

ARTIS

REIT

**Management's Discussion & Analysis
2010 Annual**

On the TSX: AX.UN AX.DB.C AX.DB.E AX.DB.F

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, 2010 and 2009, and the notes thereto. This MD&A has been prepared taking into account material transactions and events up to and including March 1, 2011. 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, changes in the tax treatment of trusts and the expected accounting impact of reporting under International Financial Reporting Standards ("IFRS") commencing in 2011. Artis cannot assure investors that actual results will be consistent with any forward-looking statements and Artis assumes no obligation to update or revise such forward-looking statements to reflect actual events or new circumstances. All forward-looking statements contained in this MD&A are qualified by this cautionary statement.

NOTICE RESPECTING NON-GAAP MEASURES

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

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

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

Artis calculates FFO, substantially in accordance with the guidelines set out by the Real Property Association of Canada ("REALpac"). In June 2010, REALpac issued guidelines on FFO for IFRS which is effective upon adoption of IFRS. It includes certain additional adjustments to FFO under IFRS from the current definition of FFO under GAAP. 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 Property NOI, DI and FFO as calculated by Artis may not be comparable to similar measures presented by other issuers.

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OVERVIEW

Artis is an unincorporated open-end real estate investment trust created under, and governed by, the laws of the province of Manitoba. On February 15, 2007, Artis underwent a name change from "Westfield Real Estate Investment Trust" to "Artis Real Estate Investment Trust". On May 14, 2009, unitholders authorized the trustees of Artis to implement certain amendments to Artis' Declaration of Trust which, if implemented, would have the effect of converting Artis to a closed-end trust. As at March 1, 2011, the trustees of Artis have not yet implemented such amendments.

Certain of the REIT's securities are listed on the Toronto Stock Exchange ("the TSX"). The REIT's trust units ("units") trade under the symbol AX.UN, and the REIT's Series C, Series E, and Series F convertible debentures trade under the symbols AX.DB.C, AX.DB.E, and AX.DB.F respectively. As at March 1, 2011, there were 75,679,204 units, and 1,070,250 options of Artis outstanding (refer to the *Outstanding Unit Data* section for further details).

PRIMARY OBJECTIVES

Artis REIT's primary objective is to maximize total returns to our unitholders. Returns include a stable, reliable and tax efficient monthly cash distribution as well as long-term appreciation in the value of Artis REIT's units.

Artis REIT's management employs several key strategies to meet our primary objective:

- **Portfolio Diversification.** We build stability into our cash flows through a strategy of diversification. Our commercial properties are well diversified across the industrial, retail and office asset classes. We are also geographically diversified with properties owned across western Canada, as well as Ontario and in select markets in the United States ("U.S.").
- **Portfolio Expansion.** We build growth into our cash flows through the efficient sourcing and deployment of capital into high-quality and accretive acquisition opportunities in our target markets, or into high-yield intensification or (re)development opportunities that exist within our property portfolio.
- **Managing for Value Creation.** We build value through the active management of our portfolio, leveraging off the experience and expertise of our management team. We focus on maximizing property value and cash flows over the long-term, creating additional value through the selective disposition of assets at premium prices, and reinvesting and repositioning the portfolio on an on-going basis in higher growth markets.

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

U.S. INVESTMENT STRATEGY

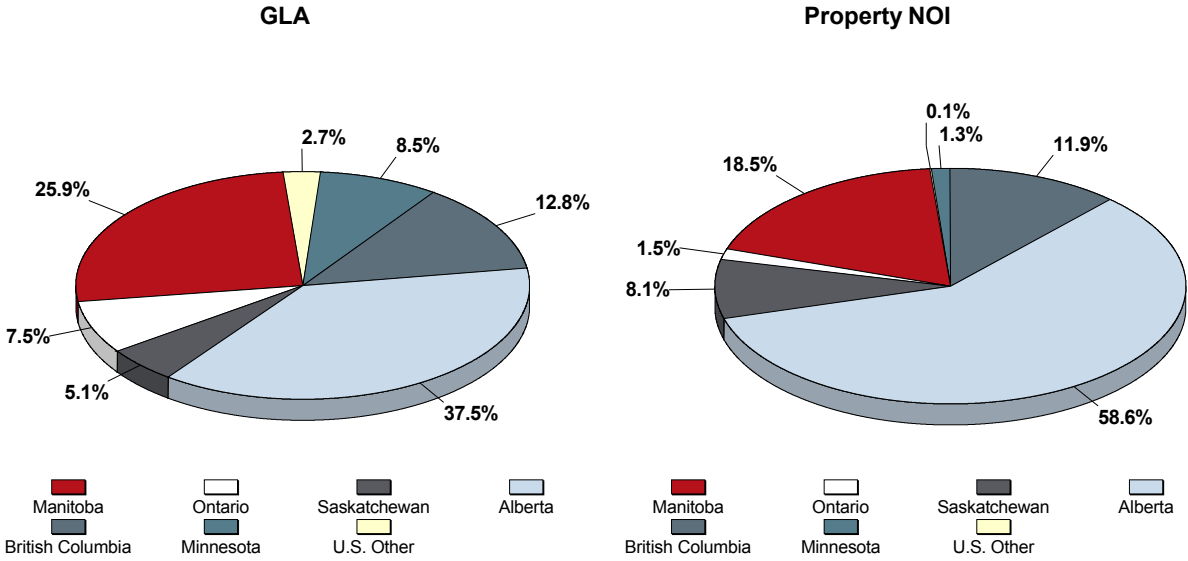
To date, approximately 6.0% of Artis' portfolio weighting by run-rate Property NOI is in the United States. Historically, commercial real estate in the U.S. has been more expensive and offered lower unlevered yields than similar property in Canada. This has now changed, and Canadian investors are able to acquire quality U.S. properties at relatively higher yields than in Canada. Artis' management believes that this window of opportunity will not be open for long and has adopted a disciplined approach in pursuing U.S. acquisitions while the opportunity exists, as follows:

- total weighting of U.S. properties in Artis' portfolio will not exceed 20%.
- unlevered yield will be accretive, and higher than that available for a comparable property in Canada.
- low interest, conventional mortgage financing will be available.
- quality local third party property management will be available.
- property will be "new generation", thus reducing the average age of Artis' overall portfolio.
- the tenant credit and lease expiry profile for the property will be more conservative than that of a comparable property in Canada, thus improving the credit profile of Artis' overall portfolio.

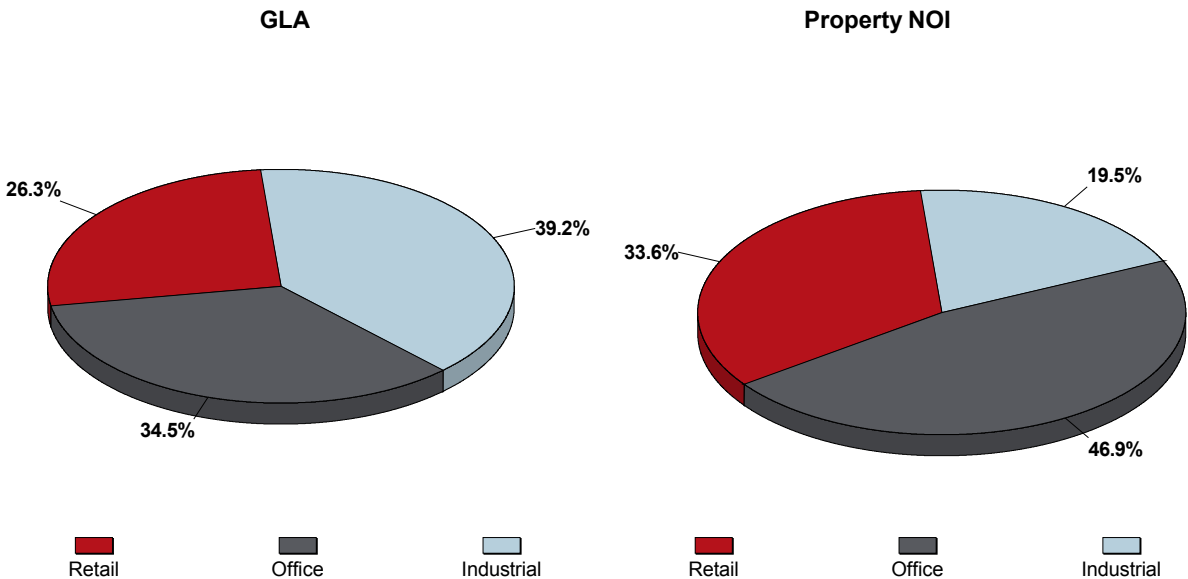
PORTFOLIO SUMMARY

At December 31, 2010, the REIT's portfolio was comprised of 133 commercial properties totaling approximately 12,598 thousand square feet (s.f.) of gross leasable area ("GLA").

Diversification by Geographical Region:



Diversification by Asset Class:



Portfolio by Asset Class as at December 31, 2010 (in 000's of s.f.) ⁽¹⁾

Asset Class	City	Province / State	Number of Properties	Owned Share of Leasable Area	% of Portfolio GLA	Occupancy %	Committed % ⁽²⁾
Industrial	Acheson	AB	2	265	2.1 %	100.0 %	100.0 %
	Calgary	AB	5	548	4.3 %	97.4 %	97.4 %
	Delta	BC	1	70	0.6 %	100.0 %	100.0 %
	Edmonton	AB	6	734	5.8 %	97.6 %	98.2 %
	Mississauga	ON	1	158	1.3 %	92.7 %	92.7 %
	Nisku	AB	1	23	0.2 %	100.0 %	100.0 %
	Red Deer	AB	1	126	1.0 %	94.1 %	94.1 %
	Saskatoon	SK	1	163	1.3 %	100.0 %	100.0 %
	Winnipeg	MB	29	1,803	14.3 %	95.8 %	95.8 %
Industrial total			47	3,890	30.9 %	96.7 %	96.8 %
Office	Burnaby	BC	2	389	3.1 %	100.0 %	100.0 %
	Calgary	AB	11	1,337	10.6 %	94.9 %	96.0 %
	Mississauga	ON	2	244	1.9 %	90.2 %	98.0 %
	Nanaimo	BC	2	68	0.5 %	100.0 %	100.0 %
	Red Deer	AB	1	149	1.2 %	72.4 %	99.9 %
	Toronto	ON	1	546	4.3 %	96.5 %	96.5 %
	Vancouver	BC	1	101	0.8 %	100.0 %	100.0 %
	Winnipeg	MB	6	1,021	8.1 %	96.6 %	96.6 %
Office total			26	3,855	30.5 %	95.1 %	97.1 %
Retail	Calgary	AB	5	426	3.4 %	100.0 %	100.0 %
	Coquitlam	BC	1	82	0.7 %	100.0 %	100.0 %
	Cranbrook	BC	1	290	2.3 %	94.5 %	94.5 %
	Delta	BC	1	75	0.6 %	100.0 %	100.0 %
	Edmonton	AB	2	165	1.3 %	100.0 %	100.0 %
	Edson	AB	1	20	0.2 %	100.0 %	100.0 %
	Estevan	SK	1	38	0.3 %	100.0 %	100.0 %
	Fort McMurray	AB	8	194	1.5 %	100.0 %	100.0 %
	Grande Prairie	AB	4	379	3.0 %	97.5 %	98.4 %
	Lethbridge	AB	1	53	0.4 %	100.0 %	100.0 %
	Medicine Hat	AB	1	162	1.3 %	100.0 %	100.0 %
	Moose Jaw	SK	1	38	0.3 %	100.0 %	100.0 %
	Nanaimo	BC	2	90	0.7 %	60.0 %	60.0 %
	Vancouver	BC	1	164	1.3 %	98.9 %	98.9 %
	Regina	SK	7	257	2.0 %	96.3 %	96.9 %
	Saskatoon	SK	2	143	1.1 %	100.0 %	100.0 %
	Spruce Grove	AB	1	112	1.0 %	100.0 %	100.0 %
	St. Albert	AB	1	21	0.2 %	100.0 %	100.0 %
	Westbank / West Kelowna	BC	2	231	1.8 %	99.4 %	99.4 %
	Winnipeg	MB	3	371	2.9 %	97.9 %	97.9 %
Retail total			46	3,311	26.3 %	97.5 %	97.7 %
Total Canadian portfolio			119	11,056	87.7 %	96.4 %	97.2 %
Industrial	Minneapolis	MN	6	805	6.4 %	88.5 %	95.6 %
Industrial total			6	805	6.4 %	88.5 %	95.6 %
Office	Phoenix	AZ	1	106	0.8 %	100.0 %	100.0 %
	Tampa	FL	1	107	0.9 %	100.0 %	100.0 %
	Minneapolis	MN	1	116	0.9 %	100.0 %	100.0 %
	New Hartford	NY	1	123	1.0 %	100.0 %	100.0 %
Office total			4	452	3.6 %	100.0 %	100.0 %
Total U.S. portfolio			10	1,257	10.0 %	92.7 %	97.2 %
Total Canadian and U.S.			129	12,313	97.7 %	96.0 %	97.2 %

Properties in Redevelopment (in 000's of s.f.)

Asset Class	City	Province / State	Number of Properties	Owned Share of Leasable Area	% of Portfolio GLA	Property	Committed % ⁽²⁾
Industrial	Airdrie	AB	1	27	0.2 %	Airdrie Flex-Industrial	69.3 %
Industrial	Minneapolis	MN	1	147	1.2 %	Rogers Distribution	41.5 %
Industrial	Winnipeg	MB	1	64	0.5 %	801 Century Street	66.8 %
Office	Burnaby	BC	1	47	0.4 %	Willingdon Green	67.4 %
Development properties total			4	285	2.3 %		54.1 %

⁽¹⁾ Excluding properties in redevelopment.

⁽²⁾ Percentage committed is based on committed leases at December 31, 2010.

2010 – ANNUAL HIGHLIGHTS

PORTFOLIO GROWTH

Artis acquired 37 commercial properties during 2010.

	Office		Retail		Industrial		Total	
	Number of Properties	S.F. (000's)	Number of Properties	S.F. (000's)	Number of Properties	S.F. (000's)	Number of Properties	S.F. (000's)
Portfolio properties at December 31, 2009	22	2,374	34	1,948	40	2,492	96	6,814
Q1-10 acquisitions	-	-	2	231	6	1,137	8	1,368
Q2-10 acquisitions	2	753	5	645	-	-	7	1,398
Q3-10 acquisitions	1	101	3	302	-	-	4	403
Q4-10 acquisitions	6	1,126	2	185	10	1,304	18	2,615
Total 2010	9	1,980	12	1,363	16	2,441	37	5,784
Portfolio properties at December 31, 2010	31	4,354	46	3,311	56	4,933	133	12,598

Property acquisitions:

In Q4-10, the properties acquired included Cancross Court, Concorde Corporate Centre, Meadowvale Building, Dunwin, Minneapolis Industrial Portfolio, Mosaic Building, Hartford Corporate Plaza, and the Humana Building.

Cancross Court is a Class A suburban office complex comprising 143,877 square feet of leasable area. Cancross Court is located in Mississauga, Ontario and is 100.0% occupied by three tenants. Concorde Corporate Centre is a 96.5% occupied Class A suburban office complex comprising 545,503 square feet of leasable area in Toronto, Ontario. The Meadowvale Building is a newly constructed four-storey certified LEED Silver Class A office property located in Mississauga, Ontario with 99,869 square feet of leasable area and is 95.1% committed. Dunwin is a multi-tenant industrial and flex-office complex located in Mississauga, Ontario. The property comprises 157,531 leasable square feet and is currently 92.7% occupied by a combination of national, regional, and local tenancies.

The Minneapolis Industrial Portfolio is a 87.6% occupied, industrial portfolio in Minneapolis, Minnesota located on six different sites. The Minneapolis Industrial Portfolio comprises 776,925 square feet of leasable area and is tenanted by a combination of office, flex-industrial, warehouse and distribution, and light manufacturing tenants. Mosaic Building is a four-storey LEED Gold certified Class A office building located in a suburb of Tampa, Florida. The Mosaic Building is fully leased to the Mosaic company until 2020 and comprises 107,463 square feet of leasable area, with expansion rights for an additional 11,402 square feet to meet the tenant's future needs. Hartford Corporate Plaza is a 100.0% leased, three-storey Class A office building located in New Hartford, New York, comprising 122,760 square feet of leasable area. The Humana Building is a three-storey Class A professional office complex located in metropolitan Phoenix, Arizona. The Humana Building comprises 106,418 square feet of leasable area and is 100.0% leased to Humana Pharmacy Inc. until 2017.

FINANCING ACTIVITIES

Series F convertible debenture offering:

On April 22, 2010, Artis issued a \$86,250 public offering of 10-year convertible redeemable unsecured subordinated debentures (the "Series F Debentures"). This includes \$11,250 of the Series F convertible debentures issued pursuant to the exercise of the underwriters' over-allotment option. The Series F convertible debentures pay interest at a rate of 6.0% per annum and are listed on the TSX under the trading symbol AX.DB.F.

Equity offerings:

On January 26, 2010, Artis issued 5,290,000 units at a price of \$11.00 per unit for aggregate gross proceeds of \$58,190. This includes 690,000 units issued pursuant to the exercise of the underwriters' over-allotment option.

On March 16, 2010, Artis issued 4,450,000 units at a price of \$11.25 per unit for aggregate gross proceeds of \$50,063. On March 23, 2010, the underwriting syndicate exercised its full over-allotment option and a further 667,500 units were issued for gross proceeds of \$7,509.

On June 30, 2010, Artis issued 7,331,250 units at a price of \$11.00 per unit for aggregate gross proceeds of \$80,644. This includes 956,250 units issued pursuant to the exercise of the underwriters' over-allotment option.

On July 28, 2010, the REIT issued a base shelf prospectus. The REIT may from time to time during the 25-month period that this short-form base shelf prospectus is valid, offer and issue the following securities: (i) trust units of the REIT; (ii) preferred trust units, which may be issuable in series; (iii) debt securities, which may consist of debentures, notes or other types of debt and may be issuable in series; (iv) unit purchase warrants; and (v) subscription receipts to purchase trust securities.

Under the short-form base shelf prospectus, on September 2, 2010, Artis issued 7,590,000 units at a price of \$12.20 per unit for aggregate gross proceeds of \$92,598. This includes 990,000 units issued pursuant to the exercise of the underwriters' over-allotment option.

Also, under the short-form base shelf prospectus, on October 14, 2010, Artis issued 8,625,000 units at a price of \$13.45 per unit for aggregate gross proceeds of \$116,006. This includes 1,125,000 units issued pursuant to the exercise of the underwriters' over-allotment option.

At-the-market equity financing program:

On September 17, 2010, Artis entered into an Equity Distribution Agreement with an exclusive agent for the issuance and sale, from time to time, until September 19, 2012 of up to 5,300,000 units of the REIT by way of "at-the-market distributions". The timing of any sale of units and the number of units actually sold during such period are at the discretion of the REIT. Sales of units, if any, pursuant to the Equity Distribution Agreement will be made in transactions that are deemed to be "at-the-market distributions", including sales made directly on the TSX. No units have been issued pursuant to this arrangement in 2010.

Series A and B convertible debentures maturity:

Upon maturity on August 4 and November 9, 2010, Artis repaid \$620 and \$2,273 of face value outstanding on the Series A and B convertible debentures respectively.

Debt financing and repayments:

During 2010, Artis reduced the balance drawn on the line of credit from \$30,700 to \$8,000 and repaid \$20,542 of vendor take-back mortgages. Artis refinanced maturing mortgages of \$17,094 replacing them with new mortgages of \$30,547 and financed an unencumbered property for \$4,000.

INTERNALIZATION OF ASSET MANAGEMENT

On November 9, 2010, Artis announced that the REIT and Marwest Realty Advisors Inc. have agreed to negotiate in good faith the terms and conditions upon which Artis will internalize its asset management, with a view to completing such internalization by no later than December 31, 2011.

DISTRIBUTIONS

Artis distributed a total of \$63,332 to unitholders in 2010 of which \$4,920 was paid by way of distribution reinvestment, pursuant to Artis' Distribution Reinvestment and Unit Purchase Plan ("DRIP").

INTERNATIONAL FINANCIAL REPORTING STANDARDS

As outlined in the *Changes in Accounting Policies* section, effective January 1, 2011, the REIT will be reporting financial results based on International Financial Reporting Standards ("IFRS"). The first reporting period under IFRS will commence with the interim financial statements for the three months ended March 31, 2011. The REIT's consolidated financial performance and financial position as disclosed in the current GAAP financial statements will be significantly different when presented in accordance with IFRS.

SELECTED FINANCIAL INFORMATION

000's, except per unit amounts

	Year ended December 31,	
	2010	2009
Revenue	\$ 191,561	\$ 136,853
Property NOI	\$ 129,529	\$ 93,363
Loss for the period	\$ (3,775)	\$ (9,189)
Basic loss per unit	\$ (0.07)	\$ (0.27)
Distributions (including Class B units)	\$ 63,332	\$ 36,998
Distributions per unit	\$ 1.08	\$ 1.08
DI	\$ 63,278	\$ 50,690
DI per unit	\$ 1.11	\$ 1.48
DI excluding foreign currency impact	\$ 66,223	\$ 50,690
DI per unit excluding foreign currency impact	\$ 1.16	\$ 1.48
DI payout ratio ⁽¹⁾	93.1 %	73.0 %
FFO	\$ 65,273	\$ 52,353
FFO per unit	\$ 1.15	\$ 1.53
FFO excluding foreign currency impact	\$ 68,218	\$ 52,353
FFO per unit excluding foreign currency impact	\$ 1.20	\$ 1.53
FFO payout ratio ⁽¹⁾	90.0 %	70.6 %
Weighted-average units:		
Weighted-average units (basic)	57,001	33,915
Weighted-average units (basic) including Class B units	57,001	34,166

⁽¹⁾ Calculated excluding foreign currency impact.

Artis has been actively acquiring properties since Q4-09. Due to this acquisition activity as well as same property revenue growth, annual revenues from continuing operations increased \$54,708, or 40.0% compared to 2009 results. Property NOI from continuing operations increased by \$36,166, or 38.7% compared to 2009 results.

In 2010, DI and FFO was impacted by the purchase of US dollars to fund U.S. asset purchases. DI for the year excluding the impact of foreign currency increased \$15,533 or 30.6% compared to 2009. DI including foreign currency impact increased \$12,588, or 24.8% compared to 2009. Excluding the impact of foreign currency, FFO increased \$15,865 or 30.3% compared to 2009. FFO including foreign currency impact increased \$12,920, or 24.7% year-over-year. These increases are primarily attributed to the acquisitions completed in 2009 and 2010.

On a per unit basis, excluding foreign currency impact, basic DI decreased \$0.32 or 21.6% compared to 2009. Basic DI per unit including foreign currency impact decreased \$0.37 or 25.0% year-over-year. Basic FFO per unit excluding foreign currency impact decreased \$0.33 or 21.6% compared to 2009. Basic FFO including foreign currency impact decreased \$0.38 or 24.8% year-over-year. As a result of units issued under the DRIP, units issued from public offerings, and conversion of convertible debentures, basic units outstanding for the calculation of DI and FFO has substantially increased. This increase has diluted the impact of strong growth in revenues, Property NOI, DI and FFO on per unit results. Additionally, some of the cash raised remains uninvested at December 31, 2010. Exclusive of certain adjustments that will be made to net income pursuant to the adoption of IFRS, management anticipates there will be further growth in revenues, Property NOI, DI and FFO as cash is invested in on-going acquisition activities in future periods.

ANALYSIS OF OPERATING RESULTS

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 2010, straight-line rent adjustments of \$2,841 (Q4-10 - \$957) were recorded compared to \$1,738 in 2009 (Q4-09 - \$340).

On the acquisition of properties, Artis records intangible assets and liabilities resulting from above- and below-market rent leases. These intangible assets and liabilities are amortized to revenue over the term of the related leases. When a lease terminates prior to the end of the lease term, the REIT writes off the unamortized balance of these intangible assets and liabilities. Artis has been actively acquiring properties since Q4-09; as in-place rent rates in a number of the acquisitions were considered to be below-market rent rates, intangible assets and liabilities have increased. These increases have been offset by the disposal of nine commercial properties in 2009. As a result, in 2010, the adjustment to market rents was \$11,633 (Q4-10 - \$3,020) compared to \$12,303 (Q4-09 - \$2,744) in 2009.

In 2010, the REIT recorded amortization of \$479 (Q4-10 - \$143) as a reduction in revenue from tenant incentives compared to \$340 (Q4-09 - \$141) in 2009.

Revenue in 2010 included interest income of \$2,555 (Q4-10 - \$915) compared to \$1,865 (Q4-09 - \$483) in 2009.

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

Same property comparison includes only income-producing properties owned on January 1, 2009, and excludes properties accounted for as discontinued operations as well as properties considered to be in redevelopment.

	Three month period ended December 31,		Year ended December 31,	
	2010	2009	2010	2009
Revenue	\$ 34,462	\$ 33,722	\$ 134,933	\$ 133,539
Property operating expenses	11,971	11,060	44,305	42,793
Property NOI	22,491	22,662	90,628	90,746
Add (deduct) non-cash revenue adjustments:				
Straight-line rent adjustment	(224)	(304)	(1,094)	(1,607)
Amortization of tenant inducements	110	139	417	336
Above- and below-market rent	(2,305)	(2,702)	(9,943)	(12,166)
Property NOI less non-cash revenue adjustments	\$ 20,072	\$ 19,795	\$ 80,008	\$ 77,309

In 2010, Property NOI decreased \$118 (Q4-10 - \$171), or 0.1% (Q4-10 - 0.8%) compared to Property NOI in 2009. Artis achieved an increase of \$2,699 (Q4-10 - \$277), or 3.5% (Q4-10 - 1.4%) of Property NOI less non-cash revenue adjustments over 2009.

Same Property NOI less Non-Cash Revenue Adjustments by Asset Class:

	Three month period ended December 31,				Year ended December 31,			
	2010	2009	Change	Change %	2010	2009	Change	Change %
Retail	\$ 7,691	\$ 7,519	\$ 172	2.3 %	\$ 30,553	\$ 29,710	\$ 843	2.8 %
Office	9,669	9,659	10	0.1 %	38,781	37,079	1,702	4.6 %
Industrial	2,712	2,617	95	3.6 %	10,674	10,520	154	1.5 %
Total	\$ 20,072	\$ 19,795	\$ 277	1.4 %	\$ 80,008	\$ 77,309	\$ 2,699	3.5 %

Same Property NOI less Non-Cash Revenue Adjustments by Geographical Region:

	Three month period ended December 31,				Year ended December 31,			
	2010	2009	Change	Change %	2010	2009	Change	Change %
Alberta	\$ 13,507	\$ 13,273	\$ 234	1.8 %	\$ 53,255	\$ 51,891	\$ 1,364	2.6 %
British Columbia	1,088	1,231	(143)	(11.6)%	4,614	4,465	149	3.3 %
Manitoba	3,455	3,321	134	4.0 %	14,016	13,187	829	6.3 %
Saskatchewan	2,022	1,970	52	2.6 %	8,123	7,766	357	4.6 %
Total	\$ 20,072	\$ 19,795	\$ 277	1.4 %	\$ 80,008	\$ 77,309	\$ 2,699	3.5 %

The decrease in same Property NOI less non-cash revenue adjustments in British Columbia is in large part due to a property tax refund received in the prior year, as well as the timing of operating costs incurred in the current quarter that will be recoverable from tenants in future quarters.

Same Property Occupancy Comparison:

By Geographical Region

	As at December 31,	
	2010	2009
Alberta	96.0 %	96.5 %
British Columbia	98.4 %	100.0 %
Manitoba	97.8 %	98.2 %
Saskatchewan	98.0 %	99.6 %
Total	96.9 %	97.5 %

By Asset Class

	As at December 31,	
	2010	2009
Retail	99.0 %	98.9 %
Office	94.1 %	94.9 %
Industrial	98.4 %	99.3 %
Total	96.9 %	97.5 %

PROPERTY NOI BY ASSET CLASS

In 2010, revenues and Property NOI from continuing operations increased for all asset class segments of the portfolio. This growth is primarily attributable to increased acquisition activity since Q4-09.

Three month period ended December 31,						
2010			2009			
	Retail	Office	Industrial	Retail	Office	Industrial
Revenue	\$ 18,681	\$ 30,052	\$ 11,418	\$ 11,430	\$ 18,208	\$ 5,517
Property operating expenses	5,850	11,767	3,634	3,223	6,345	2,023
Property NOI	\$ 12,831	\$ 18,285	\$ 7,784	\$ 8,207	\$ 11,863	\$ 3,494
Share of Property NOI	33.0 %	47.0 %	20.0 %	34.8 %	50.3 %	14.8 %

Year ended December 31,						
2010			2009			
	Retail	Office	Industrial	Retail	Office	Industrial
Revenue	\$ 60,852	\$ 93,224	\$ 36,519	\$ 46,711	\$ 71,178	\$ 18,765
Property operating expenses	17,628	32,968	11,436	13,146	24,027	6,317
Property NOI	\$ 43,224	\$ 60,256	\$ 25,083	\$ 33,565	\$ 47,151	\$ 12,448
Share of Property NOI	33.6 %	46.9 %	19.5 %	36.0 %	50.6 %	13.4 %

PROPERTY NOI BY GEOGRAPHICAL REGION

In 2010, revenues and Property NOI from continuing operations increased in all four western provinces in comparison to 2009. Acquisitions in 2009 and 2010 primarily contributed to this growth. The revenues and Property NOI in the Minnesota, U.S. - Other, and Ontario segments are due to various properties acquired during 2010.

Three months ended December 31, 2010							
	Canada					U.S.	
	AB	BC	MB	ON	SK	MN	Other
Revenue	\$ 28,874	\$ 8,254	\$ 13,983	\$ 3,319	\$ 3,722	\$ 1,842	\$ 157
Property operating expenses	8,443	3,087	6,571	1,352	1,055	680	63
Property NOI	\$ 20,431	\$ 5,167	\$ 7,412	\$ 1,967	\$ 2,667	\$ 1,162	\$ 94
Share of Property NOI	52.5 %	13.3 %	19.1 %	5.1 %	6.9 %	3.0 %	0.2 %

Three months ended December 31, 2009							
	Canada					U.S.	
	AB	BC	MB	ON	SK	MN	Other
Revenue	\$ 22,721	\$ 2,111	\$ 7,479	\$ -	\$ 2,843	\$ -	\$ -
Property operating expenses	6,597	680	3,498	-	815	-	-
Property NOI	\$ 16,124	\$ 1,431	\$ 3,981	\$ -	\$ 2,028	\$ -	\$ -
Share of Property NOI	68.4 %	6.1 %	16.9 %	- %	8.6 %	- %	- %

Year ended December 31, 2010

	Canada					U.S.	
	AB	BC	MB	ON	SK	MN	Other
Revenue	\$ 104,379	\$ 23,010	\$ 42,898	\$ 3,319	\$ 14,298	\$ 2,534	\$ 157
Property operating expenses	28,980	7,770	19,190	1,352	3,826	851	63
Property NOI	\$ 75,399	\$ 15,240	\$ 23,708	\$ 1,967	\$ 10,472	\$ 1,683	\$ 94
Share of Property NOI	58.6 %	11.9 %	18.5 %	1.5 %	8.1 %	1.3 %	0.1 %

Year ended December 31, 2009

	Canada					U.S.	
	AB	BC	MB	ON	SK	MN	Other
Revenue	\$ 89,196	\$ 9,112	\$ 26,789	\$ -	\$ 11,557	\$ -	\$ -
Property operating expenses	24,607	3,264	12,126	-	3,493	-	-
Property NOI	\$ 64,589	\$ 5,848	\$ 14,663	\$ -	\$ 8,064	\$ -	\$ -
Share of Property NOI	69.3 %	6.3 %	15.7 %	- %	8.7 %	- %	- %

PORTFOLIO OCCUPANCY

Occupancy levels impact the REIT's revenues and Property NOI. Occupancy and commitments at December 31, 2010 (excluding properties currently in redevelopment), and the previous four periods, are as follows.

Occupancy Report by Asset Class ⁽¹⁾

	Q4-10 % Committed ⁽²⁾	Q4-10	Q3-10	Q2-10	Q1-10	Q4-09
Retail	97.7%	97.5%	98.1%	96.9%	97.7%	98.8%
Office	97.4%	95.6%	94.2%	96.4%	95.6%	95.2%
Industrial	96.6%	95.3%	97.4%	97.9%	95.8%	96.1%
Total portfolio	97.2%	96.0%	96.6%	97.1%	96.2%	96.6%

⁽¹⁾ Excluding properties currently being redeveloped.

⁽²⁾ % Committed is based on occupancy and executed leases on vacant units.

Occupancy Report by Geographical Region ⁽¹⁾

	Q4-10 % Committed ⁽²⁾	Q4-10	Q3-10	Q2-10	Q1-10	Q4-09
Canada:						
Alberta	98.0%	96.6%	96.8%	96.9%	96.8%	96.5%
British Columbia	96.5%	96.4%	95.8%	98.2%	89.2%	83.5%
Manitoba	96.3%	96.3%	95.9%	96.3%	96.2%	98.2%
Ontario	96.2%	94.2%	n/a	n/a	n/a	n/a
Saskatchewan	98.7%	98.5%	99.8%	99.8%	99.7%	99.6%
U.S.:						
Minnesota	96.1%	90.0%	100.0%	100.0%	n/a	n/a
U.S. - Other	100.0%	100.0%	n/a	n/a	n/a	n/a
Total portfolio	97.2%	96.0%	96.6%	97.1%	96.2%	96.6%

⁽¹⁾ Excluding properties currently being redeveloped.

⁽²⁾ % Committed is based on occupancy and executed leases on vacant units.

Of the 285,121 square feet currently considered to be undergoing redevelopment, lease commitments are in place on 54.1% of the leasable area.

PORTFOLIO LEASING ACTIVITY AND LEASE EXPIRIES

Artis monitors year-over-year changes in weighted-average rental rates for new and renewal leasing activities. In 2010, the weighted-average rental rates on total activity increased 5.2% compared to 10.3% in 2009 and increased in Q4-10 by 11.0% compared to a decrease in Q4-09 of 13.8%. In 2010, the weighted-average rental rates on renewal activity increased 4.9% (Q4-10 – 4.0%) compared to 15.6% in 2009 (Q4-09 - 9.1%). The strongest performance was within the retail asset class. Saskatchewan and Alberta reported the largest weighted-average rental rate increases for all leasing activity and for renewal activity specifically.

Leasing Activity Summary (in 000's of s.f.)

	Three months ended December 31,				Year ended December 31,			
	2010		2009		2010		2009	
	S.F.	In-Place Rent	S.F.	In-Place Rent	S.F.	In-Place Rent	S.F.	In-Place Rent
New/renewed	510	\$ 14.86	205	\$ 9.86	1,512	\$ 11.08	846	\$ 12.91
Expiring	464	\$ 13.39	160	\$ 11.44	1,324	\$ 10.53	847	\$ 11.70
Change		\$ 1.47		\$ (1.58)		\$ 0.55		\$ 1.21
% Change		11.0 %		(13.8)%		5.2 %		10.3 %
% Change on renewals only		4.0 %		9.1 %		4.9 %		15.6 %

Lease Expiries by Asset Class (in 000's of s.f.) ^{(1) (2) (3)}

	2011	2012	2013	2014	2015	2016 & later	Total
Office							
GLA	540	325	625	218	551	1,870	4,354
%	12.4 %	7.5 %	14.4 %	5.0 %	12.7 %	42.8 %	34.5 %
Retail							
GLA	359	293	368	346	369	1,491	3,311
%	10.8 %	8.8 %	11.1 %	10.5 %	11.1 %	45.1 %	26.3 %
Industrial							
GLA	1,054	443	564	624	435	1,468	4,933
%	21.4 %	9.0 %	11.4 %	12.7 %	8.8 %	29.7 %	39.2 %
Total portfolio							
GLA	1,953	1,061	1,557	1,188	1,355	4,829	12,598
%	15.5 %	8.4 %	12.4 %	9.4 %	10.8 %	38.3 %	100.0 %

Market Rents and Commitments by Asset Class (in 000's of s.f.) ^{(1) (2) (3)}

	2011	2012	2013	2014 & later	Total
Office					
Commitments	45.7 %	7.6 %	23.5 %	0.0 %	10.1 %
Expiring rents	\$ 16.03	\$ 17.20	\$ 19.42	\$ 15.79	\$ 16.48
Market rents	\$ 15.01	\$ 15.03	\$ 15.88	\$ 16.32	\$ 15.99
Change	(6.4)%	(12.6)%	(18.2)%	3.4 %	(3.0)%
Retail					
Commitments	35.8 %	8.4 %	0.0 %	0.0 %	4.7 %
Expiring rents	\$ 17.10	\$ 17.74	\$ 18.40	\$ 15.32	\$ 16.10
Market rents	\$ 19.08	\$ 19.52	\$ 20.15	\$ 16.78	\$ 17.68
Change	11.6 %	10.0 %	9.5 %	9.5 %	9.8 %
Industrial					
Commitments	30.4 %	15.7 %	34.8 %	4.7 %	13.4 %
Expiring rents	\$ 6.52	\$ 6.39	\$ 5.43	\$ 7.23	\$ 7.76
Market rents	\$ 6.77	\$ 6.85	\$ 5.62	\$ 7.63	\$ 7.11
Change	3.8 %	7.2 %	3.5 %	5.6 %	5.6 %
Total portfolio					
Commitments	35.7 %	11.2 %	22.1 %	2.5 %	9.9 %
Expiring rents	\$ 11.23	\$ 12.85	\$ 14.11	\$ 12.72	\$ 12.63
Market rents	\$ 11.33	\$ 12.70	\$ 13.20	\$ 13.52	\$ 13.05
Change	0.9 %	(1.2)%	(6.4)%	6.3 %	3.3 %

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

⁽²⁾ Based on expiries without deduction for future lease commitments.

⁽³⁾ Excluding vacancies and month-to-month leases.

Artis reviews market rents across the portfolio on an on-going basis. Market rent estimates are based on management's best estimate for each leasable space and may take into consideration the property manager's revenue budget, recent leasing activity, current prospects, future commitments or publicly available market information. Average in-place rents at December 31, 2010 are estimated to be 3.3% below market across the portfolio (compared to 6.1% at September 30, 2010). The decrease at December 31, 2010 compared to prior periods' reported estimates is partly attributable to our conservative market rent expectations for the Alberta properties in general and the Calgary office properties in particular. Leasing remains soft in this segment as the overbuilding situation continues to work itself out. Although many of these leases do not expire for a number of years yet, our market rents reflect today's rates without inflation for growth in future years that is likely to be realized as that market stabilizes. As well, the overall gap from in-place to market has been reduced as we have acquired new properties with single tenants in place on long-term leases with escalations.

Lease Expiries by Geographical Region (in 000's of s.f.) ⁽¹⁾ ⁽²⁾ ⁽³⁾

	2011	2012	2013	2014	2015	2016 & later	Total
Alberta							
GLA	781	379	610	381	383	2,029	4,738
%	16.5 %	8.0 %	12.9 %	8.0 %	8.1 %	42.8 %	37.5 %
British Columbia							
GLA	161	168	263	132	187	619	1,606
%	10.0 %	10.5 %	16.4 %	8.2 %	11.6 %	38.5 %	12.7 %
Manitoba							
GLA	524	419	506	553	523	574	3,261
%	16.1 %	12.8 %	15.5 %	17.0 %	16.0 %	17.6 %	25.9 %
Ontario							
GLA	96	60	27	17	123	570	948
%	10.1 %	6.3 %	2.8 %	1.8 %	13.0 %	60.1 %	7.6 %
Saskatchewan							
GLA	56	14	123	87	56	295	641
%	8.7 %	2.2 %	19.2 %	13.6 %	8.7 %	46.0 %	5.1 %
Minnesota							
GLA	335	21	28	18	83	406	1,068
%	31.4 %	2.0 %	2.6 %	1.7 %	7.8 %	37.9 %	8.5 %
U.S. - Other							
GLA	-	-	-	-	-	336	336
%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	100.0 %	2.7 %
Total portfolio							
GLA	1,953	1,061	1,557	1,188	1,355	4,829	12,598
%	15.5 %	8.4 %	12.4 %	9.4 %	10.8 %	38.3 %	100.0 %

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

⁽²⁾ Based on expiries without deduction for future lease commitments.

⁽³⁾ Excluding vacancies and month-to-month leases.

Market Rents and Commitments by Geographical Region (in 000's of s.f.) (1) (2) (3)

	2011	2012	2013	2014 & later	Total
Alberta					
Commitments	56.5 %	24.3 %	2.1 %	0.0 %	12.0 %
Expiring rents	\$ 13.70	\$ 16.09	\$ 18.83	\$ 14.09	\$ 14.84
Market rents	\$ 13.57	\$ 14.07	\$ 15.36	\$ 15.29	\$ 14.89
Change	(1.0)%	(12.6)%	(18.4)%	8.5 %	0.4 %
British Columbia					
Commitments	23.4 %	4.5 %	50.9 %	0.0 %	11.7 %
Expiring rents	\$ 13.33	\$ 16.82	\$ 16.52	\$ 14.24	\$ 14.75
Market rents	\$ 15.41	\$ 17.61	\$ 17.50	\$ 14.70	\$ 15.58
Change	15.6 %	4.7 %	5.9 %	3.2 %	5.6 %
Manitoba					
Commitments	36.2 %	4.5 %	38.8 %	5.3 %	14.0 %
Expiring rents	\$ 9.45	\$ 8.77	\$ 6.88	\$ 11.03	\$ 9.70
Market rents	\$ 9.95	\$ 9.70	\$ 7.56	\$ 11.56	\$ 10.38
Change	5.3 %	12.9 %	9.9 %	4.8 %	7.0 %
Ontario					
Commitments	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Expiring rents	\$ 14.86	\$ 10.48	\$ 10.08	\$ 12.23	\$ 12.32
Market rents	\$ 12.65	\$ 10.48	\$ 10.08	\$ 13.17	\$ 12.75
Change	(14.9)%	0.0 %	0.0 %	7.7 %	3.5 %
Saskatchewan					
Commitments	48.3 %	0.0 %	0.0 %	0.0 %	4.3 %
Expiring rents	\$ 15.58	\$ 18.70	\$ 18.28	\$ 14.76	\$ 15.63
Market rents	\$ 17.65	\$ 20.99	\$ 18.95	\$ 15.85	\$ 16.73
Change	13.3 %	12.2 %	3.7 %	7.4 %	7.0 %
Minnesota					
Commitments	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Expiring rents	\$ 4.65	\$ 5.86	\$ 4.85	\$ 6.88	\$ 5.99
Market rents	\$ 4.76	\$ 6.44	\$ 4.85	\$ 6.95	\$ 6.05
Change	2.4 %	9.9 %	0.0 %	1.5 %	1.0 %
U.S. - Other					
Commitments	n/a	n/a	n/a	0.0 %	0.0 %
Expiring rents	n/a	n/a	n/a	\$ 12.92	\$ 12.92
Market rents	n/a	n/a	n/a	\$ 13.01	\$ 13.01
Change	n/a	n/a	n/a	0.7 %	0.7 %
Total portfolio					
Commitments	35.7 %	11.2 %	22.1 %	2.5 %	9.9 %
Expiring rents	\$ 11.23	\$ 12.85	\$ 14.11	\$ 12.72	\$ 12.63
Market rents	\$ 11.33	\$ 12.70	\$ 13.20	\$ 13.52	\$ 13.05
Change	0.9 %	(1.2)%	(6.4)%	6.3 %	3.3 %

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

(2) Based on expiries without deduction for future lease commitments.

(3) Excluding vacancies and month-to-month leases.

Artis' real estate is diversified across five Canadian provinces and four U.S. states, and across the office, retail and industrial asset classes. At December 31, 2010, the three largest segments of the REIT's portfolio (by GLA) are Winnipeg industrial properties, Calgary office properties and Winnipeg office properties.

Winnipeg industrial properties represent 14.8% of the overall portfolio by GLA. Availability in the Winnipeg industrial market, as reported by CBRE, was approximately 3.8% at December 31, 2010, compared to 4.2% at September 30, 2010. Rent rates increased to \$6.26 psf from \$6.18. Artis has one industrial property in Winnipeg, comprising 64,208 square feet, which is considered to be in development; 66.8% of that space is now committed under new leases. Occupancy in the remainder of this segment of the portfolio was 95.8% at December 31, 2010, compared to 95.6% at September 30, 2010. In 2011, 261,079 square feet comes up for renewal, which represents 2.1% of the portfolio's GLA; 16.1% has been renewed or committed to a new lease.

Lease Expiries for Calgary Office Segment (in 000's of s.f.) ^{(1) (2) (3)}

	2011	2012	2013	2014	2015	2016 & later	Total
Calgary office							
GLA	268	139	311	52	50	431	1,323
%	20.3 %	10.5 %	23.5 %	3.9 %	3.8 %	32.6 %	30.4 %
Other office							
GLA	272	186	314	166	501	1,439	3,031
%	9.0 %	6.1 %	10.4 %	5.5 %	16.5 %	47.5 %	69.6 %
Total office							
GLA	540	325	625	218	551	1,870	4,354
%	12.4 %	7.5 %	14.4 %	5.0 %	12.7 %	42.8 %	100.0 %

Market Rents and Commitments for Calgary Office Segment (in 000's of s.f.) ^{(1) (2) (3)}

	2011	2012	2013	2014 & later	Total
Calgary office					
Commitments	42.9 %	6.5 %	4.2 %	0.0 %	10.9 %
Expiring rents	\$ 17.07	\$ 20.54	\$ 23.14	\$ 17.17	\$ 18.92
Market rents	\$ 14.60	\$ 13.70	\$ 15.13	\$ 18.85	\$ 16.47
Change	(14.5)%	(33.3)%	(34.6)%	9.8 %	(12.9)%
Other office					
Commitments	48.6 %	8.4 %	42.6 %	0.0 %	9.8 %
Expiring rents	\$ 15.00	\$ 14.88	\$ 15.47	\$ 15.44	\$ 15.40
Market rents	\$ 14.88	\$ 15.98	\$ 16.62	\$ 15.69	\$ 15.73
Change	(0.8)%	7.4 %	7.4 %	1.6 %	2.1 %
Total office					
Commitments	45.7 %	7.6 %	23.5 %	0.0 %	10.1 %
Expiring rents	\$ 16.03	\$ 17.20	\$ 19.42	\$ 15.79	\$ 16.48
Market rents	\$ 15.01	\$ 15.03	\$ 15.88	\$ 16.32	\$ 15.99
Change	(6.4)%	(12.6)%	(18.2)%	3.4 %	(3.0)%

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

⁽²⁾ Based on expiries without deduction for future lease commitments.

⁽³⁾ Excluding vacancies and month-to-month leases.

Calgary office properties represent 10.6% of the overall portfolio by GLA. Artis' office properties are Class A, B and C buildings, in downtown, beltline and suburban locations. Overall vacancy in the Calgary office market, as reported by CBRE, was 10.2% at December 31, 2010, compared to 10.8% at September 30, 2010. Management believes that as new projects continue to be completed as planned and delivered to inventory, rental rates and occupancy levels will remain under pressure through 2012. Tenant demand has been stronger than forecast in both the suburban and downtown markets due largely to the positive impacts of continued capital investment in oil and gas in Alberta. At December 31, 2010, the Calgary office segment of Artis' portfolio was 94.9% occupied, compared to 94.6% occupancy at September 30, 2010. Artis has commitments in place for 21.4% of the unoccupied space. In 2011, 267,803 square feet comes up for renewal, which represents 2.1% of the portfolio's GLA; 42.9% has been renewed/committed. Approximately 32.6% of the Calgary office GLA expires in 2016 or later.

Winnipeg office properties represent 8.1% of Artis' portfolio by GLA. Vacancy in the Winnipeg office market, as reported by CBRE, was 9.3% at December 31, 2010, compared to 7.9% at September 30, 2010. The increase in vacancy in Q4-10 was almost entirely focused on the downtown market where vacancy increased from 7.2% to 8.9%. This spike in vacancy is not expected to be part of a long-term trend. Vacancy should stabilize in the first half of 2011 before continuing on a downward trend. With a stable economy and limited new development activity in the market, management anticipates this will continue to be a strong market. The REIT's Winnipeg office portfolio performed well, with vacancy at 3.4% at December 31, 2010, down from 3.5% at September 30, 2010. In 2011, 150,467 square feet comes up for renewal, which represents 1.2% of the portfolio's GLA; 74.9% has been renewed.

INTEREST

The current year's interest expense is attributable to mortgages and other loans secured against the income-producing properties, as well as convertible debentures outstanding and the balance drawn on the credit facility. Interest expense has increased over 2009 due to additional mortgage financing obtained in connection with acquisitions completed in 2009 and 2010, and the issuance of additional convertible debentures since Q4-09. 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 at December 31, 2010 on mortgages and other debt secured by properties was 5.12% compared to 5.56% in 2009. The weighted-average nominal interest rate at December 31, 2010 was 4.97% compared to 5.45% in 2009.

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 \$10,445 (Q4-10 - \$2,834) on the carrying value of debentures outstanding in 2010, compared to \$6,386 (Q4-09 - \$2,120) in 2009.

CORPORATE EXPENSES

	Three month period ended		Year ended	
	December 31,		December 31,	
	2010	2009	2010	2009
Accounting, legal, consulting	\$ 263	\$ 223	\$ 671	\$ 653
Advisory fees	1,182	710	3,859	2,813
Public company costs	145	159	781	621
Unit-based compensation	138	8	221	160
Cancellation of options	-	-	-	(484)
General and administrative	401	230	1,212	761
Total corporate expenses	\$ 2,129	\$ 1,330	\$ 6,744	\$ 4,524

Corporate expenses in 2010 were \$6,744 (Q4-10 - \$2,129), or 3.5% (Q4-10 - 3.5%) of gross revenues compared to \$4,524 (Q4-09 - \$1,330), or 3.3% (Q4-09 - 3.8%) of gross revenues in 2009. In 2009, Artis and the holders of options agreed to cancel an aggregate of 1,212,800 options to acquire units. This resulted in a \$484 reversal of unit-based compensation expense during 2009.

AMORTIZATION

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

At the time of acquisition, Artis allocates a portion of the purchase price of properties to income-producing properties and a portion to intangible assets. Income-producing properties are amortized on a straight-line basis over their useful lives, resulting in amortization expense of \$34,776 (Q4-10 - \$10,754) in 2010 compared to \$26,864 (Q4-09 - \$6,523) in 2009. 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 2010, Artis recorded \$32,136 (Q4-10 - \$10,463) for the amortization of intangible assets, compared to \$26,786 (Q4-09 - \$6,074) in 2009.

In 2010, amortization expense relating to tenant inducements and leasing commissions totalled \$3,960 (Q4-10 - \$1,276), compared to \$2,723 (Q4-09 - \$675) in 2009.

UNREALIZED (GAIN) LOSS ON FINANCIAL INSTRUMENTS

In accordance with GAAP, in 2010 the REIT recorded an unrealized gain on commodity derivatives of \$47 (Q4-10 - \$128) in 2010, compared to loss of \$466 (Q4-09 - gain of \$95) in 2009 on utility supply contracts. The REIT anticipates holding these utility contracts until maturity.

In 2010, the REIT entered into four floating rate mortgages and concurrently entered into interest rate swaps to effectively lock the interest rate. In accordance with GAAP, the REIT recorded an unrealized gain on the fair value adjustment of the interest rate swaps of \$494 (Q4-10 - \$841) in 2010. The REIT anticipates holding the mortgages and interest rate swap contracts until maturity.

In 2010, the REIT entered into a forward contract to purchase US \$10,000 in order to fund the future purchase of assets in the U.S. In accordance with GAAP, the REIT recorded an unrealized loss on the fair value adjustment of the forward contract of \$104 (Q4-10 - gain of \$182) in 2010.

During 2010, the REIT invested cash in equity securities. In accordance with GAAP, the REIT recorded an unrealized gain of \$1,569 in 2010 on the fair value adjustment of these securities.

FOREIGN CURRENCY TRANSLATION LOSS

In 2010, the REIT converted cash into US dollars to fund the purchase of assets in the U.S. This resulted in a foreign currency translation loss of \$2,945 (Q4-10 - \$2,488). The REIT considers this to be specifically attributable to the acquisition of U.S. properties.

INCOME TAX EXPENSE

The REIT is subject to taxation in the U.S. on the taxable income earned by its U.S. properties at a combined federal and state tax rate of 39.42%. For 2010, the REIT recorded current income tax expense of \$97.

A future income tax asset arises from the temporary differences between the carrying value and the tax basis of the net assets of the U.S. properties. For 2010, the REIT recorded a future income tax recovery of \$297.

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

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

The New SIFT Rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the New SIFT Rules and has assessed their interpretation and application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the New SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the fiscal years ended December 31, 2010 and 2009. The future income tax asset of \$11,127 recorded in prior periods was reversed in Q1-09.

NON-CONTROLLING INTEREST

Non-controlling interest represents an allocation of net income or loss to the Class B unitholders. There are no outstanding Class B units at December 31, 2010 and there will be no further allocation to non-controlling interest, until such time as new class B units are issued.

INCOME FROM DISCONTINUED OPERATIONS

Income from discontinued operations includes income from the nine properties known as the Plainsman Building, Airways Business Plaza, Glenmore Commerce Court, McKnight Village Mall, Albert Street Mall, Bridges Place, Willowglen Business Park, Franklin Showcase Warehouse, and Raleigh Shopping Centre, which were sold during 2009, as well as the loss incurred on termination of the Interplex III agreement in Q2-09. None of the REIT's properties have been treated as discontinued operations in 2010.

OTHER COMPREHENSIVE LOSS

Other comprehensive loss includes an unrealized foreign currency translation loss of \$273 in 2010 (Q4-10 - \$94). Foreign currency translation gains and losses related to the REIT's net investment in self-sustaining properties in the U.S. are recorded in other comprehensive loss according to GAAP.

DISTRIBUTABLE INCOME ("DI") AND DISTRIBUTIONS

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

Reconciliation of Cash Flows from Operations to DI:

000's, except per unit amounts	Three month period ended		Year ended	
	December 31,		December 31,	
	2010	2009	2010	2009
Cash flow from operations	\$ 22,417	\$ 10,275	\$ 70,602	\$ 41,113
Add (deduct) amortization of:				
Office equipment and software	(29)	(24)	(114)	(99)
Above-market rent	(248)	(54)	(542)	(233)
Below-market rent	3,268	2,798	12,175	12,536
Tenant inducements and leasing costs	(1,276)	(675)	(3,960)	(2,723)
Tenant inducements amortized into revenue	(143)	(141)	(479)	(340)
Above-market mortgage	172	46	370	183
Add: Straight-line rent adjustment	957	340	2,841	1,738
Add (deduct):				
Unrealized foreign currency translation loss	(191)	-	(191)	-
Changes in non-cash operating items	(6,698)	(661)	(16,376)	(1,003)
Financing costs, non-debenture, included in interest expense	(310)	(198)	(1,048)	(782)
Other adjustment:				
Property rent ⁽¹⁾	-	-	-	300
DI for the period	\$ 17,919	\$ 11,706	\$ 63,278	\$ 50,690
Add back:				
Foreign currency translation loss ⁽²⁾	2,488	-	2,945	-
DI for the period excluding foreign currency impact	\$ 20,407	\$ 11,706	\$ 66,223	\$ 50,690
DI per unit				
Basic	\$ 0.24	\$ 0.32	\$ 1.11	\$ 1.48
Diluted	\$ 0.24	\$ 0.30	\$ 1.09	\$ 1.42
DI per unit excluding foreign currency impact				
Basic	\$ 0.28	\$ 0.32	\$ 1.16	\$ 1.48
Diluted	\$ 0.27	\$ 0.30	\$ 1.13	\$ 1.42
Weighted-average number of units:				
Basic ⁽³⁾	74,012	37,138	57,001	34,166
Diluted ⁽³⁾	82,077	44,506	65,094	38,581

⁽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⁾ Added back to DI is the foreign currency impact specifically attributable to the acquisition of U.S. properties.

⁽³⁾ Options and convertible debentures are factored into the diluted weighted-average calculation, to the extent that their impact is dilutive.

Reconciliation of GAAP Income (Loss) to DI:

	Three month period ended		Year ended	
	December 31,		December 31,	
	2010	2009	2010	2009
Income (loss) for the period	\$ (983)	\$ 4,140	\$ (3,775)	\$ (9,189)
Add (deduct):				
Amortization (excluding amortized leasing costs)	21,217	12,597	66,912	53,650
Accretion on liability component of convertible debentures	564	516	2,223	1,724
Unit-based compensation expense	138	8	221	160
Cancellation of options	-	-	-	(484)
Loss on termination of Interplex II agreement	-	-	-	7,287
Gain on disposal of income-producing properties	-	(5,460)	-	(14,442)
Future income tax (recovery) expense	(297)	-	(297)	11,127
Other adjustments:				
Property rent ⁽¹⁾	-	-	-	300
Non-controlling interest ⁽²⁾	-	-	-	91
Unrealized (gain) loss on financial instruments ⁽³⁾	(2,720)	(95)	(2,006)	466
DI for the period	\$ 17,919	\$ 11,706	\$ 63,278	\$ 50,690
Add back:				
Foreign currency translation loss ⁽⁴⁾	2,488	-	2,945	-
DI for the period excluding foreign currency impact	\$ 20,407	\$ 11,706	\$ 66,223	\$ 50,690

⁽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⁾ Excluded from DI is an unrealized (gain) loss on change in fair value of financial instruments.

⁽⁴⁾ Added back to DI is the foreign currency impact specifically attributable to the acquisition of U.S. properties.

In 2010, DI was impacted by the purchase of US dollars to fund U.S. asset purchases. DI for the year excluding foreign currency impact has increased \$15,533 (Q4-10 - \$8,701) or 30.6% (Q4-10 - 74.3%) over 2009. This increase is primarily attributed to the acquisitions completed in 2009 and 2010. Basic DI per unit, excluding foreign currency impact, decreased \$0.32 (Q4-10 - \$0.04) or 21.6% (Q4-10 - 12.5%). Excluding foreign currency impact, diluted DI per unit has decreased \$0.29 (Q4-10 - \$0.03) or 20.4% (Q4-10 - 10.0%).

In Q4-10, DI for the period including foreign currency impact increased \$12,588 (Q4-10 - \$6,213), or 24.8% (Q4-10 - 53.1%) over 2009. Basic DI per unit decreased \$0.37 (Q4-10 - \$0.08), or 25.0% (Q4-10 - 25.0%) over 2009. On a diluted basis, DI has decreased \$0.33 (Q4-10 - \$0.06), or 23.2% (Q4-10 - 20.0%) over 2009.

As a result of units issued under the DRIP, units issued from public offerings, and conversion of convertible debentures, basic units outstanding for the calculation of DI has substantially increased. This increase has diluted the impact of strong growth in DI on per unit results. Additionally, some of the cash raised remains uninvested at December 31, 2010. Exclusive of certain adjustments that will be made to net income pursuant to the adoption of IFRS, management anticipates there will be further growth in DI as cash is invested in on-going acquisition activities in future periods.

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 DRIP.

	Three month period ended December 31,	Year ended December 31,	Year ended December 31,	Year ended December 31,
	2010	2010	2009	2008
Cash flow from operations	\$ 22,417	\$ 70,602	\$ 41,113	\$ 40,963
Net loss	\$ (983)	\$ (3,775)	\$ (9,189)	\$ (6,952)
Distributions declared	\$ 20,343	\$ 63,332	\$ 36,998	\$ 35,123
Excess of cash flow from operations over distributions declared	\$ 2,074	\$ 7,270	\$ 4,115	\$ 5,840
Excess of distributions declared over net loss	\$ (21,326)	\$ (67,107)	\$ (46,187)	\$ (42,075)

For the year ended December 31, 2010, cash flow from operations exceeded distributions declared by \$7,270 (Q4-10 - \$2,074).

For the year ended December 31, 2010, distributions declared exceeded net loss. These differences are mainly comprised of amortization and other non-cash adjustments.

FUNDS FROM OPERATIONS ("FFO")

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

Reconciliation of Cash Flows from Operations to FFO:

000's, except per unit amounts	Three month period ended		Year ended	
	December 31,		December 31,	
	2010	2009	2010	2009
Cash flow from operations	\$ 22,417	\$ 10,275	\$ 70,602	\$ 41,113
Add (deduct) amortization of:				
Office equipment and software	(29)	(24)	(114)	(99)
Above-market rent	(248)	(54)	(542)	(233)
Below-market rent	3,268	2,798	12,175	12,536
Above-market mortgages	172	46	370	183
Add:				
Straight-line rent adjustment	957	340	2,841	1,738
Add (deduct):				
Unrealized foreign currency translation loss	(191)	-	(191)	-
Accretion on liability component of convertible debentures	(564)	(516)	(2,223)	(1,724)
Unit-based compensation expense	(138)	(8)	(221)	(160)
Cancellation of options	-	-	-	484
Amortization of financing costs included in interest	(310)	(198)	(1,048)	(782)
Changes in non-cash operating items	(6,698)	(661)	(16,376)	(1,003)
Other adjustment:				
Property rent ⁽¹⁾	-	-	-	300
FFO for the period	\$ 18,636	\$ 11,998	\$ 65,273	\$ 52,353
Add back:				
Foreign currency translation loss ⁽²⁾	2,488	-	2,945	-
FFO for the period excluding foreign currency impact	\$ 21,124	\$ 11,998	\$ 68,218	\$ 52,353
FFO per unit				
Basic	\$ 0.25	\$ 0.32	\$ 1.15	\$ 1.53
Diluted	\$ 0.25	\$ 0.31	\$ 1.13	\$ 1.49
FFO per unit excluding foreign currency impact				
Basic	\$ 0.29	\$ 0.32	\$ 1.20	\$ 1.53
Diluted	\$ 0.28	\$ 0.31	\$ 1.17	\$ 1.49
Weighted-average number of units:				
Basic ⁽³⁾	74,012	37,138	57,001	34,166
Diluted ⁽³⁾	75,554	42,551	63,359	36,625

⁽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⁾ Added back to FFO is the foreign currency impact specifically attributable to the acquisition of U.S. properties.

⁽³⁾ Options and convertible debentures are factored into the diluted weighted-average calculation, to the extent that their impact is dilutive.

Reconciliation of GAAP Income (Loss) to FFO:

	Three month period ended		Year ended	
	December 31,		December 31,	
	2010	2009	2010	2009
Income (loss) for the period	\$ (983)	\$ 4,140	\$ (3,775)	\$ (9,189)
Add amortization on:				
Income-producing properties	10,754	6,523	34,776	26,864
Acquired in-place leases	10,463	6,073	32,135	26,779
Customer relationships	-	1	1	7
Tenant inducements and leasing costs	1,276	675	3,960	2,723
Tenant inducements amortized to revenue	143	141	479	340
Loss on termination of Interplex II agreement	-	-	-	7,287
Gain on disposal of income-producing properties	-	(5,460)	-	(14,442)
Future income tax (recovery) expense	(297)	-	(297)	11,127
Other adjustments:				
Property rent ⁽¹⁾	-	-	-	300
Non-controlling interest ⁽²⁾	-	-	-	91
Unrealized (gain) loss on financial instruments ⁽³⁾	(2,720)	(95)	(2,006)	466
FFO for the period	\$ 18,636	\$ 11,998	\$ 65,273	\$ 52,353
Add back:				
Foreign currency translation loss ⁽⁴⁾	\$ 2,488	\$ -	\$ 2,945	\$ -
FFO for the period excluding foreign currency impact	\$ 21,124	\$ 11,998	\$ 68,218	\$ 52,353

⁽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⁾ Excluded from FFO is an unrealized (gain) loss on the change in fair value of financial instruments.

⁽⁴⁾ Added back to FFO is the foreign currency impact specifically attributable to the acquisition of U.S. properties.

In 2010, FFO was impacted by the purchase of US dollars to fund U.S. asset purchases. FFO for the year excluding foreign currency impact has increased by \$15,865 (Q4-10 - \$9,126) or 30.3% (Q4-10 - 76.1%) over 2009. This increase is primarily attributed to acquisitions completed in 2009 and 2010. Basic FFO per unit excluding foreign currency impact has decreased by \$0.33 (Q4-10 - \$0.03) or 21.6% (Q4-10 - 9.4%). Excluding foreign currency impact, diluted FFO per unit has decreased by \$0.32 (Q4-10 - \$0.03) or 21.5% (Q4-10 - 9.7%).

In 2010, FFO including foreign currency impact has increased \$12,920 (Q4-10 - \$6,638), or 24.7% (Q4-10 - 55.3%) over 2009. Basic FFO per unit has decreased by \$0.38 (Q4-10 - \$0.07), or 24.8% (Q4-10 - 21.9%) over 2009. On a diluted basis, FFO per unit has decreased \$0.36 (Q4-10 - \$0.06), or 24.2% (Q4-10 - 19.4%) over 2009.

As a result of units issued under the DRIP, units issued from public offerings, and conversion of convertible debentures, basic units outstanding for the calculation of FFO has substantially increased. This increase has diluted the impact of strong growth in FFO on per unit results. Additionally, some of the cash raised remains uninvested at December 31, 2010. Exclusive of certain adjustments that will be made to net income pursuant to the adoption of IFRS, management anticipates there will be further growth in FFO as cash is invested in on-going acquisition activities in future periods.

ANALYSIS OF FINANCIAL POSITION

ASSETS

	December 31, 2010	December 31, 2009	Increase
Income-producing properties	\$ 1,720,771	\$ 991,700	\$ 729,071
Other assets, including intangibles	340,061	162,247	177,814
Cash, cash equivalents and cash held in trust	89,106	36,262	52,844
	\$ 2,149,938	\$ 1,190,209	\$ 959,729

Income-producing properties and related intangible assets:

The increase in assets is a result of the commercial properties acquired, net of amortization recorded. During 2010, the REIT acquired 37 new properties including the following during Q4-10:

Property	Location	GLA	Acquisition Date	Type
Cancross Court	Mississauga, ON	143,877	October 1, 2010	Office
Meadowvale Building	Mississauga, ON	99,869	October 15, 2010	Office
Horizon II	Calgary, AB	95,542	October 15, 2010	Industrial
Letourneau Centre	Edmonton, AB	97,743	October 15, 2010	Industrial
Furniture Pluss Building	Fort McMurray, AB	21,490	October 20, 2010	Retail
Caterpillar Building	Minneapolis, MN	174,901	October 22, 2010	Industrial
Minneapolis Industrial Portfolio ⁽¹⁾	Minneapolis, MN	776,925	October 29, 2010	Industrial
Dunwin	Mississauga, ON	157,531	November 12, 2010	Industrial
Humana Building	Phoenix, AZ	106,418	November 18, 2010	Office
Concorde Corporate Centre	Toronto, ON	545,503	December 1, 2010	Office
Poco Place	Vancouver, BC	163,844	December 22, 2010	Office
Hartford Corporate Plaza	New Hartford, NY	122,760	December 30, 2010	Office
Mosaic Building	Tampa, FL	107,463	December 30, 2010	Office

⁽¹⁾ The Minneapolis Industrial Portfolio is comprised of 2 single tenant and 4 multi-tenant properties.

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

	Three month period ended December 31,		Year ended December 31,	
	2010	2009	2010	2009
Cash consideration	\$ 128,475	\$ 35,092	\$ 339,352	\$ 35,092
New or assumed mortgages including above- and below-market mortgages, net of deferred financing costs	214,219	36,422	564,231	36,422
Net assets acquired	\$ 342,694	\$ 71,514	\$ 903,583	\$ 71,514
Allocated to income-producing properties	\$ 273,383	\$ 63,684	\$ 754,099	\$ 63,684
Allocated to other assets	75,803	11,882	171,704	11,882
Allocated to intangible liabilities	(6,492)	(4,052)	(22,220)	(4,052)
Net assets acquired	\$ 342,694	\$ 71,514	\$ 903,583	\$ 71,514

Capital expenditures:

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

Capital expenditures in 2010 totalled \$10,695 (Q4-10 - \$5,360) compared to \$4,847 (Q4-09 - \$1,930) in 2009. Capital expenditures were offset this year by \$1,842 received as a settlement relating to expropriation of a portion of a retail property. Revenue enhancing capital expenditures of \$6,217 were incurred in 2010 relating to construction of a new office building at North City Centre in Edmonton, Alberta, extensive renovations of two floors of an office building in Burnaby, British Columbia, site development costs for excess land at an industrial property in Edmonton, Alberta and construction of a parkade ancillary to an existing portfolio office property in Winnipeg, Manitoba. The remaining \$6,320 of capital expenditures primarily relate to roof repairs at eleven properties and an elevator modernization project at a Winnipeg office property. Approximately \$4,161 of these capital expenditures are recoverable from tenants in future periods.

Tenant inducements and leasing costs:

Other assets of the REIT at December 31, 2010 include \$22,647 of unamortized tenant inducement and leasing costs related to the leasing or re-leasing of space, compared to \$14,180 at December 31, 2009. 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 2010, Artis incurred \$12,906 (Q4-10 - \$3,019) of tenant inducements and leasing costs compared to \$7,178 (Q4-09 - \$1,485) in 2009. The current year's tenant inducements include \$4,075 relating to a lease executed in 2008. As the tenant has now satisfied the tenant inducement requirements, this balance was paid out in Q3-10.

	Three month period ended December 31,		Year ended December 31,	
	2010	2009	2010	2009
Tenant inducements	\$ 1,948	\$ 835	\$ 10,357	\$ 4,647
Leasing commissions	1,071	650	2,549	2,531
Total	\$ 3,019	\$ 1,485	\$ 12,906	\$ 7,178

Future income tax assets:

The REIT believes that it has met the REIT Conditions throughout the fiscal years ended December 31, 2010 and 2009. The future income tax asset recorded in prior periods was reversed in Q1-09. In respect of assets and liabilities of the REIT, and its flow through entities, excluding real estate investments in the U.S., the tax basis of net assets exceeds their net book value for accounting purposes by approximately \$59,381 at December 31, 2010 (December 31, 2009, \$39,032).

The REIT accounts for future tax assets or liabilities resulting from its U.S. properties' deductible or taxable temporary differences in accordance with GAAP. The REIT recorded a future tax asset related to tax in the U.S. of \$297.

Deposits on income-producing properties:

At December 31, 2010, Artis had made \$16,081 of deposits on income-producing properties, compared to \$1,350 at December 31, 2009.

Notes receivable:

In conjunction with the 2007 acquisition of TransAlta Place, the REIT acquired a note receivable in the amount of \$31,000. The note bears interest at 5.89% per annum and is repayable in varying blended monthly instalments of principal and interest. The note is transferable at the option of the REIT and matures in May 2023. The REIT has three additional notes receivable arising from the acquisition and disposition of income-producing properties. The balance outstanding on all notes receivable at December 31, 2010 is \$27,142.

Investment in equity securities:

At December 31, 2010, the REIT had \$11,184 invested in equity securities. Artis invested excess cash in equity securities to achieve a better return on investment on surplus cash.

Cash and cash equivalents:

At December 31, 2010, the REIT had \$88,324 of cash and cash equivalents on hand, compared to \$35,907 at December 31, 2009. The balance is anticipated to be invested in income-producing properties in subsequent periods, or used for working capital purposes. All of the REIT's cash and cash equivalents are held in current accounts and/or bank guaranteed investment certificates.

LIABILITIES

	December 31, 2010	December 31, 2009	Increase (decrease)
Long-term debt	\$ 1,291,783	\$ 698,295	\$ 593,488
Other liabilities	130,444	100,308	30,136
Bank indebtedness	8,000	30,700	(22,700)
	\$ 1,430,227	\$ 829,303	\$ 600,924

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, 2010 was 48.7%, compared to 47.4% at December 31, 2009.

	December 31, 2010	December 31, 2009
GBV	\$ 2,388,700	\$ 1,356,994
Mortgages, loans and bank indebtedness	1,164,092	642,963
Mortgages, loans and bank indebtedness to GBV	48.7 %	47.4 %
Carrying value of convertible debentures	\$ 135,691	\$ 86,032
Total long-term debt and bank indebtedness	1,299,783	728,995
Total long-term debt and bank indebtedness to GBV	54.4 %	53.7 %

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

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

Mortgages:

Artis finances acquisitions in part through the assumption of mortgage financing and consequently, substantially all of the REIT's income-producing properties are pledged as security under mortgages and other loans. In 2010, \$16,933 (Q4-10- \$5,272) of principal repayments were made, compared to \$12,367 (Q4-09 - \$3,080) in 2009.

During 2010, long-term debt including above- and below-market mortgages, net of deferred financing costs, added on acquisition of income-producing properties was \$564,231 (Q4-10 - \$214,219). During 2010, Artis reduced the balance drawn on the line of credit from \$30,700 to \$8,000 and repaid \$20,542 of vendor take-back mortgages. Artis refinanced maturing mortgages of \$17,094 replacing them with new mortgages of \$30,547 and financed an unencumbered property for \$4,000.

At December 31, 2010, the REIT is a party to \$183,584 of variable rate debt, including the outstanding balance of bank indebtedness (December 31, 2009, \$38,440). At December 31, 2010, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$66,584 of variable rate debt (December 31, 2009, \$nil). The variable rate debt less the portion protected by interest rate swaps is \$117,000 or 9.0% of total debt.

The weighted-average term to maturity at December 31, 2010 is 4.8 years, compared to 4.5 years at December 31, 2009.

Convertible debentures:

Artis has four series of convertible debentures outstanding as at December 31, 2010, as follows:

	Issued	Maturity	Face rate	December 31, 2010		December 31, 2009	
				Carrying value	Face value	Carrying value	Face value
Series A	4-Aug-05	4-Aug-10	7.75%	\$ -	\$ -	\$ 595	\$ 620
Series B	9-Nov-05	9-Nov-10	7.50%	-	-	2,175	2,313
Series C	4-May-06	31-May-13	6.25%	25,894	29,920	24,535	29,920
Series D	30-Nov-07	30-Nov-14	5.00%	16,391	17,000	16,257	17,000
Series E	9-July-09	30-June-14	7.50%	13,266	13,994	42,470	45,384
Series F	22-Apr-10	30-June-20	6.00%	80,140	86,250	-	-
				\$ 135,691	\$ 147,164	\$ 86,032	\$ 95,237

The carrying value of convertible debentures has increased by \$49,659 from December 31, 2009. This increase is due to the issuance of Series F convertible debentures offset by the conversion of Series E convertible debentures and the maturing of Series A and Series B convertible debentures during 2010. Also included in the carrying value is interest and financing costs which are amortized on an effective interest basis. The weighted-average effective rate of the debentures at December 31, 2010 was 8.35%, a decrease from the rate of 10.04% at December 31, 2009.

Other liabilities and bank indebtedness:

Other liabilities includes the unamortized below-market rent intangible liability of \$91,568 at December 31, 2010. This increased \$10,045 from \$81,523 at December 31, 2009, as a result of properties acquired during the year offset by amortization recorded during the year. Included in other liabilities are security deposits paid by tenants, rents prepaid by tenants at December 31, 2010, accounts payable and accruals, as well as the December 31, 2010 distribution payable to unitholders of \$6,793, subsequently paid on January 14, 2011. Bank indebtedness relates to the balance drawn on the REIT's revolving term credit facility. At December 31, 2010, Artis had drawn \$8,000 on the credit facility in conjunction with 2010 acquisitions. Amounts drawn on the facility bear interest at a floating rate equal to Canadian dollar bankers' acceptances with a term to maturity of 30 days, plus 3.30% per annum.

UNITHOLDERS' EQUITY

Unitholders' equity increased overall by \$358,805 between December 31, 2010 and December 31, 2009. The increase was primarily due to the issuance of units for \$393,796, the conversion of convertible debentures for \$29,506 and the issuance of convertible debentures for \$2,662. This increase was offset by the comprehensive loss for the year of \$4,048 and the distributions made to unitholders of \$63,332.

LIQUIDITY AND CAPITAL RESOURCES

In 2010, Artis generated \$70,602 of cash flows from operating activities compared to \$41,113 in 2009. Cash flows from operations assisted in funding distributions to unitholders of \$63,332 and principal repayments on mortgages and loans of \$16,933.

Cash of \$23,601 was used for capital building improvements and for tenant inducements and leasing costs compared to \$12,025 in 2009.

At December 31, 2010, Artis had \$88,324 of cash and cash equivalents on hand. Management anticipates that the cash on hand will be invested in income-producing properties in subsequent periods, or used for working capital purposes.

On September 22, 2010, Artis entered into an amended and restated loan agreement for a revolving term credit facility for a total amount of \$60,000 which may be utilized to fund acquisitions of office, retail and industrial properties. \$5,000 of the credit facility may be utilized for general corporate purposes. The credit facility may be extended for an additional year at the REIT's option; if the option is not exercised, the credit facility matures on September 28, 2011. As at December 31, 2010, the REIT had incurred bank indebtedness of \$8,000.

To its knowledge, Artis is not in default or arrears on any of its obligations, including distributions to unitholders, interest or principal payments on debt or any debt covenants for the year ended December 31, 2010.

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

CONTRACTUAL OBLIGATIONS

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Accounts payable and other liabilities	\$ 29,382	\$ 29,382	\$ -	\$ -	\$ -
Mortgages, loans and bank indebtedness	1,166,048	67,236	307,018	382,964	408,830
Convertible debentures ⁽¹⁾	147,164	-	29,920	30,994	86,250
Total	\$ 1,342,594	\$ 96,618	\$ 336,938	\$ 413,958	\$ 495,080

⁽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, 2010, obligations due within one year include \$29,382 of accounts payable and other liabilities, \$36,263 of mortgages, \$8,000 drawn on the revolving term credit facility, and principal repayments on mortgages of \$22,973.

SUMMARIZED QUARTERLY INFORMATION

\$000's, except per unit amounts ⁽¹⁾

	Q4-10	Q3-10	Q2-10	Q1-10	Q4-09	Q3-09	Q2-09	Q1-09
Revenue	\$ 60,667	\$ 50,603	\$ 42,984	\$ 37,307	\$ 35,243	\$ 33,517	\$ 33,487	\$ 34,606
Property operating expenses	21,251	16,258	12,885	11,638	11,590	10,487	10,393	11,020
Property NOI	39,416	34,345	30,099	25,669	23,653	23,030	23,094	23,586
Interest	16,180	15,044	13,189	10,422	10,438	10,029	9,766	9,867
	23,236	19,301	16,910	15,247	13,215	13,001	13,328	13,719
Expenses (income):								
Corporate	2,129	1,870	1,521	1,224	1,330	705	1,288	1,201
Amortization	22,522	19,061	15,939	13,464	13,286	12,523	12,862	15,582
Unrealized (gain) loss on financial instruments	(2,720)	700	(66)	80	(95)	297	60	204
Foreign currency translation (gain) loss	2,488	553	(96)	-	-	-	-	-
	24,419	22,184	17,298	14,768	14,521	13,525	14,210	16,987
Income (loss) before the undernoted	(1,183)	(2,883)	(388)	479	(1,306)	(524)	(882)	(3,268)
Loss on termination of Interplex II agreement	-	-	-	-	-	-	(7,287)	-
Non-controlling interest	-	-	-	-	-	-	45	(5)
Income (loss) before income taxes and discontinued operations	\$ (1,183)	\$ (2,883)	\$ (388)	\$ 479	\$ (1,306)	\$ (524)	\$ (8,124)	\$ (3,273)
Income tax recovery (expense)	200	-	-	-	-	-	-	(10,895)
Income from discontinued operations	-	-	-	-	5,446	616	8,234	637
Income (loss) for the period	\$ (983)	\$ (2,883)	\$ (388)	\$ 479	\$ 4,140	\$ 92	\$ 110	\$ (13,531)
Other comprehensive income:								
Unrealized foreign currency translation loss	\$ (94)	\$ (179)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Comprehensive income (loss) for the period	\$ (1,077)	\$ (3,062)	\$ (388)	\$ 479	\$ 4,140	\$ 92	\$ 110	\$ (13,531)
Basic income (loss) per unit	\$ (0.01)	\$ (0.05)	\$ (0.01)	\$ 0.01	\$ 0.11	\$ 0.00	\$ 0.00	\$ (0.42)
Diluted income (loss) per unit	\$ (0.01)	\$ (0.05)	\$ (0.01)	\$ 0.01	\$ 0.11	\$ 0.00	\$ 0.00	\$ (0.42)

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

Artis disposed of several properties in 2009 and has been acquiring properties in Q4-09 and throughout 2010 which has created volatility in quarterly results. Due to the acquisition activity since Q4-09, Artis has steadily increased revenues and Property NOI from continuing operations over the last few quarters. Artis has cash uninvested at December 31, 2010. Exclusive of certain adjustments that will be made to net income pursuant to the adoption of IFRS, management anticipates there will be further growth in revenues and Property NOI as cash is invested in ongoing acquisition activities in future periods.

Reconciliation of GAAP Income (Loss) to DI:

000's, except per unit amounts	Q4-10	Q3-10	Q2-10	Q1-10	Q4-09	Q3-09	Q2-09	Q1-09
Income (loss) for the period	\$ (983)	\$ (2,883)	\$ (388)	\$ 479	\$ 4,140	\$ 92	\$ 110	\$ (13,531)
Add:								
Amortization (excluding amortized leasing costs)	21,217	17,834	15,140	12,721	12,597	12,175	12,945	15,933
Accretion on liability component of debentures	564	601	562	496	516	473	373	362
Unit-based compensation expense	138	42	30	11	8	37	54	61
Cancellation of options	-	-	-	-	-	(484)	-	-
Unrealized (gain) loss on financial instruments	(2,720)	700	(66)	80	(95)	297	60	204
Loss on termination of Interplex II agreement	-	-	-	-	-	-	7,287	-
Gain on disposal of income-producing properties	-	-	-	-	(5,460)	(403)	(7,988)	(591)
Future income tax (recovery) expense	(297)	-	-	-	-	-	-	11,127
Other adjustments:								
Property rent ⁽¹⁾	-	-	-	-	-	-	-	300
Non-controlling interest ⁽²⁾	-	-	-	-	-	-	58	33
DI for the period	\$ 17,919	\$ 16,294	\$ 15,278	\$ 13,787	\$ 11,706	\$ 12,187	\$ 12,899	\$ 13,898
Add back:								
Foreign currency translation (gain) loss ⁽³⁾	2,488	553	(96)	-	-	-	-	-
DI for the period excluding foreign currency impact	\$ 20,407	\$ 16,847	\$ 15,182	\$ 13,787	\$ 11,706	\$ 12,187	\$ 12,899	\$ 13,898
DI per unit								
Basic	\$ 0.24	\$ 0.27	\$ 0.30	\$ 0.32	\$ 0.32	\$ 0.37	\$ 0.39	\$ 0.42
Diluted	\$ 0.24	\$ 0.26	\$ 0.29	\$ 0.31	\$ 0.30	\$ 0.34	\$ 0.38	\$ 0.41
DI per unit excluding foreign currency impact								
Basic	\$ 0.28	\$ 0.28	\$ 0.30	\$ 0.32	\$ 0.32	\$ 0.37	\$ 0.39	\$ 0.42
Diluted	\$ 0.27	\$ 0.27	\$ 0.29	\$ 0.31	\$ 0.30	\$ 0.34	\$ 0.38	\$ 0.41
Weighted-average number of units:								
Basic ⁽⁴⁾	74,012	60,493	50,097	43,105	37,138	33,364	33,019	33,107
Diluted ⁽⁴⁾	82,077	69,043	59,741	49,402	44,506	40,793	36,101	36,189

⁽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 Statements 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⁾ Added back to DI is the foreign currency impact specifically attributable to the acquisition of U.S. properties.

⁽⁴⁾ The weighted-average number of units used in the calculation of DI per unit included Class B units issued by the REIT's subsidiary, AXLP, beginning in Q4-06. Options and convertible debentures are factored into the diluted weighted-average calculation, to the extent that their impact is dilutive.

Reconciliation of GAAP Income (Loss) to FFO:

000's, except per unit amounts	Q4-10	Q3-10	Q2-10	Q1-10	Q4-09	Q3-09	Q2-09	Q1-09
Income (loss) for the period	\$ (983)	\$ (2,883)	\$ (388)	\$ 479	\$ 4,140	\$ 92	\$ 110	\$ (13,531)
Add amortization on:								
Income-producing properties	10,754	9,373	7,935	6,714	6,523	6,332	6,529	7,480
Acquired in-place leases	10,463	8,461	7,204	6,007	6,073	5,841	6,414	8,451
Customer relationships	-	-	1	-	1	2	2	2
Tenant inducements and leasing costs	1,276	1,198	770	716	675	731	612	705
Tenant inducements amortized into revenue	143	124	108	104	141	71	63	65
Unrealized (gain) loss on financial instruments	(2,720)	700	(66)	80	(95)	297	60	204
Loss on termination of Interplex II agreement	-	-	-	-	-	-	7,287	-
Gain on disposal of income-producing properties	-	-	-	-	(5,460)	(403)	(7,988)	(591)
Future income tax (recovery) expense	(297)	-	-	-	-	-	-	11,127
Other adjustments:								
Property rent ⁽¹⁾	-	-	-	-	-	-	-	300
Non-controlling interest ⁽²⁾	-	-	-	-	-	-	58	33
FFO for the period	\$ 18,636	\$ 16,973	\$ 15,564	\$ 14,100	\$ 11,998	\$ 12,963	\$ 13,147	\$ 14,245
Add back:								
Foreign currency translation (gain) loss ⁽³⁾	2,488	553	(96)	-	-	-	-	-
FFO for the period excluding foreign currency impact	\$ 21,124	\$ 17,526	\$ 15,468	\$ 14,100	\$ 11,998	\$ 12,963	\$ 13,147	\$ 14,245
FFO per unit								
Basic	\$ 0.25	\$ 0.28	\$ 0.31	\$ 0.33	\$ 0.32	\$ 0.39	\$ 0.40	\$ 0.43
Diluted	\$ 0.25	\$ 0.28	\$ 0.30	\$ 0.32	\$ 0.31	\$ 0.36	\$ 0.39	\$ 0.42
FFO per unit excluding foreign currency impact								
Basic	\$ 0.29	\$ 0.29	\$ 0.31	\$ 0.33	\$ 0.32	\$ 0.39	\$ 0.40	\$ 0.43
Diluted	\$ 0.28	\$ 0.28	\$ 0.30	\$ 0.32	\$ 0.31	\$ 0.36	\$ 0.39	\$ 0.42
Weighted-average number of units:								
Basic ⁽⁴⁾	74,012	60,493	50,097	43,105	37,138	33,364	33,019	33,107
Diluted ⁽⁴⁾	75,554	68,872	57,786	47,447	42,551	38,838	34,146	34,234

⁽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 Statements 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⁾ Added back to FFO is the foreign currency impact specifically attributable to the acquisition of U.S. properties.

⁽⁴⁾ The weighted-average number of units used in the calculation of FFO per unit included Class B units issued by the REIT's subsidiary, AXLP, beginning in Q4-06. Options and convertible debentures are factored into the diluted weighted-average calculation, to the extent that their impact is dilutive.

Artis disposed of several properties in 2009 and has been acquiring properties in Q4-09 and throughout 2010 which has created volatility in quarterly results. Due to the acquisition activity since Q4-09, Artis has steadily increased DI and FFO over the last few quarters. Artis has cash uninvested at December 31, 2010. Exclusive of certain adjustments that will be made to net income pursuant to the adoption of IFRS, management anticipates there will be further growth in DI and FFO as cash is invested in on-going acquisition activities in future periods.

RELATED PARTY TRANSACTIONS

	Three month period ended December 31,		Year ended December 31,	
	2010	2009	2010	2009
Legal fees expensed	\$ 26	\$ 214	\$ 68	\$ 494
Capitalized legal fees	594	413	2,688	1,286
Advisory fees	1,182	710	3,859	2,813
Capitalized acquisition fees	1,695	352	4,438	352
Property management fees	2,167	1,516	6,988	5,312
Capitalized leasing commissions	275	167	617	1,278
Capitalized building improvements	5,058	1,159	10,162	3,577
Capitalized tenant inducements	-	26	544	139
Services fee	-	-	-	198
Consulting fees	25	150	100	150

The REIT incurred legal fees with a law firm associated with a trustee of the REIT in connection with the prospectus offerings, the property acquisitions and general business matters. The amount payable at December 31, 2010 is \$869 (December 31, 2009, \$150).

The REIT incurred advisory fees and acquisition fees under the asset management agreement with Marwest Realty Advisors Inc. ("Marwest Realty"), a company owned and controlled by certain trustees and officers of the REIT. The amount payable at December 31, 2010 is \$464 (December 31, 2009, \$38). Under the asset management agreement, Marwest Realty 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 Realty 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 Realty is entitled to receive a termination fee equal to the anticipated fees payable until the end of the term). Marwest Realty 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 Realty 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 Management Canada Ltd. ("Marwest Management"). The amount payable at December 31, 2010 is \$390 (December 31, 2009, \$136). Marwest Management 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. and Marwest Development Corporation, companies related to certain trustees and officers of the REIT. The amount payable at December 31, 2010 is \$671 (December 31, 2009, \$302).

The services fee represents work done for all services rendered in anticipation of the purchase of the Interplex II and Interplex III properties, and the termination of said agreements. The balance payable at December 31, 2010 is \$nil (December 31, 2009, \$nil).

The consulting fees represent work performed by Marwest Realty on the IFRS implementation project. The amount payable at December 31, 2010 is \$nil (December 31, 2009, \$75).

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

OUTSTANDING UNIT DATA

The balance of units outstanding as of March 1, 2011 is as follows:

Units outstanding at December 31, 2010	75,477,308
Units issued (DRIP)	84,158
Units issued on conversion of debentures	<u>117,738</u>
Units outstanding at March 1, 2011	<u>75,679,204</u>

The balance of options outstanding as of March 1, 2011 is as follows:

	Options outstanding	Options exercisable
\$11.28 options, issued February 25, 2010	271,250	67,813
\$13.30 options, issued September 10, 2010	399,000	-
\$13.44 options, issued October 15, 2010	400,000	-
	<u>1,070,250</u>	<u>67,813</u>

2011 OUTLOOK

Artis is a diversified REIT focused on industrial, retail and office asset classes. Artis is also geographically diversified, with properties owned across western Canada, as well as in Ontario and in select markets in the United States.

According to the Scotiabank Global Economic Research report of December 2010, real GDP in Canada is forecast to grow 2.2% in 2011. Forecast GDP growth for the Canadian provinces where Artis owns properties is also positive, as follows: Manitoba, 2.6%; Saskatchewan, 4.2%; Alberta, 3.7%; British Columbia, 2.7% and Ontario, 2.4%. Artis has also selectively diversified into geographical areas where GDP growth is anticipated to be strong, such as the greater Minneapolis / St. Paul area in Minnesota, with forecast GDP growth of 3.2%.

Barring further unanticipated global market difficulties, Artis' management anticipates that the Canadian and U.S. economies will continue to recover, and underlying real estate fundamentals will improve. Further capitalization rate compression and strong competition for quality product will be constraints against continued growth through acquisition. However, Artis has a robust deal flow pipeline and continues to see opportunities to acquire accretive and high quality commercial properties in its selected markets.

As at December 31, 2010, Artis had \$88,324 of cash and cash equivalents on hand plus an additional \$11,184 in investments and \$52,000 available on the line of credit. Cash and cash equivalents on hand have been used in part to fund two acquisitions aggregating \$18,000 that closed subsequent to December 31, 2010. On January 7, 2011, Artis acquired a 48,119 square foot two-building industrial property in Calgary, Alberta and on February 28, 2011, Artis acquired a 28,520 square foot single tenant office building in Edmonton, Alberta. Both purchase prices were settled with cash on hand.

Artis has already announced that it has entered into an unconditional agreement to acquire an additional 15 industrial properties in Minnesota for an aggregate purchase price of US \$73,200. The REIT anticipates that the acquisition will close March 31, 2011, and will be financed with cash on hand and from the proceeds of new mortgage financing.

Artis anticipates that its properties will continue to perform in line with the market. Growth may be realized as leases expire and are renewed or re-leased at higher market rates. Artis reviews the current market rents across its portfolio on an on-going basis. Management estimates that the weighted average market rent rates at December 31, 2010 for the portfolio as a whole is 3.3% higher than the rates in place at expiry.

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 five Canadian provinces and four U.S. states, with a significant majority of its properties, measured by gross leasable area, located in the province of Alberta. As a result, the properties are impacted by factors specifically affecting their respective real estate markets. These factors may differ from those affecting the real estate markets in other regions of Canada and the U.S.

INTEREST RATE AND DEBT FINANCING

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

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

Artis is also subject to interest rate risk associated with the REIT's revolving term credit facility, mortgages and unsecured debentures payable due to the expected requirement to refinance such debts in the year of maturity. The REIT minimizes the risk by restricting debt to 70% of gross book value and by limiting the amount of variable rate debt. The REIT has the majority of its mortgage payable and debentures in fixed rate terms. At December 31, 2010, the REIT is a party to \$183,584 of variable rate debt, including the outstanding balance of bank indebtedness (December 31, 2009, \$38,440). At December 31, 2010, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$66,584 of variable rate debt (December 31, 2009, \$nil).

The REIT's ratio of mortgages, loans and bank indebtedness to GBV is 48.7%, up from 47.4% at December 31, 2009. Approximately 3.6% of Artis' maturing mortgage debt comes up for renewal in 2011, and 10.2% in 2012.

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. Artis' portfolio includes over 1,783 tenant leases with a weighted-average term to maturity of 5.7 years. Approximately 65% of the REIT's portfolio was occupied by national or government tenants. As indicated below, the largest tenant by gross revenue is AMEC Americas Ltd., a global supplier of consultancy, engineering and project management services to the energy, power and process industries. AMEC Americas Ltd. is a London Exchange listed entity with 2009 annual revenues in excess of £2.5 billion. The second largest tenant by gross revenue is TransAlta Corporation, a Standard & Poor's BBB rated multi-national corporation with a market capitalization of over \$4.8 billion. As at December 31, 2010, government tenants contribute 6.9% to the REIT's overall gross revenue and occupy 5.1% of total GLA.

Top Twenty Tenants By Gross Revenue

Tenant	% of Total Gross Revenue	GLA (in 000's of s.f.)	% of Total GLA	Weighted-Average Remaining Lease Term
AMEC Americas Ltd	3.5 %	200	1.6 %	2.7
TransAlta Corporation	2.0 %	336	2.7 %	12.4
Sobeys	1.5 %	191	1.5 %	10.2
PMC - Sierra	1.5 %	148	1.2 %	5.5
Birchcliff Energy	1.4 %	59	0.5 %	6.9
Shoppers Drug Mart	1.3 %	118	0.9 %	6.2
Credit Union Central	1.2 %	90	0.7 %	11.0
TD Bank	1.2 %	92	0.7 %	9.3
Home Depot	1.1 %	95	0.8 %	8.8
Data Sciences International	1.1 %	116	0.9 %	9.5
Sport Alliance of Ontario	1.1 %	85	0.7 %	13.5
Deloitte & Touche	1.0 %	76	0.6 %	8.8
Bell Canada	1.0 %	76	0.6 %	5.5
Kuehne + Nagel Ltd.	1.0 %	300	2.4 %	12.5
HP Group Insurance Mgmt Ltd.	0.9 %	75	0.6 %	12.2
Aikins	0.9 %	60	0.5 %	3.8
Q9 Networks Inc.	0.9 %	35	0.3 %	5.7
MTS Allstream	0.8 %	77	0.6 %	15.8
Maple Leaf Consumer Foods Inc.	0.8 %	163	1.3 %	18.5
Celestica International Inc.	0.8 %	50	0.4 %	0.8
Total	25.0 %	2,442	19.5 %	9.8

Government Tenants By Gross Revenue

Tenant	% of Total Gross Revenue	GLA (in 000's of s.f.)	% of Total GLA	Weighted-Average Remaining Lease Term
Federal Government	3.5 %	312	2.5 %	4.3
Provincial Government	2.5 %	225	1.8 %	3.4
Civic or Municipal Government	0.9 %	107	0.8 %	5.3
Total	6.9 %	644	5.1 %	4.2

Weighted-average term to maturity (entire portfolio)	5.7
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LEASE ROLLOVER RISK

The value of income-producing properties and the stability of cash flows derived from those properties is dependent upon the level of occupancy and lease rates in those properties. Upon expiry of any lease, there is no assurance that a lease will be renewed on favourable terms, or at all; nor is there any assurance that a tenant can be replaced. A contraction in the Canadian or U.S. economy would negatively impact demand for space in retail, office and industrial properties, 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	Canada					Calgary Office Only	U.S.		Total
	AB	BC	MB	SK	ON		MN	Other	
2011	6.2 %	1.2 %	4.2 %	0.4 %	0.8 %	2.1 %	2.7 %	0.0 %	15.5 %
2012	3.0 %	1.3 %	3.3 %	0.1 %	0.5 %	1.1 %	0.2 %	0.0 %	8.4 %
2013	4.8 %	2.1 %	4.0 %	1.1 %	0.2 %	2.5 %	0.2 %	0.0 %	12.4 %
2014	3.0 %	1.1 %	4.4 %	0.7 %	0.1 %	0.4 %	0.1 %	0.0 %	9.4 %
2015	3.0 %	1.5 %	4.2 %	0.4 %	1.0 %	0.4 %	0.7 %	0.0 %	10.8 %
2016 & later	16.1 %	4.9 %	4.6 %	2.3 %	4.5 %	3.4 %	3.2 %	2.7 %	38.3 %
Month-to-month	0.0 %	0.0 %	0.1 %	0.0 %	0.1 %	0.0 %	0.0 %	0.0 %	0.2 %
Vacant	1.4 %	0.6 %	1.1 %	0.1 %	0.4 %	0.5 %	1.4 %	0.0 %	5.0 %
Total GLA (in 000's of s.f.)	4,738	1,606	3,261	641	948	1,323	1,068	336	12,598

Artis' real estate is diversified across five Canadian provinces and four U.S. states, and across the office, retail and industrial asset classes. At December 31, 2010, the portfolio by GLA is weighted towards Manitoba and Alberta properties. By city and asset class, the three largest segments of the REIT's portfolio by GLA are Winnipeg industrial properties, Calgary office properties and Winnipeg office properties.

As of today's date, approximately 16.1% of the Winnipeg industrial and 42.9% of the Calgary office lease expiries in 2011 are already renewed or committed under new leases. In total, 53.2% of the 2011 and 18.3% of the 2012 leasing programs are complete.

TAX RISK

On June 22, 2007, the New SIFT Rules (discussed in more detail above under the heading "Income Tax Expense") 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. The REIT believes that it has met the REIT Conditions throughout the fiscal years ended December 31, 2010, and 2009. There can be no assurances, however, that the REIT will continue to be able to satisfy the REIT Conditions in the future 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.

The REIT operates in the United States through a U.S. holding company (Artis US Holdings Inc.) which is capitalized with equity provided by the REIT and debt in the form of notes owed to the REIT. As at December 31, 2010, Artis US Holdings Inc. owes \$10.4 million to the REIT which is eliminated on consolidation of the financial statements.

The notes have been recorded as a liability for U.S. federal income tax purposes. If the Internal Revenue Service ("IRS") or a court were to determine that the notes should be treated as equity rather than debt for tax purposes, the interest on the notes would become taxable as a dividend, and therefore would not be deductible for U.S. federal income tax purposes. In addition, if the IRS were to determine that the interest rate on the notes did not represent an arm's length rate, any excess amount over arm's length would not be deductible and would be taxed as a dividend payment instead of an interest payment. This would increase the U.S. federal income tax liability of the REIT. In addition, the REIT could be subject to penalties. The increase in the tax liability could adversely affect Artis US Holdings Inc.'s ability to make payments on the notes or the REIT's ability to make distribution on its units.

FOREIGN CURRENCY RISK

The REIT owns properties located in the United States, and therefore, the REIT is subject to foreign currency fluctuations that may impact its financial position and results. In order to mitigate a portion of this risk, the REIT's debt on U.S. properties is held in US dollars to act as a natural hedge.

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, 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 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 of Marwest Realty as asset manager.

CRITICAL ACCOUNTING ESTIMATES

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

ALLOCATION OF PURCHASE PRICE OF INCOME-PRODUCING PROPERTIES

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

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

IMPAIRMENT OF ASSETS

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

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

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

AMORTIZATION

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

ALLOCATION OF CONVERTIBLE DEBENTURES

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

FUTURE INCOME TAX VALUATION

The REIT currently qualifies as a mutual fund trust for Canadian income tax purposes. On June 22, 2007, new legislation relating to, among other things, the federal income taxation of a specified investment flow-through trust or partnership (a "SIFT") was enacted (the "New SIFT Rules"). The REIT has reviewed the New SIFT Rules and has assessed their interpretation and application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the New SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the fiscal years ended December 31, 2010, and 2009. The future income tax asset recorded in prior periods was reversed and charged to continuing and discontinued operations in Q1-09.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2011, the REIT will be reporting financial results based on International Financial Reporting Standards.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the adoption of International Financial Reporting Standards ("IFRS") would be effective for interim and annual periods beginning on or after January 1, 2011 for profit oriented Canadian publicly accountable enterprises. IFRS will replace Canada's current GAAP for these enterprises. Comparative IFRS information for the previous fiscal year will also have to be reported. These new standards will be effective for the REIT on January 1, 2011, with the first reporting period under IFRS commencing with the interim financial statements for the three months ended March 31, 2011.

Upon commencement of the IFRS transition project, the REIT established a project team led by the Chief Financial Officer, and includes representatives from various areas of the organization, as necessary, to achieve a smooth transition to IFRS. The project team has identified the following key elements as part of the REIT's transition project, as well as the current progress that has been made on each element.

Communication and training:

Regular progress reporting to the Board of Trustees and Audit Committee of the Board of Trustees on the status of the IFRS transition project has continued through Q4-10. In 2009, management performed an analysis of the impact of all IFRS standards and developed recommendations on the accounting policy choices. These IFRS accounting policies were reviewed and approved by the Audit Committee in the third quarter of 2010. The International Accounting Standards Board is currently in the process of amending, or expects to amend, certain standards that are applicable to the REIT. As IFRS standards are amended and further policies are finalized they will be brought to the Audit Committee for approval. Please see below under impact of IFRS conversion on accounting policies for a discussion of the significant accounting policies chosen by the REIT.

The REIT has ensured that employees involved in the project team have attended on-going education and training sessions since commencement of the project, and have access to IFRS standards and standard updates as they are released. The Board of Trustees and Audit Committee have received training during 2009 and 2010. Training for accounting staff and business groups commenced in Q4-10.

Information systems:

The REIT has completed the review of its information systems and the effect of IFRS on these systems. No major changes to the systems are planned for 2011. During 2010, the REIT compiled IFRS financial information utilizing its financial statement reporting software, which is external to the REIT's current accounting system. Use of the financial statement reporting software allows the REIT to incorporate IFRS adjustments in order to transition the GAAP general ledger to IFRS compliant financial information. Beginning January 1, 2011, the REIT is capturing all financial information related to IFRS in the current accounting system.

Management has identified IFRS differences impacting the budget process for 2011, and implementation of changes to this process has been completed.

The REIT is using a discounted cash flow software package to create internal property valuations for the fair value modelling of its investment property. The REIT has appropriate staff members utilizing this software package, and has ensured that they have been provided with an appropriate level of training.

Internal controls over financial reporting and disclosure:

The REIT began its analysis on internal controls over financial reporting and disclosure relating to the IFRS conversion during the second quarter of 2010. This process will be completed by the end of the first quarter of 2011. The REIT does not anticipate significant changes to its internal controls as a result of the conversion to IFRS, with the exception of new processes and controls over the valuation of investment properties. The REIT has determined that internal controls over the valuation of investment properties have been designed effectively. The REIT is in the process of testing the operating effectiveness of internal controls over the valuation of investment properties. Future changes to internal controls will be assessed in conjunction with changes to IFRS standards.

Impact of IFRS conversion on accounting policies:

The REIT has identified the following key IFRS standards which will result in significant accounting policy changes upon implementation. The implementation of accounting policy changes will also result in changes to both the REIT's consolidated balance sheet and consolidated statement of operations, as well as changes to note disclosure. The REIT will ultimately prepare its 2011 interim annual consolidated financial statements, including its opening IFRS balance sheet and comparative information, by applying the IFRS standards that are effective at those reporting dates. As IFRS standards are amended, management will continue to evaluate the impact to its processes and accounting policies.

The REIT expects that the impact of the differences identified on its January 1, 2010 opening balance sheet under IFRS compared to its December 31, 2009 balance sheet under GAAP will result in a decrease in total assets from \$1,190,209 to approximately \$1,184,740, an increase in total liabilities from \$829,303 to approximately \$1,192,155 and a decrease in unitholder's equity from \$360,906 to a deficit of approximately \$7,415.

Investment property

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

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

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

IFRS 1 – *First Time Adoption of IFRS* ("IFRS 1") allows the REIT to choose to use the fair value as the deemed cost of the investment property on transition to IFRS if the cost model is chosen.

The REIT has analyzed IAS 40 and reviewed the differences that would arise under each of the fair value and cost models. The REIT has elected to measure its investment properties at fair value.

The fair value of investment properties will be reported on the balance sheet at each reporting period, with fair value changes reported in the income statement.

The REIT has determined the fair value of investment properties to be approximately \$1,111,585 at the January 1, 2010 transition date, which is \$76,054 higher than the carrying value under GAAP inclusive of related intangible assets, leasing costs, intangible liabilities, straight-line rent receivables, tenant improvements, and tenant incentives recorded under GAAP. These related assets and liabilities will be derecognized upon transition to IFRS, as they are inherently reflected in the fair value of investment properties. Straight-line rent receivables and tenant incentives will continue to be amortized over the lease term. Investment property inclusive of intangibles, leasing costs and tenant improvements will no longer be amortized under IFRS but rather reflected in the fair value gain or loss on investment properties.

The REIT determined the fair value of each investment property based upon a combination of generally accepted appraisal methodologies: the discounted cash flow method and the overall capitalization method. Under the discounted cash flow method, expected future cash flows for each investment property are based upon, but not limited to, rental income from current leases, budgeted and actual expenses, and assumptions about rental income from future leases. Under the overall capitalization method, year one income is stabilized and capped at a rate deemed appropriate for each investment property.

The key valuation assumptions for investment properties at January 1, 2010 are as follows:

	Retail			Office			Industrial		
	Maximum	Minimum	Weighted average	Maximum	Minimum	Weighted average	Maximum	Minimum	Weighted average
Discount rate	10.25%	8.00%	8.90%	9.75%	8.25%	8.68%	9.25%	8.50%	8.85%
Terminal capitalization rate	8.50%	7.25%	7.76%	9.25%	7.25%	7.92%	9.50%	7.50%	8.31%
Capitalization rate	9.00%	6.50%	7.36%	9.50%	6.50%	7.82%	9.25%	7.00%	8.03%
Investment horizon (years)	10.00	10.00	10.00	20.00	10.00	12.32	12.00	10.00	10.08

The REIT has retained an external valuation firm to assist in developing the fair values of the REIT's investment properties. The external valuations will be done on a rotational basis over a 4 year cycle to ensure that each property will have been externally valued once during the cycle. These external valuations will be used to support the values generated through the REIT's internal valuation process.

Leases

GAAP requires the REIT to record tenant incentives as a reduction of rental revenue. Standing Interpretations Committee 15 - *Operating Leases - Incentives* ("SIC 15"), requires the same treatment as required under GAAP, however, the definition of tenant incentives may differ from the REIT's current application of GAAP, which may result in a reduction of revenue as more tenant costs would be amortized against revenue. The REIT has substantially completed its review of the nature of existing capitalized leasing costs using the definitions of tenant incentives and tenant improvements under SIC 15. There is no significant impact expected to the REIT's consolidated income statement in 2010 as a result of this difference.

A significant difference between lease accounting principles under GAAP and IFRS is that IFRS places more focus on the substance of the arrangement. IAS 17 - *Leases*, uses qualitative factors in determining lease classification, where under GAAP, bright line tests are used to determine if a lease is an operating or finance lease. This difference may result in the REIT classifying a lease as a finance lease rather than an operating lease. Under IFRS, in certain circumstances, land leases are considered to be finance leases. The REIT currently treats all land leases as operating leases. The REIT has substantially completed the review of its leases in order to determine if under IFRS, each lease would be treated as a financing or operating lease. There is no impact expected to the REIT's consolidated financial statements as a result of this difference.

Co-ownerships

Currently under GAAP, the REIT uses proportionate consolidation for its four jointly controlled properties. IAS 31 – *Interests in Joint Ventures* ("IAS 31"), allows the choice to either proportionately consolidate jointly controlled properties or account for such interests using the equity method. Currently, there would be no effect on how the REIT accounts for its co-ownerships upon conversion to IFRS. However, the International Accounting Standards Board ("IASB") is currently considering Exposure Draft 9 – Joint Arrangements, which proposes to eliminate the option to proportionately consolidate interests in jointly controlled entities. The IASB has indicated that it expects to issue a new standard to replace IAS 31 in the first quarter of 2011, which is expected to be applicable for the REIT in 2012 or later. The effect of this new standard would be a reclassification of the assets and liabilities of these jointly controlled properties to show as a net balance on the REIT's consolidated balance sheet and a reclassification of the revenues and expenses of these properties to show as a net balance on the REIT's consolidated statement of operations.

Business combinations

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

The REIT has completed the review of their prior property acquisitions and has determined that none of the acquisitions meet the IFRS definition of a business combination. Therefore, at transition the implementation of this standard will have no impact on the REIT's consolidated financial statements.

Trust units

GAAP has a less restrictive definition of financial liabilities than IFRS as it does not give specific guidance to settling contracts with the issuer's own equity instruments. Therefore, the REIT currently accounts for their trust units as equity. However, IAS 32 – *Financial Instruments*, has a more rigorous definition of what constitutes a financial liability which includes equity instruments if they have a contractual obligation to deliver cash or other financial assets to another entity. Canadian REITs have been modifying their Declarations of Trust in order to make the distributions non-mandatory, with the consent of unitholders, in order to be able to classify their trust units as equity on their balance sheet under IFRS. This modification to the REIT's Declaration of Trust was approved at the Annual and Special Meeting held on May 14, 2010.

The Declaration of Trust prior to May 14, 2010 provided that the REIT make monthly cash distributions to unitholders of the REIT's units. The amount distributed in each year will be an amount not less than the amount of distributable income in the year as set down in a policy by the Trustees. Therefore, as the REIT has a contractual obligation to make cash distributions to unitholders, trust units will be classified as a financial liability under IFRS at the January 1, 2010 transition date and at March 31, 2010. Such liability will be reclassified to equity when the June 30, 2010 comparative IFRS balance sheet is presented. The fair value of the liability is based on the market price of the trust units at each reporting date. Changes in the fair value of the liability will be recorded in the income statement. Distributions paid to unitholders will be recorded as interest expense on the income statement. At the January 1, 2010 transition date, the carrying value of the liability is expected to be \$427,005.

Income taxes

On January 1, 2009 and through to December 31, 2010, the REIT believes it has met the SIFT rules, which has resulted in the REIT no longer being required to record future taxes. However, there is uncertainty as to whether the guidance under IAS 12 – *Income Taxes* ("IAS 12") is applicable to the REIT. If IAS 12 is applicable, the REIT will be required to record future income taxes, despite the fact that the REIT currently meets the SIFT rules. If IAS 12 is not applicable, the REIT would not be required to record future income taxes if the income earned by the REIT is distributed in full. The REIT is of the view that IAS 12 will not be applicable, and continues to follow the necessary requirements of the SIFT legislation. As a result of the accounting policy decision to measure investment properties at fair value under IFRS, the REIT has determined that the amount of future income tax assets and liabilities arising from the U.S. properties will differ from the amounts recorded under GAAP. This is primarily due to the change in carrying value of investment properties from net book value to fair value.

Discontinued operations

The definition of a discontinued operation is more restrictive under IFRS than it is under GAAP. Under IFRS 5 – *Non current Assets Held for Sale and Discontinued Operations*, only components that represent a separate major line of business or geographical area of operations, or a subsidiary acquired exclusively with a view to resale can be classified as discontinued operations. Currently under GAAP, the REIT classifies individual properties held for sale through unconditional agreements, and individual properties sold as discontinued operations. Under IFRS, the REIT is less likely to disclose discontinued operations as the sale of a single property is not likely to meet the IFRS definition of a discontinued operation.

Unit-based compensation

In accordance with GAAP, the REIT accounts for unit options issued under its unit option plan using the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period. The REIT's unit options are to be settled by redeemable units. Therefore, under IFRS, the REIT's unit option plan is considered to be cash-settled and will be recorded as a liability at fair value in accordance with IFRS 2 - *Share-based Payment*. At the January 1, 2010 transition date, the carrying value of the liability is expected to be \$177.

Convertible debentures

As the REIT's convertible debentures are linked to puttable trust units, the conversion feature of the convertible debentures is cash-settled at transition. Therefore, the convertible debentures are not a compound financial instrument under IAS 32 - *Financial Instruments - Presentation*. Rather, at each reporting date, they will be recorded at fair value with changes in fair value recorded in the income statement. At the January 1, 2010 transition date, the carrying value of the liability is expected to be \$103,225.

Foreign currency translation

As a result of the accounting policy decision to measure investment properties at fair value under IFRS, the REIT has determined that the unrealized foreign currency translation gain (loss) included in OCI will differ from the amounts recorded under GAAP. This is primarily due to the change in the carrying value of investment properties from net book value to fair value. The REIT's method of translating revenues, expenses, assets and liabilities will not change from the method used under GAAP.

IFRS 1

The IFRS 1 standard provides guidance to entities who are adopting IFRS for the first time. Accounting changes are to be applied retrospectively to an entity's financial statements when transitioning from GAAP to IFRS. In order to facilitate the transition, IFRS 1 allows certain optional exemptions and mandatory exceptions to applying IFRS retrospectively. Under IFRS 1, the REIT has elected to apply IFRS 3R prospectively to all business combinations that occurred on or after the January 1, 2010 transition date. There is no impact to the REIT's opening balance sheet at January 1, 2010 as a result of choosing this election. The remaining exemptions and exceptions are either not applicable or will not have a significant impact on the REIT.

Financial statement presentation:

Management has substantially completed preparation of mock IFRS financial statements and note disclosures. This will be an on-going project throughout 2011 as IFRS standards are amended by the IASB, decisions on accounting policies are finalized and their impact is determined.

Management has substantially completed preparation of the opening IFRS balance sheet as at January 1, 2010.

Non-GAAP measures:

As a result of the accounting policy changes discussed above, the REIT expects net income under IFRS for 2010 to be materially different from what would have been reported under Canadian GAAP, with a corresponding impact to FFO and DI.

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, 2010, 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 National 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, 2010.

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 National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2010.

During the year ended December 31, 2010, no changes to internal controls over financial reporting have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

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

On October 1, 2010, the Canadian Securities Administrators implemented amendments to National Instrument 52-109, effective January 1, 2011, with the primary purpose of accommodating the transition to IFRS. The amendments replace current Canadian GAAP terms and phrases with IFRS terms and phrases.