



ARTIS

REIT

**Management's Discussion & Analysis
Q2-07**

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") of the financial condition and results of operations of Artis Real Estate Investment Trust ("Artis" or the "REIT") should be read in conjunction with the REIT's audited annual consolidated financial statements for the years ended December 31, 2006 and 2005, the unaudited consolidated financial statements for the periods ended June 30, 2007 and 2006, and the notes thereto. This MD&A has been prepared taking into account material transactions and events up to and including August 10, 2007. Additional information about Artis, including the REIT's most recent Annual Information Form, has been filed with applicable Canadian securities regulatory authorities and is available at www.sedar.com or on our web site at www.artisreit.com.

Forward-Looking Disclaimer

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

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

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OVERVIEW

Artis, formerly Westfield Real Estate Investment Trust, is an unincorporated open-end real estate investment trust created under, and governed by, the laws of the province of Manitoba. The REIT was created as a closed-end trust pursuant to the Declaration of Trust dated November 8, 2004.

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

The REIT's securities are listed on the Toronto Stock Exchange ("the TSX"). The REIT's trust units ("units") trade under the symbol AX.UN, and the REIT's Series A, Series B and Series C convertible debentures trade under the symbols AX.DB.A, AX.DB.B and AX.DB.C, respectively. As at August 10, 2007, there were 26,779,999 units, and 1,293,620 options of Artis outstanding as well as 721,347 Class B limited partnership units ("Class B units") of the REIT's subsidiary AX L.P. ("AXLP") (refer to the 2007 Outlook - Subsequent Events section for further details).

Primary Objectives

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

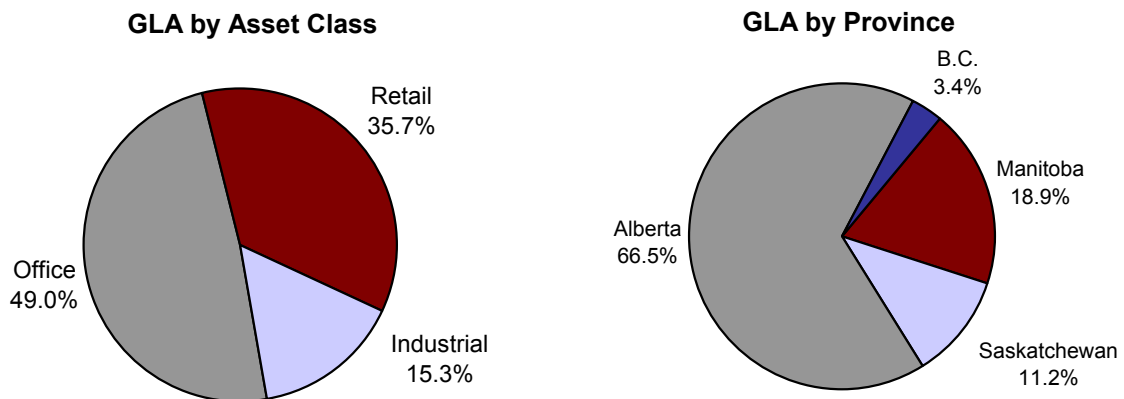
The REIT's primary objectives are:

- to provide unitholders with stable and growing cash distributions, payable monthly and, to the maximum extent practicable, income tax deferred, from investments in a diversified portfolio of income-producing office, retail and industrial properties located in western Canada, primarily in Alberta;
- to enhance the value of the REIT's assets and maximize long term unit value through the active management of its assets; and
- to expand the REIT's asset base and increase its distributable income through accretive acquisitions in western Canada.

The Declaration of Trust provides that Artis make monthly cash distributions to its unitholders. The amount distributed in each year will be the amount of distributable income set down in a policy by the Trustees (currently \$1.05 per unit on an annualized basis).

Portfolio Summary

At June 30, 2007, the REIT's portfolio was comprised of 51 commercial properties located across western Canada totaling approximately 4.07 million square feet (s.f.) of gross leasable area ("GLA").



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

| | Office ⁽¹⁾ | | Retail | | Industrial | | Total | |
|------------------|-----------------------|---------------|--------------|---------------|------------|---------------|--------------|---------------|
| | GLA | % | GLA | % | GLA | % | GLA | % |
| 2007* | 193 | 9.7% | 52 | 3.6% | 62 | 10.0% | 307 | 7.5% |
| 2008 | 404 | 20.3% | 124 | 8.5% | 37 | 5.9% | 565 | 13.9% |
| 2009 | 217 | 10.9% | 180 | 12.4% | 123 | 19.8% | 520 | 12.8% |
| 2010 | 295 | 14.8% | 304 | 20.9% | 56 | 9.0% | 655 | 16.1% |
| 2011 | 424 | 21.3% | 185 | 12.7% | 153 | 24.6% | 762 | 18.7% |
| 2012+ | 381 | 19.1% | 575 | 39.5% | 189 | 30.4% | 1,145 | 28.1% |
| | 1,914 | 96.0% | 1,420 | 97.7% | 620 | 99.7% | 3,954 | 97.2% |
| Vacancies | 79 | 4.0% | 34 | 2.3% | 2 | 0.3% | 115 | 2.8% |
| Total GLA | 1,993 | 100.0% | 1,454 | 100.0% | 622 | 100.0% | 4,069 | 100.0% |

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

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

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

| | Alberta ⁽¹⁾ | | British Columbia | | Manitoba | | Saskatchewan | |
|------------------|------------------------|---------------|------------------|---------------|------------|---------------|--------------|---------------|
| | GLA | % | GLA | % | GLA | % | GLA | % |
| 2007* | 164 | 6.1% | 20 | 14.3% | 103 | 13.4% | 21 | 4.6% |
| 2008 | 453 | 16.8% | 8 | 5.7% | 35 | 4.6% | 70 | 15.3% |
| 2009 | 340 | 12.6% | 23 | 16.4% | 100 | 13.0% | 57 | 12.5% |
| 2010 | 467 | 17.3% | 23 | 16.4% | 74 | 9.6% | 90 | 19.7% |
| 2011 | 573 | 21.2% | 19 | 13.6% | 123 | 16.0% | 48 | 10.5% |
| 2012+ | 670 | 24.8% | 47 | 33.6% | 276 | 35.9% | 149 | 32.6% |
| | 2,667 | 98.6% | 140 | 100.0% | 711 | 92.6% | 435 | 95.2% |
| Vacancies | 37 | 1.4% | - | 0.0% | 57 | 7.4% | 22 | 4.8% |
| Total GLA | 2,704 | 100.0% | 140 | 100.0% | 768 | 100.0% | 457 | 100.0% |

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

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

Historical Weighted Average Portfolio Occupancy

| Q1-06 | Q2-06 | Q3-06 | Q4-06 | Q1-07 | Q2-07 |
|-------|-------|-------|-------|-------|-------|
| 93.5% | 94.9% | 95.8% | 95.8% | 96.3% | 97.2% |

Notice Respecting Non-GAAP Measures

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

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

On July 6, 2007 the Canadian Securities Administrators issued an amended National Policy 41-201 *Income Trusts and Other Indirect Offerings* which includes disclosure guidance for income trusts. In addition, the Canadian Institute of Chartered Accountants issued an interpretive release on Management's Discussion and Analysis Guidance on Preparation and Disclosure entitled *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities*. Management is currently evaluating the impact of these guidelines and will incorporate the applicable guidance in our MD&A for the period ended September 30, 2007.

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

Artis calculates Funds from Operations, or "FFO", substantially in accordance with the guidelines set out by the Real Property Association of Canada ("RealPAC"). Management considers FFO to be a valuable measure for evaluating the REIT's operating performance in achieving its objectives.

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

2007 – SECOND QUARTER HIGHLIGHTS

Portfolio Growth

In Q2-07, Artis acquired six commercial properties in western Canada, adding over 218,000 square feet of leasable area to the portfolio, as follows:

| | Office | | Retail | | Industrial | | Total | |
|---|-----------------|--------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|
| | # of Properties | S.F. (000's) | # of Properties | S.F. (000's) | # of Properties | S.F. (000's) | # of Properties | S.F. (000's) |
| Portfolio properties at December 31, 2006 | 12 | 1,367 | 21 | 1,362 | 3 | 196 | 36 | 2,925 |
| Q1-07 Acquisitions ⁽¹⁾ | 5 | 482 | 1 | 55 | 3 | 389 | 9 | 926 |
| Q2-07 Acquisitions | 3 | 144 | 1 | 37 | 2 | 37 | 6 | 218 |
| Total 2007 Acquisitions | 8 | 626 | 2 | 92 | 5 | 426 | 15 | 1,144 |
| Less Dispositions | - | - | - | - | - | - | - | - |
| Portfolio properties at June 30, 2007 | 20 | 1,993 | 23 | 1,454 | 8 | 622 | 51 | 4,069 |

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

Highlights of the REIT's Q2-07 acquisition activity include the purchase of the MTS Call Centre, a single-tenant office building located in Winnipeg. The MTS Call Centre is comprised of nearly 76,000 square feet of leasable area, and is 100% occupied on a long-term lease. Artis also acquired two 100% leased industrial buildings located in Edmonton, Alberta. In addition, Artis acquired the three building Windley portfolio in Nanaimo, BC. The portfolio's buildings include the Aulds Corner retail property and two office buildings. All three buildings were fully occupied at acquisition.

Financing Activities

On May 10, 2007, Artis announced it had entered into a bought-deal arrangement with a syndicate of underwriters for the sale of 5,232,500 units (inclusive of units issuable upon the exercise of the over-allotment option granted to the underwriters) at a price of \$17.60 per unit. The offering closed on June 11, 2007, for aggregate gross proceeds of \$92.1 million.

Other Significant Activities

On June 26, 2007 the REIT adopted a unitholder's rights plan. The plan is designed to ensure the fair treatment of unitholders in any transaction involving a change of control of Artis REIT and will provide the board of trustees and unitholders with more time to evaluate any unsolicited take-over bid and, if appropriate, to seek out other alternatives to maximize unitholder value. A copy of the rights plan is available at www.artisreit.com or www.sedar.com.

Distributions

Artis distributed a total of \$6,120 to unitholders and AXLP, the REIT's subsidiary, distributed \$189 to Class B unitholders in Q2-07 at a stable rate of \$0.0875 per month (\$1.05 on an annualized basis).

SELECTED FINANCIAL INFORMATION

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

| | Three month period ended June 30, | | Six month period ended June 30, | |
|--|--------------------------------------|------------|------------------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues | \$ 22,759 | \$ 11,932 | \$ 40,368 | \$ 21,289 |
| Property NOI | \$ 15,088 | \$ 8,020 | \$ 26,717 | \$ 13,739 |
| Income (loss) for the period | \$ 10,276 | \$ (3,110) | \$ 7,619 | \$ (4,619) |
| Basic income (loss) per unit | \$ 0.45 | \$ (0.26) | \$ 0.37 | \$ (0.44) |
| Distributions | \$ 6,120 | \$ 3,112 | \$ 11,119 | \$ 5,539 |
| Distributions per unit | \$ 0.26 | \$ 0.26 | \$ 0.53 | \$ 0.53 |
| DI | \$ 8,579 | \$ 3,567 | \$ 14,487 | \$ 6,129 |
| DI per unit | \$ 0.37 | \$ 0.30 | \$ 0.68 | \$ 0.59 |
| DI payout ratio | 70.3 % | 86.7 % | 77.9 % | 89.8 % |
| FFO | \$ 7,958 | \$ 3,119 | \$ 13,361 | \$ 5,368 |
| FFO per unit | \$ 0.34 | \$ 0.26 | \$ 0.63 | \$ 0.52 |
| FFO payout ratio | 76.5 % | 100.0 % | 84.1 % | 101.9 % |
| Weighted average units: | | | | |
| Weighted average units (basic) | 22,604,325 | 11,850,099 | 20,547,632 | 10,392,545 |
| Weighted average units (basic) including Class B units | 23,325,672 | 11,850,099 | 21,268,979 | 10,392,545 |

Artis has acquired 20 commercial properties since June 30, 2006, increasing the portfolio to 51 commercial properties at June 30, 2007. Primarily as a result of this on-going acquisition activity, Artis increased Q2-07 revenues \$10,827, or 90.7% compared to Q2-06 results (YTD - \$19,079, or 89.6%). Artis increased Property NOI \$7,068, or 88.1% compared to Q2-06 results (YTD - \$12,978, or 94.5%). As well, Artis increased DI and FFO \$5,012, or 140.5%, and \$4,839, or 155.2%, respectively, compared to Q2-06 results. On a year-to-date basis, DI and FFO increased \$8,358, or 136.4% and \$7,993, 148.9%, respectively.

On a per unit basis, basic FFO increased \$0.08 (30.8%) compared to Q2-06 results, and \$0.11 (21.2%) year-over-year. Basic DI increased \$0.07 (23.3%) compared to Q2-06 and \$0.09 (15.3%) year-over-year. As a result of successful equity offerings closed subsequent to June 30, 2006, basic units outstanding for the calculation of DI and FFO has increased substantially; this has diluted the impact of strong growth in revenues, Property NOI, DI and FFO on per unit results. Additionally, some of the equity raised remains uninvested at June 30, 2007. Management anticipates there will be further growth in revenues, Property NOI, DI and FFO, that will translate to higher per unit results as equity is invested in on-going acquisition activities in future periods.

Income of \$10,276 was reported in Q2-07, a substantial improvement over Q2-06, reflecting the impact of a \$12,028 adjustment for future income taxes. On a before-tax basis, the Q2-07 loss decreased substantially over Q2-06, primarily as a result of realizing a full year of operating results from properties acquired before June 30, 2006.

ANALYSIS OF OPERATING RESULTS

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

| | Three month period ended June 30, | | | | Six month period ended June 30, | | | |
|--|--------------------------------------|-----------------|------------|-----------------|------------------------------------|-----------------|------------|-----------------|
| | 2007 | % of Revenue | 2006 | % of Revenue | 2007 | % of Revenue | 2006 | % of Revenue |
| Revenue | \$ 22,759 | | \$ 11,932 | | \$ 40,368 | | \$ 21,289 | |
| Property operating expenses | 7,671 | 33.7 % | 3,912 | 32.8 % | 13,651 | 33.8 % | 7,550 | 35.5 % |
| Property NOI | 15,088 | 66.3 % | 8,020 | 67.2 % | 26,717 | 66.2 % | 13,739 | 64.5 % |
| Interest | 6,366 | 28.0 % | 3,986 | 33.4 % | 11,769 | 29.2 % | 6,892 | 32.4 % |
| | 8,722 | | 4,034 | | 14,948 | | 6,847 | |
| Expenses: | | | | | | | | |
| Corporate | 1,061 | 4.7 % | 1,125 | 9.4 % | 2,159 | 5.3 % | 1,555 | 7.3 % |
| Amortization | 9,413 | | 5,906 | | 17,198 | | 10,739 | |
| | 10,474 | | 7,031 | | 19,357 | | 12,294 | |
| Loss before the under-noted | (1,752) | | (2,997) | | (4,409) | | (5,447) | |
| Gain (loss) on disposal of income-producing properties | - | | (113) | | - | | 828 | |
| Loss before income taxes | (1,752) | | (3,110) | | (4,409) | | (4,619) | |
| Future income taxes | 12,028 | | - | | 12,028 | | - | |
| Income (loss) for the period | \$ 10,276 | | \$ (3,110) | | \$ 7,619 | | \$ (4,619) | |
| Basic income (loss) per unit | \$ 0.45 | | \$ (0.26) | | \$ 0.37 | | \$ (0.44) | |
| Diluted income (loss) per unit | \$ 0.41 | | \$ (0.26) | | \$ 0.36 | | \$ (0.44) | |
| Weighted average number of units: | | | | | | | | |
| Basic | 22,604,325 | | 11,850,099 | | 20,547,632 | | 10,392,545 | |
| Diluted | 26,466,446 | | 11,850,099 | | 21,425,510 | | 10,392,545 | |

Revenues and Property NOI

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

In accordance with GAAP, Artis accounts for rent step-ups by straight-lining the incremental increases over the entire non-cancelable lease term. In Q2-07, straight-line rent adjustments of \$315 (YTD - \$565) were recorded compared to \$220 in Q2-06 (YTD - \$385).

On the acquisition of properties, Artis records intangible assets and liabilities resulting from above- and below-market rent leases. These intangible assets and liabilities are amortized to revenue over the term of the related

leases. Since June 30, 2006, Artis acquired 20 commercial properties, many in the province of Alberta, where in-place rent rates are considered to be well below market rent rates. As a result, in Q2-07, the adjustment to market rents was \$2,078 (YTD - \$3,106) compared to \$605 (YTD - \$1,081) in Q2-06.

Revenues in Q2-07 included \$690 of interest earned by Artis (compared to \$411 in Q2-06) and \$1 of other income (compared to \$nil in Q2-06).

For the three months ended June 30, 2007 and 2006, Property NOI as a percentage of revenue was 66.3% and 67.2%, respectively.

Same Property NOI Growth

| \$000's | Three month period ended | | Six month period ended | |
|-----------------------------|--------------------------|----------|------------------------|-----------|
| | June 30, ⁽¹⁾ | | | |
| | 2007 | 2006 | 2007 | 2006 |
| Revenues | \$ 9,674 | \$ 8,868 | \$ 18,851 | \$ 17,711 |
| Property operating expenses | 3,848 | 3,380 | 7,423 | 6,854 |
| Property NOI | \$ 5,826 | \$ 5,488 | \$ 11,428 | \$ 10,857 |

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

In Q2-07, Artis achieved an increase of \$338 (YTD - \$571), or 6.2% (YTD - 5.3%) of Property NOI over Q2-06 as a result of absorption of space in the portfolio and rate increases on lease rollovers, particularly in Alberta. These same growth results do not include the impact of growth realized on lease turnovers in properties acquired throughout fiscal 2006 and 2007.

Property NOI by Asset Class

Property NOI results by asset class and province have been significantly impacted by acquisitions concluded since June 30, 2006.

| \$000's Property NOI by Asset Class | Three month period ended June 30, | | | | | |
|--|-----------------------------------|-----------|------------|----------|----------|------------|
| | 2007 | | | 2006 | | |
| | Retail | Office | Industrial | Retail | Office | Industrial |
| Revenue | \$ 7,905 | \$ 12,550 | \$ 1,613 | \$ 6,244 | \$ 5,275 | \$ 2 |
| Property operating expenses | 2,369 | 4,901 | 401 | 1,562 | 2,350 | - |
| Property NOI | \$ 5,536 | \$ 7,649 | \$ 1,212 | \$ 4,682 | \$ 2,925 | \$ 2 |
| Share of Property NOI | 38.5 % | 53.1 % | 8.4 % | 61.5 % | 38.4 % | 0.0 % |

| \$000's Property NOI by Asset Class | Six month period ended June 30, | | | | | |
|--|---------------------------------|-----------|------------|-----------|-----------|------------|
| | 2007 | | | 2006 | | |
| | Retail | Office | Industrial | Retail | Office | Industrial |
| Revenue | \$ 15,512 | \$ 21,104 | \$ 2,641 | \$ 10,537 | \$ 10,181 | \$ 2 |
| Property operating expenses | 4,609 | 8,418 | 624 | 2,799 | 4,751 | - |
| Property NOI | \$ 10,903 | \$ 12,686 | \$ 2,017 | \$ 7,738 | \$ 5,430 | \$ 2 |
| Share of Property NOI | 42.6 % | 49.5 % | 7.9 % | 58.8 % | 41.2 % | 0.0 % |

Property NOI by Province

| (\$000's) Property NOI by Province | Three month period ended June 30, | | | | | | | |
|---------------------------------------|-----------------------------------|----------|-----------|--------|----------|----------|----------|--------|
| | 2007 | | | | 2006 | | | |
| | MB | SK | AB | BC | MB | SK | AB | BC |
| Revenue | \$ 3,064 | \$ 2,674 | \$ 16,059 | \$ 271 | \$ 2,355 | \$ 2,690 | \$ 6,243 | \$ 233 |
| Property operating expenses | 1,336 | 1,024 | 5,248 | 63 | 977 | 789 | 2,085 | 61 |
| Property NOI | \$ 1,728 | \$ 1,650 | \$ 10,811 | \$ 208 | \$ 1,378 | \$ 1,901 | \$ 4,158 | \$ 172 |
| Share of Property NOI | 12.0 % | 11.5 % | 75.1 % | 1.4 % | 18.1 % | 25.0 % | 54.6 % | 2.3 % |

| \$000's | Six month period ended June 30, | | | | | | | |
|-----------------------------|---------------------------------|----------|-----------|--------|----------|----------|-----------|--------|
| | 2007 | | | | 2006 | | | |
| | MB | SK | AB | BC | MB | SK | AB | BC |
| Revenue | \$ 5,549 | \$ 5,325 | \$ 27,876 | \$ 507 | \$ 4,265 | \$ 4,868 | \$ 11,117 | \$ 470 |
| Property operating expenses | 2,453 | 1,894 | 9,144 | 160 | 2,013 | 1,507 | 3,905 | 125 |
| Property NOI | \$ 3,096 | \$ 3,431 | \$ 18,732 | \$ 347 | \$ 2,252 | \$ 3,361 | \$ 7,212 | \$ 345 |
| Share of Property NOI | 12.1 % | 13.4 % | 73.2 % | 1.4 % | 17.1 % | 25.5 % | 54.8 % | 2.6 % |

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

Interest

The current year's interest on long-term debt is attributable to mortgages and other secured loans against the income-producing properties, as well as convertible debentures outstanding. Effective January 1, 2007, Artis adopted new accounting policies for financial instruments. As a result, on a prospective basis, financing costs are no longer deferred and amortized over the terms of the underlying agreements, and instead are netted against the related debt. Interest and financing costs are amortized on an effective interest basis. The weighted average effective rate for the period ending June 30, 2007 was 5.43%.

The REIT's weighted average nominal interest rate on mortgages and other debt secured by properties at June 30, 2007 was 5.34% compared to 5.48% at June 30, 2006.

At the time of issue, the convertible debentures are allocated between their equity and liability components in accordance with GAAP. Artis recorded interest expense of \$1,175 (YTD - \$2,479) on the carrying value of debentures outstanding in Q2-07, compared to \$1,132 (YTD - \$1,832) in Q2-06; the increase is a result of the interest expense related to the \$30,000 of Series C debentures issued in May of 2006, partially offset by conversions between June 30, 2006 and June 30, 2007.

Corporate Expenses

| \$000's | Three month period ended | | Six month period ended | |
|--|--------------------------|----------|------------------------|----------|
| | June 30, | | June 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Accounting, legal, consulting | \$ 39 | \$ 112 | \$ 356 | \$ 232 |
| Advisory fees | 415 | 207 | 734 | 369 |
| Public company costs | 83 | 265 | 266 | 300 |
| Annual report and AGM | 96 | 61 | 123 | 61 |
| Unit-based compensation | 322 | 40 | 516 | 80 |
| Other general and administrative | 106 | 74 | 164 | 147 |
| Costs related to bid on property portfolio | - | 366 | - | 366 |
| Total corporate expenses | \$ 1,061 | \$ 1,125 | \$ 2,159 | \$ 1,555 |

Q2-07 advisory fees increased \$208 (YTD - \$365) over Q2-06, reflecting the increased asset base of the REIT. In Q2-07 unit-based compensation costs increased \$282 (YTD - \$436) over Q2-06, as a result of the costs attributable to options granted subsequent to June 30, 2006.

Corporate expenses in Q2-07 were \$1,061, or 4.7% of gross revenues (YTD - \$2,159, or 5.3%) compared to \$1,125, or 9.4% of gross revenues in Q2-06 (YTD - \$1,555, or 7.3%). Management anticipates that corporate expenses as a percentage of gross revenues will decline in future periods as the full impact of revenues from recent acquisitions are realized.

Amortization

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

At the time of acquisition, Artis allocates a portion of the purchase price of properties to income-producing properties and a portion to intangible assets. Income-producing properties are amortized on a straight-line basis over their useful lives, resulting in amortization expense of \$4,340 in Q2-07 (YTD - \$7,600) compared to \$2,211 in Q2-06 (YTD - \$4,017). Intangible assets, such as the value of in-place operating leases and customer relationship values, are amortized on a straight-line basis over the term of the underlying lease agreements. In Q2-07 Artis recorded \$4,879 (YTD - \$9,233) for the amortization of intangible assets, compared to \$3,475 in Q2-06 (YTD - \$6,352).

In Q2-06, amortization expense included \$185 (YTD - \$319) of deferred financing costs. Deferred financing costs included legal and other fees incurred in connection with mortgages and other loans against properties, as well as the issuance of convertible debentures, amortized over the terms of the underlying loan or indenture agreements. As a result of the adoption of new accounting policies for financial instruments, deferred finance costs are no longer included in amortization expense. Interest expense in Q2-07 includes \$52 (YTD - \$101) of amortization of deferred financing costs. See Note 2(c) of the Interim Consolidated Financial Statements of the REIT as well as the *Changes in Accounting Policies* section of this report for further details.

Future Income Taxes

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

On June 22, 2007, new legislation relating to, among other things, the federal income taxation of publicly traded income trusts (the "New SIFT Rules") was enacted. Under the New SIFT Rules, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as returns of capital should generally not be subject to the tax.

The New SIFT Rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Exception"). In order to qualify for the REIT Exception, a trust must meet a number of technical tests that do not fully accommodate common real estate and business structures. The REIT is currently reviewing the New SIFT Rules and is assessing their interpretation and application to the REIT's assets and revenues. There are uncertainties in the interpretation and application of the New SIFT Rules and it is not possible, at the current time, to determine with certainty whether the REIT will meet the conditions of the REIT Exception.

The New SIFT Rules provide that a SIFT which was publicly traded before November 1, 2006 will become subject to the tax on distributions commencing in the 2011 taxation year. However, a SIFT may become subject to this tax prior to 2011 if its equity capital increases beyond certain limits measured against the market capitalization of the SIFT at the close of trading on October 31, 2006 (the "Safe Harbour Limits"). In the case of the REIT, its subsequent offerings have exceeded the Safe Harbour Limits. Therefore, commencing on January 1, subject to the REIT's ability to qualify for the REIT Exception, the REIT is subject to tax on certain income which may adversely impact the level of cash otherwise available for distribution.

If the REIT does not meet the REIT Exception, the REIT may need to restructure its affairs in order to minimize, or if possible eliminate, the impact of the New SIFT Rules. There can be no assurances, however, that the REIT would be able to restructure such that the REIT would not be subject to the tax imposed by the New SIFT Rules, or that any such restructuring, if implemented, would not result in material costs or other adverse consequences to the REIT and its unitholders.

As management is unable to conclude at the present time if the REIT meets the REIT Exception, and therefore cannot conclude that the New SIFT Rules do not apply to it, the REIT commenced recognizing future income tax assets and liabilities with respect to the temporary differences between the carrying amounts and tax bases of its assets and liabilities that are expected to reverse in or after 2007. Future income tax assets or liabilities are recorded using tax rates and laws expected to apply when the temporary differences are expected to reverse. The New SIFT Rules resulted in the REIT including a future income tax asset of \$12,028 reflected as a recovery to consolidated operations for the three month and six month periods ended June 30, 2007. Temporary differences expected to reverse in or after 2007 have been measured using a tax rate of 32.2%.

Distributable Income ("DI"):

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

Reconciliation of Cash Flows from Operations to DI:

| <i>\$000's, except unit and per unit amounts</i> | Three month period ended June 30, | | Six month period ended June 30, | |
|---|--|-----------------|--|-----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Cash flow from operations | \$ 5,403 | \$ 3,377 | \$ 12,278 | \$ 2,397 |
| Deduct amortization of: | | | | |
| Office equipment | (2) | (1) | (3) | (2) |
| Above-market rent | (48) | (56) | (95) | (110) |
| Below-market rent | 2,126 | 661 | 3,201 | 1,191 |
| Tenant inducements and leasing costs | (191) | (33) | (337) | (49) |
| Above-market mortgage | 29 | 15 | 57 | 24 |
| Deferred financing costs, non-debenture | - | (70) | - | (112) |
| Add: Straight-line rent adjustment | 315 | 220 | 565 | 385 |
| Add (deduct): | | | | |
| Changes in non-cash operating items | 699 | (943) | (1,678) | 2,008 |
| Deferred financing costs, non-debenture, included in interest expense | (52) | - | (101) | - |
| Other adjustments ⁽¹⁾ | 300 | 397 | 600 | 397 |
| DI for the period | \$ 8,579 | \$ 3,567 | \$ 14,487 | \$ 6,129 |
| DI per unit | | | | |
| Basic | \$ 0.37 | \$ 0.30 | \$ 0.68 | \$ 0.59 |
| Diluted | \$ 0.35 | \$ 0.25 | \$ 0.66 | \$ 0.49 |
| Weighted Average Number of Shares | | | | |
| Basic ⁽²⁾ | 23,325,672 | 11,850,099 | 21,268,979 | 10,392,545 |
| Diluted ⁽²⁾ | 26,412,775 | 15,003,921 | 24,324,124 | 14,349,156 |

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

⁽²⁾ The weighted average number of units used in the calculation of basic and diluted DI per unit in Q2-07 includes the 721,347 Class B units issued by the REIT's subsidiary, AXLP, on a weighted average basis. Options and convertible debentures are factored into the diluted weighted average calculation, to the extent that their impact is dilutive

Reconciliation of GAAP Income (Loss) to DI:

| <i>\$000's, except unit and per unit amounts</i> | Three month period ended June 30, | | Six month period ended June 30, | |
|--|--|-----------------|--|-----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Income (loss) for the period | \$ 10,276 | \$ (3,110) | \$ 7,619 | \$ (4,619) |
| Add: | | | | |
| Amortization (excluding amortized leasing costs) | 9,219 | 5,686 | 16,833 | 10,369 |
| Amortized financing costs on convertible debentures | - | 115 | - | 207 |
| Accretion on liability component of convertible debentures | 490 | 326 | 947 | 523 |
| Unit-based compensation expense | 322 | 40 | 516 | 80 |
| Gain (loss) on disposal of income-producing properties | - | 113 | - | (828) |
| Future income tax recovery | (12,028) | - | (12,028) | - |
| Other adjustments ⁽¹⁾ | 300 | 397 | 600 | 397 |
| DI | \$ 8,579 | \$ 3,567 | \$ 14,487 | \$ 6,129 |

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

Q2-07 DI has increased \$5,012 (YTD - \$8,358), or 140.5% (YTD - 136.4%) over Q2-06. This significant increase is attributed to the impact of acquisitions since June 30, 2006. Basic DI per unit increased \$0.07, or 23.3% (YTD - \$0.09 (13.2%), over Q2-06 (\$0.09, or 15.3%, on a diluted basis). As the current quarter's acquisitions were not owned for the full period, management anticipates there will be further growth in DI per unit (basic and diluted) from these acquisitions in future periods, as well as from future acquisitions that management expects to fund from the remaining proceeds of the June 2007 equity offering.

Funds from Operations ("FFO"):

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

Reconciliation of Cash Flows from Operations to FFO:

| <i>\$000's, except unit and per unit amounts</i> | Three month period ended June 30, | | Six month period ended June 30, | |
|---|--|-----------------|--|-----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Cash flow from operations | \$ 5,403 | \$ 3,377 | \$ 12,278 | \$ 2,397 |
| Deduct amortization of: | | | | |
| Office equipment | (2) | (1) | (3) | (2) |
| Above-market rent | (48) | (56) | (95) | (110) |
| Deferred financing costs | - | (185) | - | (319) |
| Below-market rent | 2,126 | 661 | 3,201 | 1,191 |
| Above-market mortgages | 29 | 15 | 57 | 24 |
| Add: | | | | |
| Straight-line rent adjustment | 315 | 220 | 565 | 385 |
| Deduct: | | | | |
| Accretion on liability component of convertible debentures | (490) | (326) | (947) | (523) |
| Unit-based compensation expense | (322) | (40) | (516) | (80) |
| Amortization of deferred financing costs included in interest | (52) | - | (101) | - |
| Changes in non-cash operating items | 699 | (943) | (1,678) | 2,008 |
| Other adjustments ⁽¹⁾ | 300 | 397 | 600 | 397 |
| FFO for the period | \$ 7,958 | \$ 3,119 | \$ 13,361 | \$ 5,368 |
| FFO per unit | | | | |
| Basic | \$ 0.34 | \$ 0.26 | \$ 0.63 | \$ 0.52 |
| Diluted | \$ 0.34 | \$ 0.26 | \$ 0.62 | \$ 0.47 |
| Weighted average number of units: | | | | |
| Basic ⁽²⁾ | 23,325,672 | 11,850,099 | 21,268,979 | 10,392,545 |
| Diluted ⁽²⁾ | 23,512,419 | 12,074,314 | 21,423,769 | 12,208,254 |

⁽¹⁾ Added back to Q2-07 FFO is \$300 of Property rent (Q2-06 - \$nil), which is cash revenue earned pursuant to the Interplex II purchase and sale agreement not recorded as revenue in the REIT's Consolidated Statement of Operations and Deficit due to the project being in the development phase. Included in Q2-06 FFO is \$397 of costs attributable to an unsuccessful bid on a portfolio of assets.

⁽²⁾ The weighted average number of units used in the calculation of FFO per unit in Q2-07 reflects 721,347 of class B units issued by the REIT's subsidiary, AXLP. Options and convertible debentures are factored into the diluted weighted average calculation, to the extent that their impact is dilutive.

Reconciliation of GAAP Income (Loss) to FFO:

| \$000's, except unit and per unit amounts | Three month period ended June 30, | | Six month period ended June 30, | |
|--|--------------------------------------|-----------------|------------------------------------|-----------------|
| | 2007 | 2006 | 2007 | 2006 |
| Income (loss) for the period | \$ 10,276 | \$ (3,110) | \$ 7,619 | \$ (4,619) |
| Add amortization on: | | | | |
| Income-producing properties | 4,340 | 2,211 | 7,600 | 4,017 |
| Acquired in-place leases | 4,874 | 3,470 | 9,222 | 6,341 |
| Customer relationships | 5 | 5 | 11 | 11 |
| Tenant inducements and leasing costs | 191 | 33 | 337 | 49 |
| Gain (loss) on disposal of income-producing properties | - | 113 | - | (828) |
| Future income tax recovery | (12,028) | - | (12,028) | - |
| Other adjustments ⁽¹⁾ | 300 | 397 | 600 | 397 |
| FFO for the period | \$ 7,958 | \$ 3,119 | \$ 13,361 | \$ 5,368 |

⁽¹⁾ Added back to Q2-07 FFO is \$300 of Property rent (Q2-06 - \$nil), which is cash revenue earned pursuant to the Interplex II purchase and sale agreement not recorded as revenue in the REIT's Consolidated Statement of Operations and Deficit due to the project being in the development phase. Included in Q2-06 FFO is \$397 of costs attributable to an unsuccessful bid on a portfolio of assets.

Q2-07 FFO has increased \$4,839, or 155.1% (YTD - \$7,993, or 148.9%), over Q2-06. This significant increase is attributed to the impact of acquisitions since June 30, 2006. Basic FFO per unit has increased by \$0.08, or (30.8%) (YTD - \$0.11, or 21.2%), over Q2-06. On a diluted basis, FFO has increased \$0.08, or 30.8% (YTD - \$0.15, or 31.9%). As the current quarter's acquisitions were not owned for the full period, management anticipates there will be further growth in FFO per unit (basic and diluted) from these acquisitions in future periods, as well as from future acquisitions that management expects to fund from the remaining proceeds of the June 2007 equity offering.

ANALYSIS OF FINANCIAL POSITION

Assets

| \$000's | June 30, 2007 | December 31, 2006 | Increase |
|---|-------------------|----------------------|-------------------|
| Income-producing properties | \$ 603,036 | \$ 388,845 | \$ 214,191 |
| Other assets, including intangibles | 115,303 | 78,173 | 37,130 |
| Deposits on income-producing properties | 12,853 | 10,343 | 2,510 |
| Cash and cash equivalents | 62,849 | 15,579 | 47,270 |
| | \$ 794,041 | \$ 492,940 | \$ 301,101 |

Income-producing properties and related intangible assets:

The REIT's income-producing properties and related intangible assets increased significantly, reflecting the acquisition of six income-producing properties during Q2-07, as follows:

| Property | Location | Acquisition Date | Type |
|---|-------------------------------------|------------------|------------|
| MTS Call Centre | 365 Osborne Street, Winnipeg, MB | April 1, 2007 | Office |
| Windley - Albert St ⁽¹⁾ | 488 Albert Street, Nanaimo, BC | June 19, 2007 | Office |
| Windley - Metral Drive ⁽¹⁾ | 6475 Metral Drive, Nanaimo, BC | June 19, 2007 | Office |
| Windley - Aulds Corner ⁽¹⁾ | 6551 Aulds Road, Nanaimo, BC | June 19, 2007 | Retail |
| Imperial Equities - Can-K ⁽²⁾ | 8220 Davies Road, Edmonton, AB | June 30, 2007 | Industrial |
| Imperial Equities - Mayfield ⁽²⁾ | 11304/24 - 163 Street, Edmonton, AB | June 30, 2007 | Industrial |

⁽¹⁾ The Windley properties were acquired as a portfolio.

⁽²⁾ The Imperial Equities properties were acquired as a portfolio.

The results of operations for the acquired properties are included in the REIT's accounts from the dates of acquisition. Artis funded these acquisitions from cash on hand, from the proceeds of new or assumed mortgage financing and from the proceeds of the equity financing completed in June, 2007. The acquisitions have been accounted for by the purchase method, with a portion of the purchase price allocated to income-producing properties and a portion allocated to intangible assets and liabilities, as noted below.

| <i>\$000's</i> | Three month period ended June 30, | | Six month period ended June 30, | |
|--|--------------------------------------|------------------|------------------------------------|-------------------|
| | 2007 | 2006 | 2007 | 2006 |
| | Cash consideration | \$ 35,933 | \$ 20,283 | \$ 108,376 |
| New or assumed mortgages including above-market mortgage | 10,800 | 23,333 | 117,591 | 69,233 |
| Net assets acquired | \$ 46,733 | \$ 43,616 | \$ 225,967 | \$ 115,330 |
| Allocated to income-producing properties | \$ 45,030 | \$ 40,998 | \$ 221,432 | \$ 101,662 |
| Allocated to other assets | 3,683 | 4,945 | 20,908 | 18,174 |
| Allocated to intangible liabilities | (1,980) | (2,327) | (16,373) | (4,506) |
| Net assets acquired | \$ 46,733 | \$ 43,616 | \$ 225,967 | \$ 115,330 |

Property under development:

Included in income-producing properties is property under development of which \$2,681 represents a 50% undivided interest in land in Calgary, Alberta. The lands are to be developed into a 211,000 square foot Class A office building (known as Interplex III) in accordance with a co-ownership agreement between the vendor of the lands and the REIT's subsidiary, AXLP. The development is anticipated to commence in 2007 and is slated for completion in 2009.

Future income tax assets:

Effective with Q2-07, as a result of the New SIFT Rules (discussed in more detail above under the heading "Future Income Taxes"), the REIT has recorded future income tax assets, comprised of the following major components:

| | |
|---|------------------|
| Future income tax assets (liabilities): | |
| Properties | \$ 5,561 |
| Issue costs | 4,437 |
| Losses carried-forward | 2,323 |
| Other | (293) |
| | \$ 12,028 |

Capital expenditures:

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

These non-recoverable capital expenditures in Q2-07 totaled \$46 (YTD - \$357) compared to \$44 in Q2-06 (YTD - \$96), which were primarily related to the completion of the total redevelopment of a full floor in one of the REIT's office buildings. Management considers the redevelopment project to be revenue enhancing, as the space is being improved from Class "C" building standards to Class "B" building standards, which is expected to translate into higher rents on lease-up.

Tenant Inducements and leasing costs:

Other assets of the REIT includes \$4,758 of unamortized tenant inducement and leasing costs related to the leasing or re-leasing of occupied or vacant space at June 30, 2007, compared to \$3,406 at December 31, 2006. Tenant inducements include costs incurred to improve the space, as well as allowances paid to tenants. Leasing costs are primarily brokers' commissions. These costs are deferred and amortized over the terms of the underlying leases. In Q2-07, Artis incurred \$1,037 (YTD - \$1,736) of tenant inducements and leasing costs compared to \$345 (YTD - \$584) in Q2-06.

| \$000's | Three month period ended June 30, | | Six month period ended June 30, | |
|---------------------|--------------------------------------|--------|------------------------------------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| Tenant inducements | \$ 615 | \$ 197 | \$ 1,183 | \$ 336 |
| Leasing commissions | 422 | 148 | 553 | 248 |
| Total | \$ 1,037 | \$ 345 | \$ 1,736 | \$ 584 |

Deferred recoverable operating costs:

Deferred recoverable operating costs include major repair or replacement items (such as HVAC, elevator or roof replacements) that are recoverable from tenants under leases. These costs are deferred when incurred and amortized to recoverable expenses over the planned period of recovery. In Q2-07, Artis incurred \$139 (YTD - \$457) of tenant inducements and leasing costs compared to \$nil (YTD - \$nil) in Q2-06.

Deposits on income-producing properties:

At June 30, 2007, Artis had made \$5,324 of deposits on income-producing properties, related to the unconditional agreements to acquire income-producing properties during the subsequent quarters of 2007.

Also included in deposits on income-producing properties at June 30, 2007, is \$7,529 which represents an interim payment, net of adjustments, made towards the final purchase price of the Interplex II property, currently under development. The initial payment of \$7,800 was paid by issuing Class B units of the REIT's subsidiary AXLP. In accordance with GAAP, the initial deposit has been reduced by the \$800 earned by the REIT under the terms of the Interplex II purchase and sale agreement up to June 30, 2007, offset by the \$286 (2006, \$143) distributions paid (or payable) on the Class B units issued and the \$100 of costs that were incurred related to this project.

Cash and cash equivalents:

At June 30, 2007, the REIT had \$62,849 of cash and cash equivalents on hand, including cash held in trust (compared to \$15,579 at December 31, 2006), reflecting the remaining proceeds from the June 2007 prospectus offering. The balance is anticipated to be invested in income-producing property in subsequent periods, or used for working capital purposes.

Liabilities

| \$000's | June 30, | | December 31, | | Increase |
|-------------------|------------|----|--------------|----|----------|
| | 2007 | | 2006 | | |
| Long-term debt | \$ 419,962 | \$ | 312,844 | \$ | 107,118 |
| Other liabilities | 38,104 | | 21,976 | | 16,128 |
| | \$ 458,066 | \$ | 334,820 | \$ | 123,246 |

Long-term debt is comprised of mortgages and other loans related to properties as well as the carrying value of convertible debentures issued by the REIT. In accordance with GAAP, the REIT's convertible debentures on issue are separated into a liability and an equity component; with the liability component, or "carrying value" included in long-term debt of the REIT.

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

At June 30, 2007, Artis had reduced its debt to GBV ratio to 45.8%, from 52.1% at December 31, 2006. The substantial reduction in leverage at June 30, 2007 is primarily attributed to the significant balance of cash on hand that is available for future investment in income-producing properties.

| <i>\$000's</i> | | June 30 2007 | | December 31 2006 |
|--|----|-------------------------|----|-----------------------------|
| GBV | \$ | 841,471 | \$ | 523,081 |
| Mortgages and loans secured by properties ⁽¹⁾ | | 385,735 | | 272,341 |
| Mortgages and loans to GBV | | 45.8 % | | 52.1 % |
| Carrying value of convertible debentures | \$ | 34,227 | \$ | 40,503 |
| Total long-term debt | | 419,962 | | 312,844 |
| Total long-term debt to GBV | | 49.9 % | | 59.8 % |

(1) Includes \$556 mark-to-market on above-market mortgages

Mortgages:

Artis finances acquisitions in part through the assumption of mortgage financing and consequently substantially all of the REIT's income-producing properties are pledged as security under mortgages and other loans. In Q2-07, Artis assumed or obtained new mortgage financing of \$10,800 (YTD - \$117,591) in conjunction with the Q2-07 acquisitions. In Q2-07, \$1,585 of principal repayments were made (YTD - \$2,885). There were no mortgages that matured or were refinanced during the current period.

As a result of the adoption of new accounting standards effective January 1, 2007, Artis has reduced the carrying value of its mortgage debt by \$1,410, netting the financing costs against the carrying value of the debt. Interest and financing costs are amortized on an effective interest basis; the weighted average effective rate for the period ending June 30, 2007 was 5.43% (compared to the weighted average nominal rate on the mortgage debt of 5.34%).

The weighted average term to maturity at June 30, 2007 is 6.4 years, compared to 7.0 years at December 31, 2006.

Convertible Debentures:

Artis has three series of convertible debentures outstanding as at June 30, 2007, as follows:

| | | | | June 30, 2007 | | December 31, 2006 | |
|----------|----------|-----------|-----------|--------------------------|------------|------------------------------|------------|
| | | | | Carrying value | Face value | Carrying value | Face value |
| | Issued | Maturity | Face rate | | | | |
| Series A | 4-Aug-05 | 4-Aug-10 | 7.75% | \$ 3,710 | \$ 4,552 | \$ 8,699 | \$ 10,185 |
| Series B | 9-Nov-05 | 9-Nov-10 | 7.50% | 8,719 | 10,862 | 9,093 | 10,862 |
| Series C | 4-May-06 | 31-May-13 | 6.25% | 21,798 | 29,920 | 22,711 | 30,000 |
| | | | | \$ 34,227 | \$ 45,334 | \$ 40,503 | \$ 51,047 |

As a result of the adoption of new accounting standards effective January 1, 2007, Artis has reduced the carrying value of its debentures by \$2,266, netting the financing costs against the carrying value of the debentures. Interest and financing costs are amortized on an effective interest basis; this accretion increased the carrying value by \$490 in Q2-07 (YTD - \$947).

During Q2-07, Series A and C convertible debentures with a face value of \$5,113 (YTD - \$5,703) were converted and 409,530 (YTD - 456,443) units were issued. The carrying value was reduced by \$4,130 (YTD - \$4,597).

Other liabilities:

Other liabilities includes the unamortized below-market rent intangible liability of \$26,467 at June 30, 2007. This increased \$13,126 from \$13,341 at December 31, 2006, as a result of acquisition activity. Also included in other liabilities are security deposits paid by tenants, rents prepaid by tenants at June 30, 2007, accounts payable and accruals, as well as the June 30, 2007 distribution payable to unitholders of \$2,403, subsequently paid on July 15, 2007.

Non-Controlling Interest

In accordance with GAAP, the amount of equity related to the issue of 721,347 Class B units of a subsidiary, AXLP, (net of costs of issuance) was recorded as a non-controlling interest of the REIT. The Class B units are exchangeable on a one-for-one basis with units of Artis, and holders of the Class B units of AXLP are entitled to receive distributions at a per unit amount equal to the per unit amount payable to holders of Artis trust units. The balance of non-controlling interest at June 30, 2007, after making certain adjustments required under GAAP, is \$10,275 (see Note 12 of the accompanying Interim Consolidated Financial Statements for further details).

Unitholders' Equity

Unitholders' equity increased by \$177,948 between June 30, 2007 and December 31, 2006. Equity was increased by the issue of 5,232,500 units at a price of \$17.60 per unit for net proceeds of \$88,031, pursuant to the prospectus dated May 29, 2007, and \$87,870 by the issue of 5,807,500 units at a price of \$15.85 per unit, pursuant to the prospectus dated February 27, 2007.

Unitholders' equity increased during the current period by a further \$4,130 as a result of the conversion of a principal amount of \$5,113 of Series A and Series C convertible debentures. Other transactions increasing Unitholders' equity in the period included issuance of units under the REIT's distribution reinvestment and unit purchase plan (the "DRIP") and adjustments to contributed surplus to reflect unit-based compensation expense in the period.

Unitholders' equity increased during Q2-07 by the net income for the period and the provision for future income taxes less the distributions made to unitholders.

LIQUIDITY AND CAPITAL RESOURCES

In Q2-07 Artis generated \$5,403 (YTD - \$12,278) of cash flows from operating activities compared to \$3,377 in Q2-06 (YTD - \$2,397). Cash flows from operations assisted in funding distributions to Unitholders of \$6,120 (YTD - \$11,119), distributions to Class B unitholders of \$189 (YTD - \$379), and for principal repayments on mortgages and loans of \$1,585 (YTD - \$2,885). As the current year's acquisitions were not owned for the full period, management anticipates that cash flows from operations will increase in future periods as a result of these acquisitions.

Artis realized net proceeds of \$88,031 from the issuance of units pursuant to the May 29, 2007 prospectus. These proceeds, as well as cash on hand and deposits on income-producing properties at the beginning of the period, were used to finance the cash portion of acquisitions of income-producing properties in the period, totaling \$35,933 (YTD - \$108,376) compared to \$20,283 in Q2-06 (YTD - \$46,097). Cash of \$1,059 (YTD - \$2,093) was used for substantive capital building improvements and for tenant inducements and leasing costs compared to \$345 in Q2-06 (YTD - \$832). Cash of \$14,000 was used to invest in the mortgage receivable with respect to the property known as Capital Place (see the *2007 Outlook - Subsequent Events* section for further details).

At June 30, 2007, Artis had \$62,849 of cash and cash equivalents on hand. Management anticipates that the cash on hand will be invested in additional income-producing properties, subsequent to June 30, 2007, or used for working capital purposes.

Artis is not in default or arrears on any of its obligations, including distributions to unitholders, interest or principal payments on debt or any debt covenants.

Contractual obligations:

| \$000's | Total | Less than 1 year | 1 - 3 years | 4 - 5 years | After 5 years |
|---|-------------------|---------------------|------------------|-------------------|-------------------|
| Mortgages and other loans secured by properties ⁽¹⁾ | \$ 386,589 | \$ 11,021 | \$ 36,464 | \$ 123,579 | \$ 215,525 |
| Convertible debentures ⁽²⁾ | 45,334 | - | - | 15,414 | 29,920 |
| Total | \$ 431,923 | \$ 11,021 | \$ 36,464 | \$ 138,993 | \$ 245,445 |

⁽¹⁾ Not including \$556 of mark-to-market on mortgages and deferred financing costs.

⁽²⁾ It is assumed that none of the convertible debentures are converted or redeemed prior to maturity and that they are paid out in cash on maturity.

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

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

SUMMARIZED QUARTERLY INFORMATION:

| <i>\$000's, except unit and per unit amounts</i> | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|-----------|
| | Q2-07 | Q1-07 | Q4-06 | Q3-06 | Q2-06 | Q1-06 | Q4-05 | Q3-05 |
| Revenue | \$ 22,759 | \$ 17,609 | \$ 16,489 | \$ 15,744 | \$ 11,932 | \$ 9,357 | \$ 6,547 | \$ 1,728 |
| Property operating expenses | 7,671 | 5,980 | 6,077 | 5,665 | 3,912 | 3,617 | 2,728 | 355 |
| Property NOI | 15,088 | 11,629 | 10,412 | 10,079 | 8,020 | 5,740 | 3,819 | 1,373 |
| Interest | 6,366 | 5,427 | 4,834 | 5,277 | 3,986 | 2,906 | 2,150 | 634 |
| | 8,722 | 6,202 | 5,578 | 4,802 | 4,034 | 2,834 | 1,669 | 739 |
| Expenses: | | | | | | | | |
| Corporate | 1,061 | 1,098 | 973 | 532 | 1,125 | 451 | 584 | 219 |
| Amortization | 9,413 | 7,761 | 7,864 | 7,545 | 5,906 | 4,833 | 3,284 | 665 |
| | 10,474 | 8,859 | 8,837 | 8,077 | 7,031 | 5,284 | 3,868 | 884 |
| Loss before the under-noted | (1,752) | (2,657) | (3,259) | (3,275) | (2,997) | (2,450) | (2,199) | (145) |
| Gain (loss) on disposal of income-producing properties | - | - | - | - | (113) | 941 | - | - |
| Loss before income taxes | \$ (1,752) | \$ (2,657) | \$ (3,259) | \$ (3,275) | \$ (3,110) | \$ (1,509) | \$ (2,199) | \$ (145) |
| Future income tax recovery | 12,028 | - | - | - | - | - | - | - |
| Income (loss) for the period | \$ 10,276 | \$ (2,657) | \$ (3,259) | \$ (3,275) | \$ (3,110) | \$ (1,509) | \$ (2,199) | \$ (145) |
| Basic income (loss) per unit | \$ 0.45 | \$ (0.14) | \$ (0.22) | \$ (0.27) | \$ (0.26) | \$ (0.17) | \$ (0.31) | \$ (0.04) |
| Diluted income (loss) per unit | \$ 0.41 | \$ (0.14) | \$ (0.22) | \$ (0.27) | \$ (0.26) | \$ (0.17) | \$ (0.31) | \$ (0.04) |

Reconciliation of GAAP Income (Loss) to DI:

| \$000's, except unit and per unit amounts | | | | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|
| | Q2-07 | Q1-07 | Q4-06 | Q3-06 | Q2-06 | Q1-06 | Q4-05 | Q3-05 |
| Income (loss) for the period | \$ 10,276 | \$ (2,657) | \$ (3,259) | \$ (3,275) | \$ (3,110) | \$ (1,509) | \$ (2,199) | \$ (145) |
| Add: | | | | | | | | |
| Amortization (excluding amortized leasing costs) | 9,219 | 7,614 | 7,504 | 7,260 | 5,686 | 4,683 | 3,193 | 626 |
| Amortized financing costs on convertible debentures | - | - | 163 | 163 | 115 | 92 | 65 | 37 |
| Accretion on liability component of debentures | 490 | 457 | 172 | 399 | 326 | 197 | 162 | 73 |
| Unit-based compensation expense | 322 | 194 | 382 | 40 | 40 | 40 | 157 | - |
| (Gain) loss on disposal of income-producing properties | - | - | - | - | 113 | (941) | - | - |
| Future income tax recovery | (12,028) | - | - | - | - | - | - | - |
| Other adjustments ⁽¹⁾ | 300 | 300 | 200 | - | 397 | - | - | - |
| Distributable income (DI) | \$ 8,579 | \$ 5,908 | \$ 5,162 | \$ 4,587 | \$ 3,567 | \$ 2,562 | \$ 1,378 | \$ 591 |
| DI per unit | | | | | | | | |
| Basic ⁽²⁾ | \$ 0.37 | \$ 0.31 | \$ 0.34 | \$ 0.38 | \$ 0.30 | \$ 0.29 | \$ 0.20 | \$ 0.14 |
| Diluted ⁽²⁾ | \$ 0.35 | \$ 0.30 | \$ 0.33 | \$ 0.35 | \$ 0.28 | \$ 0.27 | \$ 0.20 | \$ 0.14 |
| Weighted average number of units: | | | | | | | | |
| Basic ⁽²⁾ | 21,268,979 | 19,189,433 | 15,153,247 | 12,072,151 | 11,850,099 | 8,918,795 | 6,993,641 | 4,122,383 |
| Diluted ⁽²⁾ | 24,324,124 | 22,630,256 | 18,577,492 | 15,609,760 | 15,003,921 | 11,502,700 | 7,030,560 | 4,152,154 |

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

(2) The weighted average number of units used in the calculation of DI per unit reflects 721,347 of Class B units issued by the REIT's subsidiary, AXLP, beginning in Q4-06. Options and convertible debentures are factored into the diluted weighted average calculation, to the extent that their impact is dilutive.

Reconciliation of GAAP Income (Loss) to FFO:

| \$000's, except unit and per unit amounts | | | | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|
| | Q2-07 | Q1-07 | Q4-06 | Q3-06 | Q2-06 | Q1-06 | Q4-05 | Q3-05 |
| Income (loss) for the period | \$ 10,276 | \$ (2,657) | \$ (3,259) | \$ (3,275) | \$ (3,110) | \$ (1,509) | \$ (2,199) | \$ (145) |
| Add amortization on: | | | | | | | | |
| Income-producing properties | 4,340 | 3,260 | 3,079 | 3,010 | 2,211 | 1,806 | 1,318 | 308 |
| Acquired in-place leases | 4,874 | 4,348 | 4,419 | 4,244 | 3,470 | 2,871 | 1,869 | 312 |
| Customer relationships | 5 | 6 | 6 | 6 | 5 | 6 | 6 | 6 |
| Tenant inducements and leasing costs | 191 | 146 | 137 | 60 | 33 | 16 | 9 | - |
| Gain (loss) on disposal of income-producing properties | - | - | - | - | 113 | (941) | - | - |
| Future income tax recovery | (12,028) | - | - | - | - | - | - | - |
| Other adjustments ⁽¹⁾ | 300 | 300 | 200 | - | 397 | - | - | - |
| Funds from operations (FFO) | \$ 7,958 | \$ 5,403 | \$ 4,582 | \$ 4,045 | \$ 3,119 | \$ 2,249 | \$ 1,003 | \$ 481 |
| FFO per unit | | | | | | | | |
| Basic | \$ 0.34 | \$ 0.28 | \$ 0.30 | \$ 0.34 | \$ 0.26 | \$ 0.25 | \$ 0.14 | \$ 0.12 |
| Diluted | \$ 0.34 | \$ 0.28 | \$ 0.30 | \$ 0.33 | \$ 0.26 | \$ 0.24 | \$ 0.14 | \$ 0.12 |
| Weighted average number of units: | | | | | | | | |
| Basic | 23,325,672 | 19,189,433 | 15,153,247 | 12,072,151 | 11,850,099 | 8,918,795 | 6,993,641 | 4,122,383 |
| Diluted | 23,512,419 | 19,325,025 | 15,225,436 | 12,131,910 | 12,074,314 | 9,507,631 | 7,030,560 | 4,152,154 |

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

(2) The weighted average number of units used in the calculation of DI per unit reflects 721,347 of class B units issued by the REIT's subsidiary, AXLP, beginning in Q4-06. Options and convertible debentures are factored into the diluted weighted average calculation, to the extent that their impact is dilutive.

Artis has executed an aggressive but disciplined external growth strategy, resulting in significant growth in revenues, Property NOI, DI and FFO over the past eight quarters. Per unit results posted in Q2-07 and in Q3-06 were the strongest in the REIT's two-year history.

Management does not believe that the Q2-07 per unit results are indicative of future performance. Q2-07 was impacted by the issue of substantial units relatively late in the period, with property acquisitions delayed to later quarters. Management expects that there will be further growth in revenues, Property NOI, FFO and DI in future periods from these acquisitions, which will enhance per-unit performance in future periods.

RELATED PARTY TRANSACTIONS

| | Three month period ended | | Six month period ended | |
|--------------------------|--------------------------|--------|------------------------|--------|
| | June 30, | | June 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Legal fees - expensed | \$ 1 | \$ 150 | \$ 68 | \$ 154 |
| Legal fees - capitalized | 479 | 276 | 928 | 455 |
| Advisory fees | 415 | 201 | 734 | 361 |
| Acquisition fees | 279 | 213 | 1,207 | 568 |
| Property management fees | 735 | 404 | 1,350 | 730 |
| Leasing commissions | - | 149 | 112 | 248 |
| Building improvements | 38 | 33 | 286 | 85 |
| Tenant inducements | 292 | - | 435 | - |
| Consulting fees | - | 34 | - | 34 |
| Interest expense | - | 28 | - | 62 |

The REIT incurred legal fees with a law firm associated with a trustee of the REIT in connection with the prospectus offerings, the property acquisitions and general business matters. The amount payable at June 30, 2007 is \$50 (2006, \$124).

The REIT incurred advisory fees and acquisition fees under the asset management agreement with Marwest Management Canada Ltd. ("Marwest"), a company owned and controlled by certain trustees and officers of the REIT. The amount payable at June 30, 2007 is \$nil (2006, \$nil). Under the asset management agreement, Marwest is entitled to an annual advisory fee equal to 0.25% of the adjusted cost base of the REIT's assets and an acquisition fee equal to 0.5% of the cost of each property acquired.

Artis has the option to terminate the asset management agreement in certain circumstances, including at any time on 120 days' notice to Marwest in the event that the REIT decides to internalize its management, with no termination fee or penalty payable (unless such termination occurs following a take-over bid of the REIT, in which case Marwest is entitled to receive a termination fee equal to the anticipated fees payable until the end of the term). Marwest and its affiliated companies (collectively, the "Marwest Group") have granted a right of first refusal to Artis with respect to office, retail and industrial properties which are presented to or developed by a member of the Marwest Group. The right of first refusal remains in effect for so long as Marwest is the asset manager of the REIT.

The REIT incurred property management fees, leasing commission fees, and tenant improvement fees under the property management agreement with Marwest. The amount payable at June 30, 2007 is \$nil (2006, \$90). Marwest acts as the general property manager for the REIT's properties and is entitled to management fees, leasing renewal commissions and tenant improvement fees at commercially reasonable rates.

The REIT incurred costs for building improvements and tenant inducements paid to Marwest Construction Ltd., a company related to certain trustees and officers of the REIT. The amount payable at June 30, 2007 is \$151 (2006, \$nil).

OUTSTANDING UNIT DATA

The balance of units outstanding as of August 10, 2007, not including Class B units, is as follows:

| | |
|--------------------------------------|-------------------|
| Units outstanding at June 30, 2007 | 26,743,352 |
| Units issued (DRIP) | 3,208 |
| Units issued on exercise of options | <u>33,439</u> |
| Units outstanding at August 10, 2007 | <u>26,779,999</u> |

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

| | Options outstanding | Options exercisable |
|--|------------------------|------------------------|
| \$11.25 options, issued December 8, 2005 | 249,320 | 36,025 |
| \$14.40 options, issued October 11, 2006 | 422,500 | 92,500 |
| \$15.85 options, issued February 8, 2007 | 288,750 | 69,000 |
| \$17.60 options, issued June 11, 2007 | <u>333,050</u> | <u>83,263</u> |
| | <u>1,293,620</u> | <u>280,788</u> |

2007 OUTLOOK

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

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

Subsequent Events

On July 5, 2007, the REIT acquired TransAlta Place, located in Calgary, Alberta, and a promissory note in the amount of \$31,000. The property and promissory note were acquired for \$123,981 and the purchase price was satisfied with a combination of cash and new mortgage financing in the amount of \$80,588 bearing interest at a rate of 5.63%. The promissory note bears interest at 5.89% per annum, is repayable in blended monthly instalments of principal and interest, and matures on May 1, 2023.

On July 11, 2007, 10,000 of the outstanding options issued under the unit option plan were exercised at a price of \$14.40 per unit. On July 12, 2007, 14,219 options were exercised at a price of \$11.25 per unit. On July 21, 2007, 9,220 options were exercised at a price of \$11.25 per unit.

On July 24, 2007 the mortgage receivable, including accrued interest, was repaid.

On July 31, 2007 first mortgage financing in the amount of \$17,300 was received on the Windley properties. The mortgage bears interest at 5.57% and matures on August 1, 2017.

The REIT has entered into agreements with respect to the acquisition of one property located in Delta, British Columbia, and a 38% undivided interest in a second property located in Winnipeg, Manitoba. The total purchase price of the two properties is \$62,950. The REIT anticipates that the acquisitions will close in August, 2007.

RISKS AND UNCERTAINTIES

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

Tax Risk:

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

The New SIFT Rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Exception"). In order to qualify for the REIT Exception, a trust must meet a number of technical tests that do not fully accommodate common real estate and business structures. The REIT is currently reviewing the New SIFT Rules and is assessing their interpretation and application to the REIT's assets and revenues. There are uncertainties in the interpretation and application of the New SIFT Rules and it is not possible, at the current time, to determine with certainty whether the REIT will meet the conditions of the REIT Exception.

If the REIT does not meet the REIT Exception, the REIT may need to restructure its affairs in order to minimize, or if possible eliminate, the impact of the New SIFT Rules. There can be no assurances, however, that the REIT would be able to restructure such that the REIT would not be subject to the tax imposed by the New SIFT Rules, or that any such restructuring, if implemented, would not result in material costs or other adverse consequences to the REIT and its unitholders.

Credit Risk and Tenant Concentration:

Artis is exposed to risk as tenants may be unable to pay their contracted rents. Management mitigates this risk by seeking to acquire properties across several asset classes. As well, management seeks to acquire properties with strong tenant covenants in place. As at June 30, 2007, government tenants contribute 12.1% to the REIT's overall gross revenue and occupy 11.8% of total GLA. The REIT's ten top tenants (excluding government agencies) are primarily high credit rated national retailers or businesses. As indicated below, the largest tenant in the entire portfolio contributed less than 5% to the gross revenue of the REIT and occupied 3.7% of the GLA.

| Top Ten Tenants by GLA | Share | Top Ten Tenants by Gross Revenue | Share |
|--------------------------------|--------------|--|--------------|
| Jacobs Canada | 3.7% | Jacobs Canada | 4.5% |
| Sears | 2.6% | Credit Union Central | 3.0% |
| Credit Union Central | 2.1% | Shoppers Drug Mart | 2.4% |
| Shoppers Drug Mart | 2.0% | Cineplex Odeon | 2.0% |
| MTS Allstream | 1.9% | MTS Allstream | 2.0% |
| Cineplex Odeon | 1.6% | Komex International | 1.6% |
| BW Technologies (Honeywell) | 1.5% | BW Technologies (Honeywell) | 1.5% |
| Rosedale Transport | 1.3% | Cooperators General Insurance | 1.1% |
| Komex International | 1.2% | NOVA Chemicals | 1.0% |
| Portage Cartage | 1.2% | Columbia College Corp | 1.0% |
| Total of Top Ten by GLA | 19.1% | Total of Top Ten by Gross Revenue | 20.1% |

| Government Entities by GLA | Share | Government Entities by Gross Revenue | Share |
|-----------------------------------|--------------|---|--------------|
| Federal Government | 3.5% | Federal Government | 3.7% |
| Provincial Government | 6.3% | Provincial Government | 6.4% |
| Civic or Municipal Government | 2.0% | Civic or Municipal Government | 2.0% |
| Total Government by GLA | 11.8% | Total Government by Gross Revenue | 12.1% |

Lease Rollover Risk:

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

Approximately 30.6% of the REIT's GLA will come up for renewal in the remainder of 2007 through to 2009; approximately 64.0% of those expiries are in the province of Alberta. Management believes there is substantial upside to be realized from the below market leases coming up for renewal in Alberta, particularly in the strong Calgary office market. Alberta, particularly Calgary, has seen steadily declining vacancy rates with corresponding and substantial increases in market rent rates across all categories of commercial real estate.

Other Risks:

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

CRITICAL ACCOUNTING ESTIMATES

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

Allocation of purchase price of income-producing properties:

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

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

Impairment of assets:

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

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

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

There were no impairments for the three or six months ended June 30, 2007.

Amortization:

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

Allocation of convertible debentures:

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

Future income tax valuation:

Future income taxes are estimated based upon temporary differences between the assets and liabilities reported on the REIT's consolidated financial statements and the tax basis of those assets and liabilities as determined under applicable tax laws. Future income tax assets are recognized when it is more likely than not that they will be realized prior to their expiration. This assumption is based on management's best estimate of future circumstances and events, including the timing and amount of projected future taxable income, and will be tested on a regular basis. Changes in estimates or assumptions could affect the value of future income tax assets, resulting in an income tax expense or recovery.

CHANGES IN ACCOUNTING POLICIES

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

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

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

CONTROLS AND PROCEDURES

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

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