



**ARTIS**

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REIT

**Management's Discussion and Analysis  
Q1-12**

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

# ARTIS REAL ESTATE INVESTMENT TRUST

Management's Discussion and Analysis - Q1-12  
(In thousands of Canadian dollars, unless otherwise noted)

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Artis Real Estate Investment Trust ("Artis" or the "REIT") should be read in conjunction with the REIT's audited annual consolidated financial statements for the years ended December 31, 2011 and 2010, the unaudited interim condensed consolidated financial statements for the three month periods ended March 31, 2012 and 2011, and the notes thereto. This MD&A has been prepared taking into account material transactions and events up to and including May 9, 2012. Additional information about Artis, including the REIT's most recent Annual Information Form, has been filed with applicable Canadian securities regulatory authorities and is available at [www.sedar.com](http://www.sedar.com) or on our web site at [www.artisreit.com](http://www.artisreit.com).

### FORWARD-LOOKING DISCLAIMER

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

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

### NOTICE RESPECTING NON-GAAP MEASURES

Property Net Operating Income ("Property NOI") and Funds from Operations ("FFO") are non-GAAP measures commonly used by Canadian real estate investment trusts as an indicator of financial performance. "GAAP" means the generally accepted accounting principles described by the Canadian Institute of Chartered Accountants ("CICA") Handbook - Accounting, which are applicable as at the date on which any calculation using GAAP is to be made. As a publicly accountable enterprise, Artis applies the International Financial Reporting Standards ("IFRS") described in Part I of the CICA Handbook - Accounting.

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

Artis calculates FFO substantially in accordance with the guidelines set out by the Real Property Association of Canada ("REALpac"), as issued in June 2010. Management considers FFO to be a valuable measure for evaluating the REIT's operating performance in achieving its objectives.

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

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## OVERVIEW

Artis is an unincorporated open-end real estate investment trust created under, and governed by, the laws of the province of Manitoba. On May 14, 2009, unitholders authorized the trustees of Artis to implement certain amendments to Artis' Declaration of Trust which, if implemented, would have the effect of converting Artis to a closed-end trust. As at May 9, 2012, the trustees of Artis have not yet implemented such amendments. On May 19, 2011, the Declaration of Trust was further amended at the Annual and Special Meeting of Unitholders.

Certain of the REIT's securities are listed on the Toronto Stock Exchange (the "TSX"). The REIT's trust units ("units") trade under the symbol AX.UN, and the REIT's Series E, Series F and Series G convertible debentures trade under the symbols AX.DB.E, AX.DB.F, and AX.DB.U respectively. As at May 9, 2012, there were 101,746,923 units, and 3,973,800 options of Artis outstanding (refer to the *Outstanding Unit Data* section for further details).

## PRIMARY OBJECTIVES

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

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

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

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

## U.S. INVESTMENT STRATEGY

At March 31, 2012, approximately 18.2% of Artis' portfolio weighting by pro-forma Property NOI is in the United States. Historically, commercial real estate in the U.S. has been more expensive and offered lower unlevered yields than similar property in Canada. This has now changed, and Canadian investors are able to acquire quality U.S. properties at relatively higher yields than in Canada. Artis' management believes that this window of opportunity will not be open for long and has adopted a disciplined approach in pursuing U.S. acquisitions while the opportunity exists, as follows:

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

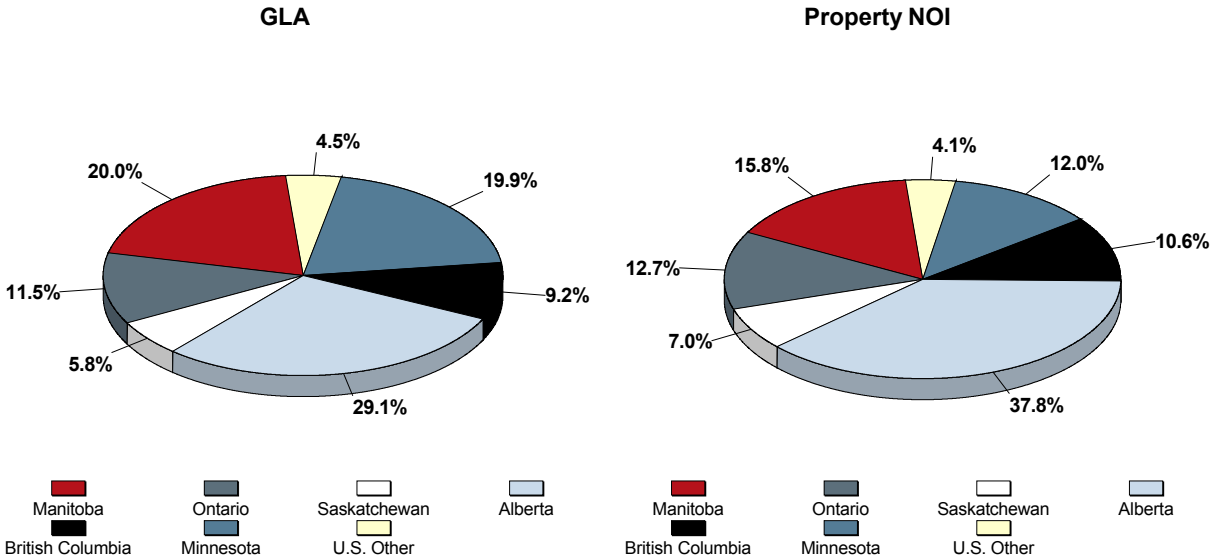
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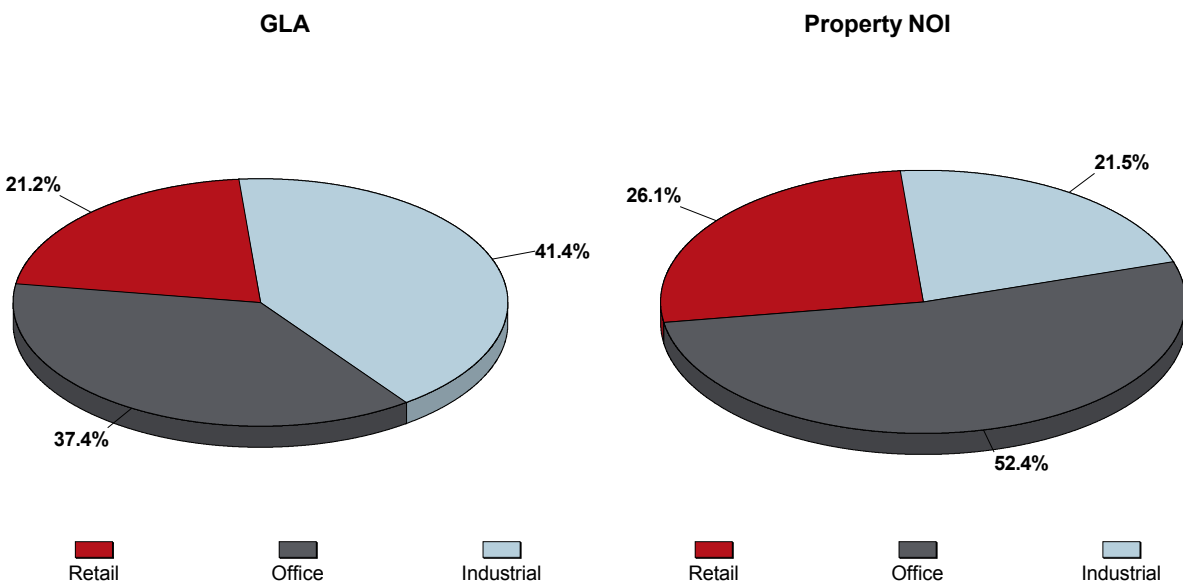
## PORTFOLIO SUMMARY

At March 31, 2012, the REIT's portfolio was comprised of 166 commercial properties totaling approximately 17.38 million square feet (S.F.) of gross leasable area ("GLA").

### Diversification by Geographical Region:



### Diversification by Asset Class:



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## Portfolio by Asset Class as at March 31, 2012 (in 000's of S.F.) <sup>(1)</sup>

Asset Class	City	Province / State	Number of Properties	Owned Share of Leasable Area	% of Portfolio GLA	Occupancy %	Committed % <sup>(2)</sup>
Industrial	Acheson	AB	2	265	1.5 %	100.0 %	100.0 %
	Airdrie	AB	1	27	0.2 %	99.6 %	100.0 %
	Brampton	ON	1	301	1.7 %	100.0 %	100.0 %
	Calgary	AB	7	596	3.5 %	100.0 %	100.0 %
	Delta	BC	1	70	0.4 %	0.0 %	0.0 %
	Edmonton	AB	7	799	4.6 %	98.5 %	99.2 %
	Mississauga	ON	1	158	0.9 %	91.2 %	96.9 %
	Nisku	AB	1	23	0.1 %	100.0 %	100.0 %
	Red Deer	AB	1	126	0.7 %	94.0 %	94.0 %
	Saskatoon	SK	1	163	0.9 %	100.0 %	100.0 %
	Toronto	ON	1	319	1.8 %	100.0 %	100.0 %
Winnipeg	MB	29	1,761	10.2 %	95.0 %	96.0 %	
<b>Industrial total</b>			<b>53</b>	<b>4,608</b>	<b>26.5 %</b>	<b>95.8 %</b>	<b>96.5 %</b>
Office	Burnaby	BC	3	436	2.5 %	96.5 %	97.7 %
	Calgary	AB	12	1,495	8.6 %	94.4 %	96.4 %
	Edmonton	AB	1	29	0.2 %	100.0 %	100.0 %
	Mississauga	ON	2	244	1.4 %	98.0 %	98.0 %
	Nanaimo	BC	2	68	0.4 %	100.0 %	100.0 %
	Ottawa	ON	1	181	1.0 %	100.0 %	100.0 %
	Red Deer	AB	1	149	0.9 %	99.1 %	99.1 %
	Saskatoon	SK	1	64	0.4 %	100.0 %	100.0 %
	Toronto	ON	2	738	4.2 %	95.9 %	95.9 %
	Vancouver	BC	1	174	1.0 %	93.3 %	96.4 %
	Vaughan	ON	1	50	0.3 %	100.0 %	100.0 %
Winnipeg	MB	7	1,296	7.4 %	97.2 %	97.3 %	
<b>Office total</b>			<b>34</b>	<b>4,924</b>	<b>28.3 %</b>	<b>96.3 %</b>	<b>97.1 %</b>
Retail	Calgary	AB	5	426	2.6 %	97.8 %	99.4 %
	Coquitlam	BC	1	82	0.5 %	97.8 %	97.8 %
	Cranbrook	BC	1	290	1.7 %	94.4 %	96.5 %
	Delta	BC	1	75	0.4 %	98.6 %	98.6 %
	Edmonton	AB	2	165	0.9 %	100.0 %	100.0 %
	Edson	AB	1	20	0.1 %	100.0 %	100.0 %
	Estevan	SK	1	38	0.2 %	100.0 %	100.0 %
	Fort McMurray	AB	8	194	1.1 %	100.0 %	100.0 %
	Grande Prairie	AB	4	378	2.2 %	93.6 %	94.1 %
	Lethbridge	AB	1	53	0.3 %	100.0 %	100.0 %
	Medicine Hat	AB	1	162	0.9 %	97.2 %	97.2 %
	Moose Jaw	SK	1	38	0.2 %	100.0 %	100.0 %
	Nanaimo	BC	2	90	0.5 %	64.7 %	64.7 %
	Regina	SK	8	554	3.3 %	96.4 %	97.4 %
	Saskatoon	SK	2	143	0.8 %	100.0 %	100.0 %
	Spruce Grove	AB	1	112	0.6 %	100.0 %	100.0 %
	St. Albert	AB	1	21	0.1 %	90.4 %	93.3 %
	Vancouver	BC	1	91	0.5 %	99.3 %	99.3 %
	Westbank / West Kelowna	BC	2	231	1.3 %	99.5 %	99.5 %
Winnipeg	MB	4	414	2.4 %	96.4 %	97.9 %	
<b>Retail total</b>			<b>48</b>	<b>3,577</b>	<b>20.6 %</b>	<b>96.4 %</b>	<b>97.2 %</b>
<b>Total Canadian portfolio</b>			<b>135</b>	<b>13,109</b>	<b>75.4 %</b>	<b>96.2 %</b>	<b>96.9 %</b>

<sup>(1)</sup> Excluding properties in redevelopment.

<sup>(2)</sup> Percentage committed is based on committed leases at March 31, 2012.

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## Portfolio by Asset Class as at March 31, 2012 (in 000's of S.F.) continued <sup>(1)</sup>

Asset Class	City	Province / State	Number of Properties	Owned Share of Leasable Area	% of Portfolio GLA	Occupancy %	Committed % <sup>(2)</sup>
Industrial	Minneapolis	MN	16	2,477	14.3 %	88.3 %	89.0 %
	Phoenix	AZ	1	99	0.6 %	100.0 %	100.0 %
Industrial total			17	2,576	14.9 %	88.7 %	89.4 %
Office	Minneapolis	MN	4	875	5.1 %	93.6 %	94.1 %
	New Hartford	NY	1	123	0.7 %	100.0 %	100.0 %
	Phoenix	AZ	3	459	2.6 %	98.6 %	98.6 %
	Tampa	FL	1	107	0.6 %	100.0 %	100.0 %
Office total			9	1,564	9.0 %	96.0 %	96.3 %
Retail	Minneapolis	MN	5	110	0.6 %	95.2 %	95.2 %
Total U.S. portfolio			31	4,250	24.5 %	91.6 %	92.1 %
<b>Total Canadian and U.S.</b>			<b>166</b>	<b>17,359</b>	<b>99.9 %</b>	<b>95.0 %</b>	<b>95.7 %</b>

<sup>(1)</sup> Excluding properties in redevelopment.

<sup>(2)</sup> Percentage committed is based on committed leases at March 31, 2012.

## Properties in Redevelopment (in 000's of S.F.)

Asset Class	City	Province / State	Number of Properties	Owned Share of Leasable Area	% of Portfolio GLA	Property	Committed % <sup>(1)</sup>
Office	Edmonton	AB	-	19	0.1 %	North City Office	10.4 %

<sup>(1)</sup> Percentage committed is based on committed leases at March 31, 2012.

## Properties under Construction (in 000's of S.F.)

Asset Class	City	Province / State	Project Name	S.F. under Construction	Pre-leasing
Retail	Winnipeg	MB	2190 McGillivray Shoppers	18	100.0 %
Industrial	Edmonton	AB	Fourell Building #2	64	50.0 %
Mixed	Winnipeg	MB	Centrepont	65 <sup>(1)</sup>	60.0 %

<sup>(1)</sup> Artis has a 50% ownership interest in the anticipated 130,375 square feet of leasable area.

A new format Shoppers Drug Mart is currently under construction on excess lands on the 2190 McGillivray Cineplex property site in Winnipeg, Manitoba. The property will comprise 18,000 square feet of leasable area and is expected to reach substantial completion in Q2-12. Shoppers Drug Mart has executed a 20-year lease, with rent escalations, for 100.0% of the leasable area.

Artis is also currently constructing a 64,000 square foot industrial building on excess lands at the Fourell Industrial property site in Edmonton, Alberta. The project is anticipated to be substantially complete in Q2-12. Artis has pre-leased 32,000 square feet of the leasable area, with an expected occupancy date of July 1, 2012.

Centrepont is being constructed as a 130,375 square foot LEED Silver office and retail complex in Winnipeg, Manitoba. The building is strategically located in the heart of downtown Winnipeg, across the street from the MTS Centre, Manitoba's largest indoor arena and home of the Winnipeg Jets. Construction is anticipated to be completed in 2013, with 60.0% of the building already pre-leased, primarily by Stantec Engineering, on a long-term lease. Artis has a 50% ownership stake in this property.

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## 2012 – FIRST QUARTER HIGHLIGHTS

### PORTFOLIO GROWTH

Artis acquired 3 commercial properties during Q1-12.

	Office		Retail		Industrial		Total	
	Number of Properties	S.F. (000's)	Number of Properties	S.F. (000's)	Number of Properties	S.F. (000's)	Number of Properties	S.F. (000's)
Portfolio properties at December 31, 2011	41	6,233	53	3,687	69	7,038	163	16,958
Q1-12 acquisitions	2	274	-	-	1	65	3	339
Q1-12 construction	-	-	-	-	-	81	-	81
Total 2012	2	274	-	-	1	146	3	420
Portfolio properties at March 31, 2012	43	6,507	53	3,687	70	7,184	166	17,378

### Property acquisitions:

During Q1-12, Artis acquired three properties. The North 48 Commercial Complex is a 63,571 square foot Class B office property located in Saskatoon, Saskatchewan. The property was constructed in 2008 and is 100.0% leased until 2018. The Aluma Systems Building comprises 65,000 square feet of leasable area located in Edmonton, Alberta and is 100.0% occupied. The GSA Phoenix Professional Office Building is a 210,202 square foot office property in Phoenix, Arizona and is 100.0% occupied.

Artis also entered into a 50% joint venture agreement for the Centrepoint development project in Winnipeg, Manitoba which is anticipated to be completed in 2013.

### Completed properties under construction:

Artis completed the construction of an 80,400 square foot Class A industrial building, and added the leasable area to the REIT's owned share of leasable area as at March 31, 2012. The property was built on excess lands on the Caterpillar Building property site in Minneapolis, Minnesota. The property is 100.0% leased to Black Box Resale Services on a 7-year lease, with annual rent escalations. Artis also completed the construction of a new 269-stall parkade ancillary to an existing portfolio office property in Winnipeg, Manitoba.

## FINANCING ACTIVITIES

### Short form base shelf prospectus:

On July 28, 2010, the REIT issued a short form 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 March 31, 2012, the REIT has issued units under five offerings in the aggregate amount of \$471,255 and a US\$88,000 offering of convertible debentures.

### Equity offerings:

Under the short form base shelf prospectus, on January 26, 2012, Artis issued 5,750,000 units at a price of \$15.05 per unit for aggregate gross proceeds of \$86,538. This includes 750,000 units issued pursuant to the exercise of the underwriters' over-allotment option.

Under the short form base shelf prospectus, on March 26, 2012, Artis issued 6,135,000 units at a price of \$16.30 per unit for aggregate gross proceeds of \$100,001. On March 30, 2012, 435,000 units at a price of \$16.30 per unit were issued pursuant to the exercise of the underwriters' over-allotment option for gross proceeds of \$7,091.



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## Debt financing and repayments:

During Q1-12, Artis repaid the balance drawn on the credit facility of \$37,900. Artis repaid the balance of two maturing mortgages for \$10,919 and refinanced one of the properties with a new mortgage of \$13,860.

## Series C convertible debentures redemption:

On March 15, 2012, Artis redeemed all outstanding Series C convertible redeemable 6.25% debentures pursuant to the trust indenture dated as of May 4, 2006. The balance paid on the debentures was \$29,891.

## INTERNALIZATION OF ASSET AND PROPERTY MANAGEMENT

On December 31, 2011, the REIT and Marwest Realty Advisors Inc. ("Marwest Realty") terminated the asset management agreement. On January 1, 2012, the REIT fully internalized the asset management function. No fees or penalties were paid to Marwest Realty upon termination of this agreement. On December 31, 2011, the omnibus property management agreement was assigned to the REIT from Marwest Management Canada Ltd. ("Marwest Management") which encompasses all investment properties owned by the REIT. On January 1, 2012, the REIT internalized the property management operations for 78 properties that were previously directly managed by Marwest Management. No fees or penalties were paid to Marwest Management upon assignment of this agreement.

## DISTRIBUTIONS

Artis distributed a total of \$26,214 to unitholders in Q1-12, of which \$3,604 was paid by way of distribution reinvestment, pursuant to Artis' Distribution Reinvestment and Unit Purchase Plan ("DRIP").

## SELECTED FINANCIAL INFORMATION

000's, except per unit amounts

	Three month period ended March 31,	
	2012	2011
Revenue	\$ 82,132	\$ 63,258
Property NOI	\$ 52,842	\$ 39,012
Income for the period	\$ 75,756	\$ 132,021
Basic income per unit	\$ 0.81	\$ 1.75
Diluted income per unit	\$ 0.80	\$ 1.63
Distributions	\$ 26,214	\$ 20,433
Distributions per unit	\$ 0.27	\$ 0.27
FFO	\$ 29,548	\$ 21,475
FFO per unit	\$ 0.32	\$ 0.28
FFO after adjustments <sup>(1)</sup>	\$ 29,890	\$ 21,594
FFO per unit after adjustments <sup>(1)</sup>	\$ 0.32	\$ 0.29
FFO payout ratio after adjustments <sup>(1)</sup>	84.4 %	93.1 %
Weighted-average units (basic)	93,657	75,613

<sup>(1)</sup> Calculated after adjustments for transaction costs, current tax recovery and the loss on equity securities.

Artis has been actively acquiring properties during 2011 and 2012. Due to this acquisition activity as well as same property revenue growth, Q1-12 revenues increased \$18,874 or 29.8% compared to Q1-11 results. Property NOI increased by \$13,830, or 35.5% compared to Q1-11 results.

FFO increased \$8,073, or 37.6% compared to Q1-11. These increases are primarily attributed to the acquisitions completed in 2011 and 2012. Basic FFO increased \$0.04 or 14.3% compared to Q1-11 results. Adjusted FFO has increased \$8,296, or 38.4% compared to Q1-11. Basic FFO after adjustments has increased \$0.03, or 10.3% compared to Q1-11.

As a result of units issued from public offerings, units issued under the DRIP, and conversion of convertible debentures, basic units outstanding for the calculation of FFO has substantially increased. This increase has diluted the impact of strong growth in revenues, Property NOI and FFO on per unit results. Management anticipates there will be further growth in revenues, Property NOI and FFO as acquisitions completed in 2011 and 2012 contribute to operating results.

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## ANALYSIS OF OPERATING RESULTS

### REVENUE AND PROPERTY NOI

Revenue includes all amounts earned from tenants related to lease agreements, including basic rent, parking, operating cost and realty tax recoveries, as well as adjustments for the straight-lining of rents.

Artis accounts for rent step-ups by straight-lining the incremental increases over the entire non-cancelable lease term. In Q1-12, straight-line rent adjustments of \$1,274 were recorded compared to \$1,148 in Q1-11.

In Q1-12, the REIT recorded amortization of \$1,325 as a reduction in revenue from tenant incentives compared to \$1,020 in Q1-11.

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

### SAME PROPERTY NOI GROWTH

Same property comparison includes only investment properties owned on January 1, 2011, and excludes properties considered to be in redevelopment and properties disposed of subsequent to January 1, 2011.

	<b>Three month period ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Revenue <sup>(1)</sup>	\$ 61,653	\$ 62,043
Property operating expenses	23,195	23,791
Property NOI	38,458	38,252
Add (deduct) non-cash revenue adjustments:		
Straight-line rent adjustment	(798)	(1,118)
Amortization of tenant inducements	1,174	942
Property NOI less non-cash revenue adjustments	\$ 38,834	\$ 38,076

<sup>(1)</sup> Revenue in Q1-11 was adjusted by \$178 for a lease termination fee received for an Ontario office property.

In Q1-12, Property NOI increased \$206, or 0.5% over Q1-11. Property NOI less non-cash revenue adjustments for Q1-12 increased \$758 or 2.0% over Q1-11.

### Same Property by Asset Class:

	<b>Three month period ended March 31,</b>				<b>Occupancy</b>	
	<b>Same property NOI less Non-Cash Revenue Adjustments</b>				<b>2012</b>	<b>2011</b>
	<b>2012</b>	<b>2011</b>	<b>Change</b>	<b>% Change</b>		
Retail	\$ 11,828	\$ 11,723	\$ 105	0.9 %	96.3 %	97.0 %
Office	19,607	19,219	388	2.0 %	96.1 %	95.7 %
Industrial	7,399	7,134	265	3.7 %	94.7 %	96.0 %
Total	\$ 38,834	\$ 38,076	\$ 758	2.0 %	95.6 %	96.2 %

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## Same Property by Geographical Region:

Three month period ended March 31,

	Same Property NOI less Non-Cash Revenue Adjustments				Occupancy	
	2012	2011	Change	% Change	2012	2011
Alberta	\$ 17,895	\$ 17,264	\$ 631	3.7 %	96.9 %	96.2 %
British Columbia	5,295	5,476	(181)	(3.3)%	91.1 %	96.4 %
Manitoba	7,391	7,192	199	2.8 %	96.0 %	97.0 %
Ontario	3,306	3,378	(72)	(2.1)%	95.1 %	94.6 %
Saskatchewan	2,514	2,501	13	0.5 %	98.4 %	98.1 %
Minnesota	1,356	1,210	146	12.1 %	91.9 %	90.1 %
U.S. - Other	1,077	1,055	22	2.1 %	100.0 %	100.0 %
Total	\$ 38,834	\$ 38,076	\$ 758	2.0 %	95.6 %	96.2 %

## PROPERTY NOI BY ASSET CLASS

In Q1-12, revenues and Property NOI increased for all asset class segments of the portfolio. This growth is primarily attributable to acquisition activity.

Three month period ended March 31,

	2012			2011		
	Retail	Office	Industrial	Retail	Office	Industrial
Revenue	\$ 20,322	\$ 44,878	\$ 16,888	\$ 19,194	\$ 31,595	\$ 12,469
Property operating expenses	6,537	17,229	5,524	6,473	13,098	4,675
Property NOI	\$ 13,785	\$ 27,649	\$ 11,364	\$ 12,721	\$ 18,497	\$ 7,794
Share of Property NOI	26.1 %	52.4 %	21.5 %	32.6 %	47.4 %	20.0 %

## PROPERTY NOI BY GEOGRAPHICAL REGION

In Q1-12, revenues and Property NOI increased in most regions in comparison to Q1-11. This growth is primarily attributable to acquisition activity.

Three month period ended March 31, 2012

	Canada					U.S.	
	AB	BC	MB	ON	SK	MN	Other
Revenue	\$ 29,366	\$ 8,738	\$ 14,860	\$ 10,644	\$ 5,321	\$ 10,275	\$ 2,884
Property operating expenses	9,374	3,155	6,529	3,957	1,624	3,942	709
Property NOI	\$ 19,992	\$ 5,583	\$ 8,331	\$ 6,687	\$ 3,697	\$ 6,333	\$ 2,175
Share of Property NOI	37.8 %	10.6 %	15.8 %	12.7 %	7.0 %	12.0 %	4.1 %

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## Three month period ended March 31, 2011

	Canada					U.S.	
	AB	BC	MB	ON	SK	MN	Other
Revenue	\$ 26,956	\$ 8,882	\$ 13,160	\$ 6,977	\$ 3,604	\$ 2,289	\$ 1,390
Property operating expenses	9,732	3,154	5,905	3,161	1,043	974	277
Property NOI	\$ 17,224	\$ 5,728	\$ 7,255	\$ 3,816	\$ 2,561	\$ 1,315	\$ 1,113
Share of Property NOI	44.2 %	14.7 %	18.4 %	9.8 %	6.6 %	3.4 %	2.9 %

## PORTFOLIO OCCUPANCY

Occupancy levels impact the REIT's revenues and Property NOI. Occupancy and commitments at March 31, 2012 (excluding properties currently in redevelopment or under construction), and the previous four periods, are as follows.

### Occupancy Report by Asset Class

	Q1-12 % Committed <sup>(1)</sup>	Q1-12	Q4-11	Q3-11	Q2-11	Q1-11
Retail	97.1%	96.4%	96.6%	97.1%	96.6%	97.0%
Office	96.9%	96.2%	94.9%	96.6%	95.7%	95.8%
Industrial	94.0%	93.3%	94.3%	94.2%	94.9%	94.0%
Total portfolio	95.7%	95.0%	95.1%	95.7%	95.6%	95.3%

### Occupancy Report by Geographical Region

	Q1-12 % Committed <sup>(1)</sup>	Q1-12	Q4-11	Q3-11	Q2-11	Q1-11
Canada:						
Alberta	98.0%	97.1%	97.4%	97.0%	96.3%	96.3%
British Columbia	91.8%	90.7%	90.6%	96.0%	96.0%	96.4%
Manitoba	96.7%	96.0%	97.0%	96.5%	97.3%	97.0%
Ontario	98.0%	97.5%	95.8%	98.2%	97.9%	94.6%
Saskatchewan	98.5%	98.0%	97.7%	98.0%	97.1%	98.1%
U.S.:						
Minnesota	90.5%	89.8%	90.0%	89.7%	90.0%	89.9%
U.S. - Other	99.2%	99.2%	98.9%	98.9%	98.7%	100.0%
Total portfolio	95.7%	95.0%	95.1%	95.7%	95.6%	95.3%

<sup>(1)</sup> % Committed is based on occupancy and executed leases on vacant units.

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## PORTFOLIO LEASING ACTIVITY AND LEASE EXPIRIES

Artis monitors period-over-period changes in weighted-average rental rates for new and renewal leasing activities. In Q1-12, the weighted-average rental rates on total activity increased by 2.7% compared to flat activity in Q1-11. The weighted-average rental rates on renewal activity decreased 0.4% in Q1-12 compared to an increase of 4.7% in Q1-11.

### Leasing Activity Summary (in 000's of S.F.)

	Three month period ended March 31,			
	2012		2011	
	S.F.	In-Place Rent	S.F.	In-Place Rent
New/renewed	933	\$ 11.31	523	\$ 10.97
Expiring	883	\$ 11.01	532	\$ 10.97
Change		\$ 0.30		\$ -
% Change		2.7%		0.0%
% Change on renewals only		(0.4)%		4.7%

The percentage change on leasing activities and on renewal activity is calculated by comparing the rental rate in place at the end of the expiring term to the rental rate in place at the commencement of the new term. In many cases, leases are negotiated or renewed such that there are contractual rent escalations over the course of the new lease term. In these cases, the average rent over the new term will be higher than the rate at commencement, which is not reflected in the above table results.

### Lease Expiries by Asset Class (in 000's of S.F.) <sup>(1) (2)</sup>

	2012	2013	2014	2015	2016	2017	2018 & later	Total <sup>(3)</sup>
Office								
GLA	482	867	380	570	358	542	3,016	6,507
%	7.4%	13.3%	5.8%	8.8%	5.5%	8.3%	46.4%	37.4%
Retail								
GLA	252	381	359	373	405	245	1,510	3,687
%	6.8%	10.3%	9.7%	10.1%	11.0%	6.6%	41.0%	21.2%
Industrial								
GLA	694	752	1,400	980	964	361	1,544	7,184
%	9.7%	10.5%	19.5%	13.6%	13.4%	5.0%	21.5%	41.4%
Total portfolio								
GLA	1,428	2,000	2,139	1,923	1,727	1,148	6,070	17,378
%	8.2%	11.5%	12.3%	11.1%	9.9%	6.6%	34.9%	100.0%

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

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

<sup>(3)</sup> Excluding vacancies and month-to-month leases.

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## In-Place Rents

In-place rents reflect the actual rental rate in effect for the leasable area as at March 31, 2012. In-place rents do not reflect either the average rate over the term of the lease or the rate in place in the year of expiry.

## Market Rents

Artis reviews market rents across the portfolio on an on-going basis. Market rent estimates are based on management's best estimate for each leasable space and may take into consideration the property manager's revenue budget, recent leasing activity, current prospects, future commitments or publicly available market information. Rates applied in future expiry years do not allow for the impact of inflation, nor do they attempt to factor in anticipated higher (or lower) than normal periods of demand or market rent inflation due to specific market conditions.

## Market Rents and Commitments by Asset Class (in 000's of S.F.) <sup>(1) (2)</sup>

	2012	2013	2014 & later	Total <sup>(3)</sup>
<b>Office</b>				
Commitments	36.4%	25.4%	0.0%	6.8%
In-place rents	\$ 17.90	\$ 18.66	\$ 16.78	\$ 17.13
Market rents	\$ 17.43	\$ 18.72	\$ 18.18	\$ 18.20
Change	(2.6)%	0.3%	8.3%	6.2%
Revenue impact <sup>(4)</sup>	\$ (227)	\$ 52	\$ 6,812	\$ 6,637
<b>Retail</b>				
Commitments	33.9%	7.9%	4.6%	7.5%
In-place rents	\$ 17.65	\$ 19.13	\$ 16.11	\$ 16.54
Market rents	\$ 19.09	\$ 21.07	\$ 17.08	\$ 17.66
Change	8.2%	10.1%	6.0%	6.8%
Revenue impact <sup>(4)</sup>	\$ 363	\$ 739	\$ 2,805	\$ 3,907
<b>Industrial</b>				
Commitments	39.0%	28.4%	4.3%	10.6%
In-place rents	\$ 5.79	\$ 5.30	\$ 7.43	\$ 7.02
Market rents	\$ 6.13	\$ 5.37	\$ 7.43	\$ 7.07
Change	5.9%	1.3%	0.0%	0.7%
Revenue impact <sup>(4)</sup>	\$ 236	\$ 53	\$ -	\$ 289
<b>Total portfolio</b>				
Commitments	37.2%	23.2%	2.8%	8.5%
In-place rents	\$ 11.97	\$ 13.73	\$ 12.86	\$ 12.89
Market rents	\$ 12.23	\$ 14.15	\$ 13.60	\$ 13.55
Change	2.2%	3.1%	5.8%	5.1%
Revenue impact <sup>(4)</sup>	\$ 371	\$ 840	\$ 9,625	\$ 10,836

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

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

<sup>(3)</sup> Total includes vacancies and month-to-month leases.

<sup>(4)</sup> This impact is based on the difference between the in-place rents and the market rents for the period. This excludes the impact of any straight-line rent adjustments on revenues.

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Average in-place rents at March 31, 2012 are estimated to be 5.1% below market across the portfolio (compared to 4.3% at December 31, 2011). Today's in-place rents for the 2012 lease expiries are estimated to be below market by 2.2%, and in-place rents for the 2013 lease expiries are estimated to be below market by 3.1%.

## Lease Expiries by Geographical Region (in 000's of S.F.) <sup>(1) (2)</sup>

	2012	2013	2014	2015	2016	2017	2018 & later	Total <sup>(3)</sup>
Alberta								
GLA	363	625	513	394	761	242	1,993	5,058
%	7.2%	12.4%	10.1%	7.8%	15.0%	4.8%	39.4%	29.1%
British Columbia								
GLA	111	253	176	201	64	136	504	1,607
%	6.9%	15.7%	11.0%	12.5%	4.0%	8.5%	31.4%	9.2%
Manitoba								
GLA	453	543	629	496	342	171	681	3,471
%	13.1%	15.6%	18.1%	14.3%	9.9%	4.9%	19.6%	20.0%
Ontario								
GLA	153	62	347	109	145	63	1,059	1,991
%	7.7%	3.1%	17.4%	5.5%	7.3%	3.2%	53.2%	11.5%
Saskatchewan								
GLA	95	191	90	67	74	20	428	1,001
%	9.5%	19.1%	9.0%	6.7%	7.4%	2.0%	42.8%	5.8%
Minnesota								
GLA	253	316	342	656	341	325	866	3,462
%	7.3%	9.1%	9.9%	18.9%	9.8%	9.4%	25.0%	19.9%
U.S. - Other								
GLA	-	10	42	-	-	191	539	788
%	0.0%	1.3%	5.3%	0.0%	0.0%	24.2%	68.4%	4.5%
Total portfolio								
GLA	1,428	2,000	2,139	1,923	1,727	1,148	6,070	17,378
%	8.2%	11.5%	12.3%	11.1%	9.9%	6.6%	34.9%	100.0%

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

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

<sup>(3)</sup> Total includes vacancies and month-to-month leases.

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## Market Rents and Commitments by Geographical Region (in 000's of S.F.) <sup>(1) (2)</sup>

	2012	2013	2014 & later	Total <sup>(3)</sup>
<b>Alberta</b>				
Commitments	46.5%	8.3%	0.4%	5.6%
In-place rents	\$ 18.00	\$ 19.89	\$ 14.73	\$ 15.63
Market rents	\$ 17.50	\$ 19.65	\$ 16.26	\$ 16.78
Change	(2.8)%	(1.2)%	10.4%	7.4%
Revenue impact <sup>(4)</sup>	\$ (182)	\$ (150)	\$ 5,972	\$ 5,640
<b>British Columbia</b>				
Commitments	46.7%	52.9%	9.3%	18.8%
In-place rents	\$ 16.88	\$ 16.11	\$ 14.73	\$ 15.14
Market rents	\$ 17.38	\$ 17.14	\$ 15.25	\$ 15.75
Change	3.0%	6.4%	3.5%	4.0%
Revenue impact <sup>(4)</sup>	\$ 56	\$ 261	\$ 562	\$ 879
<b>Manitoba</b>				
Commitments	24.6%	37.3%	9.8%	16.3%
In-place rents	\$ 8.35	\$ 7.40	\$ 11.65	\$ 10.51
Market rents	\$ 8.95	\$ 8.06	\$ 12.34	\$ 11.17
Change	7.2%	8.9%	5.9%	6.3%
Revenue impact <sup>(4)</sup>	\$ 272	\$ 358	\$ 1,600	\$ 2,230
<b>Ontario</b>				
Commitments	6.9%	0.0%	0.0%	1.0%
In-place rents	\$ 14.03	\$ 13.05	\$ 11.12	\$ 11.41
Market rents	\$ 14.96	\$ 13.66	\$ 11.03	\$ 11.42
Change	6.6%	4.7%	(0.8)%	0.1%
Revenue impact <sup>(4)</sup>	\$ 142	\$ 38	\$ (155)	\$ 25
<b>Saskatchewan</b>				
Commitments	11.1%	39.6%	2.6%	10.9%
In-place rents	\$ 14.43	\$ 18.68	\$ 14.34	\$ 15.21
Market rents	\$ 15.27	\$ 20.78	\$ 15.16	\$ 16.28
Change	5.8%	11.2%	5.7%	7.0%
Revenue impact <sup>(4)</sup>	\$ 80	\$ 401	\$ 557	\$ 1,038
<b>Minnesota</b>				
Commitments	70.5%	0.0%	0.0%	5.8%
In-place rents	\$ 5.50	\$ 7.17	\$ 8.63	\$ 8.22
Market rents	\$ 5.49	\$ 6.97	\$ 8.75	\$ 8.31
Change	(0.2)%	(2.8)%	1.4%	1.0%
Revenue impact <sup>(4)</sup>	\$ (3)	\$ (63)	\$ 304	\$ 238
<b>U.S. - Other</b>				
Commitments	n/a	0.0%	0.0%	0.0%
In-place rents	n/a	\$ 27.38	\$ 20.85	\$ 20.93
Market rents	n/a	\$ 27.50	\$ 21.85	\$ 21.93
Change	n/a	0.4%	4.8%	4.8%
Revenue impact <sup>(4)</sup>	n/a	\$ 1	\$ 772	\$ 773
<b>Total portfolio</b>				
Commitments	37.2%	23.2%	2.8%	8.5%
In-place rents	\$ 11.97	\$ 13.73	\$ 12.86	\$ 12.89
Market rents	\$ 12.23	\$ 14.15	\$ 13.60	\$ 13.55
Change	2.2%	3.1%	5.8%	5.1%
Revenue impact <sup>(4)</sup>	\$ 371	\$ 840	\$ 9,625	\$ 10,836

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

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

<sup>(3)</sup> Total includes vacancies and month-to-month leases.

<sup>(4)</sup> This impact is based on the difference between the in-place rents and the market rents for the period. This excludes the impact of any straight-line rent adjustments on revenues.



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Artis' real estate is diversified across five Canadian provinces and four U.S. states, and across the office, retail and industrial asset classes. At March 31, 2012, the three largest segments of the REIT's portfolio (by GLA) are Minneapolis industrial properties, Winnipeg industrial properties and Calgary office properties.

Minneapolis industrial properties represent 14.3% of the overall portfolio by GLA. Vacancy in the Minneapolis industrial market, as reported by CBRE, was 7.4% at March 31, 2012, unchanged from 7.4% at December 31, 2011 on positive net absorption of 356,802 square feet. As per CBRE, this was the seventh consecutive quarter of positive absorption for this market. Lease rates are relatively unchanged at \$4.54 per square foot. Occupancy in this segment of the portfolio was 88.3% at March 31, 2012 compared to 89.4% at December 31, 2011. In 2012, 299,672 square feet comes up for renewal, which represents approximately 1.7% of the portfolio's GLA; 59.2% has been renewed or committed to new leases. In 2013, 252,537 square feet comes up for renewal, which represents 1.5% of the portfolio's GLA.

Winnipeg industrial properties represent 10.2% of Artis' portfolio by GLA. Vacancy in the Winnipeg industrial market, as reported by CBRE, was approximately 3.5% at March 31, 2012, a decrease from 3.6% at December 31, 2011. The average net rental rate increased to \$6.32 per square foot, from \$6.21 per square foot last quarter. This is the first time industrial rents have increased since peaking at \$6.45 per square foot in the first quarter of 2011. Occupancy in this segment of the portfolio was 95.0% at March 31, 2012, compared to 98.0% at December 31, 2011. In total, Artis has commitments in place for 20.6% of the unoccupied space. In 2012, 304,091 square feet comes up for renewal, which represents approximately 1.7% of the portfolio's GLA; 22.1% has been renewed or committed to new leases. In 2013, 348,779 square feet comes up for renewal, which represents 2.0% of the portfolio's GLA.

Calgary office properties represent 8.6% of the overall portfolio by GLA. Artis' office properties are Class A, B and C buildings, in downtown, beltline and suburban locations. Overall vacancy in the Calgary office market, as reported by CBRE, was 6.5% at March 31, 2012, compared to 6.5% at December 31, 2011. Tenant demand has been stronger than forecast in both the suburban and downtown markets due largely to the positive impacts of continued capital investment in oil and gas in Alberta. Recent research from CRESA, Avison Young, Colliers and CBRE reflect increased optimism based on positive absorption in both suburban and downtown markets. Management anticipates that as the vacancy continues to decrease, rental rates will continue to increase in 2012. At March 31, 2012, the Calgary office segment of Artis' portfolio was 94.4% occupied, compared to 95.0% occupancy at December 31, 2011. Artis has commitments in place for 35.5% of the unoccupied space. In the remainder of 2012, 180,704 square feet comes up for renewal, which represents 1.1% of the portfolio's GLA; 51.0% has been committed. In 2013, 331,409 square feet comes up for renewal, which represents 1.9% of the portfolio's GLA; 8.2% has been renewed. Approximately 38.0% of the Calgary office GLA expires in 2018 or later.

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

	2012	2013	2014	2015	2016	2017	2018 & later	Total <sup>(3)</sup>
Calgary office								
GLA	181	331	77	62	104	86	569	1,494
%	12.1%	22.2%	5.2%	4.1%	7.0%	5.8%	38.0%	23.0%
Other office								
GLA	301	536	303	508	254	456	2,447	5,013
%	6.0%	10.7%	6.0%	10.1%	5.1%	9.1%	48.8%	77.0%
Total office								
GLA	482	867	380	570	358	542	3,016	6,507
%	7.4%	13.3%	5.8%	8.8%	5.5%	8.3%	46.4%	100.0%

As per recent research from Avison Young, the state of the office leasing market in Calgary has changed rapidly over the past two years. This trend has continued through Q1-12 with the result that Calgary office vacancy dropped again last quarter. Vacancy has declined for two years (to 4.9% city-wide and 3.3% in the downtown core) and record leasing activity has been recorded in this market. Management anticipates these trends will lead to increases in market rent rates that exceed inflation over the coming years. The market rents reported in the below table are reflective of management's estimates for today's market rent rates. They do not allow for the impact of inflation, nor do they attempt to factor in anticipated higher (or lower) than normal periods of demand or market rent inflation due to specific market conditions.

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## Market Rents and Commitments for Calgary Office Segment (in 000's of S.F.) <sup>(1) (2)</sup>

	2012	2013	2014 & later	Total <sup>(3)</sup>
<b>Calgary office</b>				
Commitments	51.0%	8.2%	0.0%	10.0%
In-place rents	\$ 21.44	\$ 24.05	\$ 18.23	\$ 20.01
Market rents	\$ 18.79	\$ 22.40	\$ 22.48	\$ 21.99
Change	(12.4)%	(6.9)%	23.3%	9.9%
Revenue impact <sup>(4)</sup>	\$ (480)	\$ (546)	\$ 3,817	\$ 2,791
<b>Other office</b>				
Commitments	27.6%	36.1%	0.0%	5.8%
In-place rents	\$ 15.78	\$ 15.32	\$ 16.46	\$ 16.29
Market rents	\$ 16.61	\$ 16.44	\$ 17.21	\$ 17.08
Change	5.3%	7.3%	4.6%	4.8%
Revenue impact <sup>(4)</sup>	\$ 250	\$ 600	\$ 2,976	\$ 3,826
<b>Total office</b>				
Commitments	36.4%	25.4%	0.0%	6.8%
In-place rents	\$ 17.90	\$ 18.66	\$ 16.78	\$ 17.13
Market rents	\$ 17.43	\$ 18.72	\$ 18.18	\$ 18.20
Change	(2.6)%	0.3%	8.3%	6.2%
Revenue impact <sup>(4)</sup>	\$ (227)	\$ 52	\$ 6,812	\$ 6,637

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

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

<sup>(3)</sup> Total includes vacancies and month-to-month leases.

<sup>(4)</sup> This impact is based on the difference between the in-place rents and the market rents for the period. This excludes the impact of any straight-line rent adjustments on revenues.

## INTEREST EXPENSE

The current period's interest expense is attributable to mortgages and other loans secured against the investment properties, as well as convertible debentures outstanding. Interest expense of \$21,705 in Q1-12 has increased \$5,030 over Q1-11 due to additional mortgage financing obtained in connection with acquisitions completed in 2011 and 2012, and the issuance of additional convertible debentures in 2011. Financing costs on mortgages and other loans are netted against the related debt, and amortized on an effective interest basis over the expected life of the debt.

The REIT's weighted-average effective rate at March 31, 2012 on mortgages and other debt secured by properties remained at 4.79%, unchanged from December 31, 2011. The weighted-average nominal interest rate at March 31, 2012 was 4.60% compared to 4.61% at December 31, 2011.

Convertible debentures are recorded as a financial liability at fair value. Artis recorded interest expense of \$3,284 on the face value of debentures outstanding in Q1-12, compared to \$2,186 in Q1-11.

The REIT's interest coverage ratio, defined as total revenues less property operating expenses and corporate expenses divided by interest expense, is 2.32 times for the three month period ended March 31, 2012.

## CORPORATE EXPENSE

	Three month period ended March 31,	
	2012	2011
Accounting, legal and consulting	\$ 405	\$ 276
Advisory fees	-	1,305
Public company costs	305	201
Unit-based compensation	1,512	353
Salaries and benefits	654	-
Amortization	88	29
General and administrative	484	349
<b>Total corporate expenses</b>	<b>\$ 3,448</b>	<b>\$ 2,513</b>

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Corporate expenses in Q1-12 were \$3,448, or 4.2% of gross revenues compared to \$2,513, or 4.0% of gross revenues in Q1-11. Corporate expenses are primarily comprised of unit-based compensation, salaries and benefits, professional fees, trustee fees and public company costs. There are no advisory fees in 2012 due to the termination of the asset management agreement with Marwest Realty. As the asset management function has now been internalized, the REIT has expensed corporate salaries and benefits of \$654.

The compensation expense recorded in Q1-12 was \$1,512 compared to \$353 in Q1-11. A liability for unit-based compensation is recognized and measured initially at fair value. The liability is remeasured to fair value at each reporting date and at each settlement date. Any change in the fair value of the liability is recognized as compensation expense for the period. An increase in the value of the REIT's units as well as additional options granted during 2011 has caused an increase in the compensation expense for the period.

## FOREIGN CURRENCY TRANSLATION (GAIN) LOSS

In 2012, the REIT held cash, deposits and the Series G debentures in US dollars. These assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. This resulted in a foreign currency translation gain of \$654 in Q1-12, compared to a loss of \$103 in Q1-11.

## INCOME TAX RECOVERY

The REIT converted its U.S. subsidiary into 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 current taxes of \$1,680 recorded in the first three quarters of 2011 were reversed in Q4-11. 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 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 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 three month period ended March 31, 2012 and the year ended December 31, 2011. As a result, the REIT does not recognize any deferred income tax assets or liabilities for income tax purposes.

## TRANSACTION COSTS

During Q1-12, \$1,315 of transaction costs were expensed compared to \$1,206 in Q1-11. These transaction costs are primarily attributable to the acquisition of investment properties.

## LOSS ON FINANCIAL INSTRUMENTS

In Q1-12, the REIT recorded an unrealized loss on convertible debentures of \$10,705 compared to an unrealized loss of \$4,973 in Q1-11.

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The REIT holds a number of interest rate swaps to effectively lock the interest rate on a portion of floating rate debt. The REIT recorded an unrealized gain on the fair value adjustment of the interest rate swaps outstanding of \$1,608 in Q1-12 compared to an unrealized gain of \$1,155 in Q1-11. The REIT anticipates holding the mortgages and interest rate swap contracts until maturity.

In Q1-12, the REIT entered into a swap contract to exchange US\$25,000 into Canadian funds and recorded an unrealized gain on the fair value adjustment of this contract of \$78.

## UNREALIZED FAIR VALUE GAIN ON INVESTMENT PROPERTIES

The changes in fair value of investment properties, period-over-period, are recognized as fair value gains and losses in the statement of operations. Fair values of the investment properties are determined through a combination of the discounted cash flow method and the overall capitalization method which are generally accepted appraisal methodologies. External valuations are performed quarterly on a rotational basis over a four year cycle. In Q1-12, the fair value gain on investment properties is \$56,871 compared to \$116,160 in Q1-11. Fair value changes in individual properties result from changes in the projected income and cash flow projections of those properties, as well as from changes in cap rates and discount rates applied. From December 31, 2010 to March 31, 2011, the REIT reflected approximately 30 basis points of compression in the weighted-average cap rates across the portfolio, and also reflected increases to expected market rents in several portfolio segments, most notably the Calgary office segment. In comparison, from December 31, 2011 to March 31, 2012, the REIT reflected approximately 12 basis points of compression in the weighted-average cap rates across the portfolio and did not significantly increase or decrease market rents for any market segments.

## OTHER COMPREHENSIVE LOSS

Other comprehensive loss includes the unrealized foreign currency translation loss in Q1-12 of \$3,100 compared to a loss of \$2,069 in Q1-11. Foreign currency translation gains and losses relate to the REIT's net investment in foreign operations in the U.S.

## DISTRIBUTIONS

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

	<b>Three month period ended March 31, 2012</b>	<b>Year ended December 31, 2011</b>	<b>Year ended December 31, 2010</b>
Cash flow from operations	\$ 30,890	\$ 76,494	\$ 24,187
Net income	\$ 75,756	\$ 321,289	\$ 33,224
Distributions declared <sup>(1)</sup>	\$ 26,214	\$ 87,183	\$ 46,503
Excess (shortfall) of cash flow from operations over distributions declared	\$ 4,676	\$ (10,689)	\$ (22,316)
Excess (shortfall) of net income over distributions declared	\$ 49,542	\$ 234,106	\$ (13,279)

<sup>(1)</sup> Excludes distributions recorded in interest expense in 2010.

For the three months ended March 31, 2012, cash flow from operations exceeded distributions declared by \$4,676 and net income exceeded distributions declared by \$49,542.

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## FUNDS FROM OPERATIONS ("FFO")

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

### Reconciliation of Cash Flows from Operations to FFO:

000's, except per unit amounts	Three month period ended March 31,	
	2012	2011
Cash flow from operations	\$ 30,890	\$ 19,610
Add (deduct):		
Depreciation of other assets	(88)	(29)
Amortization of above- and below-market mortgages, net	289	138
Straight-line rent adjustment	1,274	1,148
Unrealized loss on equity securities	-	(493)
Realized foreign currency translation loss	167	31
Unrealized foreign currency loss from U.S. operations	14	1,157
Unit-based compensation expense	(1,512)	(353)
Accretion of financing costs included in interest	(619)	(386)
Employee future benefits	(216)	-
Transaction costs on acquisitions	973	1,206
Additions to tenant inducements	1,542	2,557
Changes in non-cash operating items	(3,166)	(3,111)
<b>FFO for the period</b>	<b>\$ 29,548</b>	<b>\$ 21,475</b>
Add back:		
Transaction costs <sup>(1)</sup>	342	-
Current tax recovery	-	(74)
Loss on equity securities	-	193
<b>FFO for the period after adjustments</b>	<b>\$ 29,890</b>	<b>\$ 21,594</b>
FFO per unit		
Basic	\$ 0.32	\$ 0.28
Diluted	\$ 0.31	\$ 0.28
FFO per unit after adjustments		
Basic	\$ 0.32	\$ 0.29
Diluted	\$ 0.31	\$ 0.28
Weighted-average number of units:		
Basic <sup>(2)</sup>	93,657	75,613
Diluted <sup>(2)</sup>	105,632	85,209

<sup>(1)</sup> Transaction costs added back are one time professional fees related to internalization and corporate matters.

<sup>(2)</sup> Options and convertible debentures are factored into the diluted weighted-average calculation used for FFO, to the extent that their impact is dilutive.

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The following is a reconciliation of the weighted-average number of basic units to diluted units and FFO to diluted FFO:

## Diluted units reconciliation

	Three month period ended March 31,	
	2012	2011
Basic units	93,657	75,613
Add:		
Debentures <sup>(1)</sup>	11,975	9,596
Diluted units	105,632	85,209

## Diluted FFO reconciliation

	Three month period ended March 31,	
	2012	2011
FFO	\$ 29,548	\$ 21,475
Add:		
Debentures <sup>(1)</sup>	2,906	2,177
Diluted FFO	\$ 32,454	\$ 23,652

<sup>(1)</sup> All debenture series are dilutive in Q1-12 and Q1-11.

## Reconciliation of GAAP Income to FFO:

	Three month period ended March 31,	
	2012	2011
Income for the period	\$ 75,756	\$ 132,021
Add amortization on:		
Tenant inducements amortized to revenue	1,325	1,020
Add (deduct):		
Gain on disposal of investment properties	-	(255)
Deferred tax recovery	-	(49)
Unrealized fair value gain on investment properties	(56,871)	(116,160)
Foreign currency translation (gain) loss	(654)	103
Transaction costs on acquisitions	973	1,206
Unrealized loss on financial instruments	9,019	3,589
FFO for the period	\$ 29,548	\$ 21,475
Add back:		
Transaction costs <sup>(1)</sup>	342	-
Current tax recovery	-	(74)
Loss on equity securities	-	193
FFO for the period after adjustments	\$ 29,890	\$ 21,594

<sup>(1)</sup> Transaction costs added back are one time professional fees related to internalization and corporate matters.

In Q1-12, FFO has increased \$8,073 or 37.6% over Q1-11. This increase is primarily attributed to acquisitions completed in 2011 and 2012. Basic FFO per unit has increased by \$0.04 or 14.3% over Q1-11. On a diluted basis, FFO per unit has increased \$0.03, or 10.7% over Q1-11.

During 2011, the REIT converted its U.S. subsidiary into a REIT for U.S. income tax purposes. The current tax expense recorded in the first three quarters of 2011 was reversed in Q4-11. The current tax recovery has been excluded from the calculation of adjusted FFO. In Q1-12, adjusted FFO has increased \$8,296, or 38.4% over Q1-11. Adjusted basic FFO per unit has increased by \$0.03 or 10.3%. Adjusted diluted FFO per unit has increased by \$0.03 or 10.7%.

As a result of units issued under the DRIP, units issued from public offerings, and conversion of convertible debentures, basic units outstanding for the calculation of FFO has substantially increased. This increase has diluted the impact of strong growth in FFO on per unit results. Management anticipates there will be further growth in FFO as acquisitions completed in 2011 and 2012 contribute to operating results.

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## ANALYSIS OF FINANCIAL POSITION

### ASSETS

	March 31, 2012	December 31, 2011	Increase (decrease)
Non-current assets:			
Investment properties and investment properties under construction	\$ 3,195,031	\$ 3,024,067	\$ 170,964
Other non-current assets	23,946	24,063	(117)
Current assets:			
Cash, cash equivalents and cash held in trust	156,596	95,133	61,463
Other current assets	34,822	24,325	10,497
	\$ 3,410,395	\$ 3,167,588	\$ 242,807

### Investment properties and investment properties under construction:

The increase in investment properties and investment properties under construction is a result of the following:

	Investment properties	Investment properties under construction	Total
Balance, December 31, 2011	\$ 3,003,604	\$ 20,463	\$ 3,024,067
Additions:			
Acquisitions	113,069	246	113,315
Capital expenditures	917	5,350	6,267
Leasing costs	781	-	781
Net change to tenant inducements	217	-	217
Reclassification of investment property under construction	15,641	(15,641)	-
Unrealized fair value gain	56,405	466	56,871
Foreign currency translation loss	(7,705)	(56)	(7,761)
Straight-line rent adjustment	1,274	-	1,274
Balance, March 31, 2012	\$ 3,184,203	\$ 10,828	\$ 3,195,031

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During the three month period ended March 31, 2012, the following 3 commercial properties were acquired:

Property	Location	GLA	Acquisition Date	Type
North 48 Commercial Complex	Saskatoon, SK	63,571	January 31, 2012	Office
Aluma Systems Building	Edmonton, AB	65,000	February 24, 2012	Industrial
GSA Phoenix Professional Building	Phoenix, AZ	210,202	March 29, 2012	Office

On March 20, 2012, the REIT entered into a 50% joint venture agreement for the Centrepoint development project located in Winnipeg, Manitoba.

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

	Three month period ended March 31,	
	2012	2011
Cash consideration	\$ 46,166	\$ 58,252
Long-term debt, net of deferred financing costs	67,149	74,963
Investment properties and investment properties under construction	\$ 113,315	\$ 133,215

Investment properties include certain capital expenditures related to sustaining building improvements not related to a specific lease or tenancy. Capital expenditures, including tenant improvements, in Q1-12 totaled \$6,267 compared to \$4,544 in Q1-11. Revenue enhancing capital expenditures of \$5,441 were incurred in Q1-12 primarily relating to construction of new buildings on retail and office properties in Winnipeg, Manitoba, an industrial property in Edmonton, Alberta and an industrial property in Minneapolis, Minnesota. The remaining \$826 of capital expenditures primarily relate to elevator modernizations, HVAC unit replacements, and roof replacements. Approximately \$783 of these capital expenditures are recoverable from tenants in future periods.

In Q1-12, Artis incurred \$2,323 of tenant inducements and leasing costs compared to \$3,939 in Q1-11. Tenant inducements include costs incurred to improve the space that primarily benefit the tenant, as well as allowances paid to tenants. Leasing costs are primarily brokers' commissions.

	Three month period ended March 31,	
	2012	2011
Tenant inducements	\$ 1,542	\$ 2,557
Leasing commissions	781	1,382
Total	\$ 2,323	\$ 3,939

The construction of a new parkade ancillary to an existing portfolio office property in Winnipeg, Manitoba and the new industrial building in Minneapolis, Minnesota were completed in Q1-12 and have been reclassified from investment properties under construction to investment properties.



# ARTIS REAL ESTATE INVESTMENT TRUST

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In Q1-12, the REIT recorded a gain on the fair value of investment properties of \$56,871. In Q1-11, the REIT recorded a gain of \$116,160 primarily due to capitalization rate compression. Artis determines 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. Capitalization rates are estimated using market surveys, available appraisals and market comparables. Under the overall capitalization method, year one income is stabilized and capitalized at a rate deemed appropriate for each investment property. Individual properties were valued using capitalization rates in the range of 5.75% to 8.50%. Additional information on the average capitalization rates and ranges used for the portfolio properties, assuming all properties were valued using an overall capitalization method, broken out by asset class and country are set out in the table below.

	March 31, 2012			December 31, 2011		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Office:						
U.S.	8.50%	7.25%	7.51%	8.50%	7.00%	7.67%
Canada	8.00%	5.75%	6.52%	9.00%	5.50%	6.71%
Office total	8.50%	5.75%	6.70%	9.00%	5.50%	6.86%
Industrial:						
U.S.	8.00%	6.75%	7.16%	9.00%	7.00%	7.47%
Canada	8.25%	6.25%	6.84%	9.00%	6.00%	7.03%
Industrial total	8.25%	6.25%	6.92%	9.00%	6.00%	7.14%
Retail:						
U.S.	8.25%	6.50%	7.42%	8.50%	6.50%	7.58%
Canada	7.50%	6.00%	6.75%	8.00%	5.50%	6.71%
Retail total	8.25%	6.00%	6.77%	8.50%	5.50%	6.74%
Total:						
U.S. portfolio	8.50%	6.50%	7.39%	9.00%	6.50%	7.59%
Canadian portfolio	8.25%	5.75%	6.65%	9.00%	5.50%	6.77%
Total portfolio	8.50%	5.75%	6.77%	9.00%	5.50%	6.89%

In Q1-12, the foreign currency translation loss was \$7,761 due to the change in the period end exchange rate from 1.0170 at December 31, 2011 to 0.9991 at March 31, 2012.

## Notes receivable:

In conjunction with the 2007 acquisition of TransAlta Place, the REIT acquired a note receivable in the amount of \$31,000. The note bears interest at 5.89% per annum and is repayable in varying blended monthly installments of principal and interest. The note is transferable at the option of the REIT and matures in May 2023. The REIT also has a note receivable arising from the disposition of investment properties. The balance outstanding on all notes receivable at March 31, 2012 is \$25,162 compared to \$25,437 at December 31, 2011.

## Cash and cash equivalents:

At March 31, 2012, the REIT had \$154,520 of cash and cash equivalents on hand, compared to \$94,094 at December 31, 2011. The balance is anticipated to be invested in investment properties in subsequent periods, used for working capital purposes or for debt repayment. All of the REIT's cash and cash equivalents are held in current accounts and/or bank guaranteed investment certificates.

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## LIABILITIES

	March 31, 2012	December 31, 2011	Increase (decrease)
Non-current liabilities:			
Mortgages and loans payable	\$ 1,397,127	\$ 1,428,334	\$ (31,207)
Convertible debentures	212,055	235,746	(23,691)
Other non-current liabilities	292	78	214
Current liabilities:			
Current portion of mortgages and loans payable	227,087	139,065	88,022
Bank indebtedness	-	37,900	(37,900)
Other current liabilities	65,622	56,650	8,972
	\$ 1,902,183	\$ 1,897,773	\$ 4,410

Long-term debt is comprised of mortgages and other loans related to properties as well as the carrying value of convertible debentures issued by the REIT. Convertible debentures are recorded as a liability at fair value.

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

In connection with the U.S. restructuring, a subsidiary of the REIT issued US\$77 of preferred shares. The REIT has included these in the calculation of GBV as a liability.

Artis' mortgages, loans and bank indebtedness to GBV ratio at March 31, 2012 was 47.6%, compared to 50.7% at December 31, 2011.

	March 31, 2012	December 31, 2011
GBV	\$ 3,410,836	\$ 3,167,941
Mortgages, loans and bank indebtedness	1,624,214	1,605,299
Mortgages, loans and bank indebtedness to GBV	47.6 %	50.7 %
Preferred share liabilities	\$ 76	\$ 78
Carrying value of convertible debentures	212,055	235,746
Total long-term debt and bank indebtedness	1,836,345	1,841,123
Total long-term debt and bank indebtedness to GBV	53.8 %	58.1 %

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

Artis REIT has an internal policy of maintaining a total debt to GBV ratio of 70% or lower. In the event that the REIT issues Preferred Units, the Trustees have approved a guideline stipulating that for purposes of calculating this ratio, Preferred Units would be included in the debt component of the calculation.

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## Mortgages and loans payable:

Artis finances acquisitions in part through the arrangement or assumption of mortgage financing and consequently, substantially all of the REIT's investment properties are pledged as security under mortgages and other loans. In Q1-12, \$8,941 of principal repayments were made compared to \$6,308 in Q1-11.

During Q1-12, long-term debt added on acquisition of investment properties was \$67,149 and the balance drawn on the line of credit was repaid. Artis also repaid the balance of two maturing mortgages for \$10,919 and refinanced one of the properties with a new mortgage of \$13,860.

At March 31, 2012, the REIT is a party to \$356,127 of variable rate debt (December 31, 2011, \$386,388, including the outstanding balance of bank indebtedness). At March 31, 2012, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$78,475 of variable rate debt (December 31, 2011, \$65,061). The variable rate debt less the portion protected by interest rate swaps is \$277,652 or 15.1% of total debt. The amount of variable rate debt on properties in the U.S. is \$249,388, which is not protected by interest rate swaps. Management is of the view that the interest rates in the U.S. are less likely to increase in the near term and interest rate swaps can be placed on top of these loans at any time.

The weighted-average term to maturity at March 31, 2012 is 4.5 years, compared to 4.0 years at December 31, 2011.

## Convertible debentures:

Artis has four series of convertible debentures outstanding as at March 31, 2012, as follows:

	Issued	Maturity	Face rate	March 31, 2012		December 31, 2011	
				Carrying value	Face value	Carrying value	Face value
Series C	4-May-06	31-May-13	6.25%	\$ -	\$ -	\$ 30,593	\$ 29,920
Series D	30-Nov-07	30-Nov-14	5.00%	17,318	17,000	17,230	17,000
Series E	9-July-09	30-June-14	7.50%	12,877	7,552	14,093	9,333
Series F	22-Apr-10	30-June-20	6.00%	92,268	86,240	87,932	86,250
Series G	21-Apr-11	30-June-18	5.75%	89,592	87,921	85,898	89,496
				\$ 212,055	\$ 198,713	\$ 235,746	\$ 231,999

The carrying value of convertible debentures has decreased by \$23,691 from December 31, 2011. This decrease is primarily due to the redemption of the Series C debentures and the conversion of Series E debentures offset by a net increase in the fair value of the debentures.

## Other liabilities and bank indebtedness:

Included in other liabilities are security deposits paid by tenants, rents prepaid by tenants at March 31, 2012, accounts payable and accruals, as well as the March 31, 2012 distribution payable to unitholders of \$9,148, subsequently paid on April 13, 2012. Bank indebtedness relates to the balance drawn on the REIT's revolving term credit facility. At March 31, 2012, there was no balance drawn on the credit facility. Amounts drawn on the facility bear interest at a floating rate equal to Canadian dollar bankers' acceptances with a term to maturity of 30 days, plus 3.30% per annum.

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## UNITHOLDERS' EQUITY

Unitholders' equity increased overall by \$238,397 between March 31, 2012 and December 31, 2011. The increase was due to the issuance of units for \$188,934, the conversion of convertible debentures for \$3,021, and income for the period of \$75,756. This increase was offset by the distributions made to unitholders of \$26,214 and other comprehensive loss for the period of \$3,100.

## LIQUIDITY AND CAPITAL RESOURCES

In Q1-12, Artis generated \$30,890 of cash flows from operating activities. Cash flows from operations assisted in funding distributions to unitholders of \$25,065 and for principal repayments on mortgages and loans of \$8,941.

Cash of \$8,590 was used for capital expenditures, tenant inducements and leasing costs compared to \$8,483 in Q1-11.

At March 31, 2012, Artis had \$154,520 of cash and cash equivalents on hand. Management anticipates that the cash on hand will be invested in investment properties in subsequent periods, used for working capital purposes or for debt repayment.

Artis has a revolving term credit facility for a total amount of \$60,000 which may be utilized to fund acquisitions of office, retail and industrial properties. \$5,000 of the credit facility may be utilized for general corporate purposes. The credit facility matures on September 28, 2012. As at March 31, 2012, the REIT has no balance drawn on its credit facility.

To its knowledge, Artis is not in default or arrears on any of its obligations, including distributions to unitholders, interest or principal payments on debt or any debt covenants for the period ended March 31, 2012.

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

## CONTRACTUAL OBLIGATIONS

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Accounts payable and other liabilities	\$ 47,756	\$ 47,756	\$ -	\$ -	\$ -
Mortgages, loans and bank indebtedness	1,627,742	228,174	435,963	600,366	363,239
Convertible debentures <sup>(1)</sup>	198,713	-	24,552	-	174,161
<b>Total</b>	<b>\$ 1,874,211</b>	<b>\$ 275,930</b>	<b>\$ 460,515</b>	<b>\$ 600,366</b>	<b>\$ 537,400</b>

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

At March 31, 2012, obligations due within one year include \$47,756 of accounts payable and other liabilities, \$193,855 of mortgages, and principal repayments on mortgages of \$34,319.

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## SUMMARIZED QUARTERLY INFORMATION

\$000's, except per unit amounts

	Q1-12	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10
Revenue	\$ 82,132	\$ 82,940	\$ 78,427	\$ 65,887	\$ 63,258	\$ 55,924	\$ 46,184	\$ 39,216
Property operating expenses	29,290	30,779	29,316	23,358	24,246	21,253	16,256	12,885
Property NOI	52,842	52,161	49,111	42,529	39,012	34,671	29,928	26,331
Interest income	876	517	599	714	750	914	668	515
	53,718	52,678	49,710	43,243	39,762	35,585	30,596	26,846
Expenses (income):								
Interest	21,705	21,943	21,336	18,988	16,675	15,617	14,443	17,110
Corporate	3,448	3,306	2,663	2,573	2,513	1,983	2,536	1,422
Foreign currency translation (gain) loss	(654)	(1,941)	5,131	(2,025)	103	2,488	553	(96)
	24,499	23,308	29,130	19,536	19,291	20,088	17,532	18,436
Income before other items	\$ 29,219	\$ 29,370	\$ 20,580	\$ 23,707	\$ 20,471	\$ 15,497	\$ 13,064	\$ 8,410
Income tax recovery (expense)	-	10,707	(7,700)	(2,661)	123	(298)	-	-
Gain on disposal of investment properties	-	-	481	-	255	-	-	-
Transaction costs	(1,315)	(4,439)	(1,684)	(9,122)	(1,206)	(6,672)	(4,286)	(7,259)
Gain (loss) on financial instruments	(9,019)	(15,815)	16,785	(875)	(3,782)	4,841	(14,525)	16,155
Unrealized fair value gain on investment properties	56,871	46,916	35,043	47,975	116,160	11,214	14,434	11,188
Income for the period	\$ 75,756	\$ 66,739	\$ 63,505	\$ 59,024	\$132,021	\$ 24,582	\$ 8,687	\$ 28,494
Other comprehensive income (loss):								
Unrealized foreign currency translation gain (loss)	\$ (3,100)	\$ (2,967)	\$ 10,497	\$ (2,278)	\$ (2,069)	\$ (126)	\$ (184)	\$ -
Comprehensive income for the period	\$ 72,656	\$ 63,772	\$ 74,002	\$ 56,746	\$129,952	\$ 24,456	\$ 8,503	\$ 28,494
Basic income per unit	\$ 0.81	\$ 0.79	\$ 0.76	\$ 0.77	\$ 1.75	\$ 0.33	\$ 0.14	\$ 0.57
Diluted income per unit	\$ 0.80	\$ 0.79	\$ 0.49	\$ 0.69	\$ 1.63	\$ 0.30	\$ 0.14	\$ 0.47

The quarterly trend has been impacted by acquisition and disposition activity. Management anticipates there will be further growth in revenues and Property NOI as acquisitions completed in 2011 and 2012 contribute to operating results.

# ARTIS REAL ESTATE INVESTMENT TRUST

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## Reconciliation of GAAP Income to FFO:

000's, except per unit amounts	Q1-12	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10
Income for the period	\$ 75,756	\$ 66,739	\$ 63,505	\$ 59,024	\$ 132,021	\$ 24,582	\$ 8,687	\$ 28,494
Add amortization on:								
Tenant inducements amortized into revenue	1,325	1,246	1,199	1,094	1,020	950	904	483
Unrealized (gain) loss on financial instruments	9,019	15,917	(16,829)	720	3,589	(3,272)	14,525	(16,155)
Transaction costs on acquisitions	973	449	1,677	5,489	1,206	6,672	4,286	3,505
Unrealized fair value gain on investment properties	(56,871)	(46,916)	(35,043)	(47,975)	(116,160)	(11,214)	(14,434)	(11,188)
Distributions paid, included in interest	-	-	-	-	-	-	-	4,484
Gain on disposal of investment properties	-	-	(481)	-	(255)	-	-	-
Deferred tax expense (recovery)	-	(8,997)	6,817	1,790	(49)	201	-	-
Foreign currency translation (gain) loss	(654)	(1,941)	5,131	(2,025)	103	2,488	553	(96)
<b>FFO for the period</b>	<b>\$ 29,548</b>	<b>\$ 26,497</b>	<b>\$ 25,976</b>	<b>\$ 18,117</b>	<b>\$ 21,475</b>	<b>\$ 20,407</b>	<b>\$ 14,521</b>	<b>\$ 9,527</b>
Add back:								
Transaction costs <sup>(1)</sup>	342	4,000	-	-	-	-	-	-
Convertible debentures financing costs	-	(10)	7	3,633	-	-	-	3,754
Current tax expense (recovery)	-	(1,710)	883	871	(74)	97	-	-
(Gain) loss on equity securities	-	(102)	44	154	193	(1,569)	-	-
<b>FFO for the period after adjustments</b>	<b>\$ 29,890</b>	<b>\$ 28,675</b>	<b>\$ 26,910</b>	<b>\$ 22,775</b>	<b>\$ 21,594</b>	<b>\$ 18,935</b>	<b>\$ 14,521</b>	<b>\$ 13,281</b>
FFO per unit								
Basic	\$ 0.32	\$ 0.31	\$ 0.31	\$ 0.24	\$ 0.28	\$ 0.28	\$ 0.24	\$ 0.19
Diluted	\$ 0.31	\$ 0.31	\$ 0.30	\$ 0.24	\$ 0.28	\$ 0.27	\$ 0.24	\$ 0.19
FFO per unit after adjustments								
Basic	\$ 0.32	\$ 0.34	\$ 0.32	\$ 0.30	\$ 0.29	\$ 0.26	\$ 0.24	\$ 0.27
Diluted	\$ 0.31	\$ 0.33	\$ 0.31	\$ 0.29	\$ 0.28	\$ 0.25	\$ 0.24	\$ 0.26
Weighted-average number of units:								
Basic <sup>(2)</sup>	93,657	84,172	83,380	76,173	75,613	74,012	60,493	50,097
Diluted <sup>(2)</sup>	105,632	98,073	97,400	83,929	85,209	82,039	68,808	52,548

<sup>(1)</sup> Transaction costs added back in Q1-12 are one time professional fees related to internalization and corporate matters. On October 31, 2011, the REIT took over the property management operations for several of its properties in Winnipeg, Manitoba and paid a termination fee of \$4,000 to the prior third party property management company.

<sup>(2)</sup> Options and convertible debentures are factored into the diluted weighted-average calculation, to the extent that their impact is dilutive.

The quarterly trend has been impacted by acquisition and disposition activity. Management anticipates there will be further growth in FFO as acquisitions completed in 2011 and 2012 contribute to operating results.

# ARTIS REAL ESTATE INVESTMENT TRUST

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## RELATED PARTY TRANSACTIONS

	Three month period ended March 31,	
	2012	2011
Advisory fees	\$ -	\$ 1,305
Acquisition fees	552	659
Property management fees	80	2,341
Recoverable property management salaries and wages	-	970
Capitalized office furniture and fixtures	1,243	-
Capitalized office equipment	343	-
Capitalized leasing commissions	36	332
Capitalized building improvements	3,395	4,387
Capitalized tenant inducements	360	442
Property tax assessment consulting fees	182	3
Consulting fees	-	25
Legal fees	928	252

Effective January 1, 2012, the REIT internalized its asset and property management functions. The asset management agreement with Marwest Realty, a company owned and controlled by certain trustees and officers of the REIT, was terminated effective December 31, 2011. No fees or penalties were paid to Marwest Realty upon termination of this agreement. On December 31, 2011, the omnibus property management agreement was assigned to the REIT from Marwest Management, a company owned and controlled by certain trustees and officers of the REIT, which encompasses all investment properties owned by the REIT. No fees or penalties were paid to Marwest Management upon assignment of this agreement.

Prior to the termination of the asset management agreement, Marwest Realty was 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. Acquisition fees incurred during the three months ended March 31, 2012 relate to acquisitions which were unconditional prior to the termination of the agreement. The REIT was obligated to pay Marwest Realty for services provided in respect to these acquisitions. The amount payable at March 31, 2012 is \$375 (December 31, 2011, \$567). As at March 31, 2012, there are no further outstanding obligations related to this agreement.

The REIT incurred property management fees, leasing commission fees and tenant improvement fees under property management agreements with Marwest Management for three properties owned by the REIT. The amount payable at March 31, 2012 is \$9.

On January 1, 2012, the REIT entered into a one-year leasing services agreement with Marwest Management. The amount payable at March 31, 2012 is \$nil.

Prior to the assignment of the property management agreement, the agreement entitled Marwest Management to property management fees, recoverable property management salaries and wages, leasing commission fees, and tenant improvement fees. The amount payable at December 31, 2011 was \$1,949.

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 March 31, 2012 is \$1,012 (December 31, 2011, \$354).

The REIT purchased \$1,243 of office furniture and fixtures and \$343 of office equipment from Marwest Management.

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 March 31, 2012 is \$nil (December 31, 2011, \$13).

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 March 31, 2012 is \$1,061 (December 31, 2011, \$200).

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.

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## OUTSTANDING UNIT DATA

The balance of units outstanding as of May 9, 2012 is as follows:

Units outstanding at March 31, 2012	101,643,304
Units issued (DRIP)	78,259
Units issued on exercise of options	4,825
Units issued on conversion of debentures	20,535
	<hr/>
Units outstanding at May 9, 2012	101,746,923

The balance of options outstanding as of May 9, 2012 is as follows:

	Options outstanding	Options exercisable
\$11.28 options, issued February 25, 2010	223,750	89,375
\$13.30 options, issued September 10, 2010	388,050	92,550
\$13.44 options, issued October 15, 2010	388,500	93,000
\$14.10 options, issued June 17, 2011	1,126,000	-
\$16.36 options, issued April 13, 2012	1,847,500	-
	<hr/>	<hr/>
	3,973,800	274,925

## 2012 OUTLOOK

According to the Scotiabank Global Economic Research report of May 2012, real GDP in Canada is forecast to grow 2.1% in 2012. Forecast GDP growth for the Canadian provinces where Artis owns properties is also positive, as follows: Manitoba, 2.2%; Saskatchewan, 2.8%; Alberta, 3.2%; British Columbia, 2.2% and Ontario, 1.8%. Artis has also selectively diversified into geographical areas where GDP growth is anticipated to be strong.

Artis anticipates that 2012 will be another year of significant portfolio growth. We continue to target high quality retail, office and industrial assets primarily in western Canada, as well as in Ontario and select markets in the U.S. Access to capital is expected to remain strong as investors continue to seek investment products with a stable distribution yield, such as REIT units. We also expect to continue enjoying the benefits of a stable, low interest-rate environment. In this environment, Artis expects that a minimum of \$600,000 of accretive acquisitions in our established markets will be completed in 2012. We remain committed to growing our portfolio while slowly reducing our overall debt to gross book value ratio over the course of the year. Economic fundamentals remain strong, which we anticipate will translate into solid same property growth and improvements in market rent rate expectations in certain key markets, such as Calgary office and Minneapolis industrial, and stable or improving occupancy across the portfolio.

As at March 31, 2012, Artis had \$154,520 of cash and cash equivalents on hand and \$60,000 available on the line of credit. Subsequent to March 31, 2012, the following transactions took place:

- On April 2, 2012, the REIT obtained new 10-year mortgage financing for the North 48 Commercial Complex of \$13,000, which bears interest at a rate of 4.18% per annum.
- On April 4, 2012, the REIT obtained new 10-year mortgage financing for the Aluma Systems Building of \$11,115, which bears interest at a rate of 4.30% per annum.
- On April 13, 2012, the REIT granted to its Trustees, management and staff, options to acquire an aggregate of 1,849,500 units at an exercise price of \$16.36, being the closing trading price of the units on the exchange on the date of the grant.
- On April 16, 2012, the REIT acquired an additional 25% interest in Westbank Hub Centre North. The additional ownership interest was acquired for \$12,440 and the purchase price was satisfied with a combination of cash and an additional 25% interest in the existing mortgage financing.



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- On April 23, 2012, the REIT acquired the Linden Ridge Shopping Centre which is located in Winnipeg, Manitoba. The retail property was acquired for \$32,000 and the purchase price was satisfied through a combination of cash and new mortgage financing.
- On April 30, 2012, the REIT acquired Crowfoot Corner which is located in Calgary, Alberta. The retail property was acquired for \$35,500 and the purchase price was satisfied through a combination of cash and new mortgage financing.
- On April 30, 2012, the REIT acquired Trimac House which is located in Calgary, Alberta. The office property was acquired for \$100,907 and the purchase price was satisfied through a combination of cash and new mortgage financing.
- On May 7, 2012, the REIT announced it has entered into an agreement to sell to a syndicate of underwriters, on a bought deal basis, 6,100,000 units at a price of \$16.50 for aggregate gross proceeds of \$100,650. The REIT has also granted the underwriters an option to purchase a further 915,000 units at a price of \$16.50.
- The REIT entered into agreements with respect to the acquisition of properties located in British Columbia and Calgary. The total purchase price of the properties is \$191,060. The REIT anticipates that the acquisitions will close in June and November of 2012, and will be financed through a combination of cash consideration and either existing or new mortgage financing.
- Distributions in the amount of \$0.09 per unit for April 2012 was declared subsequent to March 31, 2012.

## RISKS AND UNCERTAINTIES

### REAL ESTATE OWNERSHIP

All real property investments are subject to elements of risk. General economic conditions, local real estate markets, supply and demand for leased premises, competition from other available premises and various other factors affect such investments. The REIT's properties are located in five Canadian provinces and four U.S. states, with a significant majority of its properties, measured by GLA, located in the province of Alberta. As a result, our properties are impacted by factors specifically affecting their respective real estate markets. These factors may differ from those affecting the real estate markets in other regions of Canada and the U.S.

### INTEREST RATE AND DEBT FINANCING

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

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

Artis is also subject to interest rate risk associated with the REIT's revolving term credit facility, mortgages and unsecured debentures payable due to the expected requirement to refinance such debts in the year of maturity. The REIT minimizes the risk by restricting debt to 70% of gross book value and by limiting the amount of variable rate debt. The REIT has the majority of its mortgage payable and debentures in fixed rate terms. At March 31, 2012, the REIT is a party to \$356,127 of variable rate debt (December 31, 2010, \$386,388, including the outstanding balance of bank indebtedness). At March 31, 2012, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$78,475 of variable rate debt (December 31, 2010, \$65,061).

The REIT's ratio of mortgages, loans and bank indebtedness to GBV is 47.6%, down from 50.7% at December 31, 2010. Approximately 7.1% of Artis' maturing mortgage debt comes up for renewal in 2012, and 13.0% in 2013. Management is in discussion with various lenders with respect to the renewal or refinancing of the 2012 mortgage maturities.

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## CREDIT RISK AND TENANT CONCENTRATION

Artis is exposed to risk as tenants may be unable to pay their contracted rents. Management mitigates this risk by seeking to acquire properties across several asset classes. As well, management seeks to acquire properties with strong tenant covenants in place. Artis' portfolio includes over 1,780 tenant leases with a weighted-average term to maturity of 5.7 years. Approximately 63.7% of the REIT's portfolio was occupied by national or government tenants. As indicated below, the largest tenant by gross revenue is MTS Allstream, one of Canada's leading national communication companies providing voice services, internet and data services, and television. MTS Allstream is a TSX listed entity with 2011 annual revenues in excess of \$1.7 billion. The second largest tenant by gross revenue is AMEC Americas Ltd, a global supplier of consultancy, engineering and project management services to energy, power and process industries with a market capitalization of over £3.5 billion.

### Top Twenty Tenants By Gross Revenue

Tenant	% of Total Gross Revenue	GLA (in 000's of S.F.)	% of Total GLA	Weighted-Average Remaining Lease Term
MTS Allstream	2.7 %	322	1.9 %	10.9
AMEC Americas Ltd.	2.5 %	200	1.2 %	1.4
TransAlta Corporation	1.5 %	336	1.9 %	11.2
Shoppers Drug Mart	1.2 %	136	0.8 %	6.1
IHS Energy (Canada) Ltd.	1.1 %	78	0.4 %	5.6
Sobeys	1.1 %	191	1.1 %	8.9
Fairview Health Services	1.1 %	179	1.0 %	11.4
TD Bank	1.1 %	118	0.7 %	8.1
PMC - Sierra	1.1 %	148	0.9 %	4.2
CB Richard Ellis	1.1 %	106	0.6 %	6.5
Home Depot	1.0 %	95	0.5 %	7.5
3M Canada Company	1.0 %	319	1.8 %	8.0
Birchcliff Energy	1.0 %	59	0.3 %	5.7
ABB Body-In-White	1.0 %	318	1.8 %	2.5
Bell Canada	0.9 %	76	0.4 %	4.2
Credit Union Central	0.8 %	86	0.5 %	9.8
Cineplex Entertainment LP	0.8 %	108	0.6 %	10.7
Sports Alliance of Ontario	0.8 %	85	0.5 %	12.2
Data Sciences International	0.8 %	116	0.7 %	8.3
Q9 Networks Inc.	0.7 %	35	0.2 %	4.4
<b>Total</b>	<b>23.3 %</b>	<b>3,111</b>	<b>17.8 %</b>	<b>7.6</b>

### Government Tenants By Gross Revenue

Tenant	% of Total Gross Revenue	GLA (in 000's of S.F.)	% of Total GLA	Weighted-Average Remaining Lease Term
Federal Government	4.8 %	517	3.0 %	10.1
Provincial Government	2.9 %	320	1.9 %	3.1
Civic or Municipal Government	0.7 %	122	0.7 %	15.1
<b>Total</b>	<b>8.4 %</b>	<b>959</b>	<b>5.6 %</b>	<b>8.4</b>

Weighted-average term to maturity (entire portfolio)

5.7

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## LEASE ROLLOVER RISK

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

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

Expiry Year	Canada					Calgary Office Only	U.S.		Total
	AB	BC	MB	SK	ON		MN	Other	
2012	2.1 %	0.6 %	2.6 %	0.5 %	0.9 %	1.1 %	1.5 %	0.0 %	8.2 %
2013	3.6 %	1.4 %	3.1 %	1.1 %	0.4 %	1.9 %	1.8 %	0.1 %	11.5 %
2014	2.9 %	1.0 %	3.6 %	0.6 %	2.0 %	0.4 %	2.0 %	0.2 %	12.3 %
2015	2.3 %	1.2 %	2.9 %	0.4 %	0.6 %	0.4 %	3.7 %	0.0 %	11.1 %
2016	4.4 %	0.4 %	2.0 %	0.4 %	0.8 %	0.6 %	1.9 %	0.0 %	9.9 %
2017	1.4 %	0.7 %	1.0 %	0.1 %	0.4 %	0.5 %	1.9 %	1.1 %	6.6 %
2018 & later	11.5 %	2.9 %	3.8 %	2.5 %	6.1 %	3.3 %	5.0 %	3.1 %	34.9 %
Month-to-month	0.1 %	0.1 %	0.1 %	0.1 %	0.0 %	0.0 %	0.1 %	0.0 %	0.5 %
Vacant	0.8 %	0.9 %	0.9 %	0.1 %	0.3 %	0.5 %	2.0 %	0.0 %	5.0 %
<b>Total</b>	<b>29.1 %</b>	<b>9.2 %</b>	<b>20.0 %</b>	<b>5.8 %</b>	<b>11.5 %</b>		<b>19.9 %</b>	<b>4.5 %</b>	<b>100.0 %</b>

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

In total, 70.2% of the 2012 and 26.2% of the 2013 leasing programs are complete, and the retention ratio at the end of 2011 was 78.2%.

## TAX RISK

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

The SIFT Rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). In order to meet the REIT Conditions, a trust must meet a number of technical tests that do not fully accommodate common real estate and business structures. Prior to the end of 2008, the REIT undertook various restructuring activities in order to attempt to meet the requirements of the REIT Conditions, and the REIT intends to comply with the REIT Conditions so that the SIFT Rules will not apply to the REIT in 2009 and subsequent years. The REIT believes that it has met the REIT Conditions throughout the three month period ended March 31, 2012 and the year ended December 31, 2011. There can be no assurances, however, that the REIT will continue to be able to satisfy the REIT Conditions in the future such that the REIT will not be subject to the tax imposed by the SIFT Rules.

The REIT operates in the United States through a U.S. REIT (Artis US Holdings Inc.) which is primarily capitalized by the REIT by way of equity, debt in the form of notes owed to the REIT and preferred shares. As at March 31, 2012, Artis US Holdings Inc. owes \$49.2 million to the REIT which is eliminated on consolidation of the financial statements.

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

## FOREIGN CURRENCY RISK

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

## OTHER RISKS

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

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

## CRITICAL ACCOUNTING ESTIMATES

The policies that the REIT's management believes are the most subject to estimation and judgment are set out in the REIT's Management Discussion and Analysis for the year ended December 31, 2011.

## CHANGES IN ACCOUNTING POLICIES

In June 2011, the IASB amended IAS 19 – Employee Benefits ("IAS 19"). The amendments eliminate an option to defer the recognition of gains and losses, known as the 'corridor method'; streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhance the disclosure requirements for defined benefit plans.

In December 2011, the IASB amended IAS 32 - Offsetting Financial Assets and Liabilities. The amendment clarifies certain aspects of offsetting and net and gross settlement, and is effective for annual periods beginning on or after January 1, 2014.

IFRS 7 - Financial Instruments: Disclosures, as amended by the IASB in December 2011 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

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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.

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

## CONTROLS AND PROCEDURES

### INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and Chief Financial Officer evaluated, or caused to be evaluated, the design of the REIT's internal controls over financial reporting (as defined in NI 52-109) for the period ended March 31, 2012.

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

### DISCLOSURE CONTROLS AND PROCEDURES

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

As of March 31, 2012, an evaluation was carried out, under the supervision of and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the REIT's disclosure controls and procedures (as defined in NI 52-109). Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the REIT's disclosure controls and procedures were effective for the period ended March 31, 2012.