



ARTIS

REIT

**Management's Discussion & Analysis
Q1 - 07**

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management 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, 2006 and 2005, the unaudited consolidated financial statements for the three-month periods ended March 31, 2007 and 2006, and the notes thereto. This MD&A has been prepared taking into account material transactions and events up to and including May 10, 2007. 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. 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 proposed 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.

Overview	2
2007 - First Quarter Highlights	4
Selected Financial Information	4
Analysis of Operating Results	5
Distributable Income	7
Funds from Operations	9
Analysis of Financial Position	10
Liquidity and Capital Resources	13
Summarized Quarterly Information	14
Related Party Transactions	16
Outstanding Unit Data	16
2007 Outlook	17
Risks and Uncertainties	17
Critical Accounting Estimates	19
Changes in Accounting Policies	19
Controls and Procedures	20

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. The REIT was created as a closed-end trust pursuant to the Declaration of Trust dated November 8, 2004.

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

The REIT's securities are listed on the Toronto Stock Exchange ("the TSX"). Units trade under the symbol AX.UN, and the REIT's Series A, Series B and Series C convertible debentures trade under the symbols AX.DB.A, AX.DB.B and AX.DB.C, respectively. As at May 10, 2007, there were 21,500,867 units, and 994,009 options of Artis outstanding as well as 721,347 Class B limited partnership units of the REIT's subsidiary AX L.P. ("AXLP") (refer to the 2007 Outlook - Subsequent Events section for further details).

Primary Objectives

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

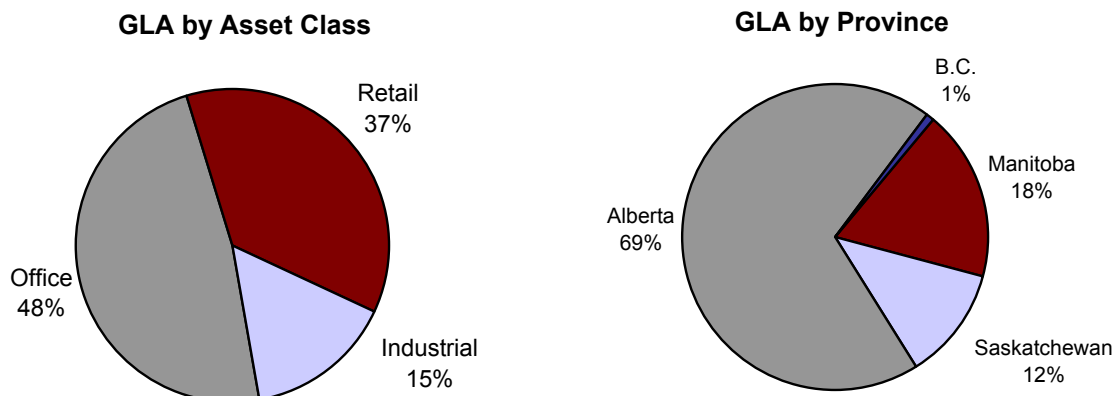
The REIT's primary objectives are:

- 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, primarily in Alberta;
- 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 accretive acquisitions in western Canada.

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

Portfolio Summary

At March 31, 2007, the REIT's portfolio was comprised of 45 commercial properties located across western Canada totaling approximately 3.9 million square feet (s.f.) of gross leasable area ("GLA").



Lease Expiries by Asset Class (in 000's of s.f.)

	Office		Retail		Industrial		Total	
	GLA	%	GLA	%	GLA	%	GLA	%
2007*	247	13.4%	65	4.6%	63	10.8%	375	9.7%
2008	404	21.8%	118	8.3%	37	6.3%	559	14.5%
2009	205	11.1%	180	12.7%	106	18.1%	491	12.7%
2010	261	14.1%	297	21.0%	50	8.5%	608	15.8%
2011	416	22.5%	179	12.6%	153	26.2%	748	19.4%
2012+	260	14.1%	546	38.5%	176	30.1%	982	25.5%
	1,793	96.9%	1,385	97.7%	585	100.0%	3,763	97.7%
Vacancies	57	3.1%	32	2.3%	-	0.0%	89	2.3%
Total GLA	1,850	100.0%	1,417	100.0%	585	100.0%	3,852	100.0%

*including month-to-month leases and expiries for the remainder of 2007

Lease Expiries by Province (in 000's of s.f.)

	Alberta		British Columbia		Manitoba		Saskatchewan	
	GLA	%	GLA	%	GLA	%	GLA	%
2007*	188	7.1%	2	5.7%	156	22.4%	29	6.3%
2008	453	17.0%	2	5.7%	34	4.9%	70	15.3%
2009	332	12.5%	4	11.4%	98	14.1%	57	12.5%
2010	459	17.2%	12	34.3%	48	6.9%	89	19.5%
2011	565	21.2%	13	37.1%	122	17.6%	48	10.5%
2012+	635	23.8%	2	5.7%	202	29.1%	143	31.3%
	2,632	98.8%	35	100.0%	660	95.0%	436	95.4%
Vacancies	33	1.2%	-	0.0%	35	5.0%	21	4.6%
Total GLA	2,665	100.0%	35	100.0%	695	100.0%	457	100.0%

* including month-to-month leases and expiries for the remainder of 2007

Historical Weighted Average Portfolio Occupancy

Q4-05	Q1-06	Q2-06	Q3-06	Q4-06	Q1-07
92.5%	93.5%	94.9%	95.8%	95.8%	96.3%

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

2007 – FIRST QUARTER HIGHLIGHTS

Portfolio Growth

In Q1-07, Artis acquired nine commercial properties in western Canada, adding over 900,000 square feet of leasable area to the portfolio, as follows:

	Office		Retail		Industrial		Total	
	# of Properties	S.F. (000's)	# of Properties	S.F. (000's)	# of Properties	S.F. (000's)	# of Properties	S.F. (000's)
Portfolio properties at December 31, 2006	12	1,367	21	1,362	3	196	36	2,925
Q1-07 Acquisitions ⁽¹⁾	5	483	1	55	3	389	9	927
Portfolio properties at March 31, 2007	17	1,850	22	1,417	6	585	45	3,852

⁽¹⁾ In Q1-07, Artis acquired an 85% ownership interest in the Centre 70 property; 100% of the property's s.f. is included in the above acquisitions.

Highlights of the REIT's Q1-07 acquisition activity include the purchase of the Dome Britannia portfolio, which is comprised of two downtown Calgary office buildings known as the Britannia Building and Sierra Place. These buildings together add 220,000 square feet of leasable space to the portfolio, and are currently 98.7% occupied. In Q1-07 Artis also acquired the 99.4% occupied 104,000 square foot Millennium Centre. The Millennium Centre is the premiere office building in Red Deer, one of Alberta's thriving secondary markets.

Financing Activities

On January 18, 2007, Artis announced it had entered into a bought-deal arrangement with a syndicate of underwriters for the sale of 5,050,000 trust units ("units") at a price of \$15.85 per unit. The offering closed on February 8, 2007, for aggregate gross proceeds of \$80.0 million. On February 20, 2007, the underwriting syndicate exercised their over-allotment option and a further 757,500 units were issued for aggregate gross proceeds of \$12.0 million.

Other Significant Activities

Effective February 15, 2007, the name of the REIT was changed from Westfield Real Estate Investment Trust to Artis Real Estate Investment Trust. In conjunction with the name change, the REIT's stock symbols changed from WFD.UN, WFD.DB.A, WFD.DB.B and WFD.DB.C to AX.UN, AX.DB.A, AX.DB.B and AX.DB.C, respectively.

Distributions

Artis distributed a total of \$4,999 to unitholders and \$189 to Class B unitholders in Q1-07 at a stable rate of \$0.0875 per month (\$1.05 on an annualized basis).

SELECTED FINANCIAL INFORMATION

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

Three month period ended March 31	2007		2006	
Revenues	\$	17,609	\$	9,357
Property NOI	\$	11,629	\$	5,740
Loss for the period	\$	(2,657)	\$	(1,509)
Loss per unit (basic and diluted)	\$	(0.14)	\$	(0.17)
Distributions	\$	4,999	\$	2,427
Distributions per unit	\$	0.26	\$	0.26
DI	\$	5,908	\$	2,562
DI per unit	\$	0.31	\$	0.29
DI payout ratio		83.9 %		89.7 %
FFO	\$	5,403	\$	2,249
FFO per unit	\$	0.28	\$	0.25
FFO payout ratio		92.9 %		104.0 %
Weighted average units:				
Weighted average units (basic)		18,468,086		8,918,795
Weighted average units (basic) including Class B units		19,189,433		8,918,795

Artis acquired 15 commercial properties since March 31, 2006, increasing the portfolio to 45 commercial properties at

March 31, 2007. Primarily as a result of this on-going acquisition activity, Artis increased Q1-07 revenues and Property NOI \$8,252 (88.2%) and \$5,889 (102.6%) respectively, compared to Q1-06 results. Artis also increased DI and FFO \$3,346 (130.6%) and \$3,154 (140.2%) respectively, compared to Q1-06 results.

On a per unit basis, basic FFO increased \$0.03, or 12.0% and basic DI increased \$0.02, or 6.9% compared to Q1-06. As a result of the successful closing of an equity offering on February 8, 2007, the weighted average units outstanding increased to 19.2 million units (including Class B units) for the three months ended March 31, 2007, compared to 8.9 million units at March 31, 2006. This substantial increase in units diluted the impact of strong growth in revenues, Property NOI, DI and FFO on per unit results. However, the REIT's financial results for Q1-07 are not indicative of future performance as the Q1-07 acquisitions were not owned for the full period. Management anticipates there will be further growth in revenues, Property NOI, DI and FFO, that will translate to higher per unit results from these acquisitions in future periods.

Losses for Q1-07 increased over Q1-06, primarily as a result of the increase in non-cash amortization expense related to the 15 properties acquired since March 31, 2006, which offset the increase in revenues, net of property operating expenses, interest and corporate expenses.

ANALYSIS OF OPERATING RESULTS

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

Three month period ended March 31	2007	% of Revenue	2006	% of Revenue
Revenue	\$ 17,609		\$ 9,357	
Property operating expenses	5,980	34.0%	3,617	38.7%
Property NOI	11,629	66.0%	5,740	61.3%
Interest	5,427	30.8%	2,906	31.1%
	6,202		2,834	
Expenses:				
Corporate	1,098	6.2%	451	4.8%
Amortization	7,761		4,833	
	8,859		5,284	
Loss before the under-noted	(2,657)		(2,450)	
Gain on disposal of income-producing properties	-		941	
Loss for the period	\$ (2,657)		\$ (1,509)	
Loss per unit (basic and diluted)	\$ (0.14)		\$ (0.17)	
Weighted average number of units:				
Basic and diluted	18,468,086		8,918,795	

Revenues and Property NOI

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

In accordance with GAAP, Artis accounts for rent step-ups by straight-lining the incremental increases over the entire non-cancelable lease term. In Q1-07, straight-line rent adjustments of \$250 were recorded compared to \$165 in Q1-06.

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. Since March 31, 2006, Artis acquired 15 commercial properties, many in the province of Alberta, where in-place rent rates are considered to be well below market rent rates. As a result, in Q1-07, the adjustment to market rents was \$1,075 compared to \$476 in Q1-06.

Revenues in Q1-07 included \$420 of interest earned by Artis (compared to \$141 in Q1-06) and \$nil of other income (compared to \$15 in Q1-06).

Property NOI has increased to 66.0% of revenues at March 31, 2007, compared to 61.3% of revenues at March 31, 2006.

Same Property NOI Growth

\$000's			
Three month period ended March 31		2007	2006
Revenues		\$ 9,177	\$ 8,843
Property operating expenses		3,575	3,474
Property NOI		\$ 5,602	\$ 5,369

(1) Same property comparison includes only income-producing properties owned on January 1, 2006

Artis achieved an increase of \$233, or 4.3% of Property NOI as a result of absorption of space in the portfolio and rate increases on lease rollovers, particularly in Alberta.

Property NOI by Asset Class

Property NOI results by asset class and province have been significantly impacted by acquisitions concluded since March 31, 2006

\$000's							
Three month period ended March 31		2007			2006		
		Retail	Office	Industrial	Retail	Office	Industrial
Revenue	\$	7,607	\$ 8,554	\$ 1,028	\$ 4,791	\$ 4,410	\$ -
Property operating expenses		2,240	3,517	223	1,468	2,149	-
Property NOI	\$	5,367	\$ 5,037	\$ 805	\$ 3,323	\$ 2,261	\$ -
Share of Property NOI		47.9 %	44.9 %	7.2 %	59.5 %	40.5 %	0.0 %

Property NOI by Province

\$000's									
Three month period ended March 31		2007				2006			
		MB	SK	AB	BC	MB	SK	AB	BC
Revenue	\$	2,484	\$ 2,652	\$ 11,817	\$ 236	\$ 1,899	\$ 2,154	\$ 4,911	\$ 237
Property operating expenses		1,116	869	3,898	97	1,014	718	1,821	64
Property NOI	\$	1,368	\$ 1,783	\$ 7,919	\$ 139	\$ 885	\$ 1,436	\$ 3,090	\$ 173
Share of Property NOI		12.2 %	15.9 %	70.7 %	1.2 %	15.9 %	25.7 %	55.3 %	3.1 %

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

Interest

The current year's interest on long-term debt is attributable to mortgages and other secured loans against the income-producing properties, as well as convertible debentures outstanding. Effective January 1, 2007, Artis adopted new accounting policies for financial instruments. As a result, on a prospective basis, financing costs are no longer deferred and amortized over the terms of the underlying agreements, and instead are netted against the related debt. Interest and financing costs are amortized on an effective interest basis. The weighted average effective rate for the period ending March 31, 2007 was 5.51%.

The REIT's weighted average nominal interest rate on mortgages and other debt secured by properties at March 31,

2007 was 5.43% compared to 5.27% at March 31, 2006.

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 \$1,325 on the carrying value of debentures outstanding in Q1-07, compared to \$700 in Q1-06; the increase is a result of the interest expense related to the \$30,000 of Series C debentures issued in May of 2006.

Corporate Expenses

<i>\$000's</i>		
Three month period ended March 31	2007	2006
Accounting, legal, consulting	\$ 317	\$ 113
Advisory fees	319	161
Public company costs	183	35
Annual report and AGM	27	-
Unit-based compensation	194	40
Other general and administrative	58	102
Total corporate expenses	\$ 1,098	\$ 451

Q1-07 accounting, legal and consulting fees increased \$204 over Q1-06, including \$73 of costs directly attributed to the reorganization from a closed to open-end trust. Q1-07 advisory fees increased \$158 over Q1-06, reflecting the increased asset base of the REIT. Q1-07 public company costs increased \$148 over Q1-06, largely due to the higher fees incurred based on the REIT's higher level of market capitalization. Q1-07 unit-based compensation costs increased \$154 over Q1-06, as a result of the costs attributable to options granted subsequent to March 31, 2006.

Corporate expenses in Q1-07 were \$1,098 (6.2% of gross revenues) compared to \$451 in Q1-06 (4.8% of gross revenues). Management anticipates that corporate expenses as a percentage of gross revenues will decline in future periods as the full impact of revenues from recent acquisitions are realized.

Amortization

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

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 \$3,260 in Q1-07 compared to \$1,806 in Q1-06. 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 Q1-07 Artis recorded \$4,354 for the amortization of intangible assets, compared to \$2,877 in Q1-06.

In Q1-06, amortization expense included \$134 of deferred financing costs. Deferred financing costs included legal and other fees incurred in connection with mortgages and other loans against properties, as well as the issuance of convertible debentures, amortized over the terms of the underlying loan or indenture agreements. As a result of the adoption of new accounting policies for financial instruments, deferred finance costs are no longer included in amortization expense. Interest expense in Q1-07 includes \$49 of amortization of deferred financing costs. See Note 2 (i) of the Interim Consolidated Financial Statements of the REIT as well as the *Changes in Accounting Policies* section of this report for further details.

Distributable Income ("DI"):

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

Reconciliation of GAAP Loss to DI:

<i>\$000's, except unit and per unit amounts</i>		
Three month period ended March 31	2007	2006
Loss for the period	\$ (2,657)	\$ (1,509)
Add:		
Amortization (excluding amortized leasing costs)	7,614	4,683
Amortized financing costs on convertible debentures	-	92
Accretion on liability component of convertible debentures	457	197
Unit-based compensation expense	194	40
Gain on disposal of income-producing properties	-	(941)
Other adjustments ⁽¹⁾	300	-
DI	\$ 5,908	\$ 2,562

Reconciliation of Cash Flows from Operations to DI:

<i>\$000's, except unit and per unit amounts</i>		
Three month period ended March 31	2007	2006
Cash flow from operations	\$ 6,828	\$ (980)
Deduct amortization of:		
Office equipment	(1)	(1)
Above-market rent	(47)	(54)
Below-market rent	1,122	530
Tenant inducements and leasing costs	(146)	(16)
Above-market mortgage	28	9
Deferred financing costs, non-debenture	-	(42)
Add: Straight-line rent adjustment	250	165
Deduct:		
Changes in non-cash operating items	(2,377)	2,951
Deferred financing costs, non-debenture, included in interest expense	(49)	-
Other adjustments ⁽¹⁾	300	-
DI for the period	\$ 5,908	\$ 2,562
DI per unit		
Basic	\$ 0.31	\$ 0.29
Diluted	\$ 0.30	\$ 0.27
Weighted average number of units:		
Basic ⁽²⁾	19,189,433	8,918,795
Diluted ⁽²⁾	22,630,256	11,502,700

⁽¹⁾ Added back to Q1-07 DI is \$300 of Property rent (Q1-06 - \$nil), which is cash revenue earned pursuant to the Interplex II purchase and sale agreement not recorded as revenue in the REIT's Consolidated Statement of Operations and Deficit due to the project being in the development phase. ⁽²⁾ The weighted average number of units used in the calculation of basic and diluted DI per unit in Q1-07 includes the 721,347 Class B units issued by the REIT's subsidiary, AXLP, on a weighted average basis. Options and convertible debentures are factored into the diluted weighted average calculation, to the extent that their impact is dilutive

Q1-07 DI has increased \$3,346, or 130.6% over Q1-06. This significant increase is attributed to the impact of acquisitions since March 31, 2006. Basic DI per unit increased \$0.02, or 6.5%, over Q1-06 (\$0.02, or 6.9%, on a diluted basis). As the current quarter's acquisitions were not owned for the full period, management anticipates there will be further growth in DI per unit (basic and diluted) from these acquisitions in future periods.

Funds from Operations ("FFO"):

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

Reconciliation of GAAP Loss to FFO:

<i>\$000's, except unit and per unit amounts</i>		
Three month period ended March 31	2007	2006
Loss for the period	\$ (2,657)	\$ (1,509)
Add amortization on:		
Income-producing properties	3,260	1,806
Acquired in-place leases	4,348	2,871
Customer relationships	6	6
Tenant inducements and leasing costs	146	16
Gain on disposal of income-producing properties	-	(941)
Other adjustments ⁽¹⁾	300	-
FFO for the period	\$ 5,403	\$ 2,249

Reconciliation of Cash Flows from Operations to FFO:

<i>\$000's, except unit and per unit amounts</i>		
Three month period ended March 31	2007	2006
Cash flow from operations	\$ 6,828	\$ (980)
Deduct amortization of:		
Office equipment	(1)	(1)
Above-market rent	(47)	(54)
Deferred financing costs	-	(134)
Below-market rent	1,122	530
Above-market mortgages	28	9
Add:		
Straight-line rent adjustment	250	165
Deduct:		
Accretion on liability component of convertible debentures	(457)	(197)
Unit-based compensation expense	(194)	(40)
Amortization of deferred financing costs included in interest	(49)	-
Changes in non-cash operating items	(2,377)	2,951
Other adjustments ⁽¹⁾	300	-
FFO for the period	\$ 5,403	\$ 2,249
FFO per unit		
Basic	\$ 0.28	\$ 0.25
Diluted	\$ 0.28	\$ 0.24
Weighted average number of units:		
Basic ⁽²⁾	19,189,433	8,918,795
Diluted ⁽²⁾	19,325,025	9,507,636

⁽¹⁾ Added back to Q1-07 FFO is \$300 of Property rent (Q1-06 - \$nil), which is cash revenue earned pursuant to the Interplex II purchase and sale agreement not recorded as revenue in the REIT's Consolidated Statement of Operations and Deficit due to the project being in the development phase. ⁽²⁾ The weighted average number of units used in the calculation of FFO per unit in Q1-07 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.

Q1-07 FFO has increased \$3,154, or 140.2%, over Q1-06. This significant increase is attributed to the impact of acquisitions since March 31, 2006. Basic FFO per unit has increased by \$0.03, or 12.0%, over Q1-06 (\$0.04, or 16.7% on a diluted basis). As the current quarter's acquisitions were not owned for the full period, management anticipates there will be further growth in FFO per unit (basic and diluted) from these acquisitions in future periods.

ANALYSIS OF FINANCIAL POSITION

Assets

	March 31		December 31		Increase
	2007		2006		
Income-producing properties	\$	562,299	\$	388,845	\$ 173,454
Other assets, including intangibles		88,602		78,173	10,429
Deposits on income-producing properties		9,295		10,343	(1,048)
Cash and cash equivalents		31,398		15,579	15,819
	\$	691,594	\$	492,940	\$ 198,654

Income-producing properties and related intangible assets:

The REIT's income-producing properties and related intangible assets increased significantly, reflecting the acquisition of nine income-producing properties during Q1-07, as follows:

Property	Location	Acquisition Date	Type
CDI College Building	280 Main Street, Winnipeg, MB	January 12, 2007	Office
Keewatin Distribution Centre	959 - 989 Keewatin Street, Winnipeg, MB	January 31, 2007	Industrial
Clareview Town Centre	50th Street & 137th Avenue, Edmonton, AB	February 1, 2007	Retail
Centre 70 ⁽¹⁾	7015 Macleod Trail SW & 555-69th St SW, Calgary, AB	February 28, 2007	Office
Honeywell Building	2840 - 2nd Avenue SE, Calgary, AB	February 28, 2007	Industrial
Millennium Centre	4909-49th St. & 4902-48th St., Red Deer, AB	February 28, 2007	Office
Bower Centre	2319 Taylor Dr. & 2310 Gaetz Ave., Red Deer, AB	March 1, 2007	Industrial
Britannia Building ⁽²⁾	703 - 6th Ave SW, Calgary, AB	March 31, 2007	Office
Sierra Place ⁽²⁾	706 - 7th Ave SW, Calgary, AB	March 31, 2007	Office

⁽¹⁾ Artis REIT acquired an 85% ownership interest in Centre 70

⁽²⁾ Britannia Building & Sierra Place were acquired together as the Dome Britannia 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 at December 31, 2006, from the proceeds of new or assumed mortgage financing and from the proceeds of the equity financing completed in February, 2007. The acquisitions have been accounted for by the purchase method, with a portion of the purchase price allocated to income-producing properties and a portion allocated to intangible assets and liabilities, as noted below.

\$000's		2007
Three month period ended March 31		
Cash consideration	\$	72,443
Issuance of Class B units		-
New or assumed mortgages including above-market mortgage		106,790
Net assets acquired	\$	179,233
Allocated to income-producing properties	\$	176,403
Allocated to property under development		-
Allocated to other assets		17,224
Allocated to intangible liabilities		(14,394)
Net assets acquired	\$	179,233

Property under development:

Included in income-producing properties is property under development of which \$2,681 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 in 2007 and is slated for completion in 2009.

Capital expenditures:

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

These non-recoverable capital expenditures in Q1-07 totaled \$311 (Q1-06 - \$(7)), which were primarily related to the total redevelopment of a full floor in one of the REIT's office buildings. Management considers the redevelopment project to be revenue enhancing, as the space is being improved from Class "C" building standards to Class "B" building standards, which is expected to translate into higher rents on lease-up.

Tenant Inducements and leasing costs:

Other assets of the REIT includes \$3,912 of unamortized tenant inducement and leasing costs related to the leasing or re-leasing of occupied or vacant space at March 31, 2007, compared to \$3,406 at December 31, 2006. Tenant inducements include costs incurred to improve the space, as well as allowances paid to tenants. Leasing costs are primarily brokers' commissions. These costs are deferred and amortized over the terms of the underlying leases. In Q1-07, Artis incurred \$652 of tenant inducements and leasing costs compared to \$239 in Q1-06.

<i>\$000's</i>	March 31 2007		December 31 2006	
Tenant inducements	\$	3,074	\$	2,692
Leasing commissions		838		714
Total	\$	3,912	\$	3,406

Deferred recoverable operating costs:

Deferred recoverable operating costs include major repair or replacement items (such as HVAC, elevator or roof replacements) that are recoverable from tenants under leases. These costs are deferred when incurred and amortized to recoverable expenses over the planned period of recovery. In connection with the acquisition of properties in Q1-07, the REIT allocated \$318 of the purchase price to deferred recoverable operating costs.

<i>\$000's</i>	March 31 2007		December 31 2006	
Deferred recoverable operating costs	\$	875	\$	557

Deposits on income-producing properties:

At March 31, 2007, Artis had made \$1,609 of deposits on income-producing properties, related to the unconditional agreements to acquire income-producing properties during the subsequent quarters of 2007.

Also included in deposits on income-producing properties at March 31, 2007, is \$7,686 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 \$500 earned by the REIT under the terms of the Interplex II purchase and sale agreement up to March 31, 2007, offset by the \$286 distributions paid (or payable) on the Class B units issued. \$100 of costs were incurred related to this project.

Cash and cash equivalents:

At March 31, 2007, the REIT had \$31,398 of cash and cash equivalents on hand, including cash held in trust (compared to \$15,579 at December 31, 2006), reflecting the remaining proceeds from the February 2007 prospectus offering. The balance is anticipated to be invested in income-producing property in subsequent periods, or used for working capital purposes.

Liabilities

<i>\$000's</i>			
	March 31 2007	December 31 2006	Increase
Long-term debt	\$ 414,372	\$ 312,844	\$ 101,528
Other liabilities	38,202	21,976	16,226
	\$ 452,574	\$ 334,820	\$ 117,754

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.

At March 31, 2007, Artis has reduced its debt to GBV ratio to 51.6%, from 52.1% at December 31, 2006.

<i>\$000's</i>			
	March 31 2007	December 31 2006	
GBV	\$ 729,543	\$ 523,081	
Mortgages and loans secured by properties ⁽¹⁾	376,498	272,341	
Mortgages and loans to GBV	51.6 %	52.1 %	
Carrying value of convertible debentures	\$ 37,874	\$ 40,503	
Total long-term debt	414,372	312,844	
Total long-term debt to GBV	56.8 %	59.8 %	

(1) Includes \$584 mark-to-market on above-market mortgages

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 Q1-07, Artis assumed or obtained new mortgage financing of \$106,790 in conjunction with the Q1-07 acquisitions. In Q1-07, \$1,300 of principal repayments were made. There were no mortgages that matured or were refinanced during the current period.

As a result of the adoption of new accounting standards effective January 1, 2007, Artis has reduced the carrying value of its mortgage debt by \$1,333, netting the financing costs against the carrying value of the debt. Interest and financing costs are amortized on an effective interest basis; the weighted average effective rate for the period ending March 31, 2007 was 5.51% (compared to the weighted average nominal rate on the mortgage debt of 5.43%).

The weighted average term to maturity at March 31, 2007 is 6.7 years, compared to 7.0 years at December 31, 2006.

Convertible Debentures:

Artis has three series of convertible debentures outstanding as at March 31, 2007, as follows:

				March 31		December 31	
				2007		2006	
	Issued	Maturity	Face rate	Carrying value	Face value	Carrying value	Face value
Series A	4-Aug-05	4-Aug-10	7.75%	\$ 7,720	\$ 9,595	\$ 8,699	\$ 10,185
Series B	9-Nov-05	9-Nov-10	7.50%	8,598	10,862	9,093	10,862
Series C	4-May-06	31-May-13	6.25%	21,556	30,000	22,711	30,000
				\$ 37,874	\$ 50,457	\$ 40,503	\$ 51,047

As a result of the adoption of new accounting standards effective January 1, 2007, Artis has reduced the carrying value of its debentures by \$2,304, netting the financing costs against the carrying value of the debentures. Interest and financing costs are amortized on an effective interest basis, which increased the carrying value by \$457 in Q1-07.

During Q1-07, Series A convertible debentures with a face value of \$590 were converted and 46,824 units were issued at the exercise price of \$12.60 per unit. The carrying value was reduced by \$479.

Other liabilities:

Other liabilities includes the unamortized below-market rent intangible liability of \$26,613 at March 31, 2007. This increased \$13,272 from \$13,341 at December 31, 2006, as a result of acquisition activity since March 31, 2006. Also included in other liabilities are security deposits paid by tenants, rents prepaid by tenants at March 31, 2007, accounts payable and accruals as well as the March 31, 2007 distribution payable to unitholders of \$1,890, subsequently paid on April 13, 2007.

Non-Controlling Interest

In accordance with GAAP, the amount of equity related to the issue of 721,347 Class B units of a subsidiary, AXLP, (net of costs of issuance) 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, after making certain adjustments required under GAAP, is \$10,322 (see Note 11 of the accompanying Interim Consolidated Financial Statements for further details).

Unitholders' Equity

Unitholders' equity increased by \$80,946 between March 31, 2007 and December 31, 2006. Equity was increased by the issue of 5,807,500 units (including the exercise of the over-allotment option) at a price of \$15.85 per unit for net proceeds of \$87,870, pursuant to the prospectus dated February 27, 2007.

Unitholders' equity increased during the current period by a further \$479 as a result of the conversion of a principal amount of \$591 of Series A convertible debentures. Other transactions increasing Unitholders' equity in the year included issuance of units under the DRIP plan and adjustments to contributed surplus to reflect unit-based compensation expense in the period.

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

LIQUIDITY AND CAPITAL RESOURCES

In Q1-07 Artis generated \$6,828 (Q1-06, used \$980) of cash flows from operations. Cash flows from operations assisted in funding distributions to Unitholders of \$4,999 (Q1-06, \$2,427), distributions to Class B unitholders of \$189 and for principal repayments on mortgages and loans of \$1,300 (Q1-06, \$807). As the current year acquisitions were not owned for the full period, management anticipates that cash flows from operations will increase in future periods

as a result of these acquisitions.

Artis realized net proceeds of \$87,870 from the issuance of units pursuant to the February 27, 2007 prospectus. These proceeds, as well as cash on hand and deposits on income-producing properties at the beginning of the period, were used to finance the cash portion of acquisitions in the period, totaling \$72,443 (Q1-06, \$25,814). \$963 (Q1-06, \$232) was used for substantive capital building improvements or for tenant inducements and leasing costs. Subsequent to March 31, 2007, \$14,000 was used to finance the mortgage with respect to the property known as Capital Place (see the 2007 Outlook - Subsequent Events section for further details).

At March 31, 2007, Artis had \$31,398 of cash and cash equivalents on hand. Management anticipates that the cash on hand will be invested in additional income-producing properties, subsequent to March 31, 2007, or used for working capital purposes.

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.

Contractual obligations:

\$000's	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Mortgages and other loans secured by properties ⁽¹⁾	\$ 377,219	\$ 10,677	\$ 34,326	\$ 123,647	\$ 208,569
Convertible debentures ⁽²⁾	50,457	-	-	20,457	30,000
Total	\$ 427,676	\$ 10,677	\$ 34,326	\$ 144,104	\$ 238,569

⁽¹⁾ Not including \$584 of mark-to-market on mortgages.

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

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

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

SUMMARIZED QUARTERLY INFORMATION:

<i>\$000's, except unit and per unit amounts</i>	Q1-07	Q4-06	Q3-06	Q2-06	Q1-06	Q4-05	Q3-05	Q2-05
Revenue	\$ 17,609	\$ 16,489	\$ 15,744	\$ 11,932	\$ 9,357	\$ 6,547	\$ 1,728	\$ 854
Property operating expenses	5,980	6,077	5,665	3,912	3,617	2,728	355	209
Property NOI	11,629	10,412	10,079	8,020	5,740	3,819	1,373	645
Interest	5,427	4,834	5,277	3,986	2,906	2,150	634	212
Expenses:	6,202	5,578	4,802	4,034	2,834	1,669	739	433
Corporate	1,098	973	532	1,125	451	584	219	59
Amortization	7,761	7,864	7,545	5,906	4,833	3,284	665	478
	8,859	8,837	8,077	7,031	5,284	3,868	884	537
Loss before the under-noted	(2,657)	(3,259)	(3,275)	(2,997)	(2,450)	(2,199)	(145)	(104)
Gain (loss) on disposal of income-producing properties	-	-	-	(113)	941	-	-	-
Loss for the period	\$ (2,657)	\$ (3,259)	\$ (3,275)	\$ (3,110)	\$ (1,509)	\$ (2,199)	\$ (145)	\$ (104)
Loss per unit								
Basic and diluted	\$ (0.14)	\$ (0.22)	\$ (0.27)	\$ (0.26)	\$ (0.17)	\$ (0.31)	\$ (0.04)	\$ (0.08)

Reconciliation of GAAP Loss to DI:

\$000's, except unit and per unit amounts								
	Q1-07	Q4-06	Q3-06	Q2-06	Q1-06	Q4-05	Q3-05	Q2-05
Loss for the period	\$ (2,657)	\$ (3,259)	\$ (3,275)	\$ (3,110)	\$ (1,509)	\$ (2,199)	\$ (145)	\$ (104)
Add:								
Amortization (excluding amortized leasing costs)	7,614	7,504	7,260	5,686	4,683	3,193	626	477
Amortized financing costs on convertible debentures	-	163	163	115	92	65	37	3
Accretion on liability component of debentures	457	172	399	326	197	162	73	-
Unit-based compensation expense	194	382	40	40	40	157	-	-
(Gain) loss on disposal of income-producing properties	-	-	-	113	(941)	-	-	-
Other adjustments ⁽¹⁾	300	200	-	397	-	-	-	-
Distributable income (DI)	\$ 5,908	\$ 5,162	\$ 4,587	\$ 3,567	\$ 2,562	\$ 1,378	\$ 591	\$ 376
DI per unit								
Basic ⁽²⁾	\$ 0.31	\$ 0.34	\$ 0.38	\$ 0.30	\$ 0.29	\$ 0.20	\$ 0.14	\$ 0.30
Diluted ⁽²⁾	\$ 0.30	\$ 0.33	\$ 0.35	\$ 0.28	\$ 0.27	\$ 0.20	\$ 0.14	\$ 0.30
Weighted average number of units:								
Basic ⁽²⁾	19,189,433	15,153,247	12,072,151	11,850,099	8,918,795	6,993,641	4,122,383	1,269,728
Diluted ⁽²⁾	22,630,256	18,577,492	15,609,760	15,003,921	11,502,700	7,030,560	4,152,154	1,270,131

(1) Added back to Q1-07 and Q4-06 DI is \$300 and \$200 of Property rent, which is cash revenue earned pursuant to the Interplex II purchase and sale agreement not recorded as revenue in the REIT's Consolidated Statement of Operations and Deficit due to the project being in the development phase. Added back to Q2-06 DI is \$397 of costs attributed to an unsuccessful take-over bid.

(2) 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 Loss to FFO:

\$000's, except unit and per unit amounts								
	Q1-07	Q4-06	Q3-06	Q2-06	Q1-06	Q4-05	Q3-05	Q2-05
Loss for the period	\$ (2,657)	\$ (3,259)	\$ (3,275)	\$ (3,110)	\$ (1,509)	\$ (2,199)	\$ (145)	\$ (104)
Add amortization on:								
Income-producing properties	3,260	3,079	3,010	2,211	1,806	1,318	308	153
Acquired in-place leases	4,348	4,419	4,244	3,470	2,871	1,869	312	310
Customer relationships	6	6	6	5	6	6	6	14
Tenant inducements and leasing costs	146	137	60	33	16	9	-	-
Gain on disposal of income-producing properties	-	-	-	113	(941)	-	-	-
Other adjustments ⁽¹⁾	300	200	-	397	-	-	-	-
Funds from operations (FFO)	\$ 5,403	\$ 4,582	\$ 4,045	\$ 3,119	\$ 2,249	\$ 1,003	\$ 481	\$ 373
FFO per unit								
Basic	\$ 0.28	\$ 0.30	\$ 0.34	\$ 0.26	\$ 0.25	\$ 0.14	\$ 0.12	\$ 0.29
Diluted	\$ 0.28	\$ 0.30	\$ 0.33	\$ 0.26	\$ 0.24	\$ 0.14	\$ 0.12	\$ 0.29
Weighted average number of units:								
Basic	19,189,433	15,153,247	12,072,151	11,850,099	8,918,795	6,993,641	4,122,383	1,269,728
Diluted	19,325,025	15,225,436	12,131,910	12,074,314	9,507,631	7,030,560	4,152,154	1,270,131

(1) Added back to Q1-07 and Q4-06 DI is \$300 and \$200 of Property rent, which is cash revenue earned pursuant to the Interplex II purchase and sale agreement not recorded as revenue in the REIT's Consolidated Statement of Operations and Deficit due to the project being in the development phase. Added back to Q2-06 DI is \$397 of costs attributed to an unsuccessful take-over bid.

(2) 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.

Artis has executed an aggressive but disciplined external growth strategy, resulting in significant growth in revenues, Property NOI, DI and FFO over the past eight quarters. Per unit results posted in Q3-06 were the strongest in the REIT's two-year history, reflecting the fact that capital raised in the market had been substantially invested in income-producing property early in that quarter.

Management does not believe that the Q4-06 and Q1-07 per unit results are indicative of future performance. Both periods were impacted by the issue of substantial units early in the period, with property acquisitions delayed to later in the quarter. Management expects that there will be further growth in revenues, Property NOI, FFO and DI in future periods from these acquisitions, which will enhance per-unit performance in future periods.

RELATED PARTY TRANSACTIONS

	Three months ended	
	March 31, 2007	March 31, 2006
Legal fees - expensed	\$ 67	\$ 183
Legal fees - capitalized	449	-
Advisory fees	319	160
Acquisition fees	928	355
Property management fees	615	326
Leasing commissions	112	99
Building improvements	248	52
Tenant inducements	143	-
Interest expense	-	34

Artis 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 March 31, 2007 is \$493 (2006, \$112).

Artis 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 March 31, 2007 is \$400 (2006, \$350). 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. 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.

Artis incurred property management fees, leasing commission fees, and tenant improvement fees under the property management agreement with Marwest. The amount payable at March 31 2007 is \$nil (2006, \$53). 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.

Artis incurred costs for building improvements paid to Marwest Construction Ltd., a company related to certain trustees and officers of the REIT. The amount payable at March 31, 2007 is \$192 (2006, \$nil).

OUTSTANDING UNIT DATA

The balance of units outstanding as of May 10, 2007 is as follows:

Units outstanding at March 31 2007	21,076,540
Units issued (Prospectus Offering)	-
Units issued (DRIP)	1,898
Units issued in lieu of interest on debenture	4,657
Units issued on conversion of debenture	399,388
Units issued on exercise of options	18,384
Units outstanding at May 10, 2007	21,500,867

The balance of options outstanding as of May 10, 2007 is as follows:

	Options outstanding	Options exercisable
\$11.25 options	272,759	59,464
\$14.40 options, issued October 11, 2006	432,500	102,500
\$15.85 options, issued February 8, 2007	288,750	69,000
	<u>994,009</u>	<u>230,964</u>

2007 OUTLOOK

Artis is a growth-oriented REIT focused exclusively on commercial properties located in primary and growing secondary markets in western Canada, particularly in Alberta. The REIT's goal is to provide unitholders the opportunity to invest in high-quality western Canadian office, retail and industrial properties, as well as to provide monthly cash distributions that are stable, tax efficient, and growing over time.

Artis intends to continue to source acquisitions or development opportunities within its stated product/market focus that meets its financial criteria. Artis will also focus on increasing same Property NOI through effective property and leasing management.

Subsequent Events

On April 1, 2007, the REIT acquired the shares of 3907806 Manitoba Ltd. from third parties. The corporation's major asset is the income-producing property known as MTS Call Centre, located in Winnipeg, Manitoba. The shares were acquired for \$13,850 and the purchase price was satisfied with a combination of cash and assumed mortgage financing in the amount of \$10,351. The mortgage was subsequently repaid and new mortgage financing was arranged in the amount of \$9,100, bearing interest at a rate of 4.95% per annum.

On April 1, 2007, the REIT provided second mortgage financing to a third party in the amount of \$15,000. The mortgage is secured by the mortgagee's income-producing property, known as Capital Place, located in Edmonton, Alberta. The second mortgage ranks immediately behind a pre-existing first mortgage on the property. The REIT also holds title in escrow to the income-producing property in the event that the mortgagee defaults on the mortgage. The mortgage bears interest at 9% per annum and is repayable in monthly instalments of interest only. The mortgage matures on March 31, 2009, at which time the principal becomes due.

On April 11, 2007, a holder of convertible debentures exercised their option and converted Series A convertible debentures with a face value of \$5,000 into trust units. The REIT issued 396,825 units at the exercise price of \$12.60. A further 4,634 units were issued in lieu of accrued interest.

On May 10, 2007, the REIT entered into an agreement to sell to a syndicate of underwriters, on a bought-deal basis, 4,550,000 trust units at a price of \$17.60 per unit, for aggregate gross proceeds of approximately \$80.0 million. The financing is expected to close on or about June 11, 2007, and the proceeds are intended to be used for a combination of debt reduction, property acquisitions, and for general working capital purposes. The underwriters have been granted the option to acquire additional trust units to a maximum of 15% of the offering at a price of \$17.60 per unit.

RISKS AND UNCERTAINTIES

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

Tax Risk:

Artis currently qualifies as a Mutual Fund Trust for Canadian income tax purposes and, as discussed in note 2 to the financial statements, does not record a provision for income taxes on income earned by the REIT and its flow through entities. On March 29, 2007, the federal government tabled a bill in the House of Commons to implement a new tax on distributions from publicly listed or traded trusts and partnerships referred to as "specified investment flow-throughs" ("SIFT").

Under the bill, certain distributions from a SIFT trust or partnership will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the

general tax rate applicable to a Canadian corporation. However, the bill generally provides that distributions paid by a SIFT as returns of capital should not be subject to the tax.

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

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

The bill, as currently drafted, contains a number of technical provisions that may not fully accommodate common real estate properties and business structures. The REIT is currently reviewing the bill and is assessing its interpretation and application to the REIT's assets and revenues. There are uncertainties in the interpretation and application of the bill and it is not possible to determine, at the current time, if the REIT will meet the Trust Conditions. If the bill is enacted as currently drafted, it is possible that the REIT would become subject to tax on certain income and, at the date of substantive enactment, the REIT would record future income tax assets and liabilities in respect of accounting and tax basis differences that are expected to reverse in future periods, with a corresponding credit or charge to consolidated earnings for the period.

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

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. Currently, government tenants contribute 11.2% to the REIT's overall gross revenue and occupy 10.3% of total GLA. The REIT's ten top tenants (excluding government agencies) are primarily high credit rated national retailers or businesses. As indicated below, the largest tenant in the entire portfolio contributed 5% to the gross revenue of the REIT and occupied 3.9% of the GLA.

Top Ten Tenants by GLA	Share	Top Ten Tenants by Gross Revenue	Share
Jacobs Canada	3.9%	Jacobs Canada	5.0%
Sears	2.7%	Credit Union Central	3.3%
Credit Union Central	2.2%	Shoppers Drug Mart	2.6%
Shoppers Drug Mart	2.1%	Cineplex Odeon	2.2%
Cineplex Odeon	1.7%	Komex International	1.7%
BW Technologies (Honeywell)	1.6%	BW Technologies (Honeywell)	1.5%
Rosedale Transport	1.3%	Cooperators General Insurance	1.2%
Komex International	1.3%	NOVA Chemicals	1.2%
Portage Cartage	1.3%	Columbia College Corp	1.1%
Columbia College Corp	1.2%	Sobey's	1.0%
Total of Top Ten by GLA	19.3%	Total of Top Ten by Gross Revenue	20.8%

Government Entities by GLA	Share	Government Entities by Gross Revenue	Share
Federal Government	3.7%	Federal Government	3.8%
Provincial Government	4.6%	Provincial Government	5.1%
Civic or Municipal Gov't	2.1%	Civic or Municipal Gov't	2.3%
Total Government by GLA	10.4%	Total Government by Gross Revenue	11.2%

Lease Rollover Risk:

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

Approximately 35.9% of the REIT's GLA will come up for renewal in 2007 through 2009; approximately 70.3% of those expiries are in the province of Alberta. Management believes there is substantial upside to be realized from the below market leases coming up for renewal in Alberta, particularly in the strong Calgary office market. Alberta, particularly Calgary, has seen steadily declining vacancy rates with corresponding and substantial increases in market rent rates across all categories of commercial real estate.

Other Risks:

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

CRITICAL ACCOUNTING ESTIMATES

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

Allocation of purchase price of income-producing properties:

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

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

Amortization:

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

Allocation of convertible debentures:

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

CHANGES IN ACCOUNTING POLICIES

Commencing January 1, 2007, Artis adopted Section 3855, "Financial Instruments - Recognition and Measurement". This section establishes standards for the recognition and measurement of financial assets, financial liabilities and non-financial derivatives. Financial instruments will ordinarily be measured at fair value on initial recognition. Subsequent measurement is determined by the classification of the financial instrument as held to maturity, loans and receivables, held-for trading or available-for-sale.

As a result of the adoption of this standard, interest on debt instruments is now recognized at the effective interest rate, with deferred finance costs netted against the related debt. In Q1-07, Artis recorded a reduction of \$4,071 to the carrying value of long-term debt as a result of the elimination of the January 1, 2007, balance of deferred finance costs from its balance sheet. The beginning deficit balance was decreased by \$311, representing that proportion of adjustment to the carrying value up to December 31, 2006.

Artis also adopted Section 1530, "Comprehensive Income" requires presentation of Other Comprehensive Income in a separate statement. Components of the new statement include unrealized gains and losses related to financial assets classified under Section 3855 as available-for-sale and changes in the fair value of certain hedging instruments. There were no adjustments to opening retained earnings or unusual adjustments in Q1-07 as a result of the adoption of this standard.

CONTROLS AND PROCEDURES

Management is responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Artis REIT's Chief Executive Officer and Chief Financial Officer evaluated, or caused to be evaluated, the design of the REIT's internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2006, and disclosed in the Annual MD&A the results of that evaluation. There have been no material changes in the internal controls over financial reporting subsequent to that date.

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.