



**ARTIS**

---

**REIT**

**Management's Discussion & Analysis  
2009 Annual**

On the TSX: AX.UN AX.DB.A AX.DB.B AX.DB.C AX.DB.E

## 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, 2009 and 2008, and the notes thereto. This MD&A has been prepared taking into account material transactions and events up to and including March 15, 2010. 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.

### NOTICE RESPECTING NON-GAAP MEASURES

Property Net Operating Income ("Property NOI"), Distributable Income ("DI") 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 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 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 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.

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.

## TABLE OF CONTENTS

<b>OVERVIEW</b>	
Primary Objectives	3
Portfolio Summary	3
<b>2009 - ANNUAL HIGHLIGHTS</b>	
Portfolio Growth	9
Taxable Status	9
Financing Activities	9
Distributions	10
<b>SELECTED FINANCIAL INFORMATION</b>	10
<b>ANALYSIS OF OPERATING RESULTS</b>	11
Revenue and Property NOI	12
Same Property NOI Growth	12
Property NOI by Asset Class	13
Property NOI by Province	13
Portfolio Occupancy and Leasing Activity	13
Interest	14
Corporate Expenses	15
Amortization	15
Unrealized Gain (Loss) on Commodity Derivatives	15
Future Income Taxes	15
Non-Controlling Interest	16
Income from Discontinued Operations	16
Distributable Income and Distributions	16
Distributions	17
Funds from Operations	18
<b>ANALYSIS OF FINANCIAL POSITION</b>	
Assets	19
Liabilities	21
Unitholders' Equity	23
<b>LIQUIDITY AND CAPITAL RESOURCES</b>	23
Contractual Obligations	23
<b>SUMMARIZED QUARTERLY INFORMATION</b>	24
<b>RELATED PARTY TRANSACTIONS</b>	26
<b>OUTSTANDING UNIT DATA</b>	27
<b>2010 OUTLOOK</b>	28
<b>RISKS AND UNCERTAINTIES</b>	
Real Estate Ownership	29
Debt Financing	30
Credit Risk and Tenant Concentration	30
Lease Rollover Risk	31
Tax Risk	31
Other Risks	32
<b>CRITICAL ACCOUNTING ESTIMATES</b>	32
Allocation of Purchase Price of Income-Producing Properties	32
Impairment of Assets	32
Amortization	32
Allocation of Convertible Debentures	32
Future Income Tax Valuation	33
<b>CHANGES IN ACCOUNTING POLICIES</b>	33
International Financial Reporting Standards	33
<b>CONTROLS AND PROCEDURES</b>	
Disclosure Controls and Procedures	37
Internal Controls over Financial Reporting	37

## OVERVIEW

Artis is an unincorporated open-end real estate investment trust created under, and governed by, the laws of the province of Manitoba. On February 15, 2007, Artis underwent a name change from “Westfield Real Estate Investment Trust” to “Artis Real Estate Investment Trust”. On May 14, 2009, unitholders authorized the trustees of Artis to implement certain amendments to Artis' declaration of trust which, if implemented, would have the effect of converting Artis to a closed-end trust. As at March 15, 2010, the trustees of Artis have not yet implemented such amendments.

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, Series C and Series E convertible debentures trade under the symbols AX.DB.A, AX.DB.B, AX.DB.C, and AX.DB.E respectively. As at March 15, 2010, there were 44,187,568 units, and 490,286 options of Artis outstanding (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:

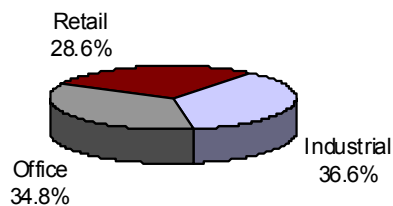
- to provide unitholders with stable and growing cash distributions, payable monthly and, to the maximum extent practicable, income tax deferred, from investments in a diversified portfolio of income-producing office, retail and industrial properties located in western Canada;
- to enhance the value 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.

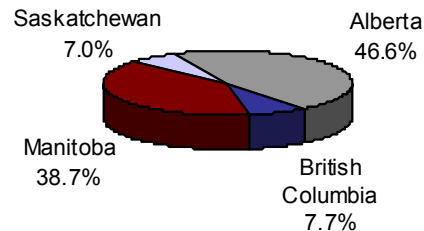
## PORTFOLIO SUMMARY

At December 31, 2009, the REIT's portfolio was comprised of 96 commercial properties located across western Canada totaling approximately 6.81 million square feet (s.f.) of gross leasable area (“GLA”).

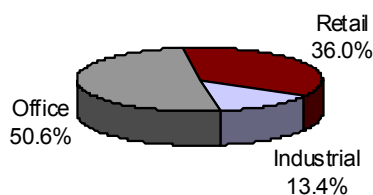
**GLA by Asset Class**



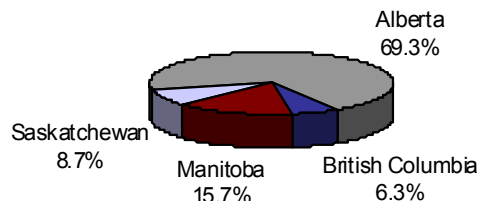
**GLA by Province**



**Property NOI by Asset Class**



**Property NOI by Province**



### Occupancy Report by Province

Province	Q4-08	Q1-09 <sup>(1)</sup>	Q2-09 <sup>(1)</sup>	Q3-09 <sup>(1)</sup>	Q4-09 <sup>(1)</sup>	% Committed <sup>(1) (2)</sup>
Alberta	95.7%	95.0%	95.4%	95.2%	96.5%	97.6%
British Columbia	99.0%	89.9%	89.9%	100.0%	83.5%	100.0%
Manitoba	96.9%	97.1%	97.8%	97.2%	98.2%	98.2%
Saskatchewan	99.2%	99.8%	100.0%	99.6%	99.6%	99.6%
Total Portfolio	96.5%	95.8%	96.2%	96.4%	96.6%	98.1%

### Occupancy Report by Asset Class

Asset Class	Q4-08	Q1-09 <sup>(1)</sup>	Q2-09 <sup>(1)</sup>	Q3-09 <sup>(1)</sup>	Q4-09 <sup>(1)</sup>	% Committed <sup>(1) (2)</sup>
Industrial	98.5%	98.5%	99.2%	98.1%	96.1%	99.3%
Office	93.6%	93.2%	93.4%	93.1%	95.2%	95.8%
Retail	98.8%	96.6%	97.3%	99.1%	98.8%	99.5%
Total Portfolio	96.5%	95.8%	96.2%	96.4%	96.6%	98.1%

<sup>(1)</sup> Excluding properties currently being redeveloped.

<sup>(2)</sup> % Committed is based on occupancy and executed leases on vacant units.

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

	Alberta		British Columbia		Manitoba		Saskatchewan	
	GLA	%	GLA	%	GLA	%	GLA	%
2010	394	12.4 %	28	5.3 %	583	22.1 %	77	16.2 %
2011	519	16.3 %	11	2.1 %	399	15.1 %	53	11.1 %
2012	248	7.8 %	82	15.7 %	299	11.4 %	14	3.0 %
2013	471	14.8 %	22	4.2 %	362	13.7 %	120	25.2 %
2014	246	7.8 %	49	9.4 %	463	17.6 %	78	16.4 %
2015 & later	1,160	36.5 %	209	40.0 %	404	15.3 %	132	27.7 %
	3,038	95.6 %	401	76.7 %	2,510	95.2 %	474	99.6 %
Month-to-month	4	0.1 %	-	0.0 %	17	0.6 %	-	0.0 %
Vacancies	135	4.3 %	122	23.3 %	111	4.2 %	2	0.4 %
Total GLA	3,177	100.0 %	523	100.0 %	2,638	100.0 %	476	100.0 %
Commitments								
2010	55.0 %		23.4 %		26.8 %		37.1 %	
2011	17.4 %		0.0 %		16.6 %		0.0 %	
Expiring Rents								
2010	\$ 11.80		\$ 16.60		\$ 7.84		\$ 13.42	
2011	\$ 15.60		\$ 13.57		\$ 7.92		\$ 15.40	
2012	\$ 19.27		\$ 16.47		\$ 7.25		\$ 18.36	
2013 & later	\$ 17.33		\$ 15.69		\$ 7.24		\$ 17.58	
Total	\$ 16.48		\$ 15.85		\$ 7.49		\$ 16.68	
Market Rents								
2010	\$ 13.51		\$ 17.79		\$ 8.41		\$ 15.32	
2011	\$ 16.26		\$ 14.79		\$ 8.51		\$ 16.48	
2012	\$ 17.63		\$ 17.46		\$ 8.60		\$ 19.56	
2013 & later	\$ 19.81		\$ 18.05		\$ 7.82		\$ 19.17	
Total	\$ 18.21		\$ 17.82		\$ 8.16		\$ 18.26	
Uplift								
2010	14.5 %		7.2 %		7.3 %		14.2 %	
2011	4.2 %		9.0 %		7.4 %		7.0 %	
2012	(8.5)%		6.0 %		18.6 %		6.5 %	
2013 & later	14.3 %		15.0 %		8.0 %		9.0 %	
Total	10.5 %		12.4 %		8.9 %		9.5 %	

<sup>(1)</sup> Based on Artis' proportionate share of total leasable area.

<sup>(2)</sup> Based on expiries without deduction for future lease commitments.

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

	Office		Retail		Industrial		Total	
	GLA	%	GLA	%	GLA	%	GLA	%
2010	316	13.3 %	313	16.1 %	453	18.2 %	1,082	15.9 %
2011	406	17.1 %	234	12.0 %	342	13.7 %	982	14.4 %
2012	235	9.9 %	181	9.3 %	227	9.1 %	643	9.4 %
2013	361	15.2 %	253	13.0 %	361	14.5 %	975	14.3 %
2014	120	5.1 %	244	12.5 %	472	18.9 %	836	12.3 %
2015 & later	789	33.3 %	668	34.3 %	448	18.0 %	1,905	28.0 %
	2,227	93.9 %	1,893	97.2 %	2,303	92.4 %	6,423	94.3 %
Month-to-month	13	0.5 %	1	0.0 %	7	0.3 %	21	0.3 %
Vacancies	133	5.6 %	54	2.8 %	183	7.3 %	370	5.4 %
<b>Total GLA</b>	<b>2,373</b>	<b>100.0 %</b>	<b>1,948</b>	<b>100.0 %</b>	<b>2,493</b>	<b>100.0 %</b>	<b>6,814</b>	<b>100.0 %</b>
<b>Commitments</b>								
2010	13.2 %		61.5 %		35.8 %		37.7 %	
2011	38.5 %		0.0 %		0.0 %		15.9 %	
<b>Expiring Rents</b>								
2010	\$ 14.28		\$ 12.02		\$ 5.02		\$ 9.90	
2011	\$ 15.81		\$ 16.43		\$ 5.74		\$ 12.45	
2012	\$ 17.18		\$ 18.13		\$ 5.46		\$ 13.31	
2013 & later	\$ 17.98		\$ 17.20		\$ 6.96		\$ 13.89	
<b>Total</b>	<b>\$ 16.98</b>		<b>\$ 16.30</b>		<b>\$ 6.25</b>		<b>\$ 12.93</b>	
<b>Market Rents</b>								
2010	\$ 15.84		\$ 13.35		\$ 5.59		\$ 11.00	
2011	\$ 15.08		\$ 19.25		\$ 6.57		\$ 13.11	
2012	\$ 14.90		\$ 20.68		\$ 6.21		\$ 13.45	
2013 & later	\$ 19.48		\$ 20.06		\$ 8.01		\$ 15.66	
<b>Total</b>	<b>\$ 17.68</b>		<b>\$ 18.86</b>		<b>\$ 7.14</b>		<b>\$ 14.24</b>	
<b>Uplift</b>								
2010	10.9 %		11.1 %		11.4 %		11.1 %	
2011	(4.6)%		17.2 %		14.5 %		5.3 %	
2012	(13.3)%		14.1 %		13.7 %		1.1 %	
2013 & later	8.3 %		16.6 %		15.1 %		12.7 %	
<b>Total</b>	<b>4.1 %</b>		<b>15.7 %</b>		<b>14.2 %</b>		<b>10.1 %</b>	

**Lease Expiries for Calgary Office Segment (in 000's of s.f.) <sup>(1) (2)</sup>**

	Calgary Office		Other Office		Total Office	
	GLA	%	GLA	%	GLA	%
2010	73	5.5 %	243	23.5 %	316	13.3 %
2011	264	19.7 %	142	13.7 %	406	17.1 %
2012	134	10.0 %	101	9.7 %	235	9.9 %
2013	292	21.8 %	69	6.7 %	361	15.2 %
2014	50	3.7 %	70	6.7 %	120	5.1 %
2015 & later	447	33.5 %	342	33.0 %	789	33.3 %
	1,260	94.2 %	967	93.3 %	2,227	93.9 %
Month-to-month	2	0.2 %	11	1.1 %	13	0.5 %
Vacancies	75	5.6 %	58	5.6 %	133	5.6 %
<b>Total GLA</b>	<b>1,337</b>	<b>100.0 %</b>	<b>1,036</b>	<b>100.0 %</b>	<b>2,373</b>	<b>100.0 %</b>
<b>Commitments</b>						
2010	23.7 %		7.7 %		13.2 %	
2011	34.1 %		16.3 %		38.5 %	
<b>Calgary Office Expiring Rents</b>						
2010	\$ 14.72		\$ 14.73		0.1%	
2011	\$ 16.99		\$ 15.60		(8.2)%	
2012	\$ 20.26		\$ 13.99		(30.9)%	
2013 & later	\$ 19.35		\$ 20.97		8.4%	
<b>Total</b>	<b>\$ 18.69</b>		<b>\$ 18.74</b>		<b>0.3%</b>	

<sup>(1)</sup> Based on Artis' proportionate share of total leasable area.

<sup>(2)</sup> Based on expiries without deduction for future lease commitments.

Property by City as at December 31, 2009 (in 000's of s.f.)

City	Property <sup>(1)</sup>	Asset Class	Leasable Area	Owned %	Owned Share of Leasable Area	Occupancy %	Committed % <sup>(2)</sup>
Burnaby	Kincaid Building	Office	182	50 %	91	100.0 %	100.0 %
<b>Burnaby total</b>			<b>182</b>		<b>91</b>	<b>100.0 %</b>	<b>100.0 %</b>
Calgary	417-14th Street Building	Office	18	100 %	18	100.0 %	100.0 %
	Britannia Building	Office	132	100 %	132	92.4 %	93.8 %
	Campana Place	Office	50	100 %	50	93.9 %	96.0 %
	Centre 15	Office	76	100 %	76	81.9 %	86.7 %
	Centre 70 Building	Office	132	85 %	112	89.1 %	92.3 %
	Heritage Square	Office	315	100 %	315	98.5 %	98.5 %
	Hillhurst Building	Office	63	100 %	63	68.8 %	72.6 %
	Honeywell Building	Industrial	62	100 %	62	100.0 %	100.0 %
	Horizon Heights	Retail	74	100 %	74	95.8 %	95.8 %
	Maynard Technology Centre	Industrial	153	100 %	153	100.0 %	100.0 %
	McCall Lake Industrial	Industrial	91	100 %	91	100.0 %	100.0 %
	Northwest Centre I & II	Office	78	100 %	78	100.0 %	100.0 %
	Paramount Building	Office	68	100 %	68	98.5 %	98.5 %
	Sierra Place	Office	89	100 %	89	87.6 %	89.4 %
	Southwood Corner	Retail	121	100 %	121	92.0 %	100.0 %
	Sunridge Home Outfitters	Retail	51	100 %	51	100.0 %	100.0 %
	Sunridge Spectrum	Retail	129	100 %	129	100.0 %	100.0 %
	TransAlta Place	Office	337	100 %	337	100.0 %	100.0 %
<b>Calgary total</b>			<b>2,039</b>		<b>2,019</b>	<b>95.6 %</b>	<b>96.8 %</b>
Coquitlam	King Edward Centre	Retail	82	100 %	82	100.0 %	100.0 %
<b>Coquitlam total</b>			<b>82</b>		<b>82</b>	<b>100.0 %</b>	<b>100.0 %</b>
Delta	Cliveden Building	Industrial	139	50 %	70	0.0 %	100.0 %
	Delta Shoppers Mall	Retail	75	100 %	75	100.0 %	100.0 %
<b>Delta total</b>			<b>214</b>		<b>145</b>	<b>51.8 %</b>	<b>100.0 %</b>
Edmonton	8220 Davies Road	Industrial	14	100 %	14	100.0 %	100.0 %
	Clareview Town Centre	Retail	56	100 %	56	100.0 %	100.0 %
	Delta Centre	Industrial	35	100 %	35	100.0 %	100.0 %
	Mayfield Industrial Plaza	Industrial	24	100 %	24	89.2 %	100.0 %
	North City Centre	Retail	105	100 %	105	100.0 %	100.0 %
<b>Edmonton total</b>			<b>234</b>		<b>234</b>	<b>98.9 %</b>	<b>100.0 %</b>
Edson	Edson Shoppers	Retail	20	100 %	20	100.0 %	100.0 %
<b>Edson total</b>			<b>20</b>		<b>20</b>	<b>100.0 %</b>	<b>100.0 %</b>
Estevan	Estevan Sobeys	Retail	38	100 %	38	100.0 %	100.0 %
<b>Estevan total</b>			<b>38</b>		<b>38</b>	<b>100.0 %</b>	<b>100.0 %</b>
Fort McMurray	100 Signal Road	Retail	14	100 %	14	100.0 %	100.0 %
	Northern Lights Shopping Centre - I	Retail	18	100 %	18	100.0 %	100.0 %
	Northern Lights Shopping Centre - II	Retail	31	100 %	31	100.0 %	100.0 %
	Signal Centre	Retail	15	100 %	15	100.0 %	100.0 %
	Tide Centre	Retail	18	100 %	18	100.0 %	100.0 %
	Woodlands Centre	Retail	63	100 %	63	100.0 %	100.0 %
<b>Fort McMurray total</b>			<b>159</b>		<b>159</b>	<b>100.0 %</b>	<b>100.0 %</b>
Grand Prairie	Brick Centre	Retail	46	100 %	46	100.0 %	100.0 %
	Gateway Power Centre	Retail	61	100 %	61	100.0 %	100.0 %
	Sears Centre	Retail	131	100 %	131	100.0 %	100.0 %
<b>Grand Prairie total</b>			<b>238</b>		<b>238</b>	<b>100.0 %</b>	<b>100.0 %</b>
Medicine Hat	Southview Centre	Retail	162	100 %	162	100.0 %	100.0 %
<b>Medicine Hat total</b>			<b>162</b>		<b>162</b>	<b>100.0 %</b>	<b>100.0 %</b>
Moose Jaw	Moose Jaw Sobeys	Retail	38	100 %	38	100.0 %	100.0 %
<b>Moose Jaw total</b>			<b>38</b>		<b>38</b>	<b>100.0 %</b>	<b>100.0 %</b>
Nanaimo	488 Albert Street	Office	30	100 %	30	100.0 %	100.0 %
	6475 Metral Drive	Office	39	100 %	39	100.0 %	100.0 %
	Aulds Corner	Retail	36	100 %	36	100.0 %	100.0 %
<b>Nanaimo total</b>			<b>105</b>		<b>105</b>	<b>100.0 %</b>	<b>100.0 %</b>
Nisku	Pepco Building	Industrial	23	100 %	23	100.0 %	100.0 %
<b>Nisku total</b>			<b>23</b>		<b>23</b>	<b>100.0 %</b>	<b>100.0 %</b>

Property by City as at December 31, 2009 (in 000's of s.f.) (continued)

City	Property <sup>(1)</sup>	Asset Class	Leasable Area	Owned %	Owned Share of Leasable Area	Occupancy %	Committed % <sup>(2)</sup>
Red Deer	Bower Centre	Industrial	126	100 %	126	97.0 %	100.0 %
	Millennium Centre	Office	149	100 %	149	92.0 %	92.0 %
<b>Red Deer total</b>			<b>275</b>		<b>275</b>	<b>94.3 %</b>	<b>95.7 %</b>
Regina	Capital City Centre	Retail	44	100 %	44	100.0 %	100.0 %
	East Landing Mall	Retail	41	100 %	41	95.3 %	95.3 %
	East Landing Plaza	Retail	24	100 %	24	100.0 %	100.0 %
	Fleet Street Crossing	Retail	38	100 %	38	100.0 %	100.0 %
	Shoppers Landmark Centre	Retail	49	100 %	49	100.0 %	100.0 %
	Strathcona Shoppers Centre	Retail	22	100 %	22	100.0 %	100.0 %
	West Landing Mall	Retail	39	100 %	39	100.0 %	100.0 %
<b>Regina total</b>			<b>257</b>		<b>257</b>	<b>99.3 %</b>	<b>99.3 %</b>
Saskatoon	Canarama Mall	Retail	66	100 %	66	100.0 %	100.0 %
	Circle 8 Centre	Retail	77	100 %	77	100.0 %	100.0 %
<b>Saskatoon total</b>			<b>143</b>		<b>143</b>	<b>100.0 %</b>	<b>100.0 %</b>
St. Albert	Liberton Square	Retail	21	100 %	21	85.1 %	100.0 %
<b>St. Albert total</b>			<b>21</b>		<b>21</b>	<b>85.1 %</b>	<b>100.0 %</b>
Winnipeg	100 Omands Creek Boulevard	Industrial	50	100 %	50	100.0 %	100.0 %
	1000-1020 Powell Ave. & 1499-						
	1501 King Edward Street	Industrial	27	100 %	27	100.0 %	100.0 %
	1093 Sherwin Road	Industrial	175	100 %	175	100.0 %	100.0 %
	120-144 Bannister Road	Industrial	32	100 %	32	62.5 %	62.5 %
	1420 Clarence Avenue	Industrial	17	100 %	17	100.0 %	100.0 %
	1431 Church Avenue	Industrial	51	100 %	51	100.0 %	100.0 %
	1475 King Edward Street	Industrial	5	100 %	5	100.0 %	100.0 %
	1595 Buffalo Place	Industrial	73	100 %	73	100.0 %	100.0 %
	1658-1680 Church Avenue	Industrial	91	100 %	91	100.0 %	100.0 %
	1681-1703 Dublin Avenue	Industrial	22	100 %	22	100.0 %	100.0 %
	1717 Dublin Avenue	Industrial	30	100 %	30	100.0 %	100.0 %
	1750 Inkster Boulevard	Industrial	196	100 %	196	100.0 %	100.0 %
	1810 Dublin Avenue	Industrial	22	100 %	22	100.0 %	100.0 %
	1832 King Edward Street	Industrial	74	100 %	74	100.0 %	100.0 %
	2030 Notre Dame Avenue	Industrial	108	100 %	108	100.0 %	100.0 %
	2061 & 2065 Notre Dame Ave.	Industrial	51	100 %	51	100.0 %	100.0 %
	2110-2130 Notre Dame Ave.	Industrial	82	100 %	82	94.0 %	94.0 %
	27-81 Plymouth Street	Industrial	91	100 %	91	100.0 %	100.0 %
	500 Berry Street	Industrial	8	100 %	8	100.0 %	100.0 %
	530-538 Berry Street	Industrial	11	100 %	11	100.0 %	100.0 %
	8-30 Plymouth Street	Industrial	37	100 %	37	100.0 %	100.0 %
	850 Empress Street	Industrial	26	100 %	26	100.0 %	100.0 %
	951-977 Powell Avenue	Industrial	54	100 %	54	100.0 %	100.0 %
	CDI College Building	Office	24	100 %	24	100.0 %	100.0 %
	Grain Exchange Building	Office	236	100 %	236	91.2 %	91.2 %
	Hamilton Building	Office	66	100 %	66	100.0 %	100.0 %
	Johnston Terminal	Office	72	100 %	72	99.9 %	99.9 %
	Keewatin Distribution Centre	Industrial	202	100 %	202	100.0 %	100.0 %
	MTS Call Centre Building	Office	76	100 %	76	100.0 %	100.0 %
	Poplar Industrial Park	Industrial	71	100 %	71	100.0 %	100.0 %
Prudential Business Park 1	Industrial	42	100 %	42	100.0 %	100.0 %	
Prudential Business Park 2	Industrial	39	100 %	39	100.0 %	100.0 %	
Prudential Business Park 3	Industrial	48	100 %	48	100.0 %	100.0 %	
Reenders Square	Retail	66	100 %	66	96.2 %	96.2 %	
West Logan Place	Industrial	68	100 %	68	100.0 %	100.0 %	
Winnipeg Square	Office	547	38 %	208	98.1 %	98.1 %	
Winnipeg Square	Retail	57	38 %	22	90.2 %	90.2 %	
<b>Winnipeg total</b>			<b>2,947</b>		<b>2,573</b>	<b>98.2 %</b>	<b>98.2 %</b>
<b>Total</b>			<b>7,177</b>		<b>6,623</b>	<b>96.6 %</b>	<b>98.1 %</b>

(1) Excluding properties in redevelopment.

(2) Percentage committed is based on committed leases at December 31, 2009.



Portfolio by Asset Class as at December 31, 2009 (in 000's of s.f.)

Asset Class	City	Number of Properties	Owned share of Leasable Area	% of Portfolio GLA	Occupancy %	Committed % <sup>(1)</sup>
Industrial	Calgary	3	306	4.5 %	100.0 %	100.0 %
	Delta	1	70	1.0 %	0.0 %	100.0 %
	Edmonton	3	73	1.1 %	96.5 %	100.0 %
	Nisku	1	23	0.3 %	100.0 %	100.0 %
	Red Deer	1	126	1.8 %	97.0 %	100.0 %
	Winnipeg	29	1,804	26.6 %	99.1 %	99.1 %
<b>Industrial total</b>		<b>38</b>	<b>2,402</b>	<b>35.3 %</b>	<b>96.1 %</b>	<b>99.3 %</b>
Office	Burnaby	1	91	1.3 %	100.0 %	100.0 %
	Calgary	11	1,338	19.6 %	94.4 %	95.4 %
	Nanaimo	2	68	1.0 %	100.0 %	100.0 %
	Red Deer	1	149	2.2 %	92.0 %	92.0 %
	Winnipeg	6	681	10.0 %	96.4 %	96.4 %
<b>Office total</b>		<b>21</b>	<b>2,327</b>	<b>34.1 %</b>	<b>95.2 %</b>	<b>95.8 %</b>
Retail	Calgary	4	376	5.5 %	96.6 %	99.2 %
	Coquitlam	1	82	1.2 %	100.0 %	100.0 %
	Delta	1	75	1.1 %	100.0 %	100.0 %
	Edmonton	2	161	2.3 %	100.0 %	100.0 %
	Edson	1	20	0.3 %	100.0 %	100.0 %
	Estevan	1	38	0.6 %	100.0 %	100.0 %
	Fort McMurray	6	159	2.3 %	100.0 %	100.0 %
	Grand Prairie	3	238	3.5 %	100.0 %	100.0 %
	Medicine Hat	1	162	2.4 %	100.0 %	100.0 %
	Moose Jaw	1	38	0.6 %	100.0 %	100.0 %
	Nanaimo	1	36	0.5 %	100.0 %	100.0 %
	Regina	7	258	3.8 %	99.3 %	99.3 %
	Saskatoon	2	143	2.1 %	100.0 %	100.0 %
	St. Albert	1	21	0.3 %	85.1 %	100.0 %
	Winnipeg	1	87	1.3 %	94.7 %	94.7 %
<b>Retail total</b>		<b>33</b>	<b>1,894</b>	<b>27.8 %</b>	<b>98.8 %</b>	<b>99.5 %</b>
		<b>92</b>	<b>6,623</b>	<b>97.2 %</b>	<b>96.6 %</b>	<b>98.1 %</b>

Properties in Redevelopment

Asset Class	City	Number of Properties	Owned share of Leasable Area	% of Portfolio GLA	Property	% Committed / Occupied <sup>(1)</sup>
Industrial	Airdrie	1	25	0.4 %	Airdrie Flex-Industrial	16.7 %
Office	Burnaby	1	47	0.7 %	Willingdon Green	56.4 %
Retail	Nanaimo	1	54	0.8 %	6461 Metral Drive	40.9 %
Industrial	Winnipeg	1	65	0.9 %	801 Century Street	46.8 %
<b>Development properties total</b>		<b>4</b>	<b>191</b>	<b>2.8 %</b>		
<b>Total portfolio</b>		<b>96</b>	<b>6,814</b>	<b>100.0 %</b>		

<sup>(1)</sup> Percentage committed is based on committed leases at December 31, 2009.

## 2009 – ANNUAL HIGHLIGHTS

### PORTFOLIO GROWTH

Artis acquired 16 commercial properties and disposed of 9 commercial properties in 2009.

	Office		Retail		Industrial		Total	
	Number of Properties	S.F. (000's)	Number of Properties	S.F. (000's)	Number of Properties	S.F. (000's)	Number of Properties	S.F. (000's)
Portfolio properties at December 31, 2008	26	2,749	37	2,063	26	1,736	89	6,548
Q1-09 disposition	(1)	(35)	-	-	-	-	(1)	(35)
Q2-09 dispositions	(2)	(132)	(1)	(86)	-	-	(3)	(218)
Q3-09 dispositions	(1)	(14)	(1)	(18)	-	-	(2)	(32)
Q4-09 dispositions	(1)	(286)	(1)	(11)	(1)	(60)	(3)	(357)
Q4-09 acquisitions	1	91	-	-	15	817	16	908
<b>Total 2009</b>	<b>(4)</b>	<b>(376)</b>	<b>(3)</b>	<b>(115)</b>	<b>14</b>	<b>757</b>	<b>7</b>	<b>266</b>
Portfolio properties at December 31, 2009	22	2,373	34	1,948	40	2,493	96	6,814

#### Property acquisitions:

During 2009, Artis acquired the Winnipeg Industrial Portfolio which is comprised of 13 multi-tenant light and flex-industrial properties located in Winnipeg, Manitoba. The net rentable area of the portfolio is over 721,000 square feet, and was 92.3% occupied (excluding one property considered to be in development) at acquisition. The transaction closed on October 29, 2009. Artis also acquired a 50% interest in the Cliveden and Kincaid buildings in Delta and Burnaby, British Columbia, respectively. The transaction closed on December 15, 2009.

#### Property dispositions:

During 2009, the REIT sold the properties known as the Plainsman Building, Airways Business Plaza and Glenmore Commerce Court, McKnight Village Mall, Albert Street Mall, Bridges Place, Willowglen Business Park, Franklin Showcase Warehouse and Raleigh Shopping Centre. The proceeds from the sale of these properties, net of costs, were \$100,545. Mortgages in the amount of \$52,717 were assumed by the purchaser, and the REIT paid out \$6,228 of existing mortgages. Consideration received on the sale of Airways Business Plaza and Glenmore Commerce Court also included a promissory note in the amount of \$1,800.

#### Termination of Interplex II and Interplex III agreements:

On May 11, 2009, Artis reached a settlement with the vendor of the Interplex II and Interplex III projects, and agreed to terminate both agreements. The 543,781 Class B units issued under Interplex II were converted into REIT units on May 11, 2009, and the interest of AXLP in the Interplex II project was transferred to the vendor. The 177,566 Class B units of AXLP that were issued for a 50% interest in the Interplex III lands were returned to AXLP for cancellation, and the 50% interest in the land was transferred to the vendor.

### TAXABLE STATUS

During the course of 2008, the REIT undertook restructuring activities in order to meet legislation relating to the federal income taxation of publicly listed or traded units. As a result of these restructuring activities, the REIT believes that it has met the prescribed conditions throughout the fiscal year ended December 31, 2009.

### FINANCING ACTIVITIES

#### Equity offerings:

On July 31, 2009, Artis issued 555,555 units at a price of \$9.00 per unit for aggregate proceeds of \$5,000 pursuant to a non-brokered private placement agreement.

On October 6, 2009, Artis issued 3,400,000 units at a price of \$9.00 per unit for aggregate gross proceeds of \$30,600. On October 22, 2009, the underwriting syndicate exercised its full over-allotment option and a further 510,000 units were issued for gross proceeds of \$4,590.

**Series E convertible debenture offering:**

On July 9, 2009, Artis issued a \$40,000 public offering of 5-year convertible unsecured subordinated debentures (the "Series E Debentures"). On July 15, 2009, an additional \$6,000 of the Series E convertible debentures were issued pursuant to the exercise of the underwriters' overallotment option. The Series E convertible debentures pay interest at a rate of 7.5% per annum and are listed on the Toronto Stock Exchange under the trading symbol AX.DB.E.

**Mortgage financing and repayments:**

During 2009, Artis repaid \$41,569 of mortgages and loans payable of which \$40,000 related to the repayment of three vendor take-back mortgages and obtained \$11,643 in new mortgage financing.

**DISTRIBUTIONS**

Artis distributed a total of \$36,737 to unitholders in 2009 and AXLP, the REIT's subsidiary, distributed \$261 to Class B unitholders in 2009.

**SELECTED FINANCIAL INFORMATION**

\$000's, except per unit amounts

	Year ended December 31,	
	2009	2008 <sup>(1)</sup>
Revenue	\$ 136,853	\$ 131,632
Property NOI	\$ 93,363	\$ 91,081
Loss for the year	\$ (9,189)	\$ (6,952)
Basic loss per unit	\$ (0.27)	\$ (0.22)
Distributions (including Class B units)	\$ 36,998	\$ 35,123
Distributions per unit	\$ 1.08	\$ 1.07
DI	\$ 50,690	\$ 55,170
DI per unit	\$ 1.48	\$ 1.68
DI payout ratio	73.0 %	63.7 %
FFO	\$ 52,353	\$ 54,600
FFO per unit	\$ 1.53	\$ 1.66
FFO payout ratio	70.6 %	64.5 %
Weighted-average units:		
Weighted-average units (basic)	33,915	32,089
Weighted-average units (basic) including Class B units	34,166	32,810

<sup>(1)</sup> Results for 2008 have been restated, refer to Note 2(b) of the Consolidated Financial Statements for the years ended December 31, 2009 and 2008.

Artis acquired 16 income-producing properties in 2009 and 9 income-producing properties in 2008. Due to this acquisition activity as well as same property revenue growth, 2009 revenues from continuing operations increased \$5,221, or 4.0% compared to 2008 results. Artis increased Property NOI from continuing operations \$2,282, or 2.5% compared to 2008 results.

DI decreased \$4,480, or 8.1% year-over-year. This decrease is attributed to the impact of dispositions during 2009, increased amortization of leasing costs, and reduced Property rent due to the settlement of the Interplex II agreement. FFO decreased \$2,247, or 4.1% year-over-year. This decrease is attributed to the impact of dispositions during 2009 and reduced Property rent due to the settlement of the Interplex II agreement. On a per unit basis, basic DI decreased \$0.20 or 11.9% compared to 2008 results. Basic FFO decreased \$0.13 or 7.8% compared to 2008 results. As a result of issuance of new units, units issued on exchange of Class B units and conversion of convertible debentures, net of Normal Course Issuer Bid repurchases, basic units outstanding for the calculation of DI and FFO has increased. This has contributed to the decline in per unit results for DI and FFO. Management anticipates on-going improvements in 2010, as capital is deployed into new income-producing assets.

## ANALYSIS OF OPERATING RESULTS

\$000's, except per unit amounts

	Three month period ended December 31,				Year ended December 31,			
	2009	% of Revenue	2008 <sup>(1)</sup>	% of Revenue	2009	% of Revenue	2008 <sup>(1)</sup>	% of Revenue
Revenue	\$ 35,243		\$ 35,143		\$ 136,853		\$ 131,632	
Property operating expenses	11,590	32.9 %	11,521	32.8 %	43,490	31.8 %	40,551	30.8 %
Property NOI	23,653	67.1 %	23,622	67.2 %	93,363	68.2 %	91,081	69.2 %
Interest	10,438	29.6 %	10,100	28.7 %	40,100	29.3 %	38,551	29.3 %
Expenses (Income):	13,215		13,522		53,263		52,530	
Corporate Amortization	1,330	3.8 %	1,350	3.8 %	4,524	3.3 %	4,969	3.8 %
Unrealized (gain) loss on commodity derivatives	(95)		68		466		(223)	
	14,521		15,094		59,243		58,558	
Loss before the undernoted	(1,306)		(1,572)		(5,980)		(6,028)	
Loss on termination of Interplex II agreement	-		-		(7,287)		-	
Future income tax expense	-		291		(10,895)		(580)	
Non-controlling interest	-		(71)		40		(268)	
Income (loss) from discontinued operations	5,446		223		14,933		(76)	
Income (loss) for the period	\$ 4,140		\$ (1,129)		\$ (9,189)		\$ (6,952)	
Basic income (loss) per unit	\$ 0.11		\$ (0.03)		\$ (0.27)		\$ (0.22)	
Diluted income (loss) per unit	\$ 0.11		\$ (0.03)		\$ (0.27)		\$ (0.22)	
Weighted-average number of units:								
Basic	37,138		32,361		33,915		32,089	
Diluted	37,138		32,361		33,915		32,089	

<sup>(1)</sup> Results for 2008 have been restated, refer to Note 2(b) of the Consolidated Financial Statements for the years ended December 31, 2009 and 2008.

## 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 2009, straight-line rent adjustments of \$1,738 (Q4-09 - \$340) were recorded compared to \$1,960 in 2008 (Q4-08 - \$459).

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. When a lease terminates prior to the end of the lease term, the REIT writes off the unamortized balance of these intangible assets and liabilities. Artis acquired 16 commercial properties during 2009 and 9 commercial properties in 2008; in-place rent rates in a number of the acquisitions were considered to be below-market rent rates. These increases have been offset by the disposal of 9 commercial properties during 2009. In 2009, the adjustment to market rents was \$12,303 (Q4-09 - \$2,744) compared to \$13,885 in 2008 (Q4-08 - \$3,219).

In 2009, the REIT recorded amortization of \$340 (Q4-09 - \$141) as a reduction in revenue from tenant incentives compared to \$110 in 2008 (Q4-08 - \$110).

Revenue in 2009 included interest income of \$1,865 (Q4-09 - \$483) compared to \$2,600 in 2008 (Q4-08 - \$591).

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

	Three month period ended December 31, <sup>(1)</sup>		Year ended December 31, <sup>(1)</sup>	
	2009	2008	2009	2008
Revenue	\$ 31,199	\$ 31,377	\$ 123,083	\$ 121,936
Property operating expenses	9,995	10,279	38,512	38,290
Property NOI	21,204	21,098	84,571	83,646
Add (deduct) non-cash revenue adjustments:				
Straight-line rent adjustment	(226)	(187)	(1,315)	(1,473)
Amortization of tenant inducements	139	108	336	108
Above- and below-market rent	(2,554)	(3,050)	(10,841)	(13,120)
Property NOI less non-cash revenue adjustments	\$ 18,563	\$ 17,969	\$ 72,751	\$ 69,161

<sup>(1)</sup> Same property comparison includes only income-producing properties owned on January 1, 2008, and excludes properties accounted for as discontinued operations.

In 2009, Artis achieved an increase of \$925 (Q4-09 - \$106), or 1.1% (Q4-09 - 0.5%) of Property NOI over 2008. As well, Artis also achieved an increase of \$3,590 (Q4-09 - \$594), or 5.2% (Q4-09 - 3.3%) of Property NOI less non-cash revenue adjustments over 2008. These improvements are primarily the result of rate increases achieved on lease rollovers, particularly in Alberta. Same property occupancy at December 31, 2009 increased 0.4% from 2008. These results do not include the impact of growth realized on lease turnovers in properties acquired throughout fiscal 2008.

## Same Property Occupancy Comparison<sup>(1)</sup>

	As at December 31,	
	2009	2008
Manitoba	98.2%	97.0%
Saskatchewan	99.5%	99.0%
Alberta	96.3%	96.4%
British Columbia	100.0%	100.0%
Total	97.3%	96.9%

<sup>(1)</sup> Same property comparison includes only income-producing properties owned on January 1, 2008, and excludes properties accounted for as discontinued operations.

## PROPERTY NOI BY ASSET CLASS

In 2009, revenues and Property NOI from continuing operations increased for both the retail and industrial segments of the portfolio. Growth in the retail segment is primarily attributed to the acquisition of six retail properties in the first half of 2008. For the industrial segment, the growth is primarily attributed to acquisitions during 2008 and 2009, most notably the acquisition of the Winnipeg Industrial Portfolio from ING completed October 29, 2009. In the office segment, the major driver of revenue growth was the increase in rental rates achieved as leases were rolled over to market rents, particularly in the Calgary office segment. Revenue increases for the office segment were offset by additional carrying costs on higher average vacancy experienced during 2009.

	Year ended December 31,					
	2009			2008		
	Retail	Office	Industrial	Retail	Office	Industrial
Revenue	\$ 46,711	\$ 71,178	\$ 18,765	\$ 46,475	\$ 70,304	\$ 14,254
Property operating expenses	13,146	24,027	6,317	13,367	22,903	4,281
Property NOI	\$ 33,565	\$ 47,151	\$ 12,448	\$ 33,108	\$ 47,401	\$ 9,973
<i>Share of Property NOI</i>	36.0 %	50.6 %	13.4 %	36.6 %	52.4 %	11.0 %

## PROPERTY NOI BY PROVINCE

In 2009, revenues from continuing operations increased in all four provinces; Property NOI increased in all but British Columbia. Acquisition activity in 2008 and in 2009 was the significant driver of growth in Manitoba, Saskatchewan and British Columbia. In British Columbia, revenue increases were offset by additional carrying costs on higher average vacancy experienced during 2009. In Alberta, the major driver of growth was the increase in rental rates achieved as leases were rolled over to market rents, particularly in the Calgary office segment.

	Year ended December 31,							
	2009				2008			
	MB	SK	AB	BC	MB	SK	AB	BC
Revenue	\$ 26,789	\$ 11,557	\$ 89,196	\$ 9,112	\$ 25,722	\$ 10,984	\$ 85,562	\$ 8,765
Property operating expenses	12,126	3,493	24,607	3,264	11,229	3,364	23,163	2,795
Property NOI	\$ 14,663	\$ 8,064	\$ 64,589	\$ 5,848	\$ 14,493	\$ 7,620	\$ 62,399	\$ 5,970
<i>Share of Property NOI</i>	15.7 %	8.7 %	69.3 %	6.3 %	16.0 %	8.4 %	69.0 %	6.6 %

## PORTFOLIO OCCUPANCY AND LEASING ACTIVITY

Occupancy levels impact the REIT's revenues and Property NOI. In spite of the challenges posed by a general slowdown in economic growth across Canada in 2009, Artis' portfolio occupancy level at December 31, 2009 remained very high at 96.6% (excluding properties currently in redevelopment). This represents a slight increase from 96.4% at September 30, 2009, and 96.5% at December 31, 2008. At December 31, 2009, occupancy plus executed lease commitments on vacancy is 98.1%. Of the 191,000 square feet currently considered to be undergoing redevelopment, lease commitments are in place on 43.6% of the leasable area.

In 2009, Artis achieved growth in revenues and Property NOI by renewing or replacing leases at rates higher than those in place at expiry; for the year ended December 31, 2009, the weighted-average growth increase was 10.3%. In Q4-09, the industrial segment accounted for 82.0% of the new deals concluded in the period, but only 48.0% of the expiries. As industrial rent rates are generally lower than those in retail or office properties, this absorption of industrial vacancy lead to the reduction in the overall weighted-average rates for Q4-09 of 13.8%. The growth rate on renewals for 2009 was 16.0% and 9.1% for Q4-09.

	Q1-09		Q2-09		Q3-09		Q4-09		YTD 2009	
	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	208,628	\$ 14.01	203,408	\$ 12.11	229,529	\$ 14.03	204,571	\$ 9.86	846,136	\$ 12.91
Expiring	268,070	\$ 12.28	169,812	\$ 11.20	248,901	\$ 10.47	160,196	\$ 11.44	846,979	\$ 11.70
Change		\$ 1.73		\$ 0.91		\$ 3.56		\$ (1.58)		\$ 1.21
Change %		14.1 %		8.1 %		34.0 %		(13.8)%		10.3 %
Change % on renewals only		19.9 %		11.0 %		20.7 %		9.1 %		16.0 %

Artis' real estate is diversified across the four western provinces, and across the office, retail and industrial asset classes. At December 31, 2009, the three largest segments of the REIT's portfolio (by GLA) are Winnipeg industrial property, Calgary office property and Winnipeg office property.

Winnipeg industrial properties represent 27.4% of the overall portfolio by GLA. Vacancy in the Winnipeg industrial market, as reported by CBRE, was approximately 4.9% at the end of 2009 compared to 4.6% at the end of 2008. Rent rates remained stable in 2009 at \$5.76 psf. Artis has one industrial property in Winnipeg, comprising 64,690 square feet, which is considered to be in development. Approximately 47.0% of the space is committed under a new lease. Occupancy in the remainder of this segment of the portfolio was 99.1% at December 31, 2009. In 2010, 404,424 square feet comes up for renewal, which represents 5.6% of the portfolio's GLA; 36.1% has been renewed. In 2011, 257,302 square feet comes up for renewal, which represents 3.8% of the portfolio's GLA.

Calgary office properties represent 19.6% of the overall portfolio by GLA. Artis' office properties are Class A, B and C buildings, in downtown, beltline and suburban locations. Overall vacancy in the Calgary office market, as reported by CBRE, was 8.7% at the end of Q4-09. Although there may be variances across Calgary office sub markets, management believes the Calgary office market, in general, will continue to be under pressure for the next 18 to 24 months. Additional supply has been added to inventory and some projects have yet to be completed. At December 31, 2009, the Calgary office segment of Artis' portfolio was 94.4% occupied, with new lease commitments in place for 18.8% of the unoccupied space. In 2010, 72,709 square feet comes up for renewal, which represents 1.1% of the portfolio's GLA; 23.7% has been renewed. In 2011, 263,915 square feet comes up for renewal, which represents 4.1% of the portfolio's GLA; 34.7% has been renewed. Approximately 34.4% of the Calgary office GLA expires in 2015 or later, with 26.7% not expiring until 2020 or later.

Winnipeg office properties represent 10.0% of Artis' portfolio by GLA. Vacancy in the Winnipeg office market, as reported by CBRE, was 8.1% at the end of 2009, compared to 7.5% at September 30, 2009 and 5.4% at the end of 2008. Downtown Class A and B product experienced positive absorption, but this was offset by negative absorption in Class C downtown and suburban product. This has been largely the result of new sublet space coming to the market. The REIT's Winnipeg office portfolio performed well, with vacancy at 3.6% at the end of 2009, compared to 4.1% at September 30, 2009 and 4.2% at the end of 2008. In 2010, 174,417 square feet comes up for renewal which represents 2.6% of the portfolio's GLA; 47.4% has been renewed. In 2011, 132,850 square feet comes up for renewal, which represents 1.9% of the portfolio's GLA; 50.1% has been renewed.

## INTEREST

The current year's interest expense 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 2008 due to additional mortgage financing obtained in connection with acquisitions during 2008 and 2009, issuance of additional convertible debentures, 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 ending December 31, 2009 on mortgages and other debt secured by properties was 5.56% compared to 5.52% in 2008. The weighted-average nominal interest rate at December 31, 2009 was 5.45% compared to 5.42% at December 31, 2008.

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 \$6,386 (Q4-09 - \$2,120) on the carrying value of debentures outstanding in 2009, compared to \$4,697 (Q4-08 - \$1,134) in 2008.



## CORPORATE EXPENSES

	Three month period ended December 31,		Year ended December 31,	
	2009	2008	2009	2008
Accounting, legal, consulting	\$ 223	\$ 192	\$ 653	\$ 758
Advisory fees	710	656	2,813	2,514
Public company costs	159	130	621	514
Unit-based compensation	8	144	160	567
Cancellation of options	-	-	(484)	-
General and administrative	230	228	761	616
<b>Total corporate expenses</b>	<b>\$ 1,330</b>	<b>\$ 1,350</b>	<b>\$ 4,524</b>	<b>\$ 4,969</b>

In 2009, Artis and the holders of options agreed to cancel an aggregate of 1,212,800 options to acquire units. This resulted in a \$484 reversal of unit-based compensation expense during the year. Corporate expenses in 2009 were \$4,524 (Q4-09 - \$1,330), or 3.3% (Q4-09 - 3.8%) of gross revenues compared to \$4,969 (Q4-08 - \$1,350), or 3.8% (Q4-08 - 3.8%) of gross revenues in 2008.

## AMORTIZATION

Amortization includes amortization of the income-producing properties and their related intangible assets, as well as 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 \$26,864 (Q4-09 - \$6,523) in 2009 compared to \$27,468 (Q4-08 - \$6,927) in 2008. 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 2009, Artis recorded \$26,786 (Q4-09 - \$6,074) for the amortization of intangible assets, compared to \$30,636 (Q4-08 - \$7,387) in 2008.

In 2009, amortization expense relating to tenant inducements and leasing commissions totalled \$2,723 (Q4-09 - \$675), compared to \$1,351 in 2008 (Q4-08 - \$409).

## UNREALIZED GAIN (LOSS) ON COMMODITY DERIVATIVES

In accordance with GAAP, in 2009 the REIT recorded an unrealized loss on commodity derivatives of \$466 (Q4-09 - gain of \$95) compared to an unrealized gain of \$223 (Q4-08 - loss of \$68) in 2008 on utility supply contracts. The REIT anticipates holding these utility contracts until maturity.

## 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 has reviewed the New SIFT Rules and has assessed their interpretation and application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the New SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the fiscal year ended December 31, 2009. Accordingly, the future income tax asset of \$11,127 recorded in prior periods was reversed Q1-09.

### NON-CONTROLLING INTEREST

Non-controlling interest represents an allocation of net income or loss to the Class B unitholders. As a result of the settlement and cancellation of the Interplex II and Interplex III agreements there are no outstanding Class B units at December 31, 2009 and there will be no further allocation to non-controlling interest.

### INCOME FROM DISCONTINUED OPERATIONS

Income from discontinued operations includes income from the 9 properties known as the Plainsman Building, Airways Business Plaza, Glenmore Commerce Court, McKnight Village Mall, Albert Street Mall, Bridges Place, Willowglen Business Park, Franklin Showcase Warehouse, and Raleigh Shopping Centre which were sold during 2009, as well as the loss incurred on termination of the Interplex III agreement.

### 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 Flows from Operations to DI:

\$000's, except per unit amounts	Three month period ended December 31,		Year ended December 31,	
	2009	2008	2009	2008
Cash flow from operations	\$ 10,275	\$ (2,694)	\$ 41,113	\$ 40,963
Add (deduct) amortization of:				
Office equipment	(24)	(2)	(99)	(8)
Above-market rent	(54)	(120)	(233)	(339)
Below-market rent	2,798	3,339	12,536	14,224
Tenant inducements and leasing costs	(675)	(409)	(2,723)	(1,351)
Tenant inducements amortized into revenue	(141)	(110)	(340)	(110)
Above-market mortgage	46	45	183	178
Add: Straight-line rent adjustment	340	459	1,738	1,960
Add (deduct):				
Changes in non-cash operating items	(661)	13,440	(1,003)	(1,134)
Financing costs, non-debenture, included in interest expense	(198)	(131)	(782)	(413)
Other adjustment				
Property rent <sup>(1)</sup>	-	300	300	1,200
<b>DI for the period</b>	<b>\$ 11,706</b>	<b>\$ 14,117</b>	<b>\$ 50,690</b>	<b>\$ 55,170</b>
DI per unit				
Basic	\$ 0.32	\$ 0.43	\$ 1.48	\$ 1.68
Diluted	\$ 0.30	\$ 0.41	\$ 1.42	\$ 1.62
Weighted-average number of units				
Basic <sup>(2)</sup>	37,138	33,082	34,166	32,810
Diluted <sup>(2)</sup>	44,506	36,164	38,581	35,905

<sup>(1)</sup> 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.

<sup>(2)</sup> The weighted-average number of units used in the calculation of basic and diluted DI per unit included 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:

	Three month period ended December 31,		Year ended December 31,	
	2009	2008	2009	2008
Income (loss) for the period	\$ 4,140	\$ (1,129)	\$ (9,189)	\$ (6,952)
Add (deduct):				
Amortization (excluding amortized leasing costs)	12,597	14,314	53,650	58,104
Accretion on liability component of convertible debentures	516	355	1,724	1,464
Unit-based compensation expense	8	144	160	567
Cancellation of options	-	-	(484)	-
Loss on termination of Interplex II agreement	-	-	7,287	-
(Gain) loss on disposal of income-producing properties	(5,460)	197	(14,442)	197
Future income tax expense (recovery)	-	(211)	11,127	548
Other adjustments				
Property rent <sup>(1)</sup>	-	300	300	1,200
Non-controlling interest <sup>(2)</sup>	-	79	91	265
Unrealized (gain) loss on commodity derivatives <sup>(3)</sup>	(95)	68	466	(223)
<b>DI for the period</b>	<b>\$ 11,706</b>	<b>\$ 14,117</b>	<b>\$ 50,690</b>	<b>\$ 55,170</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> Included in (excluded from) DI is an unrealized (gain) loss on the change in fair value of commodity derivatives.

In 2009, DI decreased \$4,480 (Q4-09 - \$2,411), or 8.1% (Q4-09 - 17.1%) over 2008. This decrease is attributed to the impact of dispositions during 2009, increased amortization of leasing costs, and reduced Property rent due to the settlement of the Interplex II agreement. Basic DI per unit decreased \$0.20 (Q4-09 - \$0.11), or 11.9% (Q4-09 - 25.6%) over 2008. On a diluted basis, DI has decreased \$0.20 (Q4-09 - \$0.11), or 12.3% (Q4-09 - 26.8%) over 2008.

2009 DI may not be indicative of future results due to the impact of the disposition of income-producing properties, the issuance of new units and convertible debentures. Management anticipates on-going improvements in 2010, as capital is deployed into new income-producing assets.

### 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").

	Three month period ended December 31,		Year ended December 31,		Year ended December 31,		Year ended December 31,	
	2009	2009	2009	2008	2008	2007	2007	
Cash flow from operations	\$ 10,275	\$ 41,113	\$ 40,963	\$ 28,586	\$ 28,586	\$ 28,586	\$ 28,586	
Net income (loss)	\$ 4,140	\$ (9,189)	\$ (6,952)	\$ 6,157	\$ 6,157	\$ 6,157	\$ 6,157	
Distributions declared	\$ 10,109	\$ 36,998	\$ 35,123	\$ 27,106	\$ 27,106	\$ 27,106	\$ 27,106	
Excess of cash flow from operations over distributions declared	\$ 166	\$ 4,115	\$ 5,840	\$ 1,480	\$ 1,480	\$ 1,480	\$ 1,480	
Excess of distributions declared over net income (loss)	\$ (5,969)	\$ (46,187)	\$ (42,075)	\$ (20,949)	\$ (20,949)	\$ (20,949)	\$ (20,949)	

For the year ended ended December 31, 2009, cash flow from operations exceeded distributions declared by \$4,115 (Q4-09 - \$166).

For the three months and year ended December 31, 2009, distributions declared exceeded net income (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 per unit amounts	Three month period ended		Year ended	
	December 31,		December 31,	
	2009	2008	2009	2008
Cash flow from operations	\$ 10,275	\$ (2,694)	\$ 41,113	\$ 40,963
Add (deduct) amortization of:				
Office equipment	(24)	(2)	(99)	(8)
Above-market rent	(54)	(120)	(233)	(339)
Below-market rent	2,798	3,339	12,536	14,224
Above-market mortgages	46	45	183	178
Add:				
Straight-line rent adjustment	340	459	1,738	1,960
Deduct:				
Accretion on liability component of convertible debentures	(516)	(355)	(1,724)	(1,464)
Unit-based compensation expense	(8)	(144)	(160)	(567)
Cancellation of options	-	-	484	-
Amortization of financing costs included in interest	(198)	(131)	(782)	(413)
Changes in non-cash operating items	(661)	13,440	(1,003)	(1,134)
Other adjustment				
Property rent <sup>(1)</sup>	-	300	300	1,200
<b>FFO for the period</b>	<b>\$ 11,998</b>	<b>\$ 14,137</b>	<b>\$ 52,353</b>	<b>\$ 54,600</b>
<b>FFO per unit</b>				
Basic	\$ 0.32	\$ 0.43	\$ 1.53	\$ 1.66
Diluted	\$ 0.31	\$ 0.42	\$ 1.49	\$ 1.64
<b>Weighted-average number of units:</b>				
Basic <sup>(2)</sup>	37,138	33,082	34,166	32,810
Diluted <sup>(2)</sup>	42,551	34,209	36,625	33,950

<sup>(1)</sup> 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.

<sup>(2)</sup> The weighted-average number of units used in the calculation of FFO per unit included 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:

	Three month period ended December 31,		Year ended December 31,	
	2009	2008	2009	2008
Income (loss) for the period	\$ 4,140	\$ (1,129)	\$ (9,189)	\$ (6,952)
Add amortization on:				
Income-producing properties	6,523	6,927	26,864	27,468
Acquired in-place leases	6,073	7,385	26,779	30,618
Customer relationships	1	2	7	18
Tenant inducements and leasing costs	675	409	2,723	1,351
Tenant inducements amortized to revenue	141	110	340	110
Loss on termination of Interplex II agreement	-	-	7,287	-
(Gain) loss on disposal of income-producing properties	(5,460)	197	(14,442)	197
Future income tax expense (recovery)	-	(211)	11,127	548
Other adjustments				
Property rent <sup>(1)</sup>	-	300	300	1,200
Non-controlling interest <sup>(2)</sup>	-	79	91	265
Unrealized (gain) loss on commodity derivatives <sup>(3)</sup>	(95)	68	466	(223)
<b>FFO for the period</b>	<b>\$ 11,998</b>	<b>\$ 14,137</b>	<b>\$ 52,353</b>	<b>\$ 54,600</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> Included in (excluded from) FFO is an unrealized (gain) loss on the change in fair value of commodity derivatives.

In 2009, FFO has decreased \$2,247 (Q4-09 - \$2,139), or 4.1% (Q4-09 - 15.1%) over 2008. This decrease is attributed to the impact of dispositions during 2009 and reduced Property rent due to the settlement of the Interplex II agreement. Basic FFO per unit has decreased by \$0.13 (Q4-09 - \$0.11), or 7.8% (Q4-09 - 25.6%), over 2008. On a diluted basis, FFO per unit has decreased \$0.15 (Q4-09 - \$0.11), or 9.1% (Q4-09 - 26.2%) over 2008.

2009 FFO may not be indicative of future results due to the impact of the disposition of income-producing properties, the issuance of new units and convertible debentures. Management anticipates on-going improvements in 2010, as capital is deployed into new income-producing assets.

## ANALYSIS OF FINANCIAL POSITION

### ASSETS

	December 31,		December 31,		Increase (decrease)
	2009	2008	2009	2008	
Income-producing properties	\$ 991,700	\$ 1,030,181	\$ 991,700	\$ 1,030,181	\$ (38,481)
Other assets, including intangibles	162,247	199,077	162,247	199,077	(36,830)
Cash, cash equivalents and cash held in trust	36,262	14,435	36,262	14,435	21,827
	<b>\$ 1,190,209</b>	<b>\$ 1,243,693</b>	<b>\$ 1,190,209</b>	<b>\$ 1,243,693</b>	<b>\$ (53,484)</b>

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

The decrease in assets is a result of the disposition of 9 commercial properties during the year ended December 31, 2009, the removal of property under development as a result of the settlement of the Interplex III agreement, in addition to amortization recorded during the year.

The decrease in the REIT's income-producing properties and related intangible assets was offset by the acquisition of the following properties:

Property	Location	Acquisition Date	Type
Airdrie Flex Industrial	3 Kingsview Road, Airdrie, AB	October 1, 2009	Industrial
Winnipeg Industrial Portfolio <sup>(1)</sup>	Various locations in Winnipeg, MB	October 29, 2009	Industrial
Cliveden Building <sup>(2)</sup>	1608 Cliveden Avenue, Delta, BC	December 15, 2009	Industrial
Kincaid Building <sup>(2)</sup>	4225 Kincaid Street, Burnaby, BC	December 15, 2009	Office

<sup>(1)</sup> The Winnipeg Industrial Portfolio is comprised of 13 multi-tenant properties.

<sup>(2)</sup> The Cliveden Building and the Kincaid Building were acquired as a portfolio. The REIT acquired a 50% interest in this portfolio, which is proportionately consolidated in the accounts of the REIT.

The results of operations for the acquired properties are included in the REIT's accounts from the dates of acquisition. Artis funded these acquisitions from cash on hand and from the proceeds of new or assumed mortgage financing. The acquisitions have been accounted for 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.

	Year ended December 31,	
	2009	2008
Cash consideration	\$ 35,092	\$ 46,411
Issuance of units	-	2,100
New or assumed mortgages including above- and below-market mortgages	36,422	68,121
<b>Net assets acquired</b>	<b>\$ 71,514</b>	<b>\$ 116,632</b>
Allocated to income-producing properties	\$ 63,684	\$ 96,482
Allocated to other assets	11,882	26,280
Allocated to intangible liabilities	(4,052)	(6,130)
<b>Net assets acquired</b>	<b>\$ 71,514</b>	<b>\$ 116,632</b>

### 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. The REIT has four additional notes receivable arising from the acquisition and disposition of income-producing properties.

### Capital expenditures:

Income-producing properties includes 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.

Capital expenditures in 2009 totalled \$4,847 (Q4-09 - \$1,930) compared to \$15,887 in 2008 (Q4-08 - \$5,561). This includes revenue enhancing capital expenditures of \$2,690 related to concrete slab restoration on two parkades that are ancillary to existing portfolio office properties in Winnipeg, Manitoba and Calgary, Alberta, completion of the 40,000 square foot two-storey addition at Millennium Centre in Red Deer, Alberta that was started in 2008 and construction of a new 3,500 square foot retail development at North City Centre in Edmonton, Alberta. Artis has pre-leased 100% of the new space at North City Centre. The remaining \$2,157 of capital expenditures primarily relate to roof repairs at two properties and exterior envelope upgrades at a retail property.

**Tenant inducements and leasing costs:**

Other assets of the REIT at December 31, 2009 include \$14,180 of unamortized tenant inducement and leasing costs related to the leasing or re-leasing of space, compared to \$11,693 at December 31, 2008. 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 2009, Artis incurred \$7,178 (Q4-09 - \$1,484) of tenant inducements and leasing costs compared to \$7,255 in 2008 (Q4-08 - \$2,470).

	Year ended December 31,	
	2009	2008
Tenant inducements	\$ 4,647	\$ 3,459
Leasing commissions	2,531	3,796
<b>Total</b>	<b>\$ 7,178</b>	<b>\$ 7,255</b>

**Future income tax assets:**

The REIT believes that it has met the REIT Conditions effective January 1, 2009. Accordingly, the future income tax asset recorded in prior periods was reversed in Q1-09. In respect of assets and liabilities of the REIT, and its flow through entities, the tax basis of net assets exceeds their net book value for accounting purposes by approximately \$39,032 at December 31, 2009 (December 31, 2008, \$43,045).

**Deposits on income-producing properties:**

Artis had a deposit of \$6,712 at December 31, 2008 relating to the Interplex II agreement which was settled during 2009. At December 31, 2009, Artis had made \$1,350 of deposits on other income-producing properties, compared to \$nil at December 31, 2008.

**Cash and cash equivalents:**

At December 31, 2009, the REIT had \$35,907 of cash and cash equivalents on hand, compared to \$13,847 at December 31, 2008. The balance is anticipated to be invested in income-producing properties in subsequent periods, or 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.

**LIABILITIES**

	December 31, 2009	December 31, 2008	Decrease
Long-term debt	\$ 698,295	\$ 721,275	\$ (22,980)
Other liabilities	100,308	121,117	(20,809)
Bank indebtedness	30,700	32,500	(1,800)
	<b>\$ 829,303</b>	<b>\$ 874,892</b>	<b>\$ (45,589)</b>

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, 2009 was 47.4%, compared to 51.6% at December 31, 2008.

	<b>December 31,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
GBV	\$ 1,356,994	\$ 1,374,377
Mortgages, loans and bank indebtedness	642,963	708,869
Mortgages, loans and bank indebtedness to GBV	47.4 %	51.6 %
Carrying value of convertible debentures	\$ 86,032	\$ 44,906
Total long-term debt and bank indebtedness	728,995	753,775
Total long-term debt and bank indebtedness to GBV	53.7 %	54.8 %

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

Artis REIT is currently committed to maintaining a total debt to GBV ratio of 60% or lower. In the event that the REIT issues Preferred Units, the Trustees have approved a guideline stipulating that for purposes of calculating the debt to GBV ratio, Preferred Units (although considered equity under Canadian GAAP) would be included in the debt component of the calculation.

### **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 2009, \$12,367 (Q4-09 - \$3,080) of principal repayments were made, compared to \$12,773 in 2008 (Q4-08 - \$4,612).

During 2009, debt added on acquisition of income-producing properties was \$36,500 and debt eliminated on the disposition of income-producing properties was \$58,945. The REIT also repaid three vendor take-back mortgages in the aggregate amount of \$40,000 and obtained new mortgage financing in the amount of \$11,643.

The weighted-average term to maturity at December 31, 2009 is 4.5 years, compared to 5.0 years at December 31, 2008.

### **Convertible debentures:**

Artis has five series of convertible debentures outstanding as at December 31, 2009, as follows:

	Issued	Maturity	Face rate	<b>December 31, 2009</b>		<b>December 31, 2008</b>	
				Carrying value	Face value	Carrying value	Face value
Series A	4-Aug-05	4-Aug-10	7.75%	\$ 595	\$ 620	\$ 555	\$ 620
Series B	9-Nov-05	9-Nov-10	7.50%	2,175	2,313	2,034	2,313
Series C	4-May-06	31-May-13	6.25%	24,535	29,920	23,336	29,920
Series D	30-Nov-07	30-Nov-14	5.00%	16,257	17,000	18,981	20,000
Series E	9-July-09	30-June-14	7.50%	42,470	45,384	-	-
				<b>\$ 86,032</b>	<b>\$ 95,237</b>	<b>\$ 44,906</b>	<b>\$ 52,853</b>

The carrying value of convertible debentures has increased by \$41,126 from December 31, 2008. This increase is due primarily to the issuance of Series E convertible debentures, which was offset by a repayment on the Series D convertible debentures and conversion of Series E convertible debentures. Also included in the carrying value is interest and financing costs which are amortized on an effective interest basis. The weighted-average effective rate of the debentures at December 31, 2009 was 10.04%, a decrease from the rate of 10.33% at December 31, 2008.



### Other liabilities and bank indebtedness:

Other liabilities includes the unamortized below-market rent intangible liability of \$81,523 at December 31, 2009. This decreased \$9,663 from \$91,186 at December 31, 2008, as a result of amortization, and the properties disposed of during the year. This decrease was offset by the acquisition of 16 income-producing properties in Q4-09. Included in other liabilities are security deposits paid by tenants, rents prepaid by tenants at December 31, 2009, accounts payable and accruals, as well as the December 31, 2009 distribution payable to unitholders of \$3,377, subsequently paid on January 15, 2010. Bank indebtedness relates to the balance drawn on the REIT's revolving term credit facility. At December 31, 2009, Artis had drawn \$30,700 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.

### UNITHOLDERS' EQUITY

Unitholders' equity increased overall by \$2,363 between December 31, 2009 and December 31, 2008. The increase was primarily due to the issuance of units for \$40,564 and the exchange of Class B units for \$8,059. This increase was offset by the net loss for the year of \$9,189 and the distributions made to unitholders of \$36,737.

### LIQUIDITY AND CAPITAL RESOURCES

In 2009, Artis generated \$41,113 (Q4-09 - \$10,275) of cash flows from operating activities compared to \$40,963 in 2008 (Q4-08 - \$(2,694)). Cash flows from operations assisted in funding distributions to unitholders of \$36,737 (Q4-09 - \$10,109), distributions to Class B unitholders of \$65 (Q4-09 - \$nil), and for principal repayments on mortgages and loans of \$12,367 (Q4-09 - \$3,080).

Cash of \$12,025 (Q4-09 - \$3,414) was used for capital building improvements and for tenant inducements and leasing costs compared to \$23,142 in 2008 (Q4-08 - \$8,031).

At December 31, 2009, Artis had \$35,907 of cash and cash equivalents on hand. Management anticipates that the cash on hand will be invested in income-producing properties in subsequent periods, or 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 matures on September 28, 2010. \$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, 2009, the REIT had incurred bank indebtedness of \$30,700. Subsequent to December 31, 2009, the REIT repaid the balance drawn on the revolving term credit facility.

To its knowledge, Artis is not in default or arrears on any of its obligations, including distributions to unitholders, interest or principal payments on debt or any debt covenants for the year ended December 31, 2009.

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

### CONTRACTUAL OBLIGATIONS

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Mortgages, loans and bank indebtedness	\$ 644,318	\$ 106,738	\$ 160,694	\$ 134,701	\$ 242,185
Convertible debentures <sup>(1)</sup>	95,237	2,933	-	92,304	-
<b>Total</b>	<b>\$ 739,555</b>	<b>\$ 109,671</b>	<b>\$ 160,694</b>	<b>\$ 227,005</b>	<b>\$ 242,185</b>

<sup>(1)</sup> 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, 2009, obligations due within one year include \$64,503 of mortgages. Currently, 40% of these mortgages have either been repaid or refinanced.

At December 31, 2009 obligations due within one year also include \$30,700 drawn on the revolving term credit facility, and principal repayments on mortgages of \$11,535. On February 1, 2010, the REIT repaid the balance drawn on the revolving term credit facility.

## SUMMARIZED QUARTERLY INFORMATION

\$000's, except per unit amounts <sup>(1) (2)</sup>

	Q4-09	Q3-09	Q2-09	Q1-09	Q4-08	Q3-08	Q2-08	Q1-08
Revenue	\$ 35,243	\$ 33,517	\$ 33,487	\$ 34,606	\$ 35,143	\$ 33,241	\$ 32,427	\$ 30,821
Property operating expenses	11,590	10,487	10,393	11,020	11,521	10,149	9,723	9,158
Property NOI	23,653	23,030	23,094	23,586	23,622	23,092	22,704	21,663
Interest	10,438	10,029	9,766	9,867	10,100	9,682	9,558	9,211
	13,215	13,001	13,328	13,719	13,522	13,410	13,146	12,452
Expenses (income):								
Corporate	1,330	705	1,288	1,201	1,350	1,137	1,342	1,140
Amortization	13,286	12,523	12,862	15,582	13,676	13,094	13,137	13,905
Unrealized (gain) loss on commodity derivatives	(95)	297	60	204	68	1,092	(455)	(928)
	14,521	13,525	14,210	16,987	15,094	15,323	14,024	14,117
Loss before the undernoted	(1,306)	(524)	(882)	(3,268)	(1,572)	(1,913)	(878)	(1,665)
Loss on termination of Interplex II agreement	-	-	(7,287)	-	-	-	-	-
Non-controlling interest	-	-	45	(5)	(71)	(31)	(16)	(150)
Loss before income taxes and discontinued operations	\$ (1,306)	\$ (524)	\$ (8,124)	\$ (3,273)	\$ (1,643)	\$ (1,944)	\$ (894)	\$ (1,815)
Future income tax (expense) recovery	-	-	-	(10,895)	291	(125)	(1,038)	292
Income (loss) from discontinued operations	5,446	616	8,234	637	223	83	(48)	(334)
Income (loss) for the period	\$ 4,140	\$ 92	\$ 110	\$ (13,531)	\$ (1,129)	\$ (1,986)	\$ (1,980)	\$ (1,857)
Basic income (loss) per unit	\$ 0.11	\$ 0.00	\$ 0.00	\$ (0.42)	\$ (0.03)	\$ (0.06)	\$ (0.06)	\$ (0.06)
Diluted income (loss) per unit	\$ 0.11	\$ 0.00	\$ 0.00	\$ (0.42)	\$ (0.03)	\$ (0.06)	\$ (0.06)	\$ (0.06)

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

<sup>(2)</sup> Results for 2008 have been restated, refer to Note 2(b) of the Consolidated Financial Statements for the years ended December 31, 2009 and 2008.

Artis acquired 16 income-producing properties in Q4-09. Due to this acquisition activity, Artis increased revenues and Property NOI from continuing operations in Q4-09.

## Reconciliation of GAAP Income (Loss) to DI:

\$000's, except per unit amounts <sup>(1)</sup>								
	Q4-09	Q3-09	Q2-09	Q1-09	Q4-08	Q3-08	Q2-08	Q1-08
Income (loss) for the period	\$ 4,140	\$ 92	\$ 110	\$ (13,531)	\$ (1,129)	\$ (1,986)	\$ (1,980)	\$ (1,857)
Add:								
Amortization (excluding amortized leasing costs)	12,597	12,175	12,945	15,933	14,314	13,922	14,313	15,555
Accretion on liability component of debentures	516	473	373	362	355	349	384	376
Unit-based compensation expense	8	37	54	61	144	143	144	136
Cancellation of options	-	(484)	-	-	-	-	-	-
Unrealized (gain) loss on commodity derivatives	(95)	297	60	204	68	1,092	(455)	(928)
Loss on termination of Interplex II agreement	-	-	7,287	-	-	-	-	-
(Gain) loss on disposal of income-producing properties	(5,460)	(403)	(7,988)	(591)	197	-	-	-
Future income tax expense (recovery)	-	-	-	11,127	(211)	156	1,020	(417)
Other adjustments								
Property rent <sup>(2)</sup>	-	-	-	300	300	300	300	300
Non-controlling interest <sup>(3)</sup>	-	-	58	33	79	34	14	138
<b>Distributable income (DI)</b>	<b>\$ 11,706</b>	<b>\$ 12,187</b>	<b>\$ 12,899</b>	<b>\$ 13,898</b>	<b>\$ 14,117</b>	<b>\$ 14,010</b>	<b>\$ 13,740</b>	<b>\$ 13,303</b>
<b>DI per unit</b>								
Basic	\$ 0.32	\$ 0.37	\$ 0.39	\$ 0.42	\$ 0.43	\$ 0.42	\$ 0.42	\$ 0.41
Diluted	\$ 0.30	\$ 0.34	\$ 0.38	\$ 0.41	\$ 0.41	\$ 0.41	\$ 0.40	\$ 0.40
<b>Weighted-average number of units:</b>								
Basic <sup>(4)</sup>	37,138	33,364	33,019	33,107	33,082	33,000	32,780	32,346
Diluted <sup>(4)</sup>	44,506	40,793	36,101	36,189	36,164	36,152	35,983	35,782

<sup>(1)</sup> Results for 2008 have been restated, refer to Note 2(b) of the Consolidated Financial Statements for the years ended December 31, 2009 and 2008.

<sup>(2)</sup> 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 Statements of Operations due to the project being in the development phase.

<sup>(3)</sup> 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.

<sup>(4)</sup> The weighted-average number of units used in the calculation of DI per unit included 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 per unit amounts <sup>(1)</sup>	Q4-09	Q3-09	Q2-09	Q1-09	Q4-08	Q3-08	Q2-08	Q1-08
Income (loss) for the period	\$ 4,140	\$ 92	\$ 110	\$ (13,531)	\$ (1,129)	\$ (1,986)	\$ (1,980)	\$ (1,857)
Add amortization on:								
Income-producing properties	6,523	6,332	6,529	7,480	6,927	6,906	6,709	6,926
Acquired in-place leases	6,073	5,841	6,414	8,451	7,385	7,011	7,598	8,624
Customer relationships	1	2	2	2	2	5	6	5
Tenant inducements and leasing costs	675	731	612	705	409	374	307	261
Tenant inducements amortized into revenue	141	71	63	65	110	-	-	-
Unrealized (gain) loss on commodity derivatives	(95)	297	60	204	68	1,092	(455)	(928)
Loss on termination of Interplex II agreement	-	-	7,287	-	-	-	-	-
(Gain) loss on disposal of income-producing properties	(5,460)	(403)	(7,988)	(591)	197	-	-	-
Future income tax expense (recovery)	-	-	-	11,127	(211)	156	1,020	(417)
Other adjustments								
Property rent <sup>(2)</sup>	-	-	-	300	300	300	300	300
Non-controlling interest <sup>(3)</sup>	-	-	58	33	79	34	14	138
<b>Funds from operations (FFO)</b>	<b>\$ 11,998</b>	<b>\$ 12,963</b>	<b>\$ 13,147</b>	<b>\$ 14,245</b>	<b>\$ 14,137</b>	<b>\$ 13,892</b>	<b>\$ 13,519</b>	<b>\$ 13,052</b>
<b>FFO per unit</b>								
Basic	\$ 0.32	\$ 0.39	\$ 0.40	\$ 0.43	\$ 0.43	\$ 0.42	\$ 0.41	\$ 0.40
Diluted	\$ 0.31	\$ 0.36	\$ 0.39	\$ 0.42	\$ 0.42	\$ 0.42	\$ 0.41	\$ 0.40
<b>Weighted-average number of units:</b>								
Basic <sup>(4)</sup>	37,138	33,364	33,019	33,107	33,082	33,000	32,780	32,346
Diluted <sup>(4)</sup>	42,551	38,838	34,146	34,234	34,209	34,197	34,020	33,519

<sup>(1)</sup> Results for 2008 have been restated, refer to Note 2(b) of the Consolidated Financial Statements for the years ended December 31, 2009 and 2008.

<sup>(2)</sup> 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 Statements of Operations due to the project being in the development phase.

<sup>(3)</sup> 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.

<sup>(4)</sup> The weighted-average number of units used in the calculation of FFO per unit included 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.

During 2009, Artis disposed of 9 commercial properties which has resulted in a decrease in DI and FFO. In Q4-09 this decrease was further impacted as a result of a new equity offering, which diluted per unit results. Management anticipates on-going improvements in 2010, as capital is deployed into new income-producing assets.

## RELATED PARTY TRANSACTIONS

	Year ended December 31,	
	2009	2008
Legal fees expensed	\$ 494	\$ 151
Capitalized legal fees	1,286	480
Advisory fees	2,813	2,514
Capitalized acquisition fees	352	535
Property management fees	5,312	5,056
Capitalized leasing commissions	1,278	3,796
Capitalized building improvements	3,577	11,862
Tenant inducements	139	114
Services fee	198	-
Consulting fees	150	-

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, 2009 is \$150 (December 31, 2008, \$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, 2009 is \$38 (December 31, 2008, \$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, 2009 is \$136 (December 31, 2008, \$546). 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, 2009 is \$302 (December 31, 2008, \$292).

The services fee represents work done for all services rendered in anticipation of the purchase of the Interplex II and Interplex III properties, and the termination of said agreements. The balance payable at December 31, 2009 is \$nil (December 31, 2008, \$nil).

The consulting fees represent work performed by Marwest on the International Financial Reporting Standards implementation project. The amount payable at December 31, 2009 is \$75 (December 31, 2008, \$nil).

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

## OUTSTANDING UNIT DATA

The balance of units outstanding as of March 15, 2010 is as follows:

Units outstanding at December 31, 2009	37,522,381
Share issuance	4,600,000
Over-allotment	690,000
Units issued (DRIP)	70,797
Units issued on conversion of debentures	<u>1,304,390</u>
Units outstanding at March 15, 2010	<u>44,187,568</u>

The balance of options outstanding as of March 15, 2010 is as follows:

	<u>Options outstanding</u>	<u>Options exercisable</u>
\$11.25 options, issued December 8, 2005	217,036	217,036
\$11.28 options, issued February 25, 2010	<u>273,250</u>	<u>-</u>
	<u>490,286</u>	<u>217,036</u>

## 2010 OUTLOOK

According to the Conference Board of Canada, real GDP in Canada is forecast to grow 2.9% in 2010. The western Canadian outlook remains positive, with Manitoba expected to achieve 2.0% GDP growth in 2010 and Alberta, British Columbia and Saskatchewan all forecast to achieve GDP growth in the 3.3% to 3.5% range in 2010.

The last quarter of 2009 was a period of strong activity for publicly listed real estate entities in Canada with significant new debt and equity capital raised. In 2010, real estate transactions continue to be announced and completed, with capitalization rate compression observed over the past three to six months. Spreads on mortgage financing have also been tightening, with banks, credit unions and insurers all in the market competing for deals. These trends, together with indications that the central banks will maintain a stable interest rate environment, suggest that there will be steady volume and further price contractions in the commercial real estate investment markets in 2010.

At December 31, 2009, Artis had \$35,907 of cash and cash equivalents on hand, and had \$29,300 available on the line of credit. On January 26, 2010, Artis issued a further 5,290,000 units at a price of \$11.00 per unit pursuant to a prospectus offering and concurrent exercise of the overallotment offering, realizing gross proceeds of \$58,190.

Subsequent to December 31, 2009, the following transactions took place:

- On January 14, 2010, Artis acquired Westbank Zellers, a 100% occupied 105,670 square foot retail building in West Kelowna, British Columbia. The purchase price of \$10,000 was satisfied with cash on hand and from the proceeds of new five-year mortgage financing of \$6,000 bearing interest at a rate of 5.14% per annum.
- On January 21, 2010, Artis repaid the \$20,000 mortgage balance on the Britannia and Sierra buildings, leaving the assets fully unencumbered.
- On January 29, 2010, Artis acquired the Maple Leaf Building, at 100% occupied 163,418 square foot industrial building in Saskatoon, Saskatchewan. The building consists of 140,000 square feet of freezer and cooler space and 23,418 square feet of office space. The purchase price of \$25,500 was satisfied with cash on hand and from the assumption of \$17,300 of existing mortgage financing, which matures in 2014 and bears interest at a rate of 5.0% per annum.
- On January 29, 2010, Artis acquired Sherwood Centre a 100% occupied 162,860 square foot multi-tenant industrial property in Edmonton, Alberta. The purchase price of \$13,300 was satisfied with cash on hand and from the proceeds of new five-year mortgage financing of \$8,645 bearing interest at a rate of 5.06% per annum.
- On February 1, 2010, Artis repaid the balance on the line of credit.
- On March 2, 2010, the REIT completed the refinancing of the mortgage related to Canarama Mall. The mortgage is for \$8,840, with an interest rate of 4.97% and a term of 5 years. The refinancing replaces the previous mortgage of \$5,672, which carried interest at 5.45%.
- On March 10, 2010, the REIT filed a final prospectus with respect to a public offering of 4,450,000 units at a price of \$11.25 per unit for aggregate gross proceeds of \$50,063. The offering is anticipated to close on March 16, 2010. Artis has granted to the underwriters an option, exercisable for a period of 30 days from the date of closing, to purchase up to an additional 667,500 units at \$11.25 per unit.

Subsequent to December 31, 2009, Artis has entered into additional conditional and unconditional agreements to acquire properties, as follows:

- Tamarack Mall in Cranbrook, British Columbia. Artis has entered into an unconditional agreement to acquire this 96.7% occupied 287,741 square foot enclosed mall for \$27,660. The purchase price is expected to be financed with cash on hand and from the proceeds of new mortgage financing of \$19,600 bearing interest at 5.5% per annum. The transaction is expected to close on April 15, 2010.
- Alberta Industrial Portfolio. Artis has entered into an unconditional agreement to acquire four industrial properties (one in Calgary, one in Edmonton and two in Acheson, Alberta) for an aggregate purchase price of \$85,200. The purchase price is expected to be financed with cash on hand and from the proceeds of new mortgage financing of \$53,800 bearing interest at a rate expected to be less than 5% per annum, based on current government of Canada bond yields. The transaction is expected to close on March 30, 2010.

- Eagle Ridge Corner in Fort McMurray, Alberta. Artis has entered into an unconditional agreement to acquire this 100% occupied 12,695 square foot retail property for \$5,800. The purchase price is expected to be financed with cash on hand and from the proceeds of new mortgage financing of \$4,000 bearing interest at a rate expected to be less than 5% per annum, based on current government of Canada bond yields. The transaction is expected to close on April 1, 2010.
- Sunrise Towne Square in Spruce Grove, Alberta. Artis has entered into an unconditional agreement to acquire this 111,978 square foot retail property for \$22,725. The purchase price is expected to be satisfied from cash on hand and from the proceeds of new mortgage financing of \$14,800 bearing interest at a rate of 4.661% per annum. The transaction is expected to close on April 1, 2010.
- Visions Building in Calgary, Alberta. Artis has entered into an unconditional agreement to acquire this 50,045 square foot retail property for \$11,300. The purchase price is expected to be satisfied from cash on hand and from the proceeds of new five-year mortgage financing of \$7,400 bearing interest at a rate that is expected to be less than 5% per annum, based on current government of Canada bond yields. The transaction is expected to close April 12, 2010.
- Winnipeg Square Parkade/360 Main Street/Shops of Winnipeg Square. Artis has entered into a conditional agreement to acquire a 49% interest in the Winnipeg Square Parkade which services the Shops of Winnipeg Square and 360 Main Street office tower. In conjunction with that transaction, Artis expects to acquire an additional 11% interest in the 360 Main Street office tower and Shops of Winnipeg Square property, in which it already holds 38% interest. The purchase price for the transaction is \$24,300 which is expected to be financed with cash on hand and from the proceeds of \$15,800 of new and existing mortgage financing. The transaction is expected to close on April 30, 2010.

With available cash and room on the line of credit, management believes that Artis is well positioned to pursue additional accretive acquisitions in 2010 and further enhance future earnings.

Management believes that a return to economic growth will have a positive impact on leasing activity in most of its market segments. The Calgary office market will likely be the most challenged leasing market as new inventory is delivered into the market. Across the portfolio, growth may be realized as leases expire and are renewed or re-leased at higher market rates. Artis reviews the current market rents across its portfolio on an on-going basis. Management estimates that the weighted-average market rent rates at December 31, 2009 for the 2010 and 2011 lease expiries are approximately 11.1% and 5.3% higher than the rates in place at expiry.

Credit risk, lease rollover risk and financing risk continue to be the top-most concerns. Artis believes it is well positioned to address these challenges for the following reasons:

- The REIT's largest tenant is AMEC Americas Ltd. which accounts for 5.9% of the REIT's gross revenues. No other tenant in the portfolio accounts for more than 5.0% of gross revenues. At December 31, 2009, approximately 64.1% of the REIT's portfolio is occupied by national or government tenants.
- At December 31, 2009, 15.9% of the portfolio's leasable area is set to expire in 2010 and 14.4% in 2011. As of today's date, 45.3% of the 2010 and 15.9% of the 2011 leasing programs are complete. The tenant retention ratio for 2010 thus far is 83.3%.
- The REIT's ratio of mortgages, loans and bank indebtedness to GBV is 47.4%, down from 51.6% at December 31, 2008. Approximately 11.6% of Artis' maturing debt comes up for renewal in 2010, and 6.4% in 2011. As at today's date, 40% of the 2010 maturities have either been repaid or refinanced. Management is currently in discussion with various lenders with respect to the 2010 and 2011 refinancings.

## 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.

## DEBT FINANCING

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

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

## 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, 2009, government tenants contribute 9.8% to the REIT's overall gross revenue and occupy 7.6% 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 by gross revenue is AMEC Americas Ltd., a global supplier of consultancy, engineering and project management services to the energy, power and process industries. AMEC Americas Ltd. is a London Exchange listed entity with 2008 annual revenues in excess of £2.6 billion. The second largest tenant by gross revenue is TransAlta Corporation, a Standard & Poor's BBB rated multi-national corporation with a market capitalization of over \$4.4 billion.

### Top Twenty Tenants By Gross Revenue

Tenant	% of total Gross Revenue	GLA	% of total GLA	Weighted-Average Remaining Lease Term
AMEC Americas Ltd	5.9 %	199,672	2.9 %	3.67
TransAlta Corporation	3.6 %	336,041	4.9 %	13.42
Birchcliff Energy	2.5 %	58,769	0.9 %	7.92
Credit Union Central	2.2 %	90,053	1.3 %	2.00
Sobeys	2.1 %	150,156	2.2 %	10.60
Bell Canada	1.7 %	76,017	1.1 %	6.50
Shoppers Drug Mart	1.5 %	85,397	1.3 %	6.34
MTS Allstream	1.4 %	75,986	1.1 %	17.01
Q9 Networks Inc.	1.3 %	34,720	0.5 %	6.67
Komex International	1.2 %	52,073	0.8 %	1.91
Cineplex Odeon	1.1 %	64,830	1.0 %	10.59
BW Technologies (Honeywell)	0.9 %	61,847	0.9 %	6.96
Kodak Graphic Comm. Canada Company	0.9 %	91,219	1.3 %	9.71
The Brick	0.9 %	62,747	0.9 %	7.26
NOVA Chemicals Corporation	0.8 %	36,001	0.5 %	0.66
Jysk Linen 'n Furniture	0.7 %	69,260	1.0 %	4.21
Red River Packaging	0.7 %	196,254	2.9 %	4.75
Geological Systems	0.7 %	30,411	0.4 %	2.83
Canadian Back Institute Ltd.	0.7 %	27,407	0.4 %	7.02
Aikins	0.6 %	22,801	0.3 %	4.83
<b>Total</b>	<b>31.4 %</b>	<b>1,821,661</b>	<b>26.6 %</b>	<b>7.81</b>



<b>Government Tenants By Gross Revenue</b>				
Tenant	% of total Gross Revenue	GLA	% of total GLA	Weighted-Average Remaining Lease Term
Provincial Government	4.3 %	197,801	2.9 %	3.59
Federal Government	4.1 %	224,039	3.3 %	1.93
Civic or Municipal Government	1.4 %	97,716	1.4 %	6.36
<b>Total</b>	<b>9.8 %</b>	<b>519,556</b>	<b>7.6 %</b>	<b>3.42</b>
Weighted-Average Term to Maturity (Entire Portfolio)				4.81

## LEASE ROLLOVER RISK

The value of income-producing 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	Total
						Only	
2010	0.4 %	1.1 %	8.6 %	5.8 %	1.1 %	15.9 %	
2011	0.2 %	0.8 %	5.8 %	7.6 %	3.9 %	14.4 %	
2012	1.2 %	0.2 %	4.4 %	3.6 %	2.0 %	9.4 %	
2013	0.3 %	1.8 %	5.3 %	6.9 %	4.3 %	14.3 %	
2014	0.7 %	1.1 %	6.9 %	3.6 %	0.7 %	12.3 %	
2015 & later	3.1 %	2.0 %	5.9 %	17.0 %	6.6 %	28.0 %	
Month-to-month	0.0 %	0.0 %	0.2 %	0.1 %	0.0 %	0.3 %	
Vacant	1.8 %	0.0 %	1.6 %	2.0 %	1.1 %	5.4 %	
<b>Total GLA</b>	<b>522,958</b>	<b>476,230</b>	<b>2,638,120</b>	<b>3,176,406</b>	<b>1,345,019</b>	<b>6,813,714</b>	

Artis' real estate is diversified across the four western provinces, and across the office, retail and industrial asset classes. At December 31, 2009, the portfolio by GLA is weighted towards Manitoba and Alberta properties. By city and asset class, the three largest segments of the REIT's portfolio by GLA are Winnipeg industrial property, Calgary office property and Winnipeg office property.

Artis' corporate leasing team carefully monitors lease expiries across the portfolio. In addition, Artis has two individuals tasked on a full-time basis to manage the Winnipeg industrial and Calgary office leasing programs. As of today's date, significant progress has been made, with approximately 36.1% of the Winnipeg industrial and 23.7% of the Calgary office lease expiries in 2010 already renewed or committed under new leases. In total, 45.3% of the 2010 and 15.9% of the 2011 leasing programs are complete, and the retention ratio thus far in 2010 is 83.0%.

## 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.

## **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 where applicable.

### **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**

The REIT currently qualifies as a mutual fund trust for Canadian income tax purposes. On June 22, 2007, new legislation relating to, among other things, the federal income taxation of a specified investment flow-through trust or partnership (a "SIFT") was enacted (the "New SIFT Rules"). The REIT has reviewed the New SIFT Rules and has assessed their interpretation and application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the New SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the fiscal year ended December 31, 2009. Accordingly, the future income tax asset recorded in prior periods was reversed and charged to continuing and discontinued operations in 2009.

During 2008, future income taxes were 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 were recognized when it was more likely than not that they will be realized prior to their expiration. This assumption was based on management's best estimate of future circumstances and events, including the timing and amount of projected future taxable income, and was tested on a regular basis. Changes in estimates or assumptions could have affected the value of future income tax assets, resulting in an income tax expense or recovery.

## **CHANGES IN ACCOUNTING POLICIES**

The Canadian Institute of Chartered Accountants ("CICA") has issued a new accounting standard: Handbook Section 3064, Goodwill and Intangible Assets. Section 3064 clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset. Handbook Section 1000, Financial Statement Concepts, was also amended to provide consistency with this new standard. The new and amended standards were adopted by the REIT on January 1, 2009, with retrospective adjustments made to the comparative period. The impact of the adoption of these standards was (i) to reclassify recoverable operating costs to components within income-producing properties and (ii) to reclassify the related amortization of the recoverable operating costs from property operating expenses to amortization expense.

In June 2009, the CICA amended Handbook Section 3862, Financial Instruments - Disclosures. This amendment has expanded disclosure requirements related to fair value measurements of financial instruments, including the relative reliability of the inputs used in those measurements, and liquidity risk, in light of concerns that the nature and extent of liquidity risk requirements were unclear and difficult to apply. The amendment requires using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. These disclosure requirements are effective for the REIT's December 31, 2009 consolidated financial statements.

## **INTERNATIONAL FINANCIAL REPORTING STANDARD ("IFRS")**

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 on January 1, 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.

Upon commencement of the project, management created a timeline detailing the required steps in order to implement IFRS. The milestones set in this timeline have been achieved in 2009, and the project team is on target to reach full implementation for January 1, 2011. To date, management has performed an analysis of the impact of all IFRS standards and has made recommendations on the majority of the policy choices. However, there are still certain policies that are under review as there are some areas of uncertainty. The recommendations have been presented to the Audit Committee for their review and approval.

Management has also begun to work on drafting IFRS financial statements and note disclosures. This will be an on-going project throughout 2010 as decisions on accounting policies are finalized and their impact is calculated.

The REIT has ensured that employees involved in the implementation team have attended on-going education and training sessions since commencement of the project. The Audit Committee has received training during 2009 and additional training throughout 2010 has been scheduled. All employees which are part of the implementation team have access to IFRS standards and standard updates as they are released.

### **Information systems:**

The REIT is currently in the process of reviewing its information systems and the effect of IFRS on these systems. At this point in time no major changes to the systems are expected. During 2010, the REIT will be compiling IFRS financial information utilizing its financial statement reporting software which is external to the REIT's current accounting software. Use of the financial statement reporting software will allow the REIT to incorporate IFRS adjustments in order to transition the GAAP general ledger to IFRS compliant financial information.

The REIT has selected a discounted cash flow software package which it will utilize to create internal property valuations for the fair value modelling of its investment property. The REIT has selected appropriate staff members that will be utilizing this software package and has ensured an appropriate level of training has been provided.

### **Internal controls over financial reporting and disclosure:**

The REIT has not yet begun its analysis on internal controls over financial reporting and disclosure relating to the IFRS conversion. This will be an on-going process as accounting policies are finalized and controls are developed during the year, and will be completed by end of the fourth quarter of 2010. Thereafter, changes to internal controls will be assessed in conjunction with changes to IFRS.

### **Impact of IFRS conversion on accounting policies:**

The REIT has identified the following key IFRS standards which will result in significant accounting policy changes upon implementation. At this time, management cannot quantify the impact of the following changes in accounting policies on the REIT's financial statements. The following accounting policies are also likely to result in changes to both the REIT's consolidated balance and consolidated statement of operations.

### **Investment property:**

Under International Accounting Standard ("IAS") 40 – *Investment property* ("IAS 40"), Investment property is defined as property held to earn rentals or for capital appreciation rather than for use in the production or supply of goods or services, for administrative purpose or for sale in the ordinary course of business. Under IAS 40, an entity may choose as its accounting policy either the fair value model or the cost model and should apply that policy to all of its investment property.

Under the fair value model, the REIT would present the investment properties at the fair value as determined using valuations of each of the investment properties to reflect market conditions at the end of the reporting period. The fair value of the investment properties would be presented on the consolidated balance sheet and the change due to revaluation each period would be recognized in the consolidated statement of operations. As the investment properties would be recorded at fair value, no amortization expense would be required to be recorded.

The cost model under IAS 40 is similar to Canadian GAAP in that the investment property is carried on the consolidated balance sheet at its cost less accumulated amortization. If the REIT chooses to carry its investment properties using the cost model, the fair value of such investment properties would be disclosed in the notes to the consolidated financial statements.

Under IFRS 1 – *First time adoption of IFRS* ("IFRS 1"), the REIT may elect to adopt either the fair value model or the cost model to account for its investment properties. IFRS 1 also allows the REIT to choose to use the fair value as the deemed cost of the investment property upon initial conversion to IFRS whether it chooses the fair value or cost model.

The REIT has analyzed IAS 40 and reviewed the differences that would arise under each of the fair value and cost models. The REIT has not yet finalized which model will be applied to investment property, however, management anticipates that the policy decision will be made in the second quarter of 2010. As noted above, fair value information will be required under either model.

The REIT has commenced the valuation process in order to address the requirement to provide fair value information. The REIT has retained an external valuation firm to assist in developing the fair values of the REIT's investment property. The external valuations will be done on a rotational basis over a 4 year cycle to ensure that each property will have been externally valued once during the cycle. During the 4 year cycle, the investment property that is not evaluated externally will be valued through the REIT's internal valuation process.

### **Impairment:**

Under GAAP, only 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.

Under IAS 36 – *Impairment of Assets* (“IAS 36”), impairment indicators must be assessed at each reporting period, not just when events or circumstances indicate there may be an impairment. Also, the recoverability analysis is performed based on comparing carrying value to the greater of fair value less costs to sell, or value-in-use, as opposed to undiscounted future cash flows. Value-in-use is defined as the discounted present value of estimated future cash flows expected to arise from the planned use of an asset and from its disposal at the end of its useful life. This difference may result in assets being impaired under IAS 36, while there may not have been an impairment under GAAP.

### **Leases:**

GAAP requires the REIT to record tenant incentives as a reduction of rental revenue. IAS 17 – *Leases* (“IAS 17”), requires the same treatment as required under GAAP, however, the definition of tenant incentives may differ from the REIT’s current application of GAAP. The REIT will be required to review the nature of existing capitalized leasing costs using the definitions of tenant incentives and tenant improvements under IAS 17. It is likely that more capitalized leasing costs will be classified as tenant incentives under IFRS than under GAAP. This difference would result in a reduction of revenue as more tenant costs would be amortized against revenue. The REIT cannot yet quantify the impact on revenue due to this difference.

A significant difference between lease accounting principles under GAAP and IFRS is that IFRS focuses more on the substance of the arrangement. IFRS uses qualitative factors in determining lease classifications where under GAAP, bright line tests are used to determine if a lease is an operating or finance lease. This difference may result in the REIT classifying a lease as a finance lease rather than operating leases. Under IFRS, in certain circumstances, land leases are considered to be finance leases. As the REIT currently treats all land leases as operating leases, a review of the leases will be required in order to determine if under IFRS, the lease would be treated as a financing or operating lease.

### **Co-ownerships:**

Currently under GAAP, the REIT uses proportionate consolidation for its four jointly controlled properties. IAS 31 – *Interests in Joint Ventures* (“IAS 31”), allows the choice to either proportionately consolidate jointly controlled properties or account for such interests using the equity method. Currently, there would be no effect on how the REIT accounts for its co-ownerships upon conversion to IFRS. However, the IASB is currently considering Exposure Draft 9 – *Joint Arrangements*, which proposes to eliminate the option to proportionately consolidate interests in jointly controlled entities. The IASB has indicated that it expects to issue a new standard to replace IAS 31 in 2010 which is expected to be applicable for the REIT upon adoption of IFRS. The effect of this new standard would be a reclassification of the assets and liabilities of these jointly controlled properties to show as a net balance on the REIT’s consolidated balance sheet and a reclassification of the revenues and expenses of these properties to show as a net balance on the REIT’s consolidated statement of operations.

### **Business combinations:**

Under GAAP, an entity shall account for each business combination by applying the purchase method, whereby the cost of acquisition includes direct, incremental acquisition related costs. IFRS 3R – *Business Combinations*, differs from GAAP in that all transactions costs are expensed immediately. As well, IFRS has a broader definition of what constitutes a business. Currently under GAAP, the REIT accounts for the acquisitions of investment properties as asset acquisitions rather than business combinations. Under IFRS, single property acquisitions may be required to be accounted for as business combinations.

The REIT is currently in the process of reviewing their property acquisitions to determine whether any meet the IFRS definition of business combinations; however, it does not expect that the implementation of this standard will have a significant impact on the REIT’s consolidated financial statements.

### **Trust units:**

GAAP has a less restrictive definition of financial liabilities than IFRS as it does not give specific guidance to settling contracts with the issuer's own equity instruments. Therefore, the REIT currently accounts for their trust units as equity. However, IAS 32 – *Financial Instruments*, has a more rigorous definition of what constitutes a financial liability which includes equity instruments if they have a contractual obligation to deliver cash or other financial assets to another entity. The Declaration of Trust currently provides that the REIT makes monthly cash distributions to unitholders of the REIT's units. The amount distributed in each year will be an amount not less than the amount of distributable income in the year as set down in a policy by the Trustees. Therefore, as the REIT currently has a contractual obligation to make cash distributions to unitholders, trust units may be considered a financial liability under IFRS.

Canadian REITs have been modifying their Declarations of Trust in order to make the distributions non-mandatory, with the consent of unitholders, in order to be able to classify their trust units as equity on their balance sheet under IFRS. The REIT intends to present this modification to the Declaration of Trust for unitholder approval at the upcoming Annual and Special Meeting.

### **Income taxes:**

On January 1, 2009, the REIT believes it has met the SIFT rules, which has resulted in the REIT no longer being required to record future taxes. However, under IAS 12 – *Income Taxes*, it appears that the REIT would have to record deferred income taxes, despite the fact that the REIT currently meets the SIFT rules. This is an industry-wide issue which is currently under discussion.

### **Discontinued operations:**

The definition of a discontinued operation is more restrictive under IFRS than it is under GAAP. Under IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, only components that represent a separate major line of business or geographical area of operations or a subsidiary acquired exclusively with a view to resale can be classified as discontinued operations. Currently under GAAP, the REIT classifies individual properties held for sale in unconditional agreements and individual properties sold as discontinued operations. Under IFRS, the REIT is less likely to disclose discontinued operations as the sale of a single property is not likely to meet the IFRS definition of a discontinued operation. The current classifications will likely change under IFRS and would result in a reclassification between income from continuing operations and income from discontinued operations, with no change to net income.

### **Share-based compensation:**

In accordance with GAAP, 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. There are no significant differences expected to this accounting policy upon transition to IFRS.

### **Balance sheet presentation:**

Under IAS 1 – *Presentation of Financial Statements*, the REIT must present either a classified balance sheet or present its balance sheet in the order of liquidity. The REIT uses neither method when presenting its balance sheet under GAAP. The REIT is currently evaluating this decision.

### **IFRS 1:**

The IFRS 1 standard provides guidance to entities who are adopting IFRS for the first time. Accounting changes are to be applied retrospectively to an entity's financial statements when transitioning from GAAP to IFRS. In order to facilitate the transition, IFRS 1 allows certain exemptions and exceptions to applying IFRS retrospectively. The most significant exception to the REIT has been discussed above under investment property. IFRS 1 allows the REIT to fair value its properties at the transition date, January 1, 2010, and use the fair value as its deemed cost if it were to select the cost model. Going forward, amortization of the investment property would be based on this deemed cost. This is a one-time election available to an entity at the IFRS transition date. The remaining exemptions and exceptions are either not applicable or will not have a significant impact on the REIT.

## **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, 2009, 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, 2009.

### **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, 2009.

During the year ended December 31, 2009, no changes to internal controls over financial reporting have materially affected, or are reasonably 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.