:

	December 31, 2008	December 31, 2007
Accounts payable and accrued liabilities	\$ 12,133	\$ 8,934
Deposits on income-producing properties held for sale (note 21)	10,000	—
Distributions payable (note 15)	2,976	2,791
	\$ 25,109	\$ 11,725



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (In thousands of dollars, except unit and per unit amounts)

### 12. BANK INDEBTEDNESS:

On September 28, 2008, the REIT entered into an amended and restated loan agreement for a revolving term credit facility in the amount of \$60,000, which may be utilized to fund acquisitions of office, retail and industrial properties. \$7,500 of the credit facility is available to purchase units under the normal course issuer bid, \$10,000 may be utilized to provide mezzanine financing, and an additional \$10,000 may be used for general corporate purposes. The credit facility may be extended for an additional year at the REIT's option; if the option is not exercised, the credit facility matures on September 28, 2009. Amounts drawn on the facility will bear interest at a floating rate equal to Canadian dollar bankers' acceptances with a term to maturity of 30 days, plus 3.4% per annum. The credit facility is secured by a first charge on Delta Centre, Grain Exchange Building, Johnston Terminal and Sears Centre. At December 31, 2008, the REIT had utilized \$32,500 (December 31, 2007, \$nil) of the facility.

### 13. NON-CONTROLLING INTEREST:

Non-controlling interest represents the amount of equity related to the Class B units of a subsidiary, AX LP. ("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. The purchase and sale agreement contains a scheduled closing date of November 1, 2008, with the vendor having the option to extend closing for up to an additional 12 months. The final purchase price of the income-producing property is to be calculated in accordance with a pre-determined formula, based on approved leases in place. Should the property be fully leased at the date of acquisition, the purchase price is estimated at \$89,900. 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. In accordance with the agreement, the REIT receives monthly property rent of \$100 from the vendor until the closing of the purchase transaction. 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. Once the purchase price is known, the remaining consideration will be required to be financed by a combination of mortgage financing and cash consideration.

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 when a sufficient level of preleasing has been completed. To facilitate the development of the income-producing property, the REIT may be obligated to 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
Distributions on 177,566 Class B units of AXLP		(186)
Balance at December 31, 2007		10,182
Distributions on 177,566 Class B units of AXLP		(189)
Non-controlling interest from continuing operations		247
Non-controlling interest from discontinued operations (note 21)		18
Balance at December 31, 2008	\$	10,258





**14. CAPITAL CONTRIBUTIONS:****(a) Authorized:**

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

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

**(b) Issued and outstanding:**

	Number of units		Amount
Balance at December 31, 2006	15,219,261	\$	164,991
Public offerings, net of issue costs of \$10,709 (net of future income taxes of \$1,089)	15,270,000		248,572
Conversion of Series A convertible debentures	561,538		7,050
Conversion of Series C convertible debentures	4,636		73
Options exercised	81,355		1,223
Distribution Reinvestment Plan ("DRIP")	34,278		553
Units acquired through normal course issuer bid, not cancelled at year end	(13,000)		(196)
Balance at December 31, 2007	31,158,068		422,266
Conversion of Series A convertible debentures	202,379		2,656
Conversion of Series B convertible debentures	634,962		8,995
Options exercised	22,752		263
Distribution Reinvestment Plan ("DRIP")	411,297		4,875
Units issued on acquisition of income-producing property	118,308		2,100
Units acquired and cancelled through normal course issuer bid	(197,400)		(2,673)
Units acquired through normal course issuer bid, not cancelled at year end	(43,600)		(226)
Balance at December 31, 2008	32,306,766	\$	438,256

At December 31, 2008, there were 721,347 special voting units issued and outstanding (note 13). There is no value assigned to the special voting units.

The REIT has a Distribution Reinvestment Plan ("DRIP") which allows Unitholders the option to elect to receive all or a portion of their regular monthly distributions in additional REIT units.





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (In thousands of dollars, except unit and per unit amounts)

### 14. CAPITAL CONTRIBUTIONS (CONTINUED):

#### (c) Contributed surplus:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Balance, beginning of year	\$ 1,518	\$ 649
Unit based compensation expense	567	1,039
Units purchased and cancelled under normal course issuer bid (note 14 (f))	552	-
Value of options exercised	(47)	(170)
Balance, end of year	\$ 2,590	\$ 1,518

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

#### (d) Unit options:

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

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

	2008		2007	
	Units	Weighted-average exercise price	Units	Weighted-average exercise price
Balance, beginning of year	1,481,088	\$ 15.47	729,393	\$ 13.20
Granted	-	-	898,050	17.07
Exercised	(22,752)	11.25	(81,355)	12.94
Expired	-	-	(65,000)	15.25
Balance, end of year	1,458,336	\$ 15.52	1,481,088	\$ 15.47
Options exercisable at end of year	787,212		423,107	
Weighted-average fair value per unit of options granted during the year		\$ -		\$ 1.21





Options outstanding at December 31, 2008 consist of the following:

Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Options outstanding weighted-average exercise price	Number exercisable
\$ 11.25	217,036	2 years	\$ 11.25	145,938
\$ 14.40	380,500	2.75 years	\$ 14.40	281,000
\$ 15.85	269,750	3 years	\$ 15.85	132,750
\$ 17.60	319,050	3.5 years	\$ 17.60	159,524
\$ 17.75	272,000	3.75 years	\$ 17.75	68,000
	1,458,336		\$ 15.52	787,212

The compensation expense related to unit options granted under the unit option plan for the year ended December 31, 2008 amounted to \$567 (2007, \$1,039). The balance of contributed surplus at December 31, 2008 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:

	2008	2007
Expected option life	–	3.8 years
Risk-free interest rate	–	4.38%
Dividend yield	–	6.11%
Expected volatility	–	16.1%

**(e) Weighted-average units:**

	Year Ended December 31, 2008	Year Ended December 31, 2007
Income (loss)	\$ (6,790)	\$ 6,157
Diluted income (loss)	\$ (6,790)	\$ 6,157
The weighted-average number of units outstanding was as follows:		
Basic units	32,088,592	24,616,119
Effect of dilutive securities:		
Class B units of AXLP	–	721,347
Unit option plan	–	139,955
Diluted units	32,088,592	25,477,421
Income (loss) per unit:		
Basic	\$ (0.21)	\$ 0.25
Diluted	\$ (0.21)	\$ 0.24

The computation of diluted loss per unit for the year ended December 31, 2008 does not include Class B units, convertible debentures and unit options as these instruments are anti-dilutive. The computation of diluted income per unit for the year ended December 31, 2007 does not include convertible debentures as these instruments are anti-dilutive.





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (In thousands of dollars, except unit and per unit amounts)

### 14. CAPITAL CONTRIBUTIONS (CONTINUED):

#### (f) Normal course issuer bid:

On December 11, 2008, the REIT announced that the Toronto Stock Exchange (the "Exchange") had approved the renewal of its normal course issuer bid. Under the renewed bid, the REIT will have the ability to purchase for cancellation up to a maximum of 3,122,697 units, representing 10% of the REIT's float of 31,226,967 on December 15, 2008. Purchases will be made at market prices through the facilities of the Exchange. The bid commenced on December 14, 2007, was extended for an additional one year period on December 15, 2008, and will remain in effect until the earlier of December 14, 2009, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the year ended December 31, 2008, the REIT acquired 241,000 units and cancelled 197,400 units at market prices aggregating \$2,447, resulting in excess of redemption proceeds over stated capital of \$112, which was charged to the deficit. As a result of purchases that were for amounts less than stated capital, \$552 was recorded to contributed surplus. Since December 14, 2007, the REIT had acquired, to December 31, 2008, 254,000 units for cancellation.

### 15. 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 \$34,352 for the year ended December 31, 2008 (2007, \$26,348). The REIT declared distributions to the holders of Class B units of AXLP in the amount of \$771 for the year ended December 31, 2008 (2007, \$758). Total distributions payable at December 31, 2008 are \$2,976 (December 31, 2007, \$2,791).

### 16. CHANGES IN NON-CASH OPERATING ITEMS:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Recoverable operating costs	\$ (3,819)	\$ (2,029)
Amortization of recoverable operating costs	490	149
Prepaid expenses	(783)	(514)
Rent and other receivables	(2,350)	(2,235)
Cash held in trust	94	(355)
Security deposits and prepaid rent	789	2,639
Accounts payable and other liabilities	3,384	4,492
	\$ (2,195)	\$ 2,147

### 17. RELATED PARTY TRANSACTIONS:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Legal fees expensed	\$ 151	\$ 101
Capitalized legal fees	480	1,775
Advisory fees	2,514	1,693
Capitalized acquisition fees	535	3,047
Property management fees	5,056	3,052
Capitalized leasing commissions	3,796	2,224
Capitalized building improvements	11,675	760
Tenant inducements	114	642
Recoverable operating costs	187	-





The REIT incurred legal fees with a law firm associated with a trustee of the REIT in connection with the property acquisitions and general business matters. The amount payable at December 31, 2008 is \$nil (December 31, 2007, \$nil).

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, 2008 is \$nil (December 31, 2007, \$nil). 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, 2008 is \$546 (December 31, 2007, \$nil). Marwest acts as the general property manager for the REIT's properties and is entitled to management fees, leasing renewal commissions and tenant improvement fees at commercially reasonable rates.

The REIT incurred costs for building improvements and tenant inducements paid to Marwest Construction Ltd., a company related to certain trustees and officers of the REIT. The amount payable at December 31, 2008 is \$292 (December 31, 2007, \$nil).

During 2008, the REIT acquired an income-producing property from entities under the control of certain Trustees of the REIT for an aggregate purchase price of \$1,500.

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

#### 18. FUTURE INCOME TAXES:

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

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

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

The New SIFT Rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT is currently reviewing the New SIFT Rules and is assessing their interpretation and application to the REIT's assets and revenues. There are uncertainties in the interpretation and application of the New SIFT Rules and it is not possible, at the current time, to determine with certainty whether the REIT will meet the REIT Conditions.

The New SIFT Rules provide that a SIFT which was publicly traded before November 1, 2006 will become subject to the tax on distributions commencing with the 2011 taxation year. However, a SIFT may become subject to this tax prior to 2011 if its equity capital increases beyond certain limits measured against the market capitalization of the SIFT at the close of trading on October 31, 2006 (the "Safe Harbour Limits"). In the case of the REIT, its subsequent offerings have exceeded the Safe Harbour Limits. Therefore, commencing on January 1, 2007, subject to the REIT's ability to meet the REIT Conditions, the REIT is subject to tax on certain income which may adversely impact the level of cash otherwise available for distribution.

If the REIT does not meet the REIT Conditions, the REIT may restructure its affairs in order to minimize, or if possible eliminate, the impact of the New SIFT Rules, if such restructuring is in the best interests of unitholders. There can be no assurances, however, that the REIT would be able to restructure such that the REIT would not be subject to the tax imposed by the New SIFT Rules, or that any such restructuring, if implemented, would not result in material costs or other adverse consequences to the REIT and its unitholders.

Under the New SIFT Rules, a flow-through subsidiary of the REIT may also be a SIFT. Certain technical amendments to the SIFT definition to exclude certain flow-through subsidiaries of a SIFT that are able to meet certain ownership conditions were passed into law on March 12, 2009.





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (In thousands of dollars, except unit and per unit amounts)

### 18. FUTURE INCOME TAXES (CONTINUED):

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

	December 31, 2008	December 31, 2007
Future income tax assets (liabilities):		
Income-producing properties, other assets and intangible liabilities	\$ 10,654	\$ 8,395
Unit issue costs	2,679	4,282
Other	(2,206)	(1,168)
Future income tax assets	\$ 11,127	\$ 11,509

A reconciliation of expected income taxes based upon the statutory rates to the recorded income tax (recovery) expense after discontinued operations is as follows:

	December 31, 2008	December 31, 2007
Income tax expense (recovery) computed at the Canadian statutory rate of 30.45% (2007 - 35.12%) applicable to the REIT	\$ (1,820)	\$ (1,453)
Future income taxes arising from a change in tax status with the enactment of the SIFT rules	–	(11,080)
Non-deductible unit based compensation expense	173	365
Accretion in liability component of convertible debenture	378	497
Other permanent differences	5	(15)
Reduction of future income taxes arising from changes in tax rates	1,453	1,292
Other	359	–
Future income tax expense (recovery)	\$ 548	\$ (10,394)



**19. CO-OWNERSHIP ACTIVITIES:**

These consolidated financial statements include the REIT's proportionate share of assets, liabilities, revenue, expenses and cash flows of the co-ownerships in which it participates. The REIT is contingently liable for the obligations of its associates in certain co-ownerships. Management believes that the assets of the co-ownerships are available and are sufficient for the purpose of satisfying such obligations. The REIT's proportionate share of these co-ownerships range between 38% and 85%, summarized as follows:

	December 31, 2008	December 31, 2007
Assets	\$ 69,068	\$ 72,871
Liabilities	70,708	73,232
	<b>December 31, 2008</b>	December 31, 2007
Revenue	11,200	5,511
Expenses	10,039	5,872
Operating income (loss) from properties	1,161	(361)
Cash flows provided by operating activities	1,382	1,107
Cash flows used in investing activities	(378)	(22,247)
Cash flows provided by (used in) financing activities	(1,343)	21,897

**20. 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 financing costs relating to the convertible debentures have not been allocated to the segments.

	Year Ended December 31, 2008				
	Retail	Office	Industrial	REIT	Total
Revenue	\$ 49,678	\$ 77,627	\$ 15,090	\$ 581	\$ 142,976
Property operating expenses	14,289	26,418	4,538	-	45,245
	35,389	51,209	10,552	581	97,731
Interest	12,577	18,608	3,790	6,072	41,047
Corporate expenses	-	-	-	4,969	4,969
Amortization	19,677	30,581	7,834	47	58,139
Unrealized gain on commodity derivatives	-	-	-	(223)	(223)
	32,254	49,189	11,624	10,865	103,932
	3,135	2,020	(1,072)	(10,284)	(6,201)
Future income tax expense	-	-	-	(457)	(457)
Non-controlling interest	-	-	-	(247)	(247)
Income from discontinued operations	-	312	(197)	-	115
Income (loss) for the year	\$ 3,135	\$ 2,332	\$ (1,269)	\$ (10,988)	\$ (6,790)
Total assets	\$ 420,084	\$ 654,553	\$ 147,113	\$ 22,536	\$ 1,244,286





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (In thousands of dollars, except unit and per unit amounts)

### 20. SEGMENTED INFORMATION (CONTINUED):

	Year Ended December 31, 2007				
	Retail	Office	Industrial	REIT	Total
Revenue	\$ 33,067	\$ 55,449	\$ 7,118	\$ 2,074	\$ 97,708
Property operating expenses	9,669	19,644	1,738	–	31,051
	23,398	35,805	5,380	2,074	66,657
Interest	8,702	12,323	1,883	5,014	27,922
Corporate expenses	–	–	–	4,798	4,798
Amortization	13,759	22,810	3,943	45	40,557
	22,461	35,133	5,826	9,857	73,277
	937	672	(446)	(7,783)	(6,620)
Future income tax expense	–	–	–	10,833	10,833
Loss from discontinued operations	2,511	(567)	–	–	1,944
Income (loss) for the year	\$ 3,448	\$ 105	\$ (446)	\$ 3,050	\$ 6,157
Total assets	\$ 381,908	\$ 637,582	\$ 114,923	\$ 42,035	\$ 1,176,448

### 21. INCOME FROM DISCONTINUED OPERATIONS:

The REIT has entered into an unconditional agreement to sell two office properties in Calgary, Alberta; Airways Business Plaza and Glenmore Commerce Court. The properties will be sold for an aggregate of \$24,900, to be satisfied with the assumption of mortgages payable and cash consideration of which \$10,000 has been received at December 31, 2008. The sale will result in an estimated gain of \$6,400. The disposition was originally expected to close in the third quarter of 2008, however the closing has been rescheduled to the first quarter of 2009. In 2008, the REIT disposed of a portion of an income-producing property for a loss of \$197. In 2007, the REIT disposed of an income-producing property for a gain of \$2,511. The results of operations from these properties have been separately disclosed below:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Revenue	\$ 3,200	\$ 1,551
Property operating expenses	1,512	739
	1,688	812
Interest	563	272
Amortization	704	668
Net property operating income (loss)	421	(128)
Gain (loss) on disposal of income-producing properties	(197)	2,511
Future income tax (expense) recovery (note 18)	(91)	(439)
Non-controlling interest (note 13)	(18)	–
Income from discontinued operations	\$ 115	\$ 1,944





**22. COMMITMENTS AND GUARANTEES:****(a) Letters of credit:**

As of December 31, 2008, the REIT had issued letters of credit in the amount of \$2,215 (December 31, 2007, \$1,700).

**(b) Guarantee:**

AXLP has guaranteed certain debt assumed by a purchaser in connection with the disposition of Royal Square. This guarantee will remain until the debt is modified, refinanced or extinguished. Credit risk arises in the event that the purchaser defaults on repayment of their debt since it is guaranteed by the REIT. This credit risk is mitigated as the REIT has recourse under this guarantee in the event of default by the purchaser, in which case the REIT would have a claim against the underlying property. The estimated amount of debt subject to the guarantee at December 31, 2008, is \$1,649 (December 31, 2007, \$1,709), with an estimated weighted average remaining term of 1.8 years (December 31, 2007, 2.8 years). No liability in excess of the fair value of the guarantee has been recognized in these consolidated financial statements as the estimated fair value of the borrower's interest in the underlying property is greater than the mortgage payable for which the REIT provided the guarantee.

**23. CAPITAL MANAGEMENT:**

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

The REIT's Declaration of Trust permits the REIT to incur indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of such indebtedness of the REIT is not more than 70% of the gross book value of the REIT's total assets. Gross book value is defined in the Declaration of Trust as "the consolidated book value of the assets of the REIT, plus the amount of accumulated depreciation and amortization recorded in the books and records of the REIT, plus the amount of any future income tax liability arising out of any indirect acquisitions, calculated in accordance with generally accepted accounting principles". As at December 31, 2008, the ratio of such indebtedness to gross book value was 51.6% (December 31, 2007, 49.2%), which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

In addition to the covenant outlined in the Declaration of Trust, the REIT must maintain a debt to gross book value ratio of 70%, a debt service coverage ratio of 1.4, and minimum unitholders' equity of \$275,000 for the purposes of the credit facility (note 12). As at December 31, 2008, the REIT was in compliance with these requirements.

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

The total managed capital for the REIT is summarized below:

	December 31, 2008	December 31, 2007
Mortgages and loans payable	\$ 676,369	\$ 612,996
Convertible debentures	44,906	52,732
Bank indebtedness	32,500	—
Total debt	753,775	665,728
Non-controlling interest	10,258	10,182
Unitholders' equity	359,136	385,500
	\$ 1,123,169	\$ 1,061,410





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (In thousands of dollars, except unit and per unit amounts)

### 24. RISK MANAGEMENT AND FAIR VALUES:

#### (a) Risk management:

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

#### (i) Market risk:

##### (a) Interest rate risk:

The REIT is exposed to interest rate risk on its borrowings. It minimizes the risk by restricting debt to 70% of gross book value and by obtaining 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. At December 31, 2008, the REIT is a party to \$45,396 of variable rate debt, including the outstanding balance of bank indebtedness.

##### (b) Other price risk:

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

#### (ii) Credit risk:

The REIT 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. The allowance for doubtful accounts at December 31, 2008 was \$336, and \$154 at December 31, 2007. The credit quality of the rent and other receivables amount is considered adequate.

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

#### (iii) Liquidity risk:

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

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

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Mortgages, loans and bank indebtedness	\$ 710,466	\$ 91,754	\$ 140,203	\$ 228,354	\$ 250,155
Convertible debentures	52,853	—	2,933	29,920	20,000
	\$ 763,319	\$ 91,754	\$ 143,136	\$ 258,274	\$ 270,155

