

Consolidated Financial Statements of

**ARTIS REAL ESTATE
INVESTMENT TRUST**

Years ended December 31, 2011 and 2010

(In Canadian dollars)



Management's Responsibility for Financial Statements

The management of Artis Real Estate Investment Trust is responsible for the preparation and integrity of the consolidated financial statements contained in the annual report. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and necessarily include some amounts that are based on management's best estimate and judgment. Management has determined such amounts on a reasonable basis and considers that the consolidated financial statements present fairly the financial position of the REIT, the results of its operations and its cash flows. Management has also prepared financial information presented elsewhere in this annual report and has ensured that it is consistent with that in the consolidated financial statements. To fulfill its responsibility, management maintains internal accounting controls and systems and establishes policies and procedures to ensure the reliability of financial information and to safeguard assets.

The Board of Trustees is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Trustees carries out this responsibility principally through its Audit Committee, composed entirely of outside and unrelated trustees. The Audit Committee meets regularly with management of the REIT and with the independent auditors. The consolidated financial statements have been reviewed and approved by the Board of Trustees on the recommendation of its Audit Committee.

The REIT's independent auditors, Deloitte & Touche, LLP, have been appointed by the unitholders to audit the consolidated financial statements and express an opinion thereon.

"Armin Martens"

Armin Martens, P.Eng., MBA
President and Chief Executive Officer
March 14, 2012

"Jim Green"

Jim Green, CA
Chief Financial Officer
March 14, 2012

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Artis REIT

We have audited the accompanying consolidated financial statements of Artis Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of operations, consolidated statements of changes in unitholders' equity and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Artis Real Estate Investment Trust as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Debsite & Tambo LLP.

Chartered Accountants

March 14, 2012
Winnipeg, Manitoba

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets

(In thousands of Canadian dollars)

	December 31, 2011	December 31, 2010 (note 27)	January 1, 2010 (note 27)
ASSETS			
Non-current assets:			
Investment properties (note 4)	\$ 3,003,604	\$ 2,052,780	\$ 1,111,586
Investment properties under construction (note 4)	20,463	5,405	-
Other assets (note 5)	311	348	434
Notes receivable (note 6)	23,752	23,788	27,133
	3,048,130	2,082,321	1,139,153
Current assets:			
Deposits on investment properties	5,614	16,081	1,350
Prepaid expenses	5,150	3,040	2,613
Notes receivable (note 6)	1,685	3,354	1,929
Accounts receivable and other receivables	11,876	6,510	3,434
Investment in equity securities	-	11,184	-
Cash held in trust	1,039	782	355
Cash and cash equivalents	94,094	88,324	35,907
	119,458	129,275	45,588
	\$ 3,167,588	\$ 2,211,596	\$ 1,184,741
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities:			
Mortgages and loans payable (note 7)	\$ 1,428,334	\$ 1,097,402	\$ 541,857
Convertible debentures (note 8)	235,746	153,889	100,193
Deferred taxes (note 19)	-	201	-
Trust unit and preferred share liabilities	78	-	426,645
	1,664,158	1,251,492	1,068,695
Current liabilities:			
Mortgages and loans payable (note 7)	139,065	58,690	70,406
Convertible debentures (note 8)	-	-	3,032
Trust unit liabilities	-	-	360
Security deposits and prepaid rent	14,160	9,494	4,572
Accounts payable and other liabilities (note 9)	42,490	29,690	14,390
Bank indebtedness (note 10)	37,900	8,000	30,700
	233,615	105,874	123,460
	1,897,773	1,357,366	1,192,155
Unitholders' equity (deficit)	1,269,815	854,230	(7,414)
Commitments and guarantees (note 22)			
Subsequent events (note 25)	\$ 3,167,588	\$ 2,211,596	\$ 1,184,741

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Operations
Years ended December 31, 2011 and 2010

(In thousands of Canadian dollars, except unit and per unit amounts)

	2011	2010 (note 27)
Revenue (note 13)	\$ 290,512	\$ 175,075
Property operating expenses	107,699	62,032
Interest income	182,813 2,580	113,043 2,549
	185,393	115,592
Expenses:		
Interest	78,942	69,441
Corporate	11,055	7,225
Foreign currency translation loss	1,268	2,945
	91,265	79,611
Income before other items	94,128	35,981
Income tax recovery (expense) (note 19)	469	(298)
Transaction costs (note 14)	(16,451)	(19,546)
Loss on financial instruments (note 15)	(3,687)	(19,278)
Gain on disposal of investment properties (note 3)	736	-
Unrealized fair value gain on investment properties (note 4)	246,094	36,365
Income for the year	321,289	33,224
Other comprehensive income (loss):		
Unrealized foreign currency translation gain (loss)	3,183	(310)
Comprehensive income for the year	\$ 324,472	\$ 32,914
Basic income per unit (note 11 (c))	\$ 4.02	\$ 0.58
Diluted income per unit (note 11 (c))	\$ 3.60	\$ 0.58
Weighted-average number of units outstanding:		
Basic (note 11 (c))	79,867,112	57,000,720
Diluted (note 11 (c))	92,413,015	57,000,720

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Changes in Unitholders' Equity
Years ended December 31, 2011 and 2010

(In thousands of Canadian dollars, except unit amounts)

	Number of units	Capital contributions	Equity (deficit)	Accumulated other comprehensive (loss) income	Total
Unitholders' deficit, January 1, 2010 (note 27)	-	\$ -	\$ (7,414)	\$ -	\$ (7,414)
Reclassification of trust unit liabilities to equity	50,076,978	575,885	-	-	575,885
Issuance of units, net of issue costs	24,058,272	282,804	-	-	282,804
Conversion of convertible debentures	1,342,058	16,545	-	-	16,545
Income for the year	-	-	33,224	-	33,224
Other comprehensive loss for the year	-	-	-	(310)	(310)
Distributions for the year	-	-	(46,504)	-	(46,504)
Unitholders' equity, December 31, 2010 (note 27)	75,477,308	875,234	(20,694)	(310)	854,230
Issuance of units, net of issue costs	12,894,439	171,433	-	-	171,433
Conversion of convertible debentures	501,158	6,863	-	-	6,863
Income for the year	-	-	321,289	-	321,289
Other comprehensive income for the year	-	-	-	3,183	3,183
Distributions for the year	-	-	(87,183)	-	(87,183)
Unitholders' equity, December 31, 2011	88,872,905	\$ 1,053,530	\$ 213,412	\$ 2,873	\$ 1,269,815

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows
Years ended December 31, 2011 and 2010

(In thousands of Canadian dollars)

	2011	2010 (note 27)
Cash provided by (used in):		
Operating activities:		
Income for the year	\$ 321,289	\$ 33,224
Adjustments for non-cash items:		
Unrealized fair value gain on investment properties	(246,094)	(36,365)
Depreciation of office equipment and software	120	114
Amortization:		
Tenant inducements amortized to revenue	4,559	2,784
Above- and below-market mortgages, net	(862)	(370)
Straight-line rent adjustment	(5,514)	(2,841)
Unrealized foreign currency translation loss	2,340	193
Gain on disposal of investment properties	(736)	-
Unrealized fair value loss on financial instruments	4,966	19,278
Unit-based compensation expense	926	588
Accretion of financing costs included in interest	1,974	1,048
Deferred tax (recovery) expense	(439)	201
	82,529	17,854
Additions to tenant inducements	(8,666)	(10,043)
Changes in non-cash operating items (note 16)	2,631	16,376
	76,494	24,187
Investing activities:		
Acquisition of investment properties, net of related debt	(278,129)	(323,560)
Proceeds from disposition of investment properties, net of costs and related debt	8,146	-
Additions to investment properties	(8,333)	(5,606)
Additions to investment properties under construction	(19,608)	(5,405)
Purchase of investment in equity securities	(5,683)	(9,615)
Proceeds from sale of equity securities	15,298	-
Notes receivable principal repayments	1,705	1,920
Net change to office equipment and software	(83)	(27)
Additions to leasing costs	(4,313)	(2,549)
Change in deposits on investment properties	10,599	(14,731)
	(280,401)	(359,573)
Financing activities:		
Issuance of units, net of issue costs	171,357	393,797
Issuance of convertible debentures	83,767	86,250
Repayment on convertible debentures	-	(2,893)
Change in bank indebtedness	29,900	(22,700)
Distributions paid on REIT units	(85,977)	(46,504)
Mortgages and loans principal repayments	(29,728)	(16,933)
Repayment of mortgages and loans payable	(4,828)	(37,636)
Advance of mortgages and loans payable	44,230	34,547
Issuance of preferred shares	78	-
	208,799	387,928
Foreign exchange gain (loss) on cash held in foreign currency	878	(125)
Increase in cash and cash equivalents	5,770	52,417
Cash and cash equivalents at beginning of year	88,324	35,907
Cash and cash equivalents at end of year	\$ 94,094	\$ 88,324
Supplemental cash flow information:		
Interest paid, net of interest received	\$ 74,094	\$ 47,835
Taxes paid	152	-
Distributions paid on REIT units, included in interest	-	16,828

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2011 and 2010

(In thousands of Canadian dollars, except unit and per unit amounts)

1. Organization:

Artis Real Estate Investment Trust (the "REIT") is an unincorporated open-end real estate investment trust (note 11) created under, and governed by, the laws of the Province of Manitoba and was created pursuant to the Declaration of Trust dated November 8, 2004, subsequently amended and restated on October 31, 2006, May 14, 2010 and May 19, 2011 (the "Declaration of Trust"). The purpose of the REIT is to directly, or indirectly, own, manage, lease and (where appropriate) develop retail, industrial and office properties in Canada and the United States (the "U.S."). The registered office of the REIT is 360 Main Street, Suite 300, Winnipeg, Manitoba, R3C 3Z3.

The Declaration of Trust provides that the REIT may make cash distributions to unitholders of the REIT's units. The amount distributed annually (currently \$1.08 per unit) will be set by the Trustees.

2. Significant accounting policies:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the REIT's first consolidated financial statements prepared in accordance with IFRS, and IFRS 1 - *First Time Adoption of International Financial Reporting Standards* ("IFRS 1") has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, operating results and cash flows of the REIT is provided in note 27.

(b) Principles of consolidation:

The consolidated financial statements include the accounts of the REIT and entities controlled by the REIT (its subsidiaries), together with its share of the assets, liabilities, revenue and expenses of jointly controlled assets.

(c) Basis of presentation and measurement:

The consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars rounded to the nearest thousand. The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements and in preparing the opening IFRS balance sheet at January 1, 2010. Standards issued but not yet effective for the current accounting period are described in note 2 (r).

The consolidated financial statements are prepared on the historical cost basis with the exception of investment properties, investment in equity securities, derivative financial instruments, convertible debentures, and the liabilities related to trust units and cash-settled unit-based payments, which are measured at fair value.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2011 and 2010

(In thousands of Canadian dollars, except unit and per unit amounts)

2. Significant accounting policies (continued):

(d) Translation of foreign currencies:

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the REIT.

Assets and liabilities of foreign operations are translated at the rate of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rate for the period. Gains or losses on translation are included in other comprehensive income as foreign currency translation gains or losses. When there is a reduction in the net investment as a result of dilution or sale, or reduction in the equity of the foreign operation as a result of a capital transaction, amounts previously recognized in accumulated other comprehensive income are reclassified into net income.

For assets, liabilities, revenues and expenses that do not form part of the net investment in foreign operations, foreign currency translation gains or losses are included in net income. Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expense items are translated at the rate in effect at the date of the transaction.

(e) Financial instruments:

Initially, all financial assets and liabilities are recorded on the consolidated balance sheet at fair value. Subsequent measurement is determined by the classification of each financial asset and liability. All financial assets are classified as one of: (a) at fair value through profit or loss; (b) held-to-maturity; (c) loans and receivables; or (d) available-for-sale. Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. All financial liabilities are classified as either: (a) at fair value through profit or loss; or (b) other liabilities. Financial assets and liabilities classified as at fair value through profit or loss are measured at fair value, with gains and losses recognized in net income. Financial instruments classified as held-to-maturity, loans and receivables, and other liabilities are measured at amortized cost. Available-for-sale financial assets are measured at fair value, with unrealized gains and losses recognized in other comprehensive income.

The REIT designated its cash and cash equivalents, cash held in trust, notes receivable, and accounts receivable and other receivables as loans and receivables; mortgages and loans payable, preferred share liabilities, accounts payable and other liabilities and bank indebtedness as other liabilities; and investment in equity securities, convertible debentures and trust unit liabilities as at fair value through profit or loss. The REIT does not hold any financial instruments classified as held-to-maturity or available-for-sale.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, with the exception of those classified as at fair value through profit or loss, are accounted for as part of the respective asset or liability's carrying value at inception and amortized over the expected life of the financial instrument using the effective interest rate method. Transaction costs directly attributable to the acquisition or issuance of financial assets or liabilities classified as at fair value through profit or loss are recognized immediately in net income.

All derivative instruments, including embedded derivatives, are classified as at fair value through profit or loss and are recorded on the consolidated balance sheet at fair value.

Financial assets, other than those classified as at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2011 and 2010

(In thousands of Canadian dollars, except unit and per unit amounts)

2. Significant accounting policies (continued):

(e) Financial instruments (continued):

The REIT uses a three-level hierarchy that reflects the significance of the inputs used in making fair value measurements of financial instruments carried at fair value. Level 1 of the fair value hierarchy uses quoted market prices in active markets for identical assets or liabilities to determine the fair value of assets and liabilities. Level 2 includes valuations using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 valuations are based on inputs for the asset or liability that are not based on observable market data.

(f) Investment properties:

Investment properties include properties held to earn rental income and properties that are being constructed or developed for future use as investment properties. Investment properties are measured at fair value with any changes therein recognized in profit or loss for the period.

Investment properties under construction include initial acquisition costs and other direct costs during the period of development. The REIT considers practical completion to have occurred when the property is capable of being operated in the manner intended by management.

A property acquisition is accounted for as a business combination using the acquisition method if the assets acquired and liabilities assumed constitute a business, and the REIT obtains control of the business. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities assumed at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition. The REIT recognizes assets or liabilities, if any, resulting from a contingent consideration arrangement at their acquisition date fair value and such amounts form part of the cost of the business combination. Subsequent changes in the fair value of contingent consideration arrangements are recognized in profit or loss for the period.

Leasing costs, such as commissions, and straight-line rent receivable are included in the carrying amount of investment properties.

Payments to tenants under lease obligations are included in the carrying amount of investment properties. Payments that are determined to primarily benefit the tenant are treated as tenant inducements that reduce revenue. Tenant inducements are amortized on a straight-line basis over the term of the lease.

Investment properties held under operating leases are recognized in the REIT's consolidated balance sheet at fair value.

Investment properties are reclassified to assets held for sale when the criteria set out in IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations* are met.

(g) Other assets:

Office equipment and software are carried at cost less accumulated depreciation, and are depreciated on a straight-line basis over their estimated useful life of five years. The estimated useful life, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimates accounted for on a prospective basis.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2011 and 2010

(In thousands of Canadian dollars, except unit and per unit amounts)

2. Significant accounting policies (continued):

(h) Assets held for sale:

Non-current assets, or disposal groups comprising assets and liabilities, are categorized as held for sale at the point in time when the asset or disposal group is available for immediate sale, management has committed to a plan to sell and is actively locating a buyer at a sales price that is reasonable in relation to the current fair value of the asset, and the sale is probable and expected to be completed within a one-year period. Investment properties measured under the fair value model and held for sale continue to be measured by the guidelines of IAS 40 - *Investment Property*. All other assets held for sale are stated at the lower of their carrying amount and fair value less selling costs. An asset that is subsequently reclassified as held and in use, with the exception of an investment property measured under the fair value model, is measured at the lower of its recoverable amount and the carrying amount that would have been recognized had the asset never been classified as held for sale.

The results of operations associated with disposal groups sold, or classified as held for sale, are reported separately as profit or loss from discontinued operations.

(i) Cash and cash equivalents:

Cash and cash equivalents consist of cash with financial institutions and include short-term investments with maturities of three months or less.

(j) Provisions:

A provision is recognized if, as a result of a past event, the REIT has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are remeasured at each balance sheet date using the current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the REIT has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

(k) Revenue recognition:

The REIT has retained substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases. Revenue from investment properties includes rents earned from tenants under lease agreements, percentage rent, realty tax and operating cost recoveries and other incidental income and is recognized as revenue over the term of the underlying leases. All rent steps in lease agreements are accounted for on a straight-line basis over the term of the respective leases. Percentage rent is not recognized until a tenant is obligated to pay such rent.

(l) Jointly controlled assets:

The REIT carries out a portion of its activities through co-ownership agreements and records its share of assets, liabilities, revenues, expenses and cash flows of these jointly controlled assets.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2011 and 2010

(In thousands of Canadian dollars, except unit and per unit amounts)

2. Significant accounting policies (continued):

(m) Earnings per unit:

Basic earnings per REIT unit is computed by dividing net earnings by the weighted-average units outstanding during the reporting period. Diluted earnings per unit is calculated based on the weighted-average number of units outstanding during the period, plus the effect of dilutive unit equivalents. The diluted per unit amounts for unit-based compensation are calculated using the treasury stock method, as if all the unit equivalents where average market price exceeds issue price had been exercised at the beginning of the reporting period, or the date of issue, as the case may be, and that the funds obtained thereby were used to purchase units of the REIT at the average trading price of the units during the period. The diluted per unit amounts for convertible debentures are calculated using the if-converted method, whereby conversion is not assumed for the purposes of computing diluted earnings per unit if the effect is antidilutive.

(n) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Deferred taxes are accounted for using the asset and liability method. Under this method, deferred taxes are recognized for the expected deferred tax consequences of temporary differences between the carrying amount of balance sheet items and their corresponding tax values. Deferred taxes are computed using enacted or substantively enacted income tax rates or laws for the years in which the temporary differences are expected to reverse or settle. When realization of deferred tax assets is not probable, a valuation allowance is provided for the difference.

(o) Discontinued operations:

A discontinued operation is a component of the REIT's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(p) Unit-based compensation:

The REIT may issue unit-based awards to trustees, management, management company employees and consultants. For cash-settled unit-based payment transactions, a liability is recognized and measured initially at fair value by applying an option pricing model. The liability is remeasured to fair value at each reporting date and at settlement date. Any change in the fair value of the liability is recognized as compensation expense for the period.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2011 and 2010

(In thousands of Canadian dollars, except unit and per unit amounts)

2. Significant accounting policies (continued):

(q) Use of estimates and judgments:

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts reported in the consolidated financial statements are as follows:

- Accounting for business combinations - The REIT's accounting policy relating to business combinations is described in note 2 (f). Judgment is applied in determining whether property acquisitions constitute the purchase of a business or the purchase of assets.
- Accounting for tenant inducements - The REIT's accounting policy relating to tenant inducements is described in note 2 (f). The REIT makes judgments with respect to whether tenant inducements provided in connection with a lease enhance the value of the leased property which determines whether such amounts are treated as capital expenditures.
- Capitalized cost of investment properties under construction - The REIT's accounting policy relating to investment properties under construction is described in note 2 (f). Judgment is applied in identifying the point at which practical completion of the investment property under construction occurs.
- Classification of leases - The REIT's accounting policy for revenue recognition is described in note 2 (k). The REIT makes judgments in determining whether certain leases are operating or finance leases. The REIT determined that all of its leases are operating leases.

Information about assumptions and estimation uncertainties that are critical to the determination of the amounts reported in the consolidated financial statements are as follows:

- Valuation of investment properties - The fair value of investment properties represents an estimate of the price that would be agreed upon between knowledgeable, willing parties in an arm's length transaction. The critical estimates and assumptions underlying the valuation of investment properties are described in note 4.
- Valuation of deferred tax liabilities and assets - The critical estimates and assumptions underlying the valuation of deferred tax liabilities and assets are described in note 19.
- Allowance for doubtful accounts - The critical estimates and assumptions underlying the value of the allowance for doubtful accounts are described in note 24 (a)(ii).
- Fair value of financial instruments - The fair value of financial instruments is estimated as the amount for which an instrument could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. The critical estimates and assumptions underlying the fair value of financial instruments are described in note 24 (b).

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2011 and 2010

(In thousands of Canadian dollars, except unit and per unit amounts)

2. Significant accounting policies (continued):

(r) Future changes in accounting policies:

IFRS 7 - *Financial Instruments: Disclosures* ("IFRS 7"), as amended by the IASB in October 2010, requires entities to provide the disclosures for all transferred financial assets that are not derecognized and for a continuing involvement in a transferred financial asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. The amendment is effective for annual periods beginning on or after January 1, 2012. IFRS 7 was further amended by the IASB in December 2011. The amendment requires entities to provide disclosures related to offsetting financial assets and liabilities. The amendment is effective for annual periods beginning on or after January 1, 2014.

IFRS 9 - *Financial Instruments* ("IFRS 9") will replace IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. IFRS 9 was amended by the IASB in October 2010 to provide guidance on the classification and reclassification of financial liabilities, their measurement, and the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss. When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the credit risk of the instrument must be recognized in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

In May 2011, the IASB issued IFRS 10 - *Consolidated Financial Statements* ("IFRS 10"), IFRS 11 - *Joint Arrangements* ("IFRS 11") and IFRS 12 - *Disclosure of Interests in Other Entities* ("IFRS 12"). IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 - *Consolidated and Separate Financial Statements* and SIC-12 - *Consolidation - Special Purpose Entities*. IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 - *Interests in Joint Ventures* and SIC-13 - *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new standards, the IASB also issued amended and retitled IAS 27 - *Separate Financial Statements* and IAS 28 - *Investments in Associates and Joint Ventures*. The new requirements are effective for annual periods beginning on or after January 1, 2013.

IFRS 13 - *Fair Value Measurement* ("IFRS 13") defines fair value, sets out in a single standard a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other standards require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after January 1, 2013.

IAS 12 - *Income Taxes* ("IAS 12") was amended by the IASB in December 2010. The amendment provides a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model, based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The amendment is effective for annual periods beginning on or after January 1, 2012.

The REIT is currently evaluating the impact of these new and amended standards on its financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

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(In thousands of Canadian dollars, except unit and per unit amounts)

3. Acquisitions and dispositions of investment properties:

Acquisitions:

The REIT acquired the following properties during the year ended December 31, 2011:

Property	Location	Acquisition date	Type
ADT Building	Calgary, AB	January 7, 2011	Industrial
Dominion Construction Building	Calgary, AB	January 7, 2011	Industrial
EMC Building	Edmonton, AB	February 28, 2011	Office
Stinson Office Park	Minneapolis, MN	March 31, 2011	Office
Minneapolis Industrial Portfolio ⁽¹⁾	Minneapolis, MN	March 31, 2011	Industrial
Cara Foods Building ⁽²⁾	Vaughan, ON	April 15, 2011	Office
3M Distribution Facility	Toronto, ON	April 29, 2011	Industrial
1165 Kenaston	Ottawa, ON	May 27, 2011	Office
Victoria Square Shopping Centre	Regina, SK	May 31, 2011	Retail
Ryan Retail Portfolio ⁽³⁾	Minneapolis, MN	May 31, 2011	Retail
605 Waterford Park	Minneapolis, MN	June 1, 2011	Office
McGillivray Cineplex	Winnipeg, MB	June 10, 2011	Retail
415 Yonge Street	Toronto, ON	June 28, 2011	Office
Union Hills Office Plaza	Phoenix, AZ	June 30, 2011	Office
201 Westcreek Boulevard	Toronto, ON	June 30, 2011	Industrial
Plymouth Corporate Campus	Minneapolis, MN	July 6, 2011	Industrial
Stampede Station	Calgary, AB	July 26, 2011	Office
MTS Place	Winnipeg, MB	August 31, 2011	Office
7499 East Paradise Lane	Phoenix, AZ	September 15, 2011	Industrial
Two MarketPointe	Minneapolis, MN	December 22, 2011	Office

⁽¹⁾ The second tranche of the Minneapolis Industrial Portfolio is comprised of 9 multi-tenant properties.

⁽²⁾ The REIT acquired a 50% interest in this property.

⁽³⁾ The Ryan Retail Portfolio is comprised of 5 shopping centres.

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Notes to Consolidated Financial Statements
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3. Acquisitions and dispositions of investment properties (continued):

Acquisitions (continued):

The REIT acquired the following properties during the year ended December 31, 2010:

Property	Location	Acquisition date	Type
Westbank Zellers ⁽¹⁾	Westbank / West Kelowna, BC	January 14, 2010	Retail
Maple Leaf Building	Saskatoon, SK	January 29, 2010	Industrial
Sherwood Centre	Edmonton, AB	January 29, 2010	Industrial
Alberta Industrial Portfolio ⁽²⁾	Various locations in Alberta	March 30, 2010	Industrial
Westbank Hub Centre North ^{(1) (3)}	Westbank / West Kelowna, BC	March 31, 2010	Retail
Sunrise Towne Square	Spruce Grove, AB	April 1, 2010	Retail
Visions Building	Calgary, AB	April 12, 2010	Retail
Tamarack Centre	Cranbrook, BC	April 15, 2010	Retail
Eagle Ridge Corner	Fort McMurray, AB	May 14, 2010	Retail
Production Court	Burnaby, BC	May 26, 2010	Office
Grande Prairie Power Centre	Grande Prairie, AB	June 15, 2010	Retail
DSI Building	Minneapolis, MN	June 30, 2010	Office
Winnipeg Square / 360 Main Street ⁽⁴⁾	Winnipeg, MB	June 30, 2010	Office/Retail
Uplands Common	Lethbridge, AB	August 13, 2010	Retail
1045 Howe Street	Vancouver, BC	September 13, 2010	Office
Pembina Village Shopping Centre ⁽⁵⁾	Winnipeg, MB	September 30, 2010	Retail
St. Vital Square ⁽⁵⁾	Winnipeg, MB	September 30, 2010	Retail
Cancross Court	Mississauga, ON	October 1, 2010	Office
Meadowvale Building	Mississauga, ON	October 15, 2010	Office
Horizon II	Calgary, AB	October 15, 2010	Industrial
Letourneau Centre	Edmonton, AB	October 15, 2010	Industrial
Furniture Pluss Building	Fort McMurray, AB	October 20, 2010	Retail
Caterpillar Building	Minneapolis, MN	October 22, 2010	Industrial
Minneapolis Industrial Portfolio ⁽⁶⁾	Minneapolis, MN	October 29, 2010	Industrial
Dunwin	Mississauga, ON	November 12, 2010	Industrial
Humana Building	Phoenix, AZ	November 18, 2010	Office
Concorde Corporate Centre	Toronto, ON	December 1, 2010	Office
Poco Place	Vancouver, BC	December 22, 2010	Office
Hartford Corporate Plaza	New Hartford, NY	December 30, 2010	Office
Mosaic Building	Tampa, FL	December 30, 2010	Office

⁽¹⁾ The REIT acquired a leasehold interest in these properties.

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

⁽³⁾ The REIT acquired a 50% interest in this property.

⁽⁴⁾ The REIT acquired the remaining 62% interest in this property, and also acquired the ancillary parkade on April 30, 2010.

⁽⁵⁾ Pembina Village Shopping Centre and St. Vital Square were acquired together as the Winnipeg Retail portfolio.

⁽⁶⁾ The Minneapolis Industrial Portfolio is comprised of 2 single tenant and 4 multi-tenant properties.

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(In thousands of Canadian dollars, except unit and per unit amounts)

3. Acquisitions and dispositions of investment properties (continued):

Acquisitions (continued):

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

The net assets acquired were as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Investment properties	\$ 678,716	\$ 887,791
Long-term debt including acquired above-market mortgages, net of deferred financing costs	(399,874)	(564,231)
Contingent consideration	(713)	-
Cash consideration	\$ 278,129	\$ 323,560
Transaction costs expensed	\$ 8,821	\$ 15,792

In accordance with the purchase and sale agreement for the Ryan Retail Portfolio, the vendor is entitled to an earn out payment related to certain future events. The purchase and sale agreement provides for this contingent consideration to be based on the lease up of certain vacant leasable area prior to May 30, 2016. The calculation provides for the net annual rent earned to be capitalized at 8.25% and paid to the vendor.

In accordance with the purchase and sale agreement for Two MarketPointe, the vendor is entitled to a payment related to certain future events. The agreement provides for this contingent consideration to be based on the development of certain undeveloped land prior to December 21, 2021. The agreement provides for an amount of \$1,000 to be paid to the vendor, reduced by an amount equal to the real property taxes paid by the REIT after January 1, 2013 to the date of substantial completion of the project, to a maximum reduction of \$400.

Dispositions:

The REIT disposed of the following properties during the year ended December 31, 2011:

Property	Location	Disposition date	Type
2030 Notre Dame Avenue	Winnipeg, MB	March 7, 2011	Industrial
Rogers Distribution Centre	Minneapolis, MN	September 15, 2011	Industrial

The proceeds from the sale of 2030 Notre Dame Avenue, net of costs, were \$6,780. The REIT transferred the mortgage on this property to three previously unencumbered properties. The assets and liabilities associated with the property were derecognized and a gain on sale of property in the amount of \$255 was recorded.

The proceeds from the sale of Rogers Distribution Centre, net of costs and related debt, were \$1,366. The assets and liabilities associated with the property were derecognized and a gain on sale of property in the amount of \$481 was recorded.

The REIT did not dispose of any properties during the year ended December 31, 2010.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
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(In thousands of Canadian dollars, except unit and per unit amounts)

4. Investment properties and investment properties under construction:

	Year ended December 31, 2011		Year ended December 31, 2010	
	Investment properties	Investment properties under construction	Investment properties	Investment properties under construction
Balance, beginning of year	\$ 2,052,780	\$ 5,405	\$ 1,111,586	\$ -
Additions:				
Acquisitions (note 3)	678,716	-	887,791	-
Capital expenditures	8,333	19,608	5,606	5,405
Leasing costs	4,313	-	2,549	-
Dispositions (note 3)	(13,002)	-	-	-
Reclassification of investment property under construction	4,550	(4,550)	-	-
Foreign currency translation gain (loss)	12,199	-	(1,217)	-
Straight-line rent adjustment	5,514	-	2,841	-
Net change to tenant inducements	4,107	-	7,259	-
Unrealized fair value gain	246,094	-	36,365	-
Balance, end of year	\$ 3,003,604	\$ 20,463	\$ 2,052,780	\$ 5,405

External valuations are performed quarterly on a rotational basis over a four year cycle. For the fourth quarter cycle, investment properties with an aggregate fair value of \$145,425 at December 31, 2011 (December 31, 2010, \$46,218; January 1, 2010, \$72,567) were valued by qualified external valuation professionals.

The REIT determined the fair value of investment properties based upon a combination of the discounted cash flow method and the overall capitalization method, which are generally accepted appraisal methodologies. Under the discounted cash flow method, expected future cash flows are discounted using an appropriate rate based on the risk of the property. 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. The REIT uses leasing history, market reports, tenant profiles and building assessments, among other things, in determining the most appropriate assumptions. Discount and capitalization rates are estimated using market surveys, available appraisals and market comparables. Under the overall capitalization method, year one income is stabilized and capped at a rate deemed appropriate for each investment property.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2011 and 2010

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4. Investment properties and investment properties under construction (continued):

The key valuation assumptions for investment properties are as follows:

	December 31, 2011			December 31, 2010			January 1, 2010		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Discount rate	9.50%	7.25%	8.02%	10.00%	7.50%	8.60%	10.25%	8.00%	8.79%
Terminal capitalization rate	9.00%	6.00%	7.04%	9.50%	6.50%	7.62%	9.50%	7.25%	7.93%
Capitalization rate	8.50%	6.25%	7.08%	9.50%	7.00%	7.74%	9.50%	6.50%	7.69%
Investment horizon (years)	20.0	10.0	10.6	20.0	10.0	10.7	20.0	10.0	11.1

At December 31, 2011, included in investment properties is \$14,234 (December 31, 2010, \$8,752; January 1, 2010, \$5,914) of net straight line rent receivables arising from the recognition of rental income on a straight-line basis over the lease term in accordance with IAS 17 - *Leases*.

Investment properties include properties held under operating leases with an aggregate fair value of \$45,777 at December 31, 2011 (December 31, 2010, \$44,578; January 1, 2010, \$9,082).

At December 31, 2011, investment properties with a fair value of \$2,913,117 (December 31, 2010, \$1,988,374; January 1, 2010, \$1,052,961) are pledged as security under mortgage agreements and the credit facility.

5. Other assets:

	December 31, 2011	December 31, 2010	January 1, 2010
Office equipment and software	\$ 664	\$ 581	\$ 553
Accumulated depreciation	353	233	119
	\$ 311	\$ 348	\$ 434

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
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(In thousands of Canadian dollars, except unit and per unit amounts)

6. Notes receivable:

	December 31, 2011	December 31, 2010	January 1, 2010
Note receivable from tenant maturing in May 2023, bearing interest at 5.89% per annum, repayable in varying blended monthly installments of principal and interest. A default under the terms of the note constitutes a default of the lease of the tenant.	\$ 23,719	\$ 25,323	\$ 26,918
Note receivable maturing in March 2013, bearing interest at 10.00% per annum, repayable in blended monthly installments of principal and interest of \$17 from February 2011 to March 2012 and bearing interest at 12.00% per annum, repayable in blended monthly installments of principal and interest of \$20 from April 2012 to March 2013. The note receivable is unsecured.	1,718	1,749	1,785
Note receivable repaid in March 2011.	-	69	77
Notes receivable matured in November 2010 and January 2011.	-	1	282
	25,437	27,142	29,062
Current portion	1,685	3,354	1,929
Non-current portion	\$ 23,752	\$ 23,788	\$ 27,133

7. Mortgages and loans payable:

	December 31, 2011	December 31, 2010	January 1, 2010
Mortgages and loans payable	\$ 1,569,857	\$ 1,158,048	\$ 613,618
Net above- and below-market mortgage adjustments	4,620	3,351	598
Financing costs	(7,078)	(5,307)	(1,953)
	1,567,399	1,156,092	612,263
Current portion	139,065	58,690	70,406
Non-current portion	\$ 1,428,334	\$ 1,097,402	\$ 541,857

Substantially all of the REIT's assets have been pledged as security under mortgages and other security agreements. The majority of mortgages and loans payable bear interest at fixed rates. The weighted-average effective rate on all mortgages and loans payable is 4.79% and the weighted-average nominal rate is 4.61% at December 31, 2011 (December 31, 2010, 5.12% and 4.97%, respectively). Maturity dates range from February 1, 2012 to October 1, 2030.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
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8. Convertible debentures:

In conjunction with the prospectus that closed on May 4, 2006, the REIT issued Series C convertible redeemable 6.25% debentures totaling \$30,000. Interest is paid semi-annually on May 31 and November 30. The convertible debentures are convertible into units of the REIT by the holder after May 31, 2009 at a price of \$17.25 per unit. The debentures are redeemable for cash at the option of the REIT (i) at any time after May 31, 2009 provided that the market price of the units exceeds 125% of the conversion price; and (ii) at any time after May 31, 2011. Debentures that are not converted into units of the REIT are to be repaid in cash on maturity, being May 31, 2013. None of the Series C convertible debentures were converted into units of the REIT in fiscal 2011 or 2010.

In conjunction with the purchase of the Fort McMurray portfolio effective November 30, 2007, the REIT issued a Series D convertible redeemable 5% debenture totaling \$20,000. Interest is paid semi-annually on May 31 and November 30. The convertible debenture is convertible into units of the REIT by the holder after November 30, 2009 at a price of \$17.75 per unit. The debenture is redeemable for cash at the option of the REIT at any time prior to maturity provided that the market price of the units exceeds 120% of the conversion price. The debenture ranks pari passu with the convertible debentures issued on May 4, 2006. If the debenture is not converted into units of the REIT it is to be repaid in cash on maturity, being November 30, 2014. None of the Series D convertible debentures were converted into units of the REIT in fiscal 2011 or 2010.

In conjunction with the prospectus that closed on July 9, 2009, the REIT issued Series E convertible redeemable 7.5% debentures totaling \$40,000. On July 15, 2009, an additional \$6,000 of the Series E convertible debentures were issued pursuant to the exercise of the underwriters' overallotment option. Interest is paid semi-annually on June 30 and December 31. The convertible debentures are convertible into units of the REIT by the holder at any time prior to maturity, being June 30, 2014, at a price of \$9.30 per unit. The debentures will not be redeemable by Artis prior to June 30, 2012. On or after June 30, 2012, but prior to June 30, 2013, the Series E debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice, provided that the weighted-average trading price of the units is not less than 125% of the conversion price. On and after June 30, 2013, the Series E convertible debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice. The debentures rank pari passu with the convertible debentures issued on May 4, 2006 and November 30, 2007. During the year ended December 31, 2011, Series E convertible debentures with a face value of \$4,661 were converted and the REIT issued 501,158 units at the exercise price of \$9.30 per unit. During the year ended December 31, 2010, Series E convertible debentures with a face value of \$31,390 were converted and the REIT issued 3,375,224 units at the exercise price of \$9.30 per unit.

In conjunction with the prospectus that closed on April 22, 2010, the REIT issued Series F convertible redeemable 6.0% debentures totaling \$75,000. An additional \$11,250 of the Series F convertible debentures were issued pursuant to the exercise of the underwriters' overallotment option. Interest is paid semi-annually on June 30 and December 31. The convertible debentures are convertible into units of the REIT by the holder at any time prior to maturity, being June 30, 2020, at a price of \$15.50 per unit. The debentures will not be redeemable by Artis prior to March 31, 2014. On or after March 31, 2014, but prior to March 31, 2016, the Series F debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice, provided that the weighted-average trading price of the units is not less than 125% of the conversion price. On and after March 31, 2016, the Series F convertible debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice. The debentures rank pari passu with the convertible debentures issued on May 4, 2006, November 30, 2007 and July 9, 2009. None of the Series F convertible debentures were converted into units of the REIT in fiscal 2011 or 2010.

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Notes to Consolidated Financial Statements
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8. Convertible debentures (continued):

In conjunction with the prospectus that closed on April 21, 2011, the REIT issued Series G convertible redeemable 5.75% debentures totaling US\$80,000. An additional US\$8,000 of the Series G convertible debentures were issued pursuant to the exercise of the underwriters' overallotment option. Interest is paid semi-annually on June 30 and December 31. The convertible debentures are convertible into units of the REIT by the holder at any time prior to maturity, being June 30, 2018, at a price of US\$18.25 (with a fixed foreign exchange rate of 1.0390) per unit. The debentures will not be redeemable by Artis prior to June 30, 2014. On or after June 30, 2014, but prior to June 30, 2016, the Series G debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice, provided that the weighted-average trading price of the units is not less than 125% of the conversion price. On and after June 30, 2016, the Series G convertible debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice. The debentures rank pari passu with the convertible debentures issued on May 4, 2006, November 30, 2007, July 9, 2009 and April 22, 2010. None of the Series G convertible debentures were converted into units of the REIT in fiscal 2011.

Particulars of the REIT's outstanding convertible debentures are as follows:

Convertible redeemable debenture issue	Issue date	Maturity date	Interest rate
Series C	May 4, 2006	May 31, 2013	6.25%
Series D	November 30, 2007	November 30, 2014	5.00%
Series E	July 9, 2009	June 30, 2014	7.50%
Series F	April 22, 2010	June 30, 2020	6.00%
Series G	April 21, 2011	June 30, 2018	5.75%

Convertible redeemable debenture issue	Fair value		Carrying value	Current portion	Non-current portion
	Face value	adjustment			
Series C	\$ 29,920	\$ 673	\$ 30,593	\$ -	\$ 30,593
Series D	17,000	230	17,230	-	17,230
Series E	9,333	4,760	14,093	-	14,093
Series F	86,250	1,682	87,932	-	87,932
Series G	89,496	(3,598)	85,898	-	85,898
December 31, 2011	\$ 231,999	\$ 3,747	\$ 235,746	\$ -	\$ 235,746
December 31, 2010	147,164	6,725	153,889	-	153,889
January 1, 2010	95,237	7,988	103,225	3,032	100,193

For the year ended December 31, 2011, transaction costs of \$3,630 (2010, \$3,754) related to the issuance of convertible debentures were expensed.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2011 and 2010

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9. Accounts payable and other liabilities:

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payable and accrued liabilities	\$ 33,334	\$ 22,589	\$ 10,836
Distributions payable (note 12)	7,999	6,793	3,377
Cash-settled unit-based payments liability	1,157	308	177
	\$ 42,490	\$ 29,690	\$ 14,390

Under the REIT's unit option and equity incentive plans, the total number of units reserved under option for issuance may not exceed 5% of the units outstanding.

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

	2011		2010	
	Units	Weighted- average exercise price	Units	Weighted- average exercise price
Balance, beginning of year	1,070,250	\$ 12.84	217,036	\$ 11.25
Granted	1,200,000	14.10	1,073,250	12.84
Exercised	(30,500)	11.28	(217,036)	11.25
Expired	(75,500)	13.98	(3,000)	11.95
Balance, end of year	2,164,250	\$ 13.52	1,070,250	\$ 12.84
Options exercisable at end of year	234,938		-	

The weighted-average unit price at the date of exercise for unit options exercised during the year ended December 31, 2011 was \$13.84 (2010, \$13.36).

Options outstanding at December 31, 2011 consist of the following:

Exercise price	Number outstanding	Weighted-average remaining contractual life	Options outstanding weighted-average exercise price	Number exercisable
\$ 11.28	239,250	3.25 years	\$ 11.28	36,938
\$ 13.30	396,000	3.75 years	\$ 13.30	99,000
\$ 13.44	396,000	4.00 years	\$ 13.44	99,000
\$ 14.10	1,133,000	4.50 years	\$ 14.10	-
	2,164,250		\$ 13.52	234,938

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2011 and 2010

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9. Accounts payable and other liabilities (continued):

Unit-based compensation related to unit options granted under the unit option and equity incentive plans for the year ended December 31, 2011 amounted to \$926 (2010, \$588). These unit options granted vest equally over a four-year period. Unit-based compensation was determined based on the change in fair value of the options, with the following weighted-average assumptions:

	December 31, 2011	December 31, 2010	January 1, 2010
Expected option life	3.9 years	4.4 years	1.0 year
Risk-free interest rate	1.19%	2.41%	1.47%
Distribution yield	7.72%	8.18%	9.49%
Expected volatility	23.38%	25.28%	26.92%

Expected volatility is estimated by considering historic average unit price volatility.

10. Bank indebtedness:

On September 22, 2010, the REIT entered into an amended and restated loan agreement for a revolving term credit facility in the amount of \$60,000, which may be utilized to fund acquisitions of office, retail and industrial properties. \$5,000 of the credit facility may be used for general corporate purposes. The credit facility was extended for an additional year and matures on September 28, 2012. Amounts drawn on the facility will bear interest at a floating rate equal to Canadian dollar bankers' acceptances with a term to maturity of 30 days, plus 3.30% per annum. The credit facility is secured by a first charge on Delta Centre, Grain Exchange Building, Johnston Terminal and Sears Centre. At December 31, 2011, the REIT had utilized \$37,900 (December 31, 2010, \$8,000) of the facility.

11. Capital contributions:

(a) Authorized:

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

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

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(In thousands of Canadian dollars, except unit and per unit amounts)

11. Capital contributions (continued):

(b) Issued and outstanding:

	Number of units	Amount
Balance at January 1, 2010	-	\$ -
Reclassification of trust unit liabilities to equity	50,076,978	575,885
Public offerings, net of issue costs of \$12,805	23,546,250	276,443
Conversion of Series B convertible debentures	3,048	40
Conversion of Series E convertible debentures	1,339,010	16,505
Options exercised	217,036	2,898
Distribution Reinvestment and Unit Purchase Plan	294,986	3,463
Balance at December 31, 2010	75,477,308	875,234
Public offerings, net of issue costs of \$7,616	12,119,750	161,515
Conversion of Series E convertible debentures	501,158	6,863
Options exercised	30,500	422
Distribution Reinvestment and Unit Purchase Plan	744,189	9,496
Balance at December 31, 2011	88,872,905	\$ 1,053,530

At December 31, 2011, there were no special voting units issued and outstanding.

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

(c) Weighted-average units:

	Year ended December 31, 2011	Year ended December 31, 2010
Income for the year	\$ 321,289	\$ 33,224
Adjustment for unit options	150	-
Adjustment for convertible debentures	11,460	-
Diluted income for the year	\$ 332,899	\$ 33,224
The weighted-average number of units outstanding was as follows:		
Basic units	79,867,112	57,000,720
Effect of dilutive securities:		
Unit options	43,311	-
Convertible debentures	12,502,592	-
Diluted units	92,413,015	57,000,720
Income per unit:		
Basic	\$ 4.02	\$ 0.58
Diluted	\$ 3.60	\$ 0.58

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11. Capital contributions (continued):

(c) Weighted-average units (continued):

The computation of per unit amounts for the year ended December 31, 2010 is based upon the weighted-average units outstanding during the year, notwithstanding the trust units classification as financial liabilities until May 13, 2010.

(d) Normal course issuer bid:

On December 9, 2011, the REIT announced that the Toronto Stock Exchange (the "Exchange") had approved the renewal of its normal course issuer bid. Under the renewed bid, the REIT will have the ability to purchase for cancellation up to a maximum of 8,283,192 units, representing 10% of the REIT's float of 82,831,922 on November 30, 2011. Purchases will be made at market prices through the facilities of the Exchange. The bid commenced on December 14, 2007, and will remain in effect until the earlier of December 14, 2012, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the years ended December 31, 2011 and 2010, the REIT did not acquire units through the normal course issuer bid. Since December 14, 2007, the REIT had acquired 410,200 units for cancellation.

(e) Short-form base shelf prospectus:

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 up to a maximum of \$750,000 of initial offering price: (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. As at December 31, 2011, the REIT has issued units under three offerings in the aggregate amount of \$277,626 and a US\$88,000 offering of convertible debentures under the base shelf prospectus.

(f) At-the-market equity financing:

The REIT has entered into an Equity Distribution Agreement dated September 17, 2010 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 Exchange. As at December 31, 2011, no units have been issued pursuant to this arrangement.

12. Distributions to unitholders:

The REIT declared distributions to REIT unitholders of record in the amount of \$1.08 per unit (2010, \$1.08 per unit) or \$87,183 for the year ended December 31, 2011 (2010, \$46,504). Distributions during the period from January 1, 2010 to May 13, 2010 are classified as interest expense. Total distributions payable at December 31, 2011 are \$7,999 (December 31, 2010, \$6,793).

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13. Revenue:

The REIT leases retail, industrial and office properties to tenants under operating leases.

Minimum rental commitments on non-cancellable tenant operating leases over their remaining terms are as follows:

	December 31, 2011	December 31, 2010
Not later than one year	\$ 198,154	\$ 156,891
Later than one year and not later than five years	592,130	483,059
Later than five years	441,661	366,044
	\$ 1,231,945	\$ 1,005,994

14. Transaction costs:

The REIT incurred transaction costs in relation to the following:

	Year ended December 31, 2011	Year ended December 31, 2010
Acquisitions of investment properties	\$ (8,821)	\$ (15,792)
Issuance of convertible debentures	(3,630)	(3,754)
Termination fee	(4,000)	-
	\$ (16,451)	\$ (19,546)

On October 31, 2011, the REIT internalized the property management operations from one of its third party property managers in Winnipeg, Manitoba and paid a termination fee of \$4,000.

15. Loss on financial instruments:

The components of the fair value loss on financial instruments are as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Fair value gain (loss):		
Convertible debentures	\$ 650	\$ (1,923)
Commodity derivatives	196	47
Interest rate swaps	(4,347)	494
Forward and swap contracts	104	(104)
Investment in equity securities	(290)	1,569
Trust unit liabilities (note 27 (f))	-	(19,361)
	\$ (3,687)	\$ (19,278)

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16. Changes in non-cash operating items:

	Year ended December 31, 2011	Year ended December 31, 2010
Prepaid expenses	\$ (2,819)	\$ (123)
Accounts receivable and other receivables	(5,330)	(3,074)
Cash held in trust	(255)	(427)
Security deposits and prepaid rent	4,485	4,922
Accounts payable and other liabilities	6,550	15,078
	\$ 2,631	\$ 16,376

17. Related party transactions:

The REIT may issue unit-based awards to trustees, management, management company employees and consultants (note 9).

Other related party transactions are outlined as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Legal fees	1,481	2,756
Advisory fees	6,037	3,859
Acquisition fees	3,361	4,438
Property management fees	11,155	6,692
Recoverable property management salaries and wages	2,078	296
Capitalized leasing commissions	743	617
Capitalized building improvements	18,089	10,162
Capitalized tenant inducements	2,996	544
Property tax assessment consulting fees	224	92
Consulting fees	137	100

The REIT incurred legal fees with a law firm associated with a trustee of the REIT in connection with prospectus offerings, property acquisitions and general business matters. The amount payable at December 31, 2011 is \$200 (December 31, 2010, \$869).

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, 2011 is \$567 (December 31, 2010, \$464). 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. On December 31, 2011, the REIT and Marwest Realty terminated the asset management agreement.

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17. Related party transactions (continued):

The REIT incurred property management fees, recoverable property management salaries and wages, 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, 2011 is \$1,949 (December 31, 2010, \$390). 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. Under certain leases, Marwest Management is entitled to recover property management salaries and wages for properties managed directly. On December 31, 2011, the omnibus property management agreement was assigned to the REIT from Marwest Management which encompasses all investment properties owned by the REIT.

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, 2011 is \$354 (December 31, 2010, \$671).

The REIT incurred costs for property tax assessment consulting paid to Fairtax Realty Advocates, a company under control of close family members of key management personnel. The amount payable at December 31, 2011 is \$13 (December 31, 2010, \$nil).

The consulting fees represent work performed by Marwest Realty on IFRS accounting work and engineering services performed by a firm controlled by a trustee of the REIT.

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.

Subsidiaries of the REIT, excluding bare trustees, are outlined as follows:

Name of entity	Ownership interest		
	December 31, 2011	December 31, 2010	January 1, 2010
Artis General Partner Ltd.	100%	100%	100%
AX L.P.	100%	100%	100%
Artis US Holdings, Inc.	100%	100%	100%
Osborne Street Call Centre Partnership	100%	100%	100%
Winnipeg Square Leaseco Inc.	100%	100%	38%
AX Property Management L.P.	100%	-	-
Artis Property Management General Partner Ltd.	100%	-	-

18. Key management personnel:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the REIT, directly or indirectly.

The compensation paid or payable to trustees of the REIT are as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Short-term benefits	\$ 493	\$ 504
Unit-based payments	131	149
	\$ 624	\$ 653

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18. Key management personnel (continued):

The compensation paid or payable to key management personnel of the REIT are as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Short-term benefits	\$ 3,030	\$ 2,854
Unit-based payments	488	349
	<u>\$ 3,518</u>	<u>\$ 3,203</u>

Short-term benefits paid or payable to key management personnel represent the portion of compensation paid or payable by Marwest Realty attributable to time spent on the activities of the REIT.

19. Income taxes:

The REIT currently qualifies as a mutual fund trust and a real estate investment trust ("REIT") for Canadian income tax purposes. Under current tax legislation, income distributed annually by the REIT to unitholders is a deduction in the calculation of its taxable income. As the REIT intends to distribute all of its taxable income to its unitholders, the REIT does not record a provision for current Canadian income taxes.

The REIT converted its U.S. subsidiary to a REIT for U.S. income tax purposes during 2011. The subsidiary intends to distribute all of its U.S. taxable income to Canada and is entitled to deduct such distributions for U.S. income tax purposes. As a result, the REIT does not record a provision for current U.S. income taxes. The U.S. subsidiary is subject to a 30% to 35% withholding tax on distributions to Canada. Any withholding taxes paid are recorded with the related distributions.

The Income Tax Act (Canada) contains legislations affecting the tax treatment of a specified investment flow-through ("SIFT") trust or partnership (the "SIFT Rules"). A SIFT includes a publicly-listed or traded partnership or trust, such as an income trust.

Under the SIFT Rules, certain distributions from a SIFT are not deductible in computing a SIFT's taxable income, and a SIFT is 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 tax.

The SIFT Rules do not apply to a REIT that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the 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 SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the years ended December 31, 2011 and December 31, 2010. As a result, the REIT does not recognize any deferred income tax assets or liabilities for income tax purposes.

In respect of assets and liabilities of the REIT and its flow through entities, the net book value of net assets for accounting purposes exceeds their tax basis by approximately \$412,084 at December 31, 2011 (December 31, 2010, \$89,008). This balance includes non-capital losses available for carryforward in the amount of \$18,873, which may be used to offset taxable income in future periods, and allowable capital losses available for carryforward in the amount of \$2,656, which may be used to offset taxable capital gains in the future periods.

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20. Jointly controlled assets:

These consolidated financial statements include the REIT's share of assets, liabilities, revenues, expenses and cash flows of jointly controlled assets as at December 31, 2011. The REIT is contingently liable for the obligations of its joint venturers in certain jointly controlled assets. Management believes that the jointly controlled assets available are sufficient for the purpose of satisfying such obligations. The REIT has interests in the following jointly controlled assets:

Name of entity	Principal purpose	Ownership interest		
		December 31, 2011	December 31, 2010	January 1, 2010
Centre 70 Building	Investment property	85%	85%	85%
Kincaid Building	Investment property	50%	50%	50%
Cliveden Building	Investment property	50%	50%	50%
Winnipeg Square / 360 Main Street ⁽¹⁾	Investment property	-	-	38%
Westbank Hub Centre North	Investment property	50%	50%	-
Cara Foods Building	Investment property	50%	-	-

⁽¹⁾ The REIT acquired the remaining 62% interest in this property on June 30, 2010.

The REIT's share of these jointly controlled assets is summarized as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Non-current assets	\$ 98,816	\$ 68,401	\$ 89,177
Current assets	1,223	392	1,109
	100,039	68,793	90,286
Non-current liabilities	87,568	68,946	85,256
Current liabilities	2,145	1,527	2,287
	\$ 89,713	\$ 70,473	\$ 87,543
		Year ended December 31, 2011	Year ended December 31, 2010
Revenue	\$ 9,385	\$ 10,725	
Expenses	6,071	8,116	
Unrealized fair value gain (loss) on investment properties	3,314	2,609	
	8,691	(2,033)	
Operating income from properties	\$ 12,005	\$ 576	
Cash flows provided by operating activities	\$ 3,139	\$ 2,214	
Cash flows used in investing activities	(8,985)	(8,133)	
Cash flows provided by financing activities	6,502	6,505	

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21. Segmented information:

The REIT owns and operates various properties located in Canada and the U.S. Information related to these geographical locations is presented below. Western Canada includes British Columbia and Alberta; Central Canada includes Saskatchewan and Manitoba; and Eastern Canada includes Ontario. REIT expenses as well as interest relating to the convertible debentures have not been allocated to the segments.

Year ended December 31, 2011						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Revenue	\$ 144,957	\$ 73,349	\$ 36,786	\$ 35,420	\$ -	\$ 290,512
Property operating expenses	49,819	30,346	14,759	12,775	-	107,699
	95,138	43,003	22,027	22,645	-	182,813
Interest income	1,469	42	21	27	1,021	2,580
	96,607	43,045	22,048	22,672	1,021	185,393
Interest expense	35,854	16,266	7,151	5,785	13,886	78,942
Corporate expenses	-	-	-	-	11,055	11,055
Foreign currency translation loss	-	-	-	-	1,268	1,268
	35,854	16,266	7,151	5,785	26,209	91,265
	60,753	26,779	14,897	16,887	(25,188)	94,128
Income tax recovery	-	-	-	469	-	469
Transaction costs	(799)	(780)	(4,658)	(2,584)	(7,630)	(16,451)
Loss on financial instruments	-	-	-	-	(3,687)	(3,687)
Gain on disposal of investment properties	-	255	-	481	-	736
Unrealized fair value gain on investment properties	160,641	31,321	28,154	25,978	-	246,094
Income (loss) for the year	\$ 220,595	\$ 57,575	\$ 38,393	\$ 41,231	\$ (36,505)	\$ 321,289
Acquisitions of investment properties	\$ 110,839	\$ 119,530	\$ 165,920	\$ 282,427	\$ -	\$ 678,716
Additions to investment properties and investment properties under construction	7,223	16,086	786	3,846	-	27,941
Additions to leasing costs	1,975	893	324	1,121	-	4,313
Additions to tenant inducements	3,394	3,594	326	1,352	-	8,666
December 31, 2011						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Total assets	\$ 1,578,327	\$ 691,319	\$ 367,215	\$ 448,835	\$ 81,892	\$ 3,167,588
Total liabilities	765,084	360,868	212,832	271,036	287,953	1,897,773

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21. Segmented information (continued):

Year ended December 31, 2010						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Revenue	\$ 113,996	\$ 55,123	\$ 3,310	\$ 2,646	\$ -	\$ 175,075
Property operating expenses	36,749	23,017	1,352	914	-	62,032
	77,247	32,106	1,958	1,732	-	113,043
Interest income	1,567	13	1	2	966	2,549
	78,814	32,119	1,959	1,734	966	115,592
Interest expense	30,213	12,457	459	525	25,787	69,441
Corporate expenses	-	-	-	-	7,225	7,225
Foreign currency translation loss	-	-	-	-	2,945	2,945
	30,213	12,457	459	525	35,957	79,611
	48,601	19,662	1,500	1,209	(34,991)	35,981
Income tax expense	-	-	-	(298)	-	(298)
Transaction costs	(3,402)	(6,030)	(4,764)	(1,596)	(3,754)	(19,546)
Loss on financial instruments	-	-	-	-	(19,278)	(19,278)
Unrealized fair value gain on investment properties	20,523	11,529	3,094	1,219	-	36,365
Income (loss) for the year	\$ 65,722	\$ 25,161	\$ (170)	\$ 534	\$ (58,023)	\$ 33,224
Acquisitions of investment properties	\$ 429,134	\$ 174,230	\$ 162,650	\$ 121,777	\$ -	\$ 887,791
Additions to investment properties and investment properties under construction	6,374	4,637	-	-	-	11,011
Additions to leasing costs	1,526	964	31	28	-	2,549
Additions to tenant inducements	8,622	1,143	60	218	-	10,043
December 31, 2010						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Total assets	\$ 1,289,799	\$ 521,111	\$ 168,849	\$ 123,671	\$ 108,166	\$ 2,211,596
Total liabilities	706,329	291,877	107,882	81,073	170,205	1,357,366

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22. Commitments and guarantees:

(a) Letters of credit:

As of December 31, 2011, the REIT had issued letters of credit in the amount of \$1,728 (December 31, 2010, \$1,701).

(b) Guarantees:

AX L.P. has guaranteed certain debt assumed by a purchaser in connection with the disposition of a property. This guarantee will remain until the debt is modified, refinanced or extinguished. Credit risk arises in the event that the purchaser defaults on repayment of their debt since it is guaranteed by the REIT. This credit risk is mitigated as the REIT has recourse under this guarantee in the event of default by the purchaser, in which case the REIT would have a claim against the underlying property. The estimated amount of debt subject to the guarantee at December 31, 2011 is \$5,733 (December 31, 2010, \$5,873), with an estimated weighted-average remaining term of 5.9 years (December 31, 2010, 6.9 years). No liability in excess of the fair value of the guarantee has been recognized in these consolidated financial statements as the estimated fair value of the borrower's interests in the underlying property is greater than the mortgage payable for which the REIT provided the guarantee.

23. Capital management:

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

The REIT's Declaration of Trust permits the REIT to incur indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of such indebtedness of the REIT is not more than 70% of the gross book value of the REIT's total assets. Gross book value is defined in the Declaration of Trust as "the consolidated book value of the assets of the REIT, plus the amount of accumulated depreciation and amortization recorded in the books and records of the REIT, plus the amount of any deferred tax liability arising out of any indirect acquisitions, calculated in accordance with generally accepted accounting principles". As at December 31, 2011, the ratio of such indebtedness to gross book value was 50.7% (December 31, 2010, 52.6%), which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

In addition to the covenant outlined in the Declaration of Trust, the REIT must maintain a debt to gross book value ratio of 70%, a debt service coverage ratio of 1.4, and minimum unitholders' equity of \$275,000 for the purposes of the credit facility (note 10). As at December 31, 2011, the REIT was in compliance with these requirements.

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23. Capital management (continued):

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

The total managed capital for the REIT is summarized below:

	December 31, 2011	December 31, 2010	January 1, 2010
Mortgages and loans payable	\$ 1,567,399	\$ 1,156,092	\$ 612,263
Convertible debentures	235,746	153,889	103,225
Bank indebtedness	37,900	8,000	30,700
Total debt	1,841,045	1,317,981	746,188
Unitholders' equity (deficit)	1,269,815	854,230	(7,414)
	\$ 3,110,860	\$ 2,172,211	\$ 738,774

24. Risk management and fair values:

(a) Risk management:

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

(i) Market risk:

(a) Interest rate risk:

The REIT is exposed to interest rate risk on its borrowings. It minimizes the risk by restricting debt to 70% of the gross book value of the REIT's total assets and by limiting the amount of variable rate debt. The REIT has the majority of its mortgage payable and debentures in fixed rate terms. In addition, management considers the weighted-average term to maturity of long-term debt relative to the remaining average lease terms. At December 31, 2011, the REIT is a party to \$386,388 of variable rate debt, including the outstanding balance of bank indebtedness (December 31, 2010, \$183,584). At December 31, 2011, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$65,061 of variable rate debt (December 31, 2010, \$66,584).

The following table outlines the impact on interest expense of a 100 basis point increase or decrease in interest rates on the REIT's variable rate debt and fixed rate debt maturing within one year:

	Impact on interest expense
Variable rate debt	\$ 2,321
Fixed rate debt due within one year	985
	\$ 3,306

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24. Risk management and fair values (continued):

(a) Risk management (continued):

(i) Market risk (continued):

(b) Foreign currency risk:

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

A \$0.10 weakening in the US dollar against the average Canadian dollar exchange rate of 0.9960 for the year ended December 31, 2011 and the year end exchange rate of 1.017 at December 31, 2011 would have decreased the unrealized foreign currency translation loss included in net income by approximately \$8,419 and increased other comprehensive loss by approximately \$13,642 for the year ended December 31, 2011. Conversely, a \$0.10 strengthening in the US dollar against the Canadian dollar would have had an equal but opposite effect. This analysis assumes that all variables, in particular interest rates, remain constant.

(c) Other price risk:

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

(ii) Credit risk:

The REIT's maximum exposure to credit risk is equivalent to the carrying value of each class of financial asset as separately presented in cash and cash equivalents, cash held in trust, notes receivable, accounts receivable and other receivables, and investment in equity securities.

The REIT is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. The REIT's properties are diversified across the industrial, retail and office asset classes, and geographically diversified with properties owned across five Canadian provinces and four U.S. states. Included in property operating expenses is an impairment loss on accounts receivable and other receivables of \$231 during the year ended December 31, 2011 (2010, \$167). The credit quality of the accounts receivable and other receivables amount is considered adequate.

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24. Risk management and fair values (continued):

(a) Risk management (continued):

(ii) Credit risk (continued):

The aging of accounts receivable is summarized as follows:

	December 31, 2011	December 31, 2010
Past due 0 - 30 days	\$ 1,516	\$ 502
Past due 31 - 90 days	301	134
Past due more than 91 days	612	608
	2,429	1,244
Allowance for doubtful accounts	(157)	(174)
	\$ 2,272	\$ 1,070

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

(iii) Liquidity risk:

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

The following are the estimated maturities of the REIT's non-derivative financial liabilities at December 31, 2011 including accounts payable and other liabilities, mortgages and loans payable, bank indebtedness and convertible debentures, with convertible debentures disclosed at their face value:

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Accounts payable and other liabilities	\$ 42,490	\$ 42,490	\$ -	\$ -	\$ -
Mortgages, loans and bank indebtedness	1,607,757	177,982	464,332	603,962	361,481
Convertible debentures	231,999	-	56,253	-	175,746
	\$ 1,882,246	\$ 220,472	\$ 520,585	\$ 603,962	\$ 537,227

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24. Risk management and fair values (continued):

(b) Fair values:

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

The fair value of notes receivable has been determined by discounting the cash flows of these financial assets using year end market rates for assets of similar terms and credit risks. Based on these assumptions, the fair value of notes receivable at December 31, 2011 has been estimated at \$23,974 (December 31, 2010, \$26,689), compared with the carrying value of \$25,437 (December 31, 2010, \$27,142).

The fair value of mortgages and loans payable has been determined by discounting the cash flows of these financial obligations using year end market rates for debt of similar terms and credit risks. Based on these assumptions, the fair value of mortgages and loans payable at December 31, 2011 has been estimated at \$1,629,144 (December 31, 2010, \$1,183,292) compared with the carrying value of \$1,567,399 (December 31, 2010, \$1,156,092).

The fair value of the REIT's convertible debentures is \$235,746 (December 31, 2010, \$153,889) compared to its face value of \$231,999 (December 31, 2010, \$147,164) at December 31, 2011. Fair value is based on the market price of the debentures, or if no market price exists, fair value is determined by discounting the cash flows of these financial obligations using year end market rates for debt of similar terms and credit risks.

As at December 31, 2011, the REIT has no natural gas and electrical contracts recognized as financial instruments. As at December 31, 2010, the REIT had entered into natural gas and electrical contracts with a fair value liability of \$196. The REIT recorded an unrealized fair value gain of \$196 for the year ended December 31, 2011 (2010, \$47).

The REIT entered into interest rate swaps on four mortgages. The swaps are not designated in a hedge relationship. An unrealized loss of \$4,347 was recorded for the year ended December 31, 2011 (2010, unrealized gain of \$494) in relation to the fair value of these interest rate swaps, resulting in a fair value liability at December 31, 2011 of \$3,853 (December 31, 2010, fair value asset of \$494).

As at December 31, 2011, the REIT had fully liquidated its investment in equity securities. At December 31, 2010, the fair value of equity securities was \$11,184. A loss of \$290 was recorded for the year ended December 31, 2011 (2010, gain of \$1,569).

Under the fair value hierarchy of financial instruments measured at fair value on the consolidated balance sheet, investment in equity securities, the trust unit liabilities and convertible debentures excluding Series D are measured using a Level 1 methodology and natural gas and electrical contracts, interest rate swaps and Series D convertible debentures are valued using a Level 2 methodology. There are no financial instruments valued using a Level 3 methodology.

25. Subsequent events:

On January 1, 2012, the REIT fully internalized the asset management functions.

On January 1, 2012, the REIT internalized the property management operations for 78 properties that were previously directly managed by Marwest Management.

On January 3, 2012, the REIT refinanced a mortgage on a retail property in Calgary, Alberta, obtaining additional proceeds of \$5,691.

On January 26, 2012, the REIT issued 5,750,000 units at a price of \$15.05 per unit for aggregate gross proceeds of \$86,538 (inclusive of 750,000 units issued pursuant to the exercise in full of the underwriter's over-allotment option).

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25. Subsequent events (continued):

On January 31, 2012, the REIT acquired the North 48 Commercial Complex which is located in Saskatoon, Saskatchewan. The office property was acquired for \$18,400 and the purchase price was satisfied with cash.

On February 1, 2012, the REIT repaid a maturing mortgage on an office property in Winnipeg, Manitoba in the amount of \$2,750.

On February 3, 2012, the REIT repaid the balance drawn on the revolving term credit facility.

On February 13, 2012, the REIT announced that it intends to redeem all of its outstanding Series C convertible debentures effective March 15, 2012.

On February 24, 2012, the REIT acquired the Aluma Systems Building which is located in Edmonton, Alberta. The industrial property was acquired for \$17,495 and the purchase price was satisfied with cash.

The REIT has an agreement with respect to the acquisition of a property located in Arizona. The purchase price of the property is US\$75,000. The REIT anticipates that the acquisition will close in March of 2012, and will be financed through a combination of cash consideration and new mortgage financing.

The REIT has an agreement with respect to the acquisition of a property located in Manitoba. The purchase price of the property is \$32,000. The REIT anticipates that the acquisition will close in April of 2012, and will be financed through a combination of cash consideration and new mortgage financing.

Distributions in the amount of \$0.09 per unit for each of January 2012 and February 2012 were declared subsequent to December 31, 2011.

Subsequent to December 31, 2011, Series E convertible debentures with a face value of \$1,173 were converted and the REIT issued 126,119 units at the price of \$9.30 per unit.

26. Approval of financial statements:

The consolidated financial statements were approved by the Board of Trustees and authorized for issue on March 14, 2012.

27. Transition to IFRS:

As stated in note 2(a), these are the REIT's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 2 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 2010 (the REIT's date of transition).

In preparing its opening IFRS balance sheet, the REIT has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the REIT's financial position, operating results and cash flows is set out in the following tables and the accompanying notes.

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27. Transition to IFRS (continued):

The following is a reconciliation of unitholders' equity reported in accordance with previous Canadian GAAP to unitholders' equity reported in accordance with IFRS at the transition date:

	Capital contributions	Equity component of convertible debentures	Deficit	Contributed surplus	Total
Unitholders' equity as reported under previous Canadian GAAP, December 31, 2009	\$ 485,000	\$ 9,926	\$ (137,497)	\$ 3,477	\$ 360,906
Adjustments:					
Investment properties (note 27 (c))	-	-	76,055	-	76,055
Unit-based payments (note 27 (d))	-	-	1,537	(1,714)	(177)
Convertible debentures (note 27 (e))	-	(9,926)	(7,267)	-	(17,193)
Trust units (note 27 (f))	(485,000)	-	59,758	(1,763)	(427,005)
Unitholders' deficit as reported under IFRS, January 1, 2010	\$ -	\$ -	\$ (7,414)	\$ -	\$ (7,414)

The following is a reconciliation of unitholders' equity reported in accordance with previous Canadian GAAP to unitholders' equity reported in accordance with IFRS at December 31, 2010:

	Capital contributions	Equity component of convertible debentures	Deficit	Accumulated other comprehensive loss	Contributed surplus	Total
Unitholders' equity as reported under previous Canadian GAAP, December 31, 2010	\$ 909,331	\$ 11,442	\$ (204,604)	\$ (273)	\$ 3,815	\$ 719,711
Adjustments:						
Investment properties (note 27 (c))	-	-	153,523	-	-	153,523
Unit-based payments (note 27 (d))	7	-	1,171	-	(1,486)	(308)
Convertible debentures (note 27 (e))	4,531	(11,442)	(10,721)	-	(566)	(18,198)
Trust units (note 27 (f))	(38,635)	-	40,398	-	(1,763)	-
Deferred taxes (note 27 (g))	-	-	(498)	-	-	(498)
Foreign currency translation (note 27 (h))	-	-	37	(37)	-	-
Unitholders' equity as reported under IFRS, December 31, 2010	\$ 875,234	\$ -	\$ (20,694)	\$ (310)	\$ -	\$ 854,230

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27. Transition to IFRS (continued):

The following is a reconciliation of comprehensive income reported in accordance with previous Canadian GAAP to comprehensive income reported in accordance with IFRS for the year ended December 31, 2010:

	Year ended December 31, 2010
Comprehensive loss for the year as reported under previous Canadian GAAP	\$ (4,048)
Adjustments:	
Investment properties (note 27 (c))	77,508
Unit-based payments (note 27 (d))	(368)
Convertible debentures (note 27 (e))	(3,454)
Trust units (note 27 (f))	(36,189)
Deferred taxes (note 27 (g))	(498)
Foreign currency translation (note 27 (h))	(37)
Comprehensive income for the year as reported under IFRS	\$ 32,914

(a) Elected exemptions from full retrospective application:

In preparing the consolidated financial statements in accordance with IFRS 1, the REIT has elected to apply IFRS prospectively to all business combinations that occurred on or after the January 1, 2010 transition date. The remaining optional exemptions are either not applicable to the REIT or not utilized in the transition to IFRS.

(b) Mandatory exceptions from full retrospective application:

In accordance with IFRS 1, the REIT has applied the mandatory exception from full retrospective application of IFRS with respect to estimates. Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the REIT under Canadian GAAP are consistent with their application under IFRS at January 1, 2010. The remaining mandatory exceptions are not applicable to the REIT.

(c) Investment properties and investment properties under construction:

The REIT considers its commercial properties to be investment properties under IAS 40 - *Investment Property*. Investment property is property held to earn rental income or for capital appreciation, or both.

Consistent with the REIT's accounting policy, investment properties have been recognized at fair value at the date of transition. Under previous Canadian GAAP investment properties were measured on an amortized cost basis.

The adjustment to equity represents the cumulative unrealized gain in respect of the REIT's investment properties, inclusive of related intangible assets, leasing costs, intangible liabilities, straight-line rent receivable, tenant inducements and tenant improvements which were recorded separately under previous GAAP.

Under IFRS, investment properties under construction are separately presented in the balance sheet.

In accordance with IFRS, acquisitions of properties that constitute a business are accounted for as business combinations using the acquisition method. Transaction costs associated with business combinations have been expensed as incurred. Under previous Canadian GAAP, transaction costs associated with property acquisitions were capitalized.

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27. Transition to IFRS (continued):

- (c) Investment properties and investment properties under construction (continued):

The impact arising from the change is summarized as follows:

	Year ended December 31, 2010	
Consolidated statement of operations:		
Elimination of amortization expense	\$	(70,872)
Decrease in revenue		13,937
Unrealized fair value gain		(36,365)
Increase in transaction costs		15,792
Increase in comprehensive income for the year	\$	(77,508)

	January 1, 2010		December 31, 2010	
Consolidated balance sheet:				
Increase in investment properties	\$	119,886	\$	332,009
Increase in investment properties under construction		-		5,405
Decrease in other assets		(119,440)		(266,707)
Decrease in intangible liabilities		81,523		91,568
Decrease in other receivables		(5,914)		(8,752)
Increase in equity	\$	76,055	\$	153,523

- (d) Unit-based payments:

The REIT's unit options are to be settled by redeemable trust units. In accordance with IFRS 2 - *Share-Based Payment*, these unit-based payments are considered to be cash-settled, and are therefore recorded as a liability at fair value at each reporting date. Any change in the fair value of the liability is recognized as compensation expense in net income for the year. Unit options granted by the REIT vest equally over a four-year period. In accordance with IFRS, the REIT treats each installment as a separate unit option grant as each installment has a different vesting period. Under previous GAAP, the fair value at the grant date of options granted and vested under the unit option plan were recorded to contributed surplus, and unit option installments were not treated as separate unit option grants.

- (e) Convertible debentures:

The REIT's convertible debentures are to be settled by redeemable trust units. Consistent with the REIT's accounting policy, convertible debentures are recorded as a liability at fair value at each reporting date, with gains and losses recognized in net income. Transaction costs are recognized immediately in net income. Under previous GAAP, convertible debentures were recorded as compound financial instruments and allocated between a liability and equity component at the time of issue. Transaction costs were included in the carrying value of the liability at inception and amortized over the expected life of the debentures using the effective interest method.

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27. Transition to IFRS (continued):

(f) Trust units:

In accordance with IAS 32 - *Financial Instruments: Presentation*, the REIT's trust units are classified as liabilities as they represent puttable financial instruments that include a contractual obligation to redeem the trust units for cash on exercise of the put, and are measured at fair value with gains and losses recognized in net income. On May 14, 2010, the REIT amended its Declaration of Trust in order to make distributions non-mandatory, and thereby, permit classification of the trust units as equity. Distributions paid to unitholders during the period from January 1 to May 13, 2010 are classified as interest expense. Under previous GAAP, trust units and distributions on those units were classified as equity.

The impact arising from the change is summarized as follows:

	Year ended December 31, 2010	
Consolidated statement of operations:		
Increase in interest expense	\$	16,828
Increase in unrealized fair value loss		19,361
Decrease in comprehensive income for the year	\$	36,189

	January 1, 2010	December 31, 2010
Consolidated balance sheet:		
Increase in trust unit liabilities	\$ 427,005	\$ -
Decrease in equity	\$ 427,005	\$ -

(g) Deferred taxes:

The change in deferred taxes recorded under IFRS compared with previous Canadian GAAP relates to the change in the measurement of the carrying value of investment properties from amortized cost to fair value.

(h) Foreign currency translation:

The change in other comprehensive income recorded under IFRS compared with previous Canadian GAAP relates to the change in the measurement of the carrying value of investment properties from amortized cost to fair value.

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27. Transition to IFRS (continued):

(i) Classification:

Under previous GAAP, the REIT did not present a classified balance sheet. Under IAS 1 - *Presentation of Financial Statements*, the REIT presents current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet.

(j) Changes to the cash flow statement:

There were no material adjustments to the cash flow statement as a result of the transition to IFRS, other than the impact of the adjustments discussed in note 27 (c) through (h).