

Consolidated Financial Statements of

**ARTIS REAL ESTATE
INVESTMENT TRUST**

Years ended December 31, 2012 and 2011

Management's Responsibility for Financial Statements

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

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

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



Armin Martens, P.Eng., MBA
President and Chief Executive Officer
February 28, 2013



Jim Green, CA
Chief Financial Officer
February 28, 2013

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Artis Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Artis Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2012, December 31, 2011, and the consolidated statements of operations, changes in unitholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Artis Real Estate Investment Trust as at December 31, 2012, December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Accountants
February 28, 2013

Winnipeg, Manitoba

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets

(In thousands of Canadian dollars)

	December 31, 2012	December 31, 2011
ASSETS		
Non-current assets:		
Investment properties (note 4)	\$ 4,209,138	\$ 3,003,604
Investment properties under construction (note 4)	8,609	20,463
Property and equipment (note 5)	2,397	311
Notes receivable (note 6)	20,531	23,752
	4,240,675	3,048,130
Current assets:		
Investment properties held for sale (note 4)	58,963	-
Deposits on investment properties	2,397	5,614
Prepaid expenses	5,732	5,150
Notes receivable (note 6)	3,344	1,685
Accounts receivable and other receivables (note 7)	13,279	11,876
Cash held in trust	2,819	1,039
Cash and cash equivalents	54,705	94,094
	141,239	119,458
	\$ 4,381,914	\$ 3,167,588
LIABILITIES AND UNITHOLDERS' EQUITY		
Non-current liabilities:		
Mortgages and loans payable (note 8)	\$ 1,860,606	\$ 1,428,334
Convertible debentures (note 9)	182,344	235,746
Preferred share liability	76	78
	2,043,026	1,664,158
Current liabilities:		
Mortgages and loans payable (note 8)	213,001	139,065
Security deposits and prepaid rent	23,463	14,160
Accounts payable and other liabilities (note 10)	52,568	42,490
Bank indebtedness (note 11)	-	37,900
	289,032	233,615
	2,332,058	1,897,773
Unitholders' equity	2,049,856	1,269,815
Commitments and guarantees (note 23)		
Subsequent events (note 26)	\$ 4,381,914	\$ 3,167,588

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Operations
Years ended December 31, 2012 and 2011

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

	2012	2011
Revenue (note 14)	\$ 372,469	\$ 290,512
Property operating expenses	132,060	107,699
	240,409	182,813
Interest income	2,645	2,580
	243,054	185,393
Expenses (income):		
Interest	94,284	78,942
Corporate	11,993	11,055
Foreign currency translation (gain) loss	(2,396)	1,268
	103,881	91,265
Income before other items	139,173	94,128
Income tax recovery (note 20)	-	469
Transaction costs (note 15)	(8,654)	(16,451)
Loss on financial instruments (note 16)	(14,081)	(3,687)
Gain on disposal of investment properties (note 3)	637	736
Fair value gain on investment properties (note 4)	223,264	246,094
Income for the year	340,339	321,289
Other comprehensive (loss) income:		
Unrealized foreign currency translation (loss) gain	(4,656)	3,183
Comprehensive income for the year	\$ 335,683	\$ 324,472
Basic income per unit attributable to common unitholders (note 12 (d))	\$ 3.21	\$ 4.02
Diluted income per unit attributable to common unitholders (note 12 (d))	\$ 3.14	\$ 3.60
Weighted-average number of common units outstanding (note 12 (d)):		
Basic	105,046,401	79,867,112
Diluted	115,641,044	92,413,015

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Changes in Unitholders' Equity
Years ended December 31, 2012 and 2011

(In thousands of Canadian dollars)

	Common units capital contributions	Equity component of convertible debentures	Equity (deficit)	Accumulated other comprehensive (loss) income	Contributed surplus	Total common equity	Total preferred equity	Total
Unitholders' equity, December 31, 2010	\$ 875,234	\$ -	\$ (20,694)	\$ (310)	\$ -	\$ 854,230	\$ -	\$ 854,230
Changes for the year:								
Issuance of units, net of issue costs	171,433	-	-	-	-	171,433	-	171,433
Conversion of convertible debentures	6,863	-	-	-	-	6,863	-	6,863
Income	-	-	321,289	-	-	321,289	-	321,289
Other comprehensive income	-	-	-	3,183	-	3,183	-	3,183
Distributions	-	-	(87,183)	-	-	(87,183)	-	(87,183)
Unitholders' equity, December 31, 2011	1,053,530	-	213,412	2,873	-	1,269,815	-	1,269,815
Changes for the year:								
Issuance of units, net of issue costs	381,829	-	-	-	(117)	381,712	151,867	533,579
Reclassification of convertible debentures liability to equity (note 9)	-	11,587	-	-	-	11,587	-	11,587
Reclassification of unit-based payments liability to equity (note 18 (c)(i))	-	-	-	-	3,530	3,530	-	3,530
Unit-based compensation	-	-	-	-	941	941	-	941
Redemption of convertible debentures	-	(328)	-	-	-	(328)	-	(328)
Conversion of convertible debentures	13,942	(6)	-	-	-	13,936	-	13,936
Income	-	-	340,339	-	-	340,339	-	340,339
Other comprehensive loss	-	-	-	(4,656)	-	(4,656)	-	(4,656)
Distributions	-	-	(118,887)	-	-	(118,887)	-	(118,887)
Unitholders' equity, December 31, 2012	\$ 1,449,301	\$ 11,253	\$ 434,864	\$ (1,783)	\$ 4,354	\$ 1,897,989	\$ 151,867	\$ 2,049,856

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows
Years ended December 31, 2012 and 2011

(In thousands of Canadian dollars)

	2012	2011
Cash provided by (used in):		
Operating activities:		
Income for the year	\$ 340,339	\$ 321,289
Adjustments for non-cash items:		
Fair value gain on investment properties	(223,264)	(246,094)
Depreciation of property and equipment	353	120
Amortization:		
Tenant inducements amortized to revenue	6,349	4,559
Above- and below-market mortgages, net	(1,537)	(862)
Accretion on liability component of convertible debentures	(118)	-
Straight-line rent adjustment	(5,473)	(5,514)
Unrealized foreign currency translation loss	665	2,340
Gain on disposal of investment properties (note 3)	(637)	(736)
Unrealized fair value loss on financial instruments	14,081	4,966
Unit-based compensation expense	3,971	926
Accretion of financing costs included in interest	2,777	1,974
Deferred tax recovery	-	(439)
	137,506	82,529
Additions to tenant inducements	(15,566)	(8,666)
Changes in non-cash operating items (note 17)	13,980	2,631
	135,920	76,494
Investing activities:		
Acquisition of investment properties, net of related debt (note 3)	(509,227)	(278,129)
Proceeds from disposition of investment properties, net of costs and related debt (note 3)	2,354	8,146
Additions to investment properties	(19,433)	(8,333)
Additions to investment properties under construction	(12,866)	(19,608)
Purchase of investment in equity securities	-	(5,683)
Proceeds from sale of equity securities	-	15,298
Advance of notes receivable	(149)	-
Notes receivable principal repayments	1,711	1,705
Net change to property and equipment	(2,439)	(83)
Additions to leasing costs	(6,447)	(4,313)
Change in deposits on investment properties	3,153	10,599
	(543,343)	(280,401)
Financing activities:		
Issuance of common units, net of issue costs	381,089	171,357
Issuance of preferred units, net of issue costs	151,867	-
Issuance of convertible debentures	-	83,767
Repayment of convertible debentures	(40,172)	-
Change in bank indebtedness	(37,900)	29,900
Distributions paid on common units	(113,566)	(85,977)
Distributions paid on preferred units	(2,980)	-
Mortgages and loans principal repayments	(41,903)	(29,728)
Repayment of mortgages and loans payable	(40,445)	(4,828)
Advance of mortgages and loans payable, net of financing costs	112,764	44,230
Issuance of preferred shares	-	78
	368,754	208,799
Foreign exchange (loss) gain on cash held in foreign currency	(720)	878
(Decrease) increase in cash and cash equivalents	(39,389)	5,770
Cash and cash equivalents at beginning of year	94,094	88,324
Cash and cash equivalents at end of year	\$ 54,705	\$ 94,094
Supplemental cash flow information:		
Interest paid	\$ 92,105	\$ 76,674
Interest received	2,647	2,580
Taxes paid	-	152

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011

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

1. Organization:

Artis Real Estate Investment Trust (the "REIT") is an unincorporated closed-end real estate investment trust created under, and governed by, the laws of the Province of Manitoba. The REIT was created pursuant to the Declaration of Trust dated November 8, 2004, as most recently amended and restated on August 2, 2012 (the "Declaration of Trust"). The purpose of the REIT is to directly, or indirectly, own, manage, lease and (where appropriate) develop retail, industrial and office properties in Canada and the United States (the "U.S."). The registered office of the REIT is 360 Main Street, Suite 300, Winnipeg, Manitoba, R3C 3Z3.

The Declaration of Trust provides that the REIT may make cash distributions to unitholders of the REIT. The amount distributed annually (currently \$1.08 per common unit, \$1.3125 per Series A preferred unit and US\$1.3125 per Series C preferred unit) will be set by the Board of Trustees.

2. Significant accounting policies:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(b) Principles of consolidation:

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

(c) Basis of presentation and measurement:

The consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars rounded to the nearest thousand unless otherwise indicated. The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements. Standards issued but not yet effective for the current accounting period are described in note 2 (t).

The consolidated financial statements are prepared on the historical cost basis with the exception of investment properties, derivative financial instruments and the cash-settled unit-based payments liability, which are measured at fair value.

(d) Translation of foreign currencies:

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

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

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

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011

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

2. Significant accounting policies (continued):

(e) Financial instruments:

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

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

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

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

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

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

(f) Investment properties:

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

Investment properties under construction include initial acquisition costs and other direct costs during the period of development. Borrowing costs associated with direct expenditures on properties under construction are capitalized from the commencement of the construction until the date of practical completion. The REIT considers practical completion to have occurred when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011

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

2. Significant accounting policies (continued):

(f) Investment properties (continued):

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

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

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

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

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

(g) Property and equipment:

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

(h) Assets held for sale:

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

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

(i) Cash and cash equivalents:

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

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011

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

2. Significant accounting policies (continued):

(j) Provisions:

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

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

(k) Revenue recognition:

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

(l) Jointly controlled assets:

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

(m) Earnings per unit:

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

(n) Income taxes:

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

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

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011

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

2. Significant accounting policies (continued):

(o) Discontinued operations:

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

(p) Unit-based compensation:

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

For equity-settled unit-based payment transactions, the REIT measures compensation expense using the fair value at the grant date, recognized over the vesting period.

(q) Defined benefit liability:

The cost of the REIT's defined benefit pension plans are accrued based on estimates, using actuarial techniques, of the amount of benefits employees have earned in return for their services in the current and prior periods. The present value of the defined benefit liability and current service cost is determined by discounting the estimated benefits using the projected unit credit method to determine the fair value of the plan assets and total actuarial gains and losses and the proportion thereof which will be recognized. The fair value of the plan assets is based on current market values. The present value of the defined benefit liability is based on the discount rate determined by reference to the yield of high quality corporate bonds of similar currency, having terms of maturity which align closely with the period of maturity of the liability.

(r) Use of estimates and judgments:

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

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

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

- Accounting for business combinations - The REIT's accounting policy relating to business combinations is described in note 2 (f). Judgment is applied in determining whether property acquisitions constitute the purchase of a business or the purchase of assets.
- Accounting for tenant inducements - The REIT's accounting policy relating to tenant inducements is described in note 2 (f). The REIT makes judgments with respect to whether tenant inducements provided in connection with a lease enhance the value of the leased property which determines whether such amounts are treated as capital expenditures.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011

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

2. Significant accounting policies (continued):

(r) Use of estimates and judgments (continued):

- Capitalized cost of investment properties under construction - The REIT's accounting policy relating to investment properties under construction is described in note 2 (f). Judgment is applied in identifying the point at which practical completion of the investment property under construction occurs.
- Classification of leases - The REIT's accounting policy for revenue recognition is described in note 2 (k). The REIT makes judgments in determining whether certain leases are operating or finance leases. The REIT determined that all of its leases are operating leases.

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

- Valuation of investment properties - The fair value of investment properties represents an estimate of the price that would be agreed upon between knowledgeable, willing parties in an arm's length transaction. The critical estimates and assumptions underlying the valuation of investment properties are described in note 4.
- Valuation of deferred tax liabilities and assets - The critical estimates and assumptions underlying the valuation of deferred tax liabilities and assets are described in note 20.
- Allowance for doubtful accounts - The critical estimates and assumptions underlying the value of the allowance for doubtful accounts are described in note 25 (a)(ii).
- Fair value of financial instruments - The fair value of financial instruments is estimated as the amount for which an instrument could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. The critical estimates and assumptions underlying the fair value of financial instruments are described in note 25 (b).
- Allocation of convertible debentures - The critical estimates and assumptions underlying the allocation of convertible debentures are described in note 9.

(s) Accounting policies adopted during the year:

IFRS 7 – *Financial Instruments: Disclosures* ("IFRS 7"), as amended by the IASB in October 2010, requires entities to provide the disclosures for all transferred financial assets that are not derecognized and for a continuing involvement in a transferred financial asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. The amendment was effective for annual periods beginning on or after January 1, 2012. This standard did not result in a material impact on the consolidated financial statements.

IAS 12 – *Income Taxes* ("IAS 12") was amended by the IASB in December 2010. The amendment provides a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model, based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The amendment was effective for annual periods beginning on or after January 1, 2012. This standard did not result in a material impact on the consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011

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

2. Significant accounting policies (continued):

(t) Future changes in accounting policies:

In June 2011, the IASB amended IAS 19 – *Employee Benefits*. 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, effective for annual periods beginning on or after January 1, 2013. The REIT does not expect that this standard will result in a material impact on the consolidated financial statements.

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. The REIT is currently evaluating the impact of this amended standard.

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, 2013. The REIT does not expect that this standard will result in a material impact on the consolidated financial statements.

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. The REIT is currently evaluating the impact of this new standard.

In May 2011, the IASB issued IFRS 10 - *Consolidated Financial Statements* ("IFRS 10"), IFRS 11 - *Joint Arrangements* ("IFRS 11") and IFRS 12 - *Disclosure of Interests in Other Entities* ("IFRS 12"). IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 - *Consolidated and Separate Financial Statements* and SIC-12 - *Consolidation - Special Purpose Entities*. IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 - *Interests in Joint Ventures* and SIC-13 - *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new standards, the IASB also issued amended and retitled IAS 27 - *Separate Financial Statements* and IAS 28 - *Investments in Associates and Joint Ventures*. The new requirements are effective for annual periods beginning on or after January 1, 2013. This standard is not expected to have an impact on unitholders' equity or net income going forward but is expected to have a presentation impact on the consolidated financial statements.

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 does not expect that this standard will result in a material impact on the consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

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

3. Acquisitions and dispositions of investment properties:

Acquisitions:

The REIT acquired the following properties during the year ended December 31, 2012:

Property	Property count	Location	Acquisition date	Type
North 48 Commercial Complex	1	Saskatoon, SK	January 31, 2012	Office
Aluma Systems Building	1	Edmonton, AB	February 24, 2012	Industrial
GSA Phoenix Professional Office Building	1	Phoenix, AZ	March 29, 2012	Office
Westbank Hub Centre North ⁽¹⁾	-	West Kelowna, BC	April 16, 2012	Retail
Linden Ridge Shopping Centre	1	Winnipeg, MB	April 23, 2012	Retail
Trimac House	1	Calgary, AB	April 30, 2012	Office
Crowfoot Corner	1	Calgary, AB	April 30, 2012	Retail
MAX at Kierland	1	Scottsdale, AZ	May 25, 2012	Office
LaSalle Office Portfolio	4	Calgary, AB	June 11, 2012	Office
Whistler Hilton Retail Plaza ⁽²⁾	1	Whistler, BC	June 14, 2012	Retail
RER Industrial Portfolio	4	Minneapolis, MN	July 6, 2012	Industrial
GTA Industrial Portfolio	17	Toronto, ON	July 17, 2012	Industrial
Westbank Hub Shopping Centre ⁽³⁾	1	West Kelowna, BC	August 16, 2012	Retail
201 Edson	1	Saskatoon, SK	August 27, 2012	Industrial
Meadowvale Gateway Portfolio	5	Mississauga, ON	September 20, 2012	Industrial
Minneapolis Industrial Portfolio II	11	Minneapolis, MN	October 26, 2012	Industrial
Namao South	1	Edmonton, AB	October 31, 2012	Retail
GTA West Portfolio	5	Toronto, ON	November 22, 2012	Industrial
Circle West	1	Saskatoon, SK	November 30, 2012	Retail

⁽¹⁾ The REIT acquired an additional 25% interest in this property in a two-phased closing that occurred on April 16, 2012 and October 11, 2012.

⁽²⁾ The REIT acquired an 85% interest in this property.

⁽³⁾ The REIT acquired a 75% interest in this property.

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

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

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

Acquisitions (continued):

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

Property	Property count	Location	Acquisition date	Type
ADT Building	1	Calgary, AB	January 7, 2011	Industrial
Dominion Construction Building	1	Calgary, AB	January 7, 2011	Industrial
EMC Building	1	Edmonton, AB	February 28, 2011	Office
Stinson Office Park	1	Minneapolis, MN	March 31, 2011	Office
Minneapolis Industrial Portfolio	9	Minneapolis, MN	March 31, 2011	Industrial
Cara Foods Building ⁽¹⁾	1	Vaughan, ON	April 15, 2011	Office
3M Distribution Facility	1	Toronto, ON	April 29, 2011	Industrial
1165 Kenaston	1	Ottawa, ON	May 27, 2011	Office
Victoria Square Shopping Centre	1	Regina, SK	May 31, 2011	Retail
Ryan Retail Portfolio	5	Minneapolis, MN	May 31, 2011	Retail
605 Waterford Park	1	Minneapolis, MN	June 1, 2011	Office
2190 McGillivray Boulevard	1	Winnipeg, MB	June 10, 2011	Retail
415 Yonge Street	1	Toronto, ON	June 28, 2011	Office
Union Hills Office Plaza	1	Phoenix, AZ	June 30, 2011	Office
201 Westcreek Boulevard	1	Toronto, ON	June 30, 2011	Industrial
Plymouth Corporate Campus	1	Minneapolis, MN	July 6, 2011	Industrial
Stampede Station	1	Calgary, AB	July 26, 2011	Office
MTS Place	1	Winnipeg, MB	August 31, 2011	Office
7499 East Paradise Lane	1	Phoenix, AZ	September 15, 2011	Industrial
Two MarketPointe	1	Minneapolis, MN	December 22, 2011	Office

⁽¹⁾ The REIT acquired a 50% interest in this property.

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

The net assets acquired were as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Investment properties	\$ 990,221	\$ 678,716
Investment property under construction	246	-
Long-term debt, including acquired above- and below-market mortgages, net of financing costs	(481,040)	(399,874)
Contingent consideration	(200)	(713)
Cash consideration	\$ 509,227	\$ 278,129
Transaction costs expensed	\$ 8,312	\$ 8,821

ARTIS REAL ESTATE INVESTMENT TRUST

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

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

Acquisitions (continued):

In accordance with the purchase and sale agreement for the GSA Phoenix Professional Office Building, the purchase price will be adjusted if the net operating income ("NOI") during the first full calendar year is not equal to US\$5,621. Should the NOI be less than US\$5,621, the vendor will pay the REIT the product of the shortfall and 13.33. Should the NOI exceed US\$5,621, the REIT will pay the vendor the product of the overage and 13.33. The REIT has estimated this contingent liability to be \$nil at December 31, 2012.

In accordance with the purchase and sale agreement for the Linden Ridge Shopping Centre, the REIT is obligated to pay development fees should the REIT develop certain excess lands acquired. The REIT estimated this contingent liability to be \$200 at the date of acquisition.

In accordance with the purchase and sale agreement for the Whistler Hilton Retail Plaza, the purchase price will be adjusted should the REIT develop a commercial building on certain leasehold lands. Should specific conditions be satisfied prior to June 14, 2014, the REIT shall pay to the vendor 50% of the average annual base or minimum rent payable by the tenant occupying the new building for the term to a maximum of 5 years divided by a capitalization rate of 7.0% less specified costs. The REIT has estimated this contingent liability to be \$nil at December 31, 2012.

Dispositions:

The REIT disposed of the following property during the year ended December 31, 2012:

Property	Location	Disposition date	Type
112 Pennsylvania Avenue	Toronto, ON	October 12, 2012	Industrial

The proceeds from the sale of 112 Pennsylvania Avenue, net of costs and related debt, were \$1,604. The assets and liabilities associated with the property were derecognized and a gain on sale of property in the amount of \$637 was recorded. The previous unrealized fair value gain recorded on this property was recognized as a realized gain during the year ended December 31, 2012.

The REIT also disposed of surplus land at an investment property during the year ended December 31, 2012. The proceeds from the sale, net of costs, were \$750. The assets and liabilities associated with the land were derecognized.

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

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

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

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

ARTIS REAL ESTATE INVESTMENT TRUST

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

4. Investment properties and investment properties under construction:

	Year ended December 31, 2012		Year ended December 31, 2011	
	Investment properties	Investment properties under construction	Investment properties	Investment properties under construction
Balance, beginning of period	\$ 3,003,604	\$ 20,463	\$ 2,052,780	\$ 5,405
Additions:				
Acquisitions (note 3)	990,221	246	678,716	-
Capital expenditures	19,433	12,866	8,333	19,608
Leasing costs	6,447	-	4,313	-
Dispositions	(2,790)	-	(13,002)	-
Reclassification of investment properties under construction	27,552	(27,552)	4,550	(4,550)
Reclassification of investment properties held for sale	(58,963)	-	-	-
Foreign currency translation (loss) gain	(11,678)	(56)	12,199	-
Straight-line rent adjustment	5,473	-	5,514	-
Tenant inducements additions, net of amortization	9,217	-	4,107	-
Fair value gain	220,622	2,642	246,094	-
Balance, end of period	\$ 4,209,138	\$ 8,609	\$ 3,003,604	\$ 20,463

External valuations are performed quarterly on a rotational basis over a four year cycle. For the fourth quarter cycle, 12 investment properties with an aggregate fair value of \$92,942 at December 31, 2012 (December 31, 2011, \$145,425) were appraised by qualified external valuation professionals.

The REIT determined the fair value of investment properties based upon either the discounted cash flow method or the overall capitalization method, which are generally accepted appraisal methodologies. Under the discounted cash flow method, expected future cash flows are discounted using an appropriate rate based on the risk of the property. Expected future cash flows for each investment property are based upon, but not limited to, rental income from current leases, budgeted and actual expenses, and assumptions about rental income from future leases. The REIT uses leasing history, market reports, tenant profiles and building assessments, among other things, in determining the most appropriate assumptions. Discount and capitalization rates are estimated using market surveys, available appraisals and market comparables. Under the overall capitalization method, year one income is stabilized and capitalized at a rate appropriate for each investment property.

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

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

The key valuation assumptions for investment properties, including investment properties held for sale, are as follows:

	December 31, 2012 ⁽¹⁾			December 31, 2011 ⁽²⁾		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Discount rate	9.75%	6.50%	7.68%	9.50%	7.25%	8.02%
Terminal capitalization rate	9.00%	5.50%	6.73%	9.00%	6.00%	7.04%
Capitalization rate	9.00%	5.25%	6.46%	8.50%	6.25%	7.08%
Investment horizon (years)	20.0	10.0	10.7	20.0	10.0	10.6

⁽¹⁾ Key valuation assumptions at December 31, 2012 reflect rates that represent the REIT's entire portfolio of investment properties.

⁽²⁾ Key valuation assumptions at December 31, 2011 reflect discount and terminal capitalization rates that represent the investment properties whose recorded values were based on the discounted cash flow method. The assumptions reflect capitalization rates that represent the investment properties whose recorded values were based upon the overall capitalization method.

At December 31, 2012, the REIT has two investment properties listed for sale with an external broker. The fair value of these investment properties of \$58,963 has been classified as held for sale at December 31, 2012.

At December 31, 2012, included in investment properties is \$19,663 (December 31, 2011, \$14,234) of net straight-line rent receivables arising from the recognition of rental income on a straight-line basis over the lease term in accordance with IAS 17 - *Leases*.

Investment properties include properties held under operating leases with an aggregate fair value of \$88,334 at December 31, 2012 (December 31, 2011, \$45,777).

At December 31, 2012, investment properties with a fair value of \$4,137,932 (December 31, 2011, \$2,913,117) are pledged as security under mortgage agreements and the credit facility.

5. Property and equipment:

	December 31, 2012		December 31, 2011	
Office furniture and fixtures	\$	2,072	\$	-
Office equipment and software		1,031		664
Accumulated depreciation		(706)		(353)
	\$	2,397	\$	311

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6. Notes receivable:

	December 31, 2012	December 31, 2011
Note receivable from tenant maturing in May 2023, bearing interest at 5.89% per annum, repayable in varying blended monthly installments of principal and interest. A default under the terms of the note constitutes a default of the lease of the tenant.	\$ 22,072	\$ 23,719
Note receivable maturing in March 2013, bearing interest at 10.00% per annum, repayable in blended monthly installments of principal and interest of \$17 from February 2011 to March 2012 and bearing interest at 12.00% per annum, repayable in blended monthly installments of principal and interest of \$20 from April 2012 to March 2013. The note receivable is unsecured.	1,673	1,718
Other notes receivable	130	-
	23,875	25,437
Current portion	3,344	1,685
Non-current portion	\$ 20,531	\$ 23,752

7. Accounts receivable and other receivables:

	December 31, 2012	December 31, 2011
Rents receivable (note 25 (a)(ii))	\$ 3,837	\$ 2,429
Allowance for doubtful accounts (note 25 (a)(ii))	(162)	(157)
Accrued recovery income	2,561	4,167
Other amounts receivable	7,043	5,437
	\$ 13,279	\$ 11,876

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Notes to Consolidated Financial Statements
Years ended December 31, 2012 and 2011

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8. Mortgages and loans payable:

	December 31, 2012	December 31, 2011
Mortgages and loans payable	\$ 2,076,958	\$ 1,569,857
Net above- and below-market mortgage adjustments	6,145	4,620
Financing costs	(9,496)	(7,078)
	2,073,607	1,567,399
Current portion	213,001	139,065
Non-current portion	\$ 1,860,606	\$ 1,428,334

Substantially all of the REIT's assets have been pledged as security under mortgages and other security agreements. The majority of mortgages and loans payable bear interest at fixed rates. The weighted-average effective rate on all mortgages and loans payable is 4.42% and the weighted-average nominal rate is 4.23% at December 31, 2012 (December 31, 2011, 4.79% and 4.61%, respectively). Maturity dates range from January 1, 2013 to February 14, 2032.

9. Convertible debentures:

In conjunction with the prospectus that closed on May 4, 2006, the REIT issued Series C convertible redeemable 6.25% debentures totaling \$30,000. During the year ended December 31, 2012, Series C convertible debentures with a face value of \$29 were converted and the REIT issued 1,681 units at the exercise price of \$17.25 per unit. None of the Series C convertible debentures were converted into units of the REIT in fiscal 2011. On March 15, 2012, the REIT redeemed all outstanding Series C convertible debentures and repaid the \$29,891 face value outstanding.

In conjunction with the purchase of the Fort McMurray portfolio effective November 30, 2007, the REIT issued a Series D convertible redeemable 5.00% debenture totaling \$20,000. Interest is paid semi-annually on May 30 and November 30. The convertible debenture is convertible into units of the REIT by the holder after November 30, 2009 at a price of \$17.75 per unit. The debenture is redeemable for cash at the option of the REIT at any time prior to maturity provided that the market price of the units exceeds 120% of the conversion price. If the debenture is not converted into units of the REIT, it is to be repaid in cash on maturity, being November 30, 2014. None of the Series D convertible debentures were converted into units of the REIT in fiscal 2012 or 2011. On September 21, 2012, the REIT redeemed \$10,000 of the Series D convertible debentures for cash.

In conjunction with the prospectus that closed on July 9, 2009, the REIT issued Series E convertible redeemable 7.50% debentures totaling \$40,000. On July 15, 2009, an additional \$6,000 of the Series E convertible debentures were issued pursuant to the exercise of the underwriters' overallotment option. During the year ended December 31, 2012, Series E convertible debentures with a face value of \$9,052 were converted and the REIT issued 973,311 units at the exercise price of \$9.30 per unit. During the year ended December 31, 2011, Series E convertible debentures with a face value of \$4,661 were converted and the REIT issued 501,158 units at the exercise price of \$9.30 per unit. On June 29, 2012, the REIT redeemed all outstanding Series E convertible debentures and repaid the \$281 face value outstanding.

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9. Convertible debentures (continued):

In conjunction with the prospectus that closed on April 22, 2010, the REIT issued Series F convertible redeemable 6.00% debentures totaling \$75,000. An additional \$11,250 of the Series F convertible debentures were issued pursuant to the exercise of the underwriters' overallotment option. Interest is paid semi-annually on June 30 and December 31. The convertible debentures are convertible into units of the REIT by the holder at any time prior to maturity, being June 30, 2020, at a price of \$15.50 per unit. The debentures will not be redeemable by Artis prior to March 31, 2014. On or after March 31, 2014, but prior to March 31, 2016, the Series F debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice, provided that the weighted-average trading price of the units is not less than 125% of the conversion price. On and after March 31, 2016, the Series F convertible debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice. The debentures rank *pari passu* with the convertible debentures issued on November 30, 2007. During the year ended December 31, 2012, Series F convertible debentures with a face value of \$80 were converted and the REIT issued 5,159 units at the exercise price of \$15.50 per unit. None of the Series F convertible debentures were converted into units of the REIT in fiscal 2011.

In conjunction with the prospectus that closed on April 21, 2011, the REIT issued Series G convertible redeemable 5.75% debentures totaling US\$80,000. An additional US\$8,000 of the Series G convertible debentures were issued pursuant to the exercise of the underwriters' overallotment option. Interest is paid semi-annually on June 30 and December 31. The convertible debentures are convertible into units of the REIT by the holder at any time prior to maturity, being June 30, 2018, at a price of US\$18.96 per unit. The debentures will not be redeemable by Artis prior to June 30, 2014. On or after June 30, 2014, but prior to June 30, 2016, the Series G debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice, provided that the weighted-average trading price of the units is not less than 125% of the conversion price. On and after June 30, 2016, the Series G convertible debentures will be redeemable, in whole or in part, at a price equal to the principal amount plus accrued interest, at Artis' option on a minimum of 30 days notice. The debentures rank *pari passu* with the convertible debentures issued on November 30, 2007 and April 22, 2010. None of the Series G convertible debentures were converted into units of the REIT in fiscal 2012 or 2011.

On August 2, 2012, the REIT amended its Declaration of Trust to become a closed-end trust thereby removing the redemption right attached to its common units. As a result of this amendment, the REIT's convertible debentures were reclassified from financial liabilities to compound financial instruments. As a part of this reclassification, the REIT estimated the fair values of the convertible debentures on August 2, 2012 in whole and separated the fair values into liability and equity components. The fair value of the convertible debentures was estimated using the market price of the debentures, or if no market price existed, an estimate based on the present value of future interest and principal payments due under the terms of the convertible debenture using a discount rate for similar debt instruments.

The Series D and Series F convertible debentures were separated into liability and equity components based on the estimated fair value of the liability components. The fair value of the liability components were estimated based on the present value of future interest and principal payments due under the terms of the convertible debenture using a discount rate for similar debt instruments without a conversion feature. The value assigned to the equity component is the residual of the fair value of the liability component and the fair value of the whole financial instrument. On August 2, 2012, \$558 and \$11,029 was reclassified from liabilities to equity for the Series D and Series F convertible debentures, respectively. Interest expense on the convertible debentures is determined by applying an effective interest rate to the outstanding liability component of 5.50% on the Series D convertible debentures and 6.25% on the Series F convertible debentures. The difference between actual cash interest payments and interest expense is accreted to the liability component.

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9. Convertible debentures (continued):

On August 2, 2012, the fair value of the Series G convertible debentures were recorded as a liability with no value assigned to equity as these convertible debentures are denominated in US dollars with no fixed conversion rate to Canadian dollars. Interest expense on the Series G convertible debentures is determined by applying an effective rate of 5.04% to the outstanding liability balance. The difference between actual cash interest payments and interest expense is accreted to the liability.

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

Convertible redeemable debenture issue	Issue date	Maturity date	Interest rate
Series D	November 30, 2007	November 30, 2014	5.00%
Series F	April 22, 2010	June 30, 2020	6.00%
Series G	April 21, 2011	June 30, 2018	5.75%

Convertible redeemable debenture issue	Face value	Equity portion	Liability portion	Accretion	Carrying value	Current portion	Non-current portion
Series D	\$ 7,000	\$ 230	\$ 6,918	\$ 19	\$ 6,937	\$ -	\$ 6,937
Series F	86,170	11,023	84,841	55	84,896	-	84,896
Series G	87,551	-	90,703	(192)	90,511	-	90,511
December 31, 2012	\$ 180,721	\$ 11,253	\$ 182,462	\$ (118)	\$ 182,344	\$ -	\$ 182,344
December 31, 2011	231,999	-	235,746	-	235,746	-	235,746

For the year ended December 31, 2012, no transaction costs related to the issuance of convertible debentures were expensed (2011, \$3,630).

10. Accounts payable and other liabilities:

	December 31, 2012	December 31, 2011
Accounts payable and accrued liabilities	\$ 42,198	\$ 33,334
Distributions payable	10,340	7,999
Cash-settled unit-based payments liability	30	1,157
	\$ 52,568	\$ 42,490

11. Bank indebtedness:

On September 6, 2012, the REIT entered into a revolving term credit facility in the amount of \$80,000, which can be utilized for general corporate operating purposes, including the acquisition of commercial properties and the issuance of letters of credit. The credit facility matures on September 6, 2014. Amounts drawn on the facility bear interest at prime plus 1.00% or at the bankers' acceptance rate plus 2.00%. The credit facility is secured by a first charge on certain investment properties with a carrying value of \$146,859 at December 31, 2012. At December 31, 2012, the REIT had no balance drawn on the facility. At December 31, 2011, the REIT had \$37,900 drawn on its previous credit facility.

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

12. Unitholders' equity:

(a) Common units:

(i) Authorized:

In accordance with the Declaration of Trust, the REIT may issue an unlimited number of common units, with each unit representing an equal undivided interest in any distributions from the REIT, and in the net assets in the event of termination or wind-up of the REIT. All units are of the same class with equal rights and restrictions.

(ii) Issued and outstanding:

	Number of units	Amount
Balance at December 31, 2010	75,477,308	\$ 875,234
Public offerings, net of issue costs of \$7,616	12,119,750	161,515
Conversion of Series E convertible debentures	501,158	6,863
Options exercised	30,500	422
Distribution Reinvestment and Unit Purchase Plan	744,189	9,496
Balance at December 31, 2011	88,872,905	1,053,530
Public offerings, net of issue costs of \$16,754	23,735,000	361,702
Conversion of Series C convertible debentures	1,681	29
Conversion of Series E convertible debentures	973,311	13,824
Conversion of Series F convertible debentures	5,159	89
Options exercised	248,625	4,005
Distribution Reinvestment and Unit Purchase Plan	1,047,788	16,122
Balance at December 31, 2012	114,884,469	\$ 1,449,301

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

(iii) Normal course issuer bid:

On December 13, 2012, the REIT announced that the Toronto Stock Exchange (the "Exchange") had approved the renewal of its normal course issuer bid. Under the renewed bid, the REIT will have the ability to purchase for cancellation up to a maximum of 10,940,334 units, representing 10% of the REIT's float of 109,403,338 units on November 30, 2012. Purchases will be made at market prices through the facilities of the Exchange. The bid commenced on December 14, 2007 and will remain in effect until the earlier of December 16, 2013, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the year ended December 31, 2012, the REIT did not acquire units through the normal course issuer bid. Since December 14, 2007, the REIT has acquired 410,200 units for cancellation.

(iv) At-the-market equity financing:

The REIT has entered into an Equity Distribution Agreement dated September 17, 2010, as amended and restated on September 18, 2012, with an exclusive agent for the issuance and sale, from time to time, until July 15, 2014 of up to 5,300,000 units of the REIT by way of "at-the-market distributions". The timing of any sale of units and the number of units actually sold during such period are at the discretion of the REIT. Sales of units, if any, pursuant to the Equity Distribution Agreement will be made in transactions that are deemed to be "at-the-market distributions", including sales made directly on the Exchange. As at December 31, 2012, no units have been issued pursuant to this arrangement.

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12. Unitholders' equity (continued):

(b) Preferred units:

In accordance with the Declaration of Trust, the REIT may issue an unlimited number of preferred units.

(i) Series A:

On August 2, 2012, the REIT issued 3,000,000 Cumulative Rate Reset Preferred Trust Units, Series A (the "Series A Units") for aggregate gross proceeds of \$75,000. On August 10, 2012, the underwriting syndicate exercised in full its over-allotment option and a further 450,000 Series A Units were issued for gross proceeds of \$11,250. The Series A Units pay a cumulative distribution yield of 5.25% per annum, payable quarterly, as and when declared by the Board of Trustees of the REIT, for the initial five-year period ending September 30, 2017. The distribution rate will be reset on September 30, 2017 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 4.06%.

The REIT may redeem the Series A Units on September 30, 2017 and on September 30 every five years thereafter. The holders of Series A Units have the right to reclassify their Series A Units to Preferred Units, Series B (the "Series B Units"), subject to certain conditions, on September 30, 2017 and on September 30 every five years thereafter. The Series B Units pay floating rate cumulative preferential distributions on a quarterly basis, at the discretion of the Board of Trustees. The holders of Series B Units have the right to reclassify their Series B Units to Series A Units on September 30, 2022 and on September 30 every five years thereafter.

(ii) Series C:

On September 18, 2012, the REIT issued 3,000,000 Cumulative Rate Reset Preferred Trust Units, Series C (the "Series C Units") for aggregate gross proceeds of US\$75,000. The Series C Units pay a fixed cumulative distribution yield of 5.25% per annum, payable quarterly, as and when declared by the Board of Trustees of the REIT, for the initial approximately five and a half-year period ending March 31, 2018. The distribution rate will be reset on March 31, 2018 and every five years thereafter at a rate equal to the sum of the then five-year United States Government bond yield and 4.46%.

The REIT may redeem the Series C Units on March 31, 2018 and on March 31 every five years thereafter. The holders of Series C Units have the right to reclassify their Series C Units to Preferred Units, Series D ("the Series D Units"), subject to certain conditions, on March 31, 2018 and on March 31 every five years thereafter. The Series D Units pay floating rate cumulative preferential distributions on a quarterly basis, at the discretion of the Board of Trustees. The holders of Series D Units have the right to reclassify their Series D Units to Series C Units on March 31, 2023 and on March 31 every five years thereafter.

The Series A Units and Series C Units rank equally with each other and with the outstanding Series B Units and Series D Units into which they may be reclassified, and rank in priority to the trust units.

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12. Unitholders' equity (continued):

(c) 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 December 31, 2012, the REIT has issued common units under six offerings in the aggregate amount of \$587,002 and a US\$88,000 offering of convertible debentures under this short form base shelf prospectus.

On June 15, 2012, the REIT issued a new 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 \$2,000,000 of initial offering price: (i) trust units of the REIT; (ii) preferred trust units, which may be issuable in series; (iii) debt securities, which may consist of debentures, notes or other types of debt and may be issuable in series; (iv) unit purchase warrants; and (v) subscription receipts to purchase trust securities. As at December 31, 2012, the REIT has issued common units under one offering in the amount of \$69,080 and preferred units under two offerings in the amount of \$86,250 and US\$75,000 under this short form base shelf prospectus.

(d) Weighted-average common units:

	Year ended December 31, 2012	Year ended December 31, 2011
Income for the year	\$ 340,339	\$ 321,289
Adjustment for distributions to preferred unitholders	(2,980)	-
Income for the year attributable to common unitholders	337,359	321,289
Adjustment for unit options	-	150
Adjustment for convertible debentures	25,251	11,460
Diluted income attributable to common unitholders for the year	\$ 362,610	\$ 332,899
The weighted-average number of common units outstanding was as follows:		
Basic common units	105,046,401	79,867,112
Effect of dilutive securities:		
Unit options	-	43,311
Convertible debentures	10,594,643	12,502,592
Diluted common units	115,641,044	92,413,015
Income per unit attributable to common unitholders:		
Basic	\$ 3.21	\$ 4.02
Diluted	\$ 3.14	\$ 3.60

The computation of diluted income per unit attributable to common unitholders only includes unit options when these instruments are dilutive.

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13. Distributions to unitholders:

Total distributions declared to unitholders for the years ended December 31, are as follows:

	2012		2011	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	\$ 114,968	\$ 1.08	\$ 87,183	\$ 1.08
Preferred unitholders - Series A	1,864	0.54	-	-
Preferred unitholders - Series C	1,116	0.37	-	-

14. Revenue:

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

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

	December 31, 2012	December 31, 2011
Not later than one year	\$ 266,310	\$ 198,154
Later than one year and not later than five years	786,082	592,130
Later than five years	594,208	441,661
	\$ 1,646,600	\$ 1,231,945

15. Transaction costs:

The REIT incurred transaction costs in relation to the following:

	Year ended December 31, 2012	Year ended December 31, 2011
Acquisitions of investment properties	\$ (8,312)	\$ (8,821)
Issuance of convertible debentures	-	(3,630)
Termination fee	-	(4,000)
Other transaction costs	(342)	-
	\$ (8,654)	\$ (16,451)

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16. Loss on financial instruments:

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

	Year ended December 31, 2012	Year ended December 31, 2011
Fair value (loss) gain:		
Convertible debentures	\$ (13,915)	\$ 650
Commodity derivatives	-	196
Interest rate swaps	(244)	(4,347)
Forward and swap contracts	78	104
Investment in equity securities	-	(290)
	\$ (14,081)	\$ (3,687)

17. Changes in non-cash operating items:

	Year ended December 31, 2012	Year ended December 31, 2011
Prepaid expenses	\$ (695)	\$ (2,819)
Accounts receivable and other receivables	(1,419)	(5,330)
Cash held in trust	(1,780)	(255)
Security deposits and prepaid rent	9,377	4,485
Accounts payable and other liabilities	8,497	6,550
	\$ 13,980	\$ 2,631

18. Employee benefits:

(a) Defined benefit pension plans:

At December 31, 2012, the REIT has defined benefit plans providing pension benefits to certain employees. The ultimate retirement benefit is defined by a formula that provides a unit of benefit for each year of service. Employer contributions are not specified or defined within the plan text; they are based on the result of actuarial valuations which determine the level of funding required to meet the total obligation as estimated at the time of valuation. The REIT uses December 31 as a measurement date for accounting purposes for its defined benefit pension plans.

The fair value of the plan assets at December 31, 2012 is \$1,696. The recognized pension obligation, net of plan assets at December 31, 2012 is \$nil. The net expense for the defined benefit plans for the year ended December 31, 2012 is \$1,042, and is included in corporate expenses.

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18. Employee benefits (continued):

(b) Short-term employee benefits:

	Year ended December 31, 2012	Year ended December 31, 2011
Trustees	\$ 689	\$ 493
Key management personnel	3,837	3,030
Other employees	9,188	-
	\$ 13,714	\$ 3,523

Short-term employee benefits include salaries, bonuses and other short-term benefits. In 2011, short-term benefits paid or payable to key management personnel represent the portion of compensation paid or payable by Marwest Realty attributable to time spent on the activities of the REIT. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the REIT, directly or indirectly.

(c) Unit-based compensation:

	Year ended December 31, 2012	Year ended December 31, 2011
Trustees	\$ 1,040	\$ 131
Key management personnel	2,033	488
Other employees	898	307
	\$ 3,971	\$ 926

Under the REIT's equity incentive plan, there may be grants of unit options, restricted units, deferred units or installment units, which are subject to certain restrictions. Under this incentive plan, the total number of units reserved for issuance may not exceed 7.0% of the units outstanding.

(i) Unit options:

On August 2, 2012, the REIT amended its Declaration of Trust to become a closed-end trust thereby removing the redemption right attached to its common units. As a result of this amendment, the REIT's cash-settled unit-based payments related to its unit options became equity-settled and the liability of \$3,530 was reclassified to equity at August 2, 2012.

The following weighted-average assumptions were used with the Black-Scholes option pricing model to calculate the cash-settled unit-based payments liability at August 2, 2012: expected option life of 3.6 years, risk-free interest rate of 1.20%, distribution yield of 6.46%, and expected volatility of 22.96%. At December 31, 2011, the weighted-average assumptions used to calculate the cash-settled unit-based payments liability were the following: expected option life of 3.9 years, risk-free interest rate of 1.19%, distribution yield of 7.72%, and expected volatility of 23.38%. Expected volatility is estimated by considering the REIT's historic average unit price volatility.

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18. Employee benefits (continued):

(c) Unit-based compensation (continued):

(i) Unit options (continued):

Unit-based compensation expense related to unit options granted under the equity incentive plan for the year ended December 31, 2012 amounted to \$3,941 (2011, \$926). These unit options granted vest equally over a four-year period.

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

	2012		2011	
	Units	Weighted-average exercise price	Units	Weighted-average exercise price
Balance, beginning of period	2,164,250	\$ 13.52	1,070,250	\$ 12.84
Granted	1,849,500	16.36	1,200,000	14.10
Exercised	(248,625)	13.49	(30,500)	11.28
Expired	(75,250)	14.90	(75,500)	13.98
Balance, end of period	3,689,875	\$ 14.92	2,164,250	\$ 13.52
Options exercisable at end of period	604,750		234,938	

The weighted-average unit price at the date of exercise for unit options exercised during the year ended December 31, 2012 was \$16.54 (2011, \$13.84).

Options outstanding at December 31, 2012 consist of the following:

Exercise price	Number outstanding	Weighted-average remaining contractual life	Options outstanding weighted-average exercise price	Number exercisable
\$ 11.28	175,125	2.25 years	\$ 11.28	45,500
\$ 13.30	332,750	2.75 years	\$ 13.30	143,250
\$ 13.44	347,000	3.00 years	\$ 13.44	157,000
\$ 14.10	1,061,500	3.50 years	\$ 14.10	259,000
\$ 16.36	1,773,500	4.25 years	\$ 16.36	-
	3,689,875		\$ 14.92	604,750

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18. Employee benefits (continued):

(c) Unit-based compensation (continued):

(ii) Restricted units:

Unit-based compensation expense related to restricted units granted under the equity incentive plan for the year ended December 31, 2012 amounted to \$30 (2011, \$nil). Restricted units vest on and after the third anniversary of the date of grant. The restricted units accrue additional restricted units during the vesting period, and are credited when the restricted units vest. Each restricted unit is valued at the closing price of the REIT's common units on the balance sheet date.

A summary of the REIT's restricted units outstanding for the years ended December 31, are as follows:

	2012	2011
	Units	Units
Balance, beginning of period	-	-
Granted	44,735	-
Accrued	325	-
Balance, end of period	45,060	-
Restricted units vested at end of period	-	-

At December 31, 2012, no deferred units or installment units have been granted under the REIT's equity incentive plan.

19. Related party transactions:

The REIT may issue unit-based awards to trustees, officers, employees and consultants (note 18).

Other related party transactions are outlined as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Advisory fees	\$ -	\$ 6,037
Acquisition fees	552	3,361
Property management fees	317	11,155
Recoverable property management salaries and wages	-	2,078
Capitalized office furniture and fixtures	1,554	-
Capitalized office equipment	343	-
Capitalized leasing commissions	1,351	743
Capitalized building improvements	11,059	18,089
Capitalized tenant inducements	1,451	2,996
Disposition of surplus land	(750)	-
Property tax assessment consulting fees	191	224
Consulting fees	-	137
Legal fees	2,851	1,481
Rental revenues	(2,245)	(2,627)

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19. Related party transactions (continued):

Effective January 1, 2012, the REIT internalized its asset and property management functions. The asset management agreement with Marwest Realty Advisors Inc. ("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 Canada Ltd. ("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 year ended December 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 December 31, 2012 is \$nil (December 31, 2011, \$567). 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 December 31, 2012 is \$26.

On January 1, 2012, the REIT entered into a one-year leasing services agreement with Marwest Management. The amount payable at December 31, 2012 is \$756.

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., Marwest Development Corporation, and Nova 3 Engineering, companies related to certain trustees and officers of the REIT. The amount payable at December 31, 2012 is \$1,137 (December 31, 2011, \$354).

The REIT purchased \$1,297 of office furniture and fixtures and \$343 of office equipment from Marwest Management as a result of the internalization of the asset and property management functions. The REIT also incurred costs for office furniture and fixtures paid to Marwest Construction Ltd. The amount payable at December 31, 2012 is \$42.

The REIT sold surplus land at an investment property to a company controlled by a trustee of the REIT. The amount receivable at December 31, 2012 is \$nil.

The REIT incurred costs for property tax assessment consulting paid to Fairtax Realty Advocates, a company under control of close family members of key management personnel. The amount payable at December 31, 2012 is \$nil (December 31, 2011, \$13).

The consulting fees represent work performed by Marwest Realty on IFRS accounting work.

The REIT incurred legal fees with a law firm associated with a trustee of the REIT in connection with prospectus offerings, property acquisitions and general business matters. The amount payable at December 31, 2012 is \$705 (December 31, 2011, \$200).

The REIT collects office rents from Marwest Management and a law firm associated with a trustee of the REIT.

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

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19. Related party transactions (continued):

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

Name of entity	Ownership interest	
	December 31, 2012	December 31, 2011
Artis General Partner Ltd.	100%	100%
AX L.P.	100%	100%
Artis US Holdings, Inc.	100%	100%
Osborne Street Call Centre Partnership	-	100%
Winnipeg Square Leaseco Inc.	100%	100%
AX Property Management L.P.	100%	100%
Artis Property Management General Partner Ltd.	100%	100%
AX Longboat G.P. Inc.	50%	-
AX Longboat L.P.	50%	-

20. Income taxes:

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

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

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

Under the SIFT Rules, certain distributions from a SIFT are not deductible in computing a SIFT's taxable income, and a SIFT is subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as returns of capital should generally not be subject to tax.

The SIFT Rules do not apply to a REIT that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the SIFT Rules and has assessed their interpretation and application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the years ended December 31, 2012 and December 31, 2011. As a result, the REIT does not recognize any deferred income tax assets or liabilities for income tax purposes.

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21. Jointly controlled assets:

These consolidated financial statements include the REIT's share of assets, liabilities, revenues, expenses and cash flows of jointly controlled assets as at December 31, 2012. The REIT is contingently liable for the obligations of its joint venturers in certain jointly controlled assets. Management believes that the jointly controlled assets available are sufficient for the purpose of satisfying such obligations. The REIT has interests in the following jointly controlled assets:

Name of entity	Principal purpose	Ownership interest	
		December 31, 2012	December 31, 2011
Centre 70 Building	Investment property	85%	85%
Kincaid Building	Investment property	50%	50%
Cliveden Building	Investment property	50%	50%
Westbank Hub Centre North ⁽¹⁾	Investment property	75%	50%
Cara Foods Building	Investment property	50%	50%
Centrepoint	Investment property	50%	-
Whistler Hilton Retail Plaza	Investment property	85%	-
Westbank Hub Shopping Centre	Investment property	75%	-

⁽¹⁾ The REIT acquired an additional 25% interest in this property in 2012.

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

	December 31, 2012	December 31, 2011
Non-current assets	\$ 178,121	\$ 98,816
Current assets	3,975	1,223
	182,096	100,039
Non-current liabilities	77,973	50,637
Current liabilities	17,920	2,145
	\$ 95,893	\$ 52,782
	Year ended December 31, 2012	Year ended December 31, 2011
Revenue	\$ 12,427	\$ 9,385
Expenses	7,931	6,071
	4,496	3,314
Unrealized fair value (loss) gain on investment properties	(290)	8,691
Operating income from properties	\$ 4,206	\$ 12,005
Cash flows provided by operating activities	\$ 4,349	\$ 3,139
Cash flows used in investing activities	(39,493)	(8,985)
Cash flows provided by financing activities	35,761	6,502

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22. Segmented information:

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

Year ended December 31, 2012						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Revenue	\$ 173,354	\$ 84,391	\$ 47,715	\$ 66,782	\$ 227	\$ 372,469
Property operating expenses	56,710	33,989	18,161	23,200	-	132,060
Interest income	116,644	50,402	29,554	43,582	227	240,409
	1,441	41	45	303	815	2,645
	118,085	50,443	29,599	43,885	1,042	243,054
Interest expense	40,963	18,483	9,848	12,459	12,531	94,284
Corporate expenses	-	-	-	-	11,993	11,993
Foreign currency translation gain	-	-	-	-	(2,396)	(2,396)
	40,963	18,483	9,848	12,459	22,128	103,881
	77,122	31,960	19,751	31,426	(21,086)	139,173
Transaction costs	(1,894)	(773)	(4,463)	(1,182)	(342)	(8,654)
Loss on financial instruments	-	-	-	-	(14,081)	(14,081)
Gain on disposal of investment property	-	-	637	-	-	637
Fair value gain on investment properties	142,833	35,787	27,291	17,353	-	223,264
Income (loss) for the period	\$ 218,061	\$ 66,974	\$ 43,216	\$ 47,597	\$ (35,509)	\$ 340,339
Acquisitions of investment properties	\$ 465,416	\$ 80,688	\$ 155,483	\$ 288,880	\$ -	\$ 990,467
Additions to investment properties and investment properties under construction	13,591	13,540	1,365	3,803	-	32,299
Additions to leasing costs	2,918	2,016	687	826	-	6,447
Additions to tenant inducements	7,764	4,321	800	2,681	-	15,566
December 31, 2012						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Total assets	\$ 2,218,029	\$ 830,544	\$ 554,603	\$ 756,065	\$ 22,673	\$ 4,381,914
Total liabilities	1,014,065	384,279	280,716	454,720	198,278	2,332,058

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23. Commitments and guarantees:

(a) Letters of credit:

As of December 31, 2012, the REIT had issued letters of credit in the amount of \$225 (December 31, 2011, \$1,728).

(b) Guarantees:

AX L.P. has guaranteed certain debt assumed by a purchaser in connection with the disposition of a property. This guarantee will remain until the debt is modified, refinanced or extinguished. Credit risk arises in the event that the purchaser defaults on repayment of their debt since it is guaranteed by the REIT. This credit risk is mitigated as the REIT has recourse under this guarantee in the event of default by the purchaser, in which case the REIT would have a claim against the underlying property. The estimated amount of debt subject to the guarantee at December 31, 2012 is \$5,584 (December 31, 2011, \$5,733), with an estimated weighted-average remaining term of 4.9 years (December 31, 2011, 5.9 years). No liability in excess of the fair value of the guarantee has been recognized in these consolidated financial statements as the estimated fair value of the borrower's interests in the underlying property is greater than the mortgage payable for which the REIT provided the guarantee.

24. Capital management:

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

The REIT's Declaration of Trust permits the REIT to incur indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of such indebtedness of the REIT is not more than 70% of the gross book value of the REIT's total assets. Gross book value is defined in the Declaration of Trust as "the consolidated book value of the assets of the REIT, plus the amount of accumulated depreciation and amortization recorded in the books and records of the REIT, plus the amount of any deferred tax liability arising out of any indirect acquisitions, calculated in accordance with generally accepted accounting principles". As at December 31, 2012, the ratio of such indebtedness to gross book value was 47.3% (December 31, 2011, 50.7%), which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

In addition to the covenant outlined in the Declaration of Trust, the REIT must maintain a debt to gross book value ratio of 70%, a debt service coverage ratio of 1.4, and adjusted unitholders' equity of \$750,000 for the purposes of the credit facility (note 11). As at December 31, 2012, the REIT was in compliance with these requirements.

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24. Capital management (continued):

The REIT's mortgage providers also have various financial covenants. The REIT monitors these covenants and is in compliance with these requirements.

The total managed capital for the REIT is summarized below:

	December 31, 2012		December 31, 2011	
Mortgages and loans payable	\$	2,073,607	\$	1,567,399
Convertible debentures		182,344		235,746
Bank indebtedness		-		37,900
Total debt		2,255,951		1,841,045
Unitholders' equity		2,049,856		1,269,815
	\$	4,305,807	\$	3,110,860

25. Risk management and fair values:

(a) Risk management:

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

(i) Market risk:

(a) Interest rate risk:

The REIT is exposed to interest rate risk on its borrowings. It minimizes the risk by restricting debt to 70% of the gross book value of the REIT's total assets and by monitoring the amount of variable rate debt. The REIT has the majority of its mortgage payable and debentures in fixed rate terms. In addition, management considers the weighted-average term to maturity of long-term debt relative to the remaining average lease terms. At December 31, 2012, the REIT is a party to \$529,660 of variable rate debt (December 31, 2011, \$386,388), including the outstanding balance of bank indebtedness. At December 31, 2012, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$173,472 of variable rate debt (December 31, 2011, \$65,061).

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

	Impact on interest expense	
Variable rate debt	\$	3,186
Fixed rate debt due within one year		1,653
	\$	4,839

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25. Risk management and fair values (continued):

(a) Risk management (continued):

(i) Market risk (continued):

(b) Foreign currency risk:

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

A \$0.10 weakening in the US dollar against the average Canadian dollar exchange rate of 0.9974 for the year ended December 31, 2012, respectively, and the period end exchange rate of 0.9949 at December 31, 2012 would have increased net income by approximately \$3,554 for the year ended December 31, 2012. A \$0.10 weakening in the US dollar against the Canadian dollar would also have increased other comprehensive loss by approximately \$35,266 for the year ended December 31, 2012. Conversely, a \$0.10 strengthening in the US dollar against the Canadian dollar would have had an equal but opposite effect. This analysis assumes that all variables, in particular interest rates, remain constant.

(c) Other price risk:

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

(ii) Credit risk:

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

The REIT is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. The REIT's properties are diversified across the industrial, retail and office asset classes, and geographically diversified with properties owned across five Canadian provinces and four U.S. states. Included in property operating expenses is an impairment loss on accounts receivable and other receivables of \$249 during the year ended December 31, 2012 (2011, \$231). The credit quality of the accounts receivable and other receivables amount is considered adequate.

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25. Risk management and fair values (continued):

(a) Risk management (continued):

(ii) Credit risk (continued):

The aging of accounts receivable is summarized as follows:

	December 31, 2012	December 31, 2011
Past due 0 - 30 days	\$ 2,767	\$ 1,516
Past due 31 - 90 days	342	301
Past due more than 91 days	728	612
	3,837	2,429
Allowance for doubtful accounts	(162)	(157)
	\$ 3,675	\$ 2,272

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

(iii) Liquidity risk:

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

The following are the estimated maturities of the REIT's non-derivative financial liabilities at December 31, 2012 including accounts payable and other liabilities, mortgages and loans payable, bank indebtedness and convertible debentures, with convertible debentures disclosed at their face value:

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Accounts payable and other liabilities	\$ 52,568	\$ 52,568	\$ -	\$ -	\$ -
Mortgages, loans and bank indebtedness	2,076,958	214,119	693,843	815,318	353,678
Convertible debentures	180,721	-	7,000	-	173,721
	\$ 2,310,247	\$ 266,687	\$ 700,843	\$ 815,318	\$ 527,399

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25. Risk management and fair values (continued):

(b) Fair values:

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

The fair value of notes receivable has been determined by discounting the cash flows of these financial assets using year end market rates for assets of similar terms and credit risks. Based on these assumptions, the fair value of notes receivable at December 31, 2012 has been estimated at \$25,506 (December 31, 2011, \$23,974), compared with the carrying value of \$23,875 (December 31, 2011, \$25,437).

The fair value of mortgages and loans payable has been determined by discounting the cash flows of these financial obligations using period end market rates for debt of similar terms and credit risks. Based on these assumptions, the fair value of mortgages and loans payable at December 31, 2012 has been estimated at \$2,137,855 (December 31, 2011, \$1,629,144) compared with the carrying value of \$2,073,607 (December 31, 2011, \$1,567,399).

The fair value of the REIT's convertible debentures is \$187,055 (December 31, 2011, \$235,746) compared to its face value of \$180,721 (December 31, 2011, \$231,999) at December 31, 2012. Fair value is based on the market price of the debentures, or if no market price exists, fair value is determined by discounting the cash flows of these financial obligations using year end market rates for debt of similar terms and credit risks.

The REIT entered into interest rate swaps on six mortgages. The swaps are not designated in a hedge relationship. An unrealized loss of \$244 for year ended December 31, 2012 (2011, loss of \$4,347) in relation to the fair value of these interest rate swaps, resulting in a fair value liability at December 31, 2012 of \$4,099 (December 31, 2011, \$3,853).

On December 11, 2012, the REIT entered into a swap contract to exchange US\$25,000 into Canadian funds. An unrealized gain of \$78 was recorded for the year ended December 31, 2012 in relation to this contract.

Under the fair value hierarchy of financial instruments measured at fair value on the consolidated balance sheet, convertible debentures excluding Series D are measured using a Level 1 methodology and interest rate swaps and Series D convertible debentures are valued using a Level 2 methodology. There are no financial instruments valued using a Level 3 methodology.

26. Subsequent events:

On January 15, 2013, the REIT acquired 1110 Pettigrew which is located in Regina, Saskatchewan. The property was acquired for \$12,200 and the purchase price was satisfied with cash.

On January 15, 2013, the balance owing on one of the REIT's notes receivable was repaid in the amount of \$1,653.

On February 1, 2013, the REIT repaid maturing mortgages on two properties in the amount of \$23,534. On February 8, 2013, the REIT received new financing on one of these properties in the amount of \$25,000.

On February 11, 2013, the REIT closed the first part of the acquisition of Century Crossing III. This property is located in Spruce Grove, Alberta. The first part was acquired for \$16,650, which was satisfied with cash. The total purchase price for this property is \$26,400. The second part is expected to close in July 2013.

On February 11, 2013, the REIT extended its swap contract to exchange US\$25,000 into Canadian funds.

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26. Subsequent events (continued):

Subsequent to December 31, 2012, the REIT drew a net balance of \$40,000 on its revolving term credit facility.

The REIT entered into agreements with respect to the acquisition of properties located in Alberta, Manitoba and Ontario. The total purchase price of these properties is \$100,513. The REIT anticipates that the acquisitions will close in March, April, May and June of 2013, 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 January and February 2013 were declared subsequent to December 31, 2012.

27. Approval of financial statements:

The consolidated financial statements were approved by the Board of Trustees and authorized for issue on February 28, 2013.