

ARTIS

REIT

**Management's Discussion & Analysis
2008 Annual**

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Forward-Looking Disclaimer

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

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

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OVERVIEW

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

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

Primary Objectives

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

The REIT's primary objectives are:

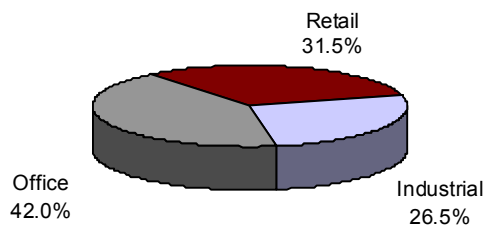
- to provide unitholders with stable and growing cash distributions, payable monthly and, to the maximum extent practicable, income tax deferred, from investments in a diversified portfolio of income-producing office, retail and industrial properties located in western Canada;
- to enhance the value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

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

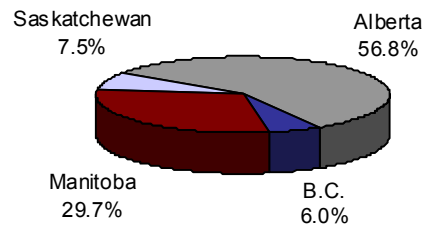
Portfolio Summary

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

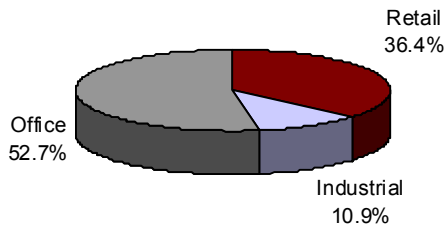
GLA by Asset Class



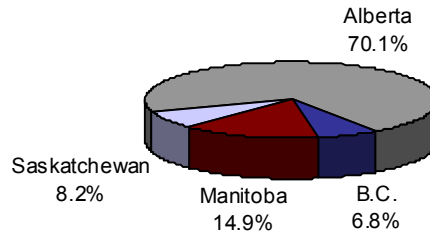
GLA by Province



Property NOI by Asset Class



Property NOI by Province



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

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

*including month-to-month leases

Lease Expiries by Province (in 000's of s.f.) ^{(1) (2)}

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

* including month-to-month leases

Historical Weighted-Average Portfolio Occupancy ⁽¹⁾

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

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

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

Notice Respecting Non-GAAP Measures

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

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

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

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

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

2008 – ANNUAL HIGHLIGHTS

Portfolio Growth

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

	Office		Retail		Industrial		Total	
	# of Properties	S.F. (000's)	# of Properties	S.F. (000's)	# of Properties	S.F. (000's)	# of Properties	S.F. (000's)
Portfolio properties at December 31, 2007	24	2,652	31	1,828	25	1,584	80	6,064
Q1-08 Acquisitions	-	-	4	211	-	-	4	211
Q2-08 Acquisitions	-	-	2	32	-	-	2	32
Q3-08 Acquisitions	1	47	-	-	1	154	2	201
Q4-08 Acquisition	1	14	-	-	-	-	1	14
Millennium Expansion	-	40	-	-	-	-	-	40
Total 2008 Acquisitions	2	101	6	243	1	154	9	498
Portfolio properties at December 31, 2008	26	2,753	37	2,071	26	1,738	89	6,562

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

Distributions

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

SELECTED FINANCIAL INFORMATION

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

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

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

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

ANALYSIS OF OPERATING RESULTS

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

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

Revenue and Property NOI

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

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

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

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

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

Same Property NOI Growth

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

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

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

Property NOI by Asset Class

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

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

Property NOI by Province

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

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

Portfolio Occupancy and Leasing Activity

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

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

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

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

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

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

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

Interest

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

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

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

Corporate Expenses

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

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

Amortization

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

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

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

Unrealized Gain (Loss) on Commodity Derivatives

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

Future Income Taxes

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

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

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

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

Non-Controlling Interest

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

Income from Discontinued Operations

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

Distributable Income ("DI") and Distributions:

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

Reconciliation of Cash Flows from Operations to DI:

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

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

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

Reconciliation of GAAP Income (Loss) to DI:

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

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

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

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

In 2008, DI increased \$17,068 (Q4-08 - \$1,285), or 45.3% (Q4-08 - 10.1%) over 2007. This increase is primarily attributed to the impact of acquisitions during 2008 and 2007, as well as internal growth achieved as below-market leases roll over at current market rates. Basic DI per unit increased \$0.18 (Q4-08 - \$0.01), or 12.1% (Q4-08 - 2.4%) over 2007. On a diluted basis, DI has increased \$0.19 (Q4-08 - \$0.02), or 13.4% (Q4-08 - 5.1%) over 2007. Artis has a strong embedded growth profile. Management anticipates there will be further growth in DI as a significant proportion of the REIT's leases are at below-market rates and management expects to renew expiring leases at higher rates.

Distributions:

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

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

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

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

Funds from Operations ("FFO"):

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

Reconciliation of Cash Flows from Operations to FFO:

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

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

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

Reconciliation of GAAP Income (Loss) to FFO:

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

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

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

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

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

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

ANALYSIS OF FINANCIAL POSITION

Assets

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

Income-producing properties and related intangible assets:

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

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

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

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

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

Property under development:

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

Notes receivable:

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

Capital expenditures:

Income-producing properties 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.

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

Tenant inducements and leasing costs:

Other assets of the REIT at December 31, 2008 include \$11,693 of unamortized tenant inducement and leasing costs related to the leasing or re-leasing of space, compared to \$5,906 at December 31, 2007. Of this total, \$11,540 relates to properties in use, and \$153 relates to properties available for sale. Tenant inducements include costs incurred to improve the space, as well as allowances paid to tenants. Leasing costs are primarily brokers' commissions. These costs are amortized over the terms of the underlying leases.

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

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

Recoverable operating costs:

Recoverable operating costs include major repair or replacement items (such as HVAC, elevator or roof replacements) that are recoverable from tenants under leases. These costs are capitalized when incurred and amortized to recoverable expenses over the planned period of recovery. In 2008, Artis incurred \$3,819 (Q4-08 - \$1,452) of recoverable operating costs compared to \$2,029 in 2007 (Q4-07 - \$996).

Future income tax assets:

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

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

Deposits on income-producing properties:

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

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

Cash and cash equivalents:

At December 31, 2008, the REIT had \$13,847 of cash and cash equivalents on hand, compared to \$29,386 at December 31, 2007. The balance is anticipated to be primarily used for working capital purposes. All of the REIT's cash and cash equivalents are held in current accounts and/or bank guaranteed investment certificates. The REIT does not invest in asset-backed commercial paper.

Liabilities

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

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

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

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

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

Mortgages:

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

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

Convertible debentures:

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

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

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

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

Other liabilities including bank indebtedness:

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

Non-Controlling Interest

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

Unitholders' Equity

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

Contractual obligations:

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

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

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

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

Future commitments:

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

SUMMARIZED QUARTERLY INFORMATION:

<i>\$000's, except unit and per unit amounts ⁽¹⁾</i>								
	Q4-08	Q3-08	Q2-08	Q1-08	Q4-07	Q3-07	Q2-07	Q1-07
Revenue	\$ 38,142	\$ 36,063	\$ 35,310	\$ 33,461	\$ 31,258	\$ 26,687	\$ 22,442	\$ 17,321
Property operating expenses	12,733	11,398	10,936	10,178	9,517	8,186	7,505	5,842
Property NOI	25,409	24,665	24,374	23,283	21,741	18,501	14,937	11,479
Interest	10,717	10,308	10,186	9,836	8,611	7,629	6,311	5,371
	14,692	14,357	14,188	13,447	13,130	10,872	8,626	6,108
Expenses:								
Corporate	1,350	1,137	1,342	1,140	1,382	1,257	1,061	1,098
Amortization	14,541	14,125	14,313	15,160	12,541	11,042	9,313	7,661
Unrealized (gain) loss on commodity derivatives	68	1,092	(455)	(928)	-	-	-	-
	15,959	16,354	15,200	15,372	13,923	12,299	10,374	8,759
Loss before the undernoted	(1,267)	(1,997)	(1,012)	(1,925)	(793)	(1,427)	(1,748)	(2,651)
Gain (loss) on disposal of income-producing properties	-	-	-	-	(10)	2,521	-	-
Non-controlling interest	(69)	(23)	(10)	(145)	-	-	-	-
Income (loss) before income taxes and discontinued operations	\$ (1,336)	\$ (2,020)	\$ (1,022)	\$ (2,070)	\$ (803)	\$ 1,094	\$ (1,748)	\$ (2,651)
Future income tax (expense) recovery	253	(92)	(992)	374	(1,466)	(206)	12,027	(2)
Income (loss) from discontinued operations	(14)	172	72	(115)	(69)	(11)	(3)	(4)
Income (loss) for the period	\$ (1,097)	\$ (1,940)	\$ (1,942)	\$ (1,811)	\$ (2,338)	\$ 877	\$ 10,276	\$ (2,657)
Basic income (loss) per unit	\$ (0.03)	\$ (0.06)	\$ (0.06)	\$ (0.06)	\$ (0.03)	\$ 0.03	\$ 0.45	\$ (0.40)
Diluted income (loss) per unit	\$ (0.03)	\$ (0.06)	\$ (0.06)	\$ (0.06)	\$ (0.03)	\$ 0.03	\$ 0.45	\$ (0.14)

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

Reconciliation of GAAP Income (Loss) to DI:

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

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

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

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

Reconciliation of GAAP Income (Loss) to FFO:

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

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

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

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

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

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

RELATED PARTY TRANSACTIONS

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

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

The REIT incurred advisory fees and acquisition fees under the asset management agreement with Marwest Management Canada Ltd. ("Marwest"), a company owned and controlled by certain trustees and officers of the REIT. The amount payable at December 31, 2008 is \$nil (December 31, 2007, \$nil). Under the asset management agreement, Marwest is entitled to an annual advisory fee equal to 0.25% of the adjusted cost base of the REIT's assets and an acquisition fee equal to 0.5% of the cost of each property acquired.

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

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

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

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

OUTSTANDING UNIT DATA

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

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

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

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

2009 OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

RISKS AND UNCERTAINTIES

Real Estate Ownership:

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

Debt Financing:

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

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

Credit Risk and Tenant Concentration:

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

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

Lease Rollover Risk:

The value of income properties and the stability of cash flows derived from those properties is dependent upon the level of occupancy and lease rates in those properties. Upon expiry of any lease, there is no assurance that a lease will be renewed on favourable terms, or at all; nor is there any assurance that a tenant can be replaced. A contraction in the Canadian economy would negatively impact demand for space in retail, office and industrial properties across Canada, consequently increasing the risk that leases expiring in the near term will not be renewed.

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

Expiry Year	British Columbia	Saskatchewan	Manitoba	Alberta	Calgary Office Only	Total
2009	1.1%	0.9%	4.4%	6.1%	2.3%	12.5%
2010	0.6%	1.3%	6.3%	7.4%	2.4%	15.6%
2011	0.4%	0.8%	5.2%	9.8%	5.9%	16.2%
2012	1.3%	0.4%	1.4%	4.2%	2.3%	7.3%
2013	0.3%	1.7%	4.2%	7.2%	4.5%	13.4%
2014 & later	2.2%	2.3%	7.4%	19.5%	7.9%	31.4%
Vacant	0.1%	0.1%	0.8%	2.5%	1.5%	3.5%
Total Square Feet	396,696	492,499	1,950,576	3,721,858	1,757,896	6,561,629

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

In total, only 12.5% of the portfolio's leasable area will expire in 2009. To date, approximately 42.6% of 2009 lease expiries, and 14% of 2010 lease expiries, have been renewed or new lease commitments secured. The weighted-average term to maturity of all leases in the portfolio is 5.1 years; for the top ten tenants (who account for 22% of the portfolio's gross revenues), the weighted-average lease term is 10.2 years.

Tax Risk:

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

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

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

Other Risks:

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

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

CRITICAL ACCOUNTING ESTIMATES

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

Allocation of purchase price of income-producing properties:

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

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

Impairment of assets:

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

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

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

Amortization:

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

Allocation of convertible debentures:

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

Future income tax valuation:

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

CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

Internal Controls Over Financial Reporting

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

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

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