

ARTIS

REIT

**Management's Discussion & Analysis
Q3-07**

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 September 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 November 8, 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 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 November 8, 2007, there were 31,140,044 units, and 1,556,088 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. ("AXLPL") (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.

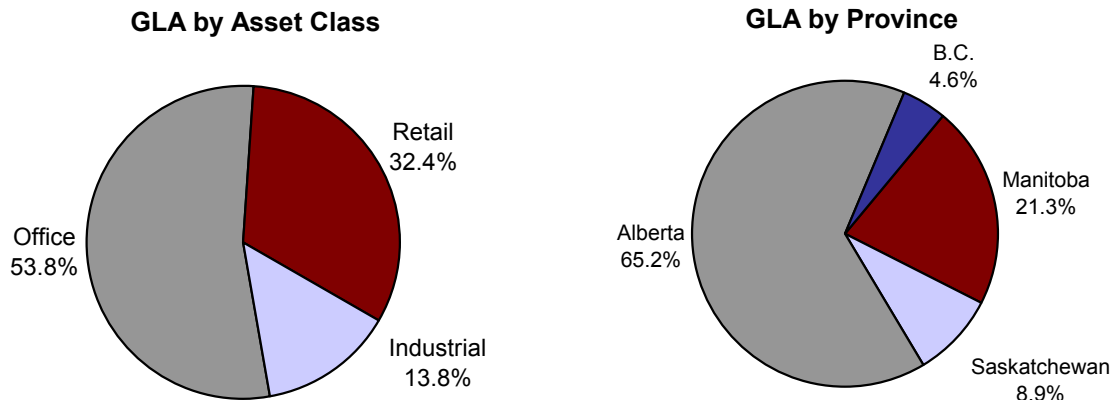
The REIT's primary objectives are:

- 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 September 30, 2007, the REIT's portfolio was comprised of 54 commercial properties located across western Canada totaling approximately 5.1 million square feet (s.f.) of gross leasable area ("GLA").



Lease Expiries by Asset Class (in 000's of s.f.) ⁽¹⁾

	Office		Retail		Industrial		Total	
	GLA	%	GLA	%	GLA	%	GLA	%
2007*	138	5.5%	29	1.9%	49	7.6%	216	4.6%
2008	439	17.5%	120	7.9%	49	7.6%	608	13.0%
2009	222	8.8%	179	11.9%	126	19.6%	527	11.3%
2010	313	12.5%	323	21.4%	56	8.7%	692	14.8%
2011	386	15.4%	181	12.0%	153	23.8%	720	15.4%
2012+	908	36.1%	652	43.2%	207	32.2%	1,767	37.9%
	2,406	95.7%	1,484	98.3%	640	99.7%	4,530	97.1%
Vacancies	108	4.3%	26	1.7%	2	0.3%	136	2.9%
Total GLA	2,514	100.0%	1,510	100.0%	642	100.0%	4,666	100.0%

*including month-to-month leases

Lease Expiries by Province (in 000's of s.f.) ⁽¹⁾

	Alberta		British Columbia		Manitoba		Saskatchewan	
	GLA	%	GLA	%	GLA	%	GLA	%
2007*	78	2.6%	19	8.9%	102	10.2%	17	4.1%
2008	472	15.5%	8	3.7%	64	6.4%	64	15.4%
2009	346	11.4%	26	12.1%	108	10.8%	47	11.3%
2010	468	15.4%	41	19.2%	98	9.8%	85	20.4%
2011	575	18.9%	19	8.9%	86	8.6%	40	9.6%
2012+	1066	35.1%	100	46.7%	451	45.3%	150	36.1%
	3,005	98.8%	213	99.5%	909	91.3%	403	96.9%
Vacancies	35	1.2%	1	0.5%	87	8.7%	13	3.1%
Total GLA	3,040	100.0%	214	100.0%	996	100.0%	416	100.0%

* including month-to-month leases

Historical Weighted Average Portfolio Occupancy ⁽¹⁾

Q1-06	Q2-06	Q3-06	Q4-06	Q1-07	Q2-07	Q3-07
93.5%	94.9%	95.8%	95.8%	96.3%	97.2%	97.1%

(1) Based on Artis' proportionate share of the total 5.1 million s.f. of leaseable area

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.

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.

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, including guidance relating to the disclosure of distributable income. The REIT adopted the required disclosure in the current period.

2007 – THIRD QUARTER HIGHLIGHTS

Portfolio Growth

In Q3-07, Artis acquired four commercial properties in western Canada, adding over 1,030,000 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
Q3-07 Acquisitions ⁽²⁾	2	875	1	134	1	20	4	1,029
Total 2007 Acquisitions	10	1,501	3	226	6	446	19	2,173
Less Disposition	-	-	1	41	-	-	1	41
Portfolio properties at September 30, 2007	22	2,868	23	1,547	9	642	54	5,057

⁽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.

⁽²⁾ In Q3-07, Artis acquired a 38% ownership interest in the Winnipeg Square property; 100% of the property's s.f. is included in the above table.
 Approximately 11% of the GLA is allocated to Retail GLA.

Highlights of the REIT's Q3-07 acquisition activity include the purchase of TransAlta Place, a single-tenant office building located in the Calgary Beltline District. TransAlta Place is comprised of over 336,000 square feet of leasable area, and is 100% occupied. Artis also acquired a 38% interest in Winnipeg Square, an office and retail building located in Winnipeg which is comprised of nearly 598,000 square feet of leasable area. The Pepco Building, an industrial building located in Nisku, AB is comprised of 20,000 square feet of leasable area and is 100% occupied. Delta Shoppers, located in Delta, BC is a five building strip mall with nearly 75,000 square feet of leasable area and is 99% occupied.

Effective September 1, 2007, the REIT disposed of Royal Square. The proceeds, net of costs, were \$4,601. Consideration received was the assumption of the existing mortgage in the amount of \$1,729, a promissory note in the amount of \$310, and cash in the amount of \$2,562. The assets, intangible assets and liabilities associated with the property were removed from the books and a gain on sale of property in the amount of \$2,521 was recorded.

Financing Activities

On September 26, 2007, Artis announced it had entered into a bought-deal arrangement with a syndicate of underwriters for the sale of 4,230,000 units (exclusive of units issuable upon the exercise of the over-allotment option granted to the underwriters) at a price of \$17.75 per unit. The offering closed on October 17, 2007, for aggregate gross proceeds of \$75.1 million. As at November 8, 2007, the underwriters had not given notice of the exercise of their over-allotment option.

Credit Facility

On September 28, 2007 Artis entered into an agreement for a revolving term credit facility in the amount of \$75,000, which may be utilized to fund acquisitions of office, retail and industrial properties. \$7,500 of the facility may be used for general corporate purposes. As at September 30, 2007, no amounts have been drawn on the facility.

Distributions

Artis distributed a total of \$7,051 to unitholders and AXLP, the REIT's subsidiary, distributed \$189 to Class B unitholders in Q3-07 at a stable rate of \$0.0875 per unit per month (\$1.05 on an annualized basis).

Other Activity

The Board of Trustees has reviewed the issues relating to the internalization of management and has determined that internalization is not accretive to the REIT at this time. The Board will continue to review this matter on a semi-annual basis.

SELECTED FINANCIAL INFORMATION

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

	Three month period ended		Nine month period ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Revenue	\$ 27,041	\$ 15,744	\$ 67,409	\$ 37,033
Property NOI	\$ 18,656	\$ 10,079	\$ 45,373	\$ 23,818
Income (loss) for the period	\$ 877	\$ (3,275)	\$ 8,496	\$ (7,894)
Basic income (loss) per unit	\$ 0.03	\$ (0.27)	\$ 0.37	\$ (0.72)
Distributions	\$ 7,051	\$ 3,188	\$ 18,170	\$ 8,727
Distributions per unit	\$ 0.26	\$ 0.26	\$ 0.79	\$ 0.79
DI	\$ 10,471	\$ 4,587	\$ 24,958	\$ 10,716
DI per unit	\$ 0.38	\$ 0.38	\$ 1.07	\$ 0.98
DI payout ratio	68.4 %	68.4 %	73.8 %	80.6 %
FFO	\$ 10,013	\$ 4,045	\$ 23,395	\$ 9,413
FFO per unit	\$ 0.36	\$ 0.34	\$ 1.00	\$ 0.86
FFO payout ratio	72.2 %	76.5 %	79.0 %	91.9 %
Weighted average units:				
Weighted average units (basic)	26,824,956	12,072,151	22,663,067	10,958,562
Weighted average units (basic) including Class B units	27,546,303	12,072,151	23,384,414	10,958,562

Artis has acquired 21 commercial properties since September 30, 2006, increasing the portfolio to 54 commercial properties at September 30, 2007. Primarily as a result of this on-going acquisition activity, Artis increased Q3-07 revenues \$11,297, or 71.8% compared to Q3-06 results (YTD - \$30,376, or 82.0%). Artis increased Property NOI \$8,577, or 85.1% compared to Q3-06 results (YTD - \$21,555, or 90.5%). As well, Artis increased DI and FFO \$5,884, or 128.3%, and \$5,968, or 147.5%, respectively, compared to Q3-06 results. On a year-to-date basis, DI and FFO increased \$14,242, or 132.9% and \$13,982, 148.5%, respectively.

On a per unit basis, basic FFO increased \$0.02 (5.9%) compared to Q3-06 results, and \$0.14 (16.3%) year-over-year. Basic DI for Q3-07 remained stable at \$0.38 per unit compared to Q3-06 and increased \$0.09 (9.2%) year-over-year. As a result of successful equity offerings closed subsequent to September 30, 2006, basic units outstanding for the calculation of DI and FFO has increased; 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 September 30, 2007. Management anticipates there will be further growth in revenues, Property NOI, DI and FFO as equity is invested in on-going acquisition activities in future periods.

Income of \$877 was reported in Q3-07, a \$4,152 increase over Q3-06, reflecting the impact of a future income tax expense of \$201 and a gain on disposal of the Royal Square property of \$2,521. The Q3-07 loss, before gain on disposal of income-producing property and future income tax expense, decreased \$1,832 over Q3-06 due to the Property NOI increase of \$8,577 being in excess of the increase of \$6,745 in non-property operating expenses.

ANALYSIS OF OPERATING RESULTS

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

	Three month period ended September 30,				Nine month period ended September 30,			
	2007	% of Revenue	2006	% of Revenue	2007	% of Revenue	2006	% of Revenue
Revenue	\$ 27,041		\$ 15,744		\$ 67,409		\$ 37,033	
Property operating expenses	8,385	31.0 %	5,665	36.0 %	22,036	32.7 %	13,215	35.7 %
Property NOI	18,656	69.0 %	10,079	64.0 %	45,373	67.3 %	23,818	64.3 %
Interest	7,684	28.4 %	5,277	33.5 %	19,457	28.9 %	12,169	32.9 %
Expenses:	10,972		4,802		25,916		11,649	
Corporate	1,257	4.6 %	532	3.4 %	3,416	5.1 %	2,087	5.6 %
Amortization	11,158		7,545		28,352		18,284	
	12,415		8,077		31,768		20,371	
Loss before the under-noted	(1,443)		(3,275)		(5,852)		(8,722)	
Gain on disposal of income-producing properties	2,521		-		2,521		828	
Income (loss) before income taxes	1,078		(3,275)		(3,331)		(7,894)	
Future income tax (expense) recovery	(201)		-		11,827		-	
Income (loss) for the period	\$ 877		\$ (3,275)		\$ 8,496		\$ (7,894)	
Basic income (loss) per unit	\$ 0.03		\$ (0.27)		\$ 0.37		\$ (0.72)	
Diluted income (loss) per unit	\$ 0.03		\$ (0.27)		\$ 0.36		\$ (0.72)	
Weighted average number of units:								
Basic	26,824,956		12,072,151		22,663,067		10,958,562	
Diluted	27,732,677		12,072,151		23,551,846		10,958,562	

Revenue and Property NOI

Revenue includes all amounts earned from tenants related to lease agreements, including basic rent, parking, operating cost and realty tax recoveries, as well as adjustments for the straight-lining of rents and above- or below-market rate adjustments recorded in accordance with GAAP.

In accordance with GAAP, Artis accounts for rent step-ups by straight-lining the incremental increases over the entire non-cancelable lease term. In Q3-07, straight-line rent adjustments of \$339 (YTD - \$904) were recorded compared to \$308 in Q3-06 (YTD - \$693).

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 September 30, 2006, Artis acquired 21 commercial properties, many in the province of Alberta, where in-place rent rates are considered to be below market rent rates. As a result, in Q3-07, the adjustment to market rents was \$3,096 (YTD - \$6,202) compared to \$947 (YTD - \$2,028) in Q3-06.

Revenue in Q3-07 included \$364 of interest earned by Artis (compared to \$102 in Q3-06).

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

For the three months ended September 30, 2007 and 2006, Property NOI as a percentage of revenue was 69.0% (YTD - 67.3%) and 64.0% (YTD - 64.3%), respectively.

Same Property NOI Growth

\$000's	Three month period ended September 30, ⁽¹⁾		Nine month period ended September 30, ⁽¹⁾	
	2007	2006	2007	2006
Revenue	\$ 9,868	\$ 9,418	\$ 28,336	\$ 26,788
Property operating expenses	3,927	3,860	11,183	10,576
Property NOI	5,941	5,558	17,153	16,212
Deduct non-cash revenue adjustments:				
Straight-line rent adjustment	(54)	(173)	(317)	(476)
Above- and below-market rent	(381)	(401)	(1,168)	(1,280)
Property NOI less non-cash revenue adjustments	\$ 5,506	\$ 4,984	\$ 15,668	\$ 14,456

⁽¹⁾ Same property comparison includes only income-producing properties owned on January 1, 2006 and September 30, 2007.

In Q3-07, Artis achieved an increase of \$383 (YTD - \$941), or 6.9% (YTD - 5.8%) of Property NOI over Q3-06. As well, Artis also achieved an increase of \$522 (YTD - \$1,212), or 10.5% (YTD - 8.4%) of Property NOI less non-cash revenue adjustments over Q3-06. These significant improvements are the 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 September 30, 2006.

\$000's Property NOI by Asset Class	Three month period ended September 30,					
	2007			2006		
	Retail	Office	Industrial	Retail	Office	Industrial
Revenue	\$ 8,123	\$ 16,741	\$ 1,812	\$ 7,156	\$ 8,075	\$ 411
Property operating expenses	2,320	5,642	423	2,023	3,522	114
Property NOI	\$ 5,803	\$ 11,099	\$ 1,389	\$ 5,133	\$ 4,553	\$ 297
Share of Property NOI	31.7 %	60.7 %	7.6 %	51.4 %	45.6 %	3.0 %

\$000's Property NOI by Asset Class	Nine month period ended September 30,					
	2007			2006		
	Retail	Office	Industrial	Retail	Office	Industrial
Revenue	\$ 23,636	\$ 37,845	\$ 4,453	\$ 17,693	\$ 18,256	\$ 414
Property operating expenses	6,925	14,059	1,047	4,822	8,273	114
Property NOI	\$ 16,711	\$ 23,786	\$ 3,406	\$ 12,871	\$ 9,983	\$ 300
Share of Property NOI	38.1 %	54.1 %	7.8 %	55.6 %	43.1 %	1.3 %

Property NOI by Province

\$000's Property NOI by Province	Three month period ended September 30, 2007				2006			
	MB	SK	AB	BC	MB	SK	AB	BC
Revenue	\$ 3,738	\$ 2,645	\$ 19,387	\$ 907	\$ 2,265	\$ 2,666	\$ 10,472	\$ 239
Property operating expenses	1,705	839	5,595	246	996	859	3,694	67
Property NOI	\$ 2,033	\$ 1,806	\$ 13,792	\$ 661	\$ 1,269	\$ 1,807	\$ 6,778	\$ 172
Share of Property NOI	11.1 %	9.9 %	75.4 %	3.6 %	12.7 %	18.0 %	67.6 %	1.7 %

\$000's	Nine month period ended September 30, 2007				2006			
	MB	SK	AB	BC	MB	SK	AB	BC
Revenue	\$ 9,286	\$ 7,971	\$ 47,232	\$ 1,443	\$ 6,531	\$ 7,533	\$ 21,589	\$ 709
Property operating expenses	4,157	2,733	14,740	406	3,034	2,374	7,617	194
Property NOI	\$ 5,129	\$ 5,238	\$ 32,492	\$ 1,037	\$ 3,497	\$ 5,159	\$ 13,972	\$ 515
Share of Property NOI	11.7 %	11.9 %	74.0 %	2.4 %	15.1 %	22.3 %	60.4 %	2.2 %

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 September 30, 2007 was 5.50%.

The REIT's weighted average nominal interest rate on mortgages and other debt secured by properties at September 30, 2007 was 5.41% compared to 5.51% at September 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 \$1,164 (YTD - \$3,649) on the carrying value of debentures outstanding in Q3-07, compared to \$1,351 (YTD - \$3,183) in Q3-06; the decrease is a result of the conversions between September 30, 2006 and September 30, 2007.

Corporate Expenses

\$000's	Three month period ended September 30,		Nine month period ended September 30,	
	2007	2006	2007	2006
Accounting, legal, consulting	\$ 374	\$ 116	\$ 730	\$ 373
Advisory fees	430	284	1,164	653
Public company costs	81	40	347	340
Annual report and AGM	-	-	123	61
Unit-based compensation	261	40	777	120
Other general and administrative	111	21	275	143
Costs related to bid on property portfolio	-	31	-	397
Total corporate expenses	\$ 1,257	\$ 532	\$ 3,416	\$ 2,087

Q3-07 advisory fees increased \$146 (YTD - \$511) over Q3-06, reflecting the increased asset base of the REIT. In Q3-07 unit-based compensation costs increased \$221 (YTD - \$657) over Q3-06, as a result of the costs attributable

to options granted subsequent to September 30, 2006. In Q3-07, accounting, legal and consulting fees increased \$258 (YTD - \$357) over Q3-06, due to additional advice relating to the new SIFT legislation and the determination of the tax status of the REIT.

Corporate expenses in Q3-07 were \$1,257, or 4.6% of gross revenues (YTD - \$3,416, or 5.1%) compared to \$532, or 3.4% of gross revenues in Q3-06 (YTD - \$2,087, or 5.6%).

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 \$5,284 in Q3-07 (YTD - \$12,884) compared to \$3,010 in Q3-06 (YTD - \$7,027). 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 Q3-07 Artis recorded \$5,678 (YTD - \$14,910) for the amortization of intangible assets, compared to \$4,250 in Q3-06 (YTD - \$10,602).

In Q3-06, amortization expense included \$224 (YTD - \$543) 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 Q3-07 includes \$61 (YTD - \$162) 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, 2007, 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 recording a future income tax asset of \$11,827 at September 30, 2007, a future income tax expense of \$201 for the three month period ended September 30, 2007, and a future income tax recovery of \$11,827 for the nine month period ended September 30, 2007. Temporary differences expected to reverse in or after 2007 have been measured using a tax rate of 32.2%.

Distributable Income ("DI") and Distributions:

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

Reconciliation of Cash Flows from Operations to DI:

<i>\$000's, except unit and per unit amounts</i>	Three month period ended September 30,		Nine month period ended September 30,	
	2007	2006	2007	2006
Cash flow from operations	\$ 5,187	\$ 6,125	\$ 17,795	\$ 8,522
Deduct amortization of:				
Office equipment	(2)	(1)	(5)	(3)
Above-market rent	(63)	(55)	(158)	(165)
Below-market rent	3,159	1,002	6,360	2,193
Tenant inducements and leasing costs	(194)	(60)	(553)	(109)
Above-market mortgage	27	28	84	52
Deferred financing costs, non-debenture	-	(61)	-	(173)
Add: Straight-line rent adjustment	339	308	904	693
Add (deduct):				
Changes in non-cash operating items	1,779	(2,699)	(207)	(691)
Deferred financing costs, non-debenture, included in interest expense	(61)	-	(162)	-
Other adjustments ⁽¹⁾				
Property rent	300	-	900	-
Property bid costs	-	-	-	397
DI for the period	\$ 10,471	\$ 4,587	\$ 24,958	\$ 10,716
DI per unit				
Basic	\$ 0.38	\$ 0.38	\$ 1.07	\$ 0.98
Diluted	\$ 0.37	\$ 0.35	\$ 0.95	\$ 0.88
Weighted Average Number of Shares				
Basic ⁽²⁾	27,546,303	12,072,151	23,384,414	10,958,562
Diluted ⁽²⁾	30,519,959	15,609,760	26,329,007	14,498,392

⁽¹⁾ Added back to Q3-07 DI is \$300 (YTD - \$900) of Property rent (Q3-06 - \$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 YTD 2006 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 Q3-07 includes the 721,347 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 DI:

<i>\$000's, except unit and per unit amounts</i>	Three month period ended September 30,		Nine month period ended September 30,	
	2007	2006	2007	2006
Income (loss) for the period	\$ 877	\$ (3,275)	\$ 8,496	\$ (7,894)
Add:				
Amortization (excluding amortized leasing costs)	10,962	7,260	27,794	17,629
Amortized financing costs on convertible debentures	-	163	-	370
Accretion on liability component of convertible debentures	391	399	1,339	922
Unit-based compensation expense	261	40	777	120
Gain on disposal of income-producing properties	(2,521)	-	(2,521)	(828)
Future income tax expense (recovery)	201	-	(11,827)	-
Other adjustments ⁽¹⁾				
Property rent	300	-	900	-
Property bid costs	-	-	-	397
DI	\$ 10,471	\$ 4,587	\$ 24,958	\$ 10,716

⁽¹⁾ Added back to Q3-07 DI is \$300 (YTD - \$900) of Property rent (Q3-06 - \$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 YTD 2006 DI is \$397 of costs attributable to an unsuccessful bid on a portfolio of assets.

Q3-07 DI has increased \$5,884 (YTD - \$14,242), or 128.3% (YTD - 132.9%) over Q3-06. This significant increase is attributed to the impact of acquisitions since September 30, 2006. Basic DI per unit remained stable at \$0.38 (YTD increase - \$0.09 or 9.2%) per unit over Q3-06. On a diluted basis, DI has increased \$0.02, or 5.7% (YTD - \$0.07, or 8.0%) per unit over Q3-06. As the current quarter's acquisitions were not owned for the full period, management anticipates there will be further growth in basic and diluted DI from these acquisitions in future periods, as well as from future acquisitions that the REIT currently has under contract.

Distributions:

Management determines the level of cash distributions based on the level of cash flow from operations before working capital changes, less actual and planned capital expenditures. As well, the REIT is committed to providing unitholders with stable and growing distributions. During the year, distributions are based on estimates of full year cash flow and capital spending; thus distributions may be adjusted as these estimates change. It is expected that normal seasonal fluctuations in working capital will be funded from cash resources. In addition, the distributions declared include a component funded by the distribution reinvestment and unit purchase plan (the "DRIP").

<i>\$000's</i>	Three month period ended September 30,		Nine month period ended September 30,		Year ended December 31,	Year ended December 31,
	2007	2007	2006	2005		
Cash flow from operations	\$ 5,187	\$ 17,795	\$ 13,620	\$ 4,706		
Net income (loss)	\$ 877	\$ 8,496	\$ (11,153)	\$ (2,519)		
Distributions declared	\$ 7,240	\$ 18,737	\$ 12,874	\$ 3,330		
(Shortfall) excess of cash flow from operations over distributions declared	\$ (2,053)	\$ (942)	\$ 746	\$ 1,376		
Shortfall of net income (loss) over distributions declared	\$ (6,363)	\$ (10,241)	\$ (24,027)	\$ (5,849)		

For the three months ended September 30, 2007, distributions declared exceeded cash flow from operations by \$2,053. For the nine months ended September 30, 2007, this shortfall was \$942. These shortfalls were the result of the timing difference between the receipt of proceeds from the June 2007 offering and the investing of those proceeds in income-producing properties. The shortfalls were funded by the DRIP, Interplex II property rent and the issuance of capital.

For the three and nine months ended September 30, 2007, distributions declared exceeded net income. These differences are mainly comprised of amortization and other non-cash adjustments.

Funds from Operations ("FFO"):

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

Reconciliation of Cash Flows from Operations to FFO:

<i>\$000's, except unit and per unit amounts</i>	Three month period ended September 30,		Nine month period ended September 30,	
	2007	2006	2007	2006
Cash flow from operations	\$ 5,187	\$ 6,125	\$ 17,795	\$ 8,522
Deduct amortization of:				
Office equipment	(2)	(1)	(5)	(3)
Above-market rent	(63)	(55)	(158)	(165)
Deferred financing costs	-	(224)	-	(543)
Below-market rent	3,159	1,002	6,360	2,193
Above-market mortgages	27	28	84	52
Add:				
Straight-line rent adjustment	339	308	904	693
Deduct:				
Accretion on liability component of convertible debentures	(391)	(399)	(1,339)	(922)
Unit-based compensation expense	(261)	(40)	(777)	(120)
Amortization of deferred financing costs included in interest	(61)	-	(162)	-
Changes in non-cash operating items	1,779	(2,699)	(207)	(691)
Other adjustments ⁽¹⁾				
Property rent	300	-	900	-
Property bid costs	-	-	-	397
FFO for the period	\$ 10,013	\$ 4,045	\$ 23,395	\$ 9,413
FFO per unit				
Basic	\$ 0.36	\$ 0.34	\$ 1.00	\$ 0.86
Diluted	\$ 0.36	\$ 0.33	\$ 0.94	\$ 0.83
Weighted average number of units:				
Basic ⁽²⁾	27,546,303	12,072,151	23,384,414	10,958,562
Diluted ⁽²⁾	27,725,159	12,131,910	23,534,207	12,759,673

⁽¹⁾ Added back to Q3-07 FFO is \$300 (YTD - \$900) of Property rent (Q3-06 - \$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 YTD 2006 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 Q3-07 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 September 30,		Nine month period ended September 30,	
	2007	2006	2007	2006
Income (loss) for the period	\$ 877	\$ (3,275)	\$ 8,496	\$ (7,894)
Add amortization on:				
Income-producing properties	5,284	3,010	12,884	7,027
Acquired in-place leases	5,673	4,244	14,894	10,585
Customer relationships	5	6	16	17
Tenant inducements and leasing costs	194	60	553	109
Loss (gain) on disposal of income-producing properties	(2,521)	-	(2,521)	(828)
Future income tax expense (recovery)	201	-	(11,827)	-
Other adjustments ⁽¹⁾				
Property rent	300	-	900	-
Property bid costs	-	-	-	397
FFO for the period	\$ 10,013	\$ 4,045	\$ 23,395	\$ 9,413

⁽¹⁾ Added back to Q3-07 FFO is \$300 (YTD - \$900) of Property rent (Q3-06 - \$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 YTD 2006 FFO is \$397 of costs attributable to an unsuccessful bid on a portfolio of assets.

Q3-07 FFO has increased \$5,968, or 147.5% (YTD - \$13,982, or 148.5%), over Q3-06. This significant increase is attributed to the impact of acquisitions since September 30, 2006. Basic FFO per unit has increased by \$0.02, or (5.9%) (YTD - \$0.14, or 16.3%), over Q3-06. On a diluted basis, FFO has increased \$0.03, or 9.1% (YTD - \$0.11, or 13.3%). 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 the REIT currently has under contract.

ANALYSIS OF FINANCIAL POSITION

Assets

\$000's	September 30,		December 31,		Increase
	2007	2006	2006	2007	
Income-producing properties	\$ 784,738	\$ 388,845	\$ 388,845	\$ 395,893	
Other assets, including intangibles	172,400	78,173	78,173	94,227	
Deposits on income-producing properties	11,034	10,343	10,343	691	
Cash and cash equivalents	28,674	15,579	15,579	13,095	
	\$ 996,846	\$ 492,940	\$ 492,940	\$ 503,906	

Income-producing properties and related intangible assets:

The REIT's income-producing properties and related intangible assets increased in the nine month period ended September 30, 2007, due to the acquisition of 19 properties. Four income-producing properties were acquired during Q3-07, as follows:

Property	Location	Acquisition Date	Type
TransAlta Place	110 - 12th Avenue SW, Calgary, AB	July 5, 2007	Office
Winnipeg Square ⁽¹⁾	360 Main Street, Winnipeg, MB	August 29, 2007	Office/Retail
Pepco Building	608 - 17th Avenue, Nisku, AB	September 15, 2007	Industrial
Delta Shoppers Mall	8037 - 120th Street, Delta, BC	September 24, 2007	Retail

⁽¹⁾ The REIT acquired a 38% ownership interest in Winnipeg Square, which is proportionately consolidated in the accounts of the REIT.

The results of operations for the acquired properties are included in the REIT's accounts from the dates of acquisition. Artis funded these acquisitions from cash on hand and from the proceeds of new or assumed mortgage financing 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		Nine month period ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Cash consideration	\$ 17,718	\$ 33,559	\$ 126,448	\$ 79,656
New or assumed mortgages including above- and below-market mortgages	143,605	59,479	260,887	128,712
Net assets acquired	\$ 161,323	\$ 93,038	\$ 387,335	\$ 208,368
Allocated to income-producing properties	\$ 188,574	\$ 81,926	\$ 410,006	\$ 183,588
Allocated to other assets	41,160	15,460	62,068	33,634
Allocated to intangible liabilities	(68,411)	(4,348)	(84,739)	(8,854)
Net assets acquired	\$ 161,323	\$ 93,038	\$ 387,335	\$ 208,368

Property under development:

Included in income-producing properties is property under development of which \$2,725 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 2008 and is slated for completion in 2009.

Mortgage and notes receivable:

In conjunction with the acquisition of TransAlta Place, the REIT acquired a note receivable in the amount of \$31,000. The note bears interest at 5.894% per annum and is repayable in varying blended monthly instalments of principal and interest. The note is transferable at the option of the REIT and matures in May, 2023.

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):	
Income-producing properties, other assets and intangible liabilities	\$ 5,724
Unit issue costs	4,160
Losses carried-forward	2,305
Other	(362)
	\$ 11,827

Capital expenditures:

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

These non-recoverable capital expenditures in Q3-07 totaled \$28 (YTD - \$336) compared to \$1,025 in Q3-06 (YTD - \$1,035), 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 \$4,910 of unamortized tenant inducement and leasing costs related to the leasing or re-leasing of occupied or vacant space at September 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 Q3-07, Artis incurred \$531 (YTD - \$2,240) of tenant inducements and leasing costs compared to \$709 (YTD - \$1,293) in Q3-06.

<i>\$000's</i>	Three month period ended September 30,		Nine month period ended September 30,	
	2007	2006	2007	2006
Tenant inducements	\$ 371	\$ 467	\$ 1,498	\$ 803
Leasing commissions	160	242	742	490
Total	\$ 531	\$ 709	\$ 2,240	\$ 1,293

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 Q3-07, Artis incurred \$576 (YTD - \$1,033) of deferred recoverable operating costs compared to \$nil (YTD - \$nil) in Q3-06.

Deposits on income-producing properties:

At September 30, 2007, Artis had made \$3,547 of deposits on income-producing properties, related to the conditional and unconditional agreements to acquire income-producing properties during the subsequent quarters of 2007 compared to \$2,600 at December 31, 2006.

Also included in deposits on income-producing properties at September 30, 2007, is \$7,487 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 \$1,100 earned by the REIT under the terms of the Interplex II purchase and sale agreement up to September 30, 2007, offset by the \$429 (2006, \$143) distributions paid (or payable) on the Class B units issued and the \$215 of costs that were incurred related to this project.

Cash and cash equivalents:

At September 30, 2007, the REIT had \$28,674 of cash and cash equivalents on hand, including cash held in trust (compared to \$15,579 at December 31, 2006). The balance is anticipated to be invested in income-producing property in subsequent periods, or used for working capital purposes. All of the REIT's cash and cash equivalents are held in current accounts and/or bank guaranteed investment certificates. The REIT does not invest in asset-backed commercial paper.

Liabilities

<i>\$000's</i>	September 30, 2007	December 31, 2006	Increase
Long-term debt	\$ 559,183	\$ 312,844	\$ 246,339
Other liabilities	105,924	21,976	83,948
	\$ 665,107	\$ 334,820	\$ 330,287

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 September 30, 2007, Artis had reduced its debt to GBV ratio to 49.9%, from 52.1% at December 31, 2006. The reduction in leverage at September 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>	September 30, 2007	December 31 2006
GBV	\$ 1,054,433	\$ 523,081
Mortgages and loans secured by properties ⁽¹⁾	525,640	272,341
Mortgages and loans to GBV	49.9 %	52.1 %
Carrying value of convertible debentures	\$ 33,543	\$ 40,503
Total long-term debt	559,183	312,844
Total long-term debt to GBV	53.0 %	59.8 %

(1) Includes \$252 mark-to-market on above- and below-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 Q3-07, Artis assumed or obtained new mortgage financing of \$143,605 (YTD - \$260,887) in conjunction with the Q3-07 acquisitions. In Q3-07, \$1,714 of principal repayments were made (YTD - \$4,600). 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 September 30, 2007 was 5.50% (compared to the weighted average nominal rate on the mortgage debt of 5.41%).

The weighted average term to maturity at September 30, 2007 is 6.19 years, compared to 7.0 years at December 31, 2006.

Convertible Debentures:

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

				September 30, 2007		December 31, 2006	
	Issued	Maturity	Face rate	Carrying value	Face value	Carrying value	Face value
Series A	4-Aug-05	4-Aug-10	7.75%	\$ 2,663	\$ 3,222	\$ 8,699	\$ 10,185
Series B	9-Nov-05	9-Nov-10	7.50%	8,844	10,862	9,093	10,862
Series C	4-May-06	31-May-13	6.25%	22,036	29,920	22,711	30,000
				\$ 33,543	\$ 44,004	\$ 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 \$1,965, 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 \$391 in Q3-07 (YTD - \$1,339).

During Q3-07, Series A and C convertible debentures with a face value of \$1,330 (YTD - \$7,043) were converted and 105,554 (YTD - 561,997) units were issued. The carrying value was reduced by \$684 (YTD - \$6,960).

Other liabilities:

Other liabilities includes the unamortized below-market rent intangible liability of \$91,675 at September 30, 2007. This increased \$78,334 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 September 30, 2007, accounts payable and accruals, as well as the September 30, 2007 distribution payable to unitholders of \$2,417, subsequently paid on October 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 September 30, 2007, after making certain adjustments required under GAAP, is \$10,228 (see Note 13 of the accompanying Interim Consolidated Financial Statements for further details).

Unitholders' Equity

Unitholders' equity increased by \$173,759 between December 31, 2006 and September 30, 2007. Equity was increased by the issue of 5,232,500 units at a price of \$17.60 per unit for net proceeds of \$87,999, 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 \$1,346 as a result of the conversion of a principal amount of \$1,330 Series A convertible debentures. Other transactions increasing Unitholders' equity in the period included issuance of units under the DRIP and adjustments to contributed surplus to reflect unit-based compensation expense in the period.

Unitholders' equity increased during Q3-07 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 Q3-07 Artis generated \$5,187 (YTD - \$17,795) of cash flows from operating activities compared to \$6,125 in Q3-06 (YTD - \$8,522). Cash flows from operations assisted in funding distributions to Unitholders of \$7,051 (YTD - \$18,170) compared to \$3,188 in Q3-06 (YTD - \$8,727), distributions to Class B unitholders of \$189 (YTD - \$569), and for principal repayments on mortgages and loans of \$1,714 (YTD - \$4,600) compared to \$1,178 in Q3-06 (YTD - \$2,958). 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.

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 \$17,718 (YTD - \$126,448) compared to \$33,559 in Q3-06 (YTD - \$79,656). Cash of \$559 (YTD - \$2,576) was used for substantive capital building improvements and for tenant inducements and leasing costs compared to \$1,734 in Q3-06 (YTD - \$2,328).

At September 30, 2007, Artis had \$28,674 of cash and cash equivalents on hand (\$15,579 at December 31, 2006). Management anticipates that the cash on hand will be invested in additional income-producing properties, subsequent to September 30, 2007, or used for working capital purposes.

On September 28, 2007, Artis entered into an agreement for a revolving term credit facility in the amount of \$75,000 which may be utilized to fund acquisitions of office, retail and industrial properties. \$7,500 of the facility may be used for general corporate purposes. The credit facility matures at the earlier of one year after the initial advance, and October 1, 2008. Amounts drawn on the facility will bear interest at a floating rate equal to Canadian dollar bankers' acceptances with a term to maturity of 30 days, plus 1.85 percent per annum. The credit facility is secured by a first charge on Delta Centre, Grain Exchange Building, Johnston Terminal and Sears Centre. As at September 30, 2007, no amounts have been drawn on the facility.

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

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⁾	\$ 527,319	\$ 12,675	\$ 85,143	\$ 172,217	\$ 257,284
Convertible debentures ⁽²⁾	44,004	-	3,222	10,862	29,920
Total	\$ 571,323	\$ 12,675	\$ 88,365	\$ 183,079	\$ 287,204

⁽¹⁾ Not including \$252 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>								
	Q3-07	Q2-07	Q1-07	Q4-06	Q3-06	Q2-06	Q1-06	Q4-05
Revenue	\$ 27,041	\$ 22,759	\$ 17,609	\$ 16,489	\$ 15,744	\$ 11,932	\$ 9,357	\$ 6,547
Property operating expenses	8,385	7,671	5,980	6,077	5,665	3,912	3,617	2,728
Property NOI	18,656	15,088	11,629	10,412	10,079	8,020	5,740	3,819
Interest	7,684	6,366	5,427	4,834	5,277	3,986	2,906	2,150
	10,972	8,722	6,202	5,578	4,802	4,034	2,834	1,669
Expenses:								
Corporate	1,257	1,061	1,098	973	532	1,125	451	584
Amortization	11,158	9,413	7,761	7,864	7,545	5,906	4,833	3,284
	12,415	10,474	8,859	8,837	8,077	7,031	5,284	3,868
Loss before the under-noted	(1,443)	(1,752)	(2,657)	(3,259)	(3,275)	(2,997)	(2,450)	(2,199)
Gain (loss) on disposal of income-producing properties	2,521	-	-	-	-	(113)	941	-
Income (loss) before income taxes	\$ 1,078	\$ (1,752)	\$ (2,657)	\$ (3,259)	\$ (3,275)	\$ (3,110)	\$ (1,509)	\$ (2,199)
Future income tax (expense) recovery	(201)	12,028	-	-	-	-	-	-
Income (loss) for the period	\$ 877	\$ 10,276	\$ (2,657)	\$ (3,259)	\$ (3,275)	\$ (3,110)	\$ (1,509)	\$ (2,199)
Basic income (loss) per unit	\$ 0.03	\$ 0.45	\$ (0.14)	\$ (0.22)	\$ (0.27)	\$ (0.26)	\$ (0.17)	\$ (0.31)
Diluted income (loss) per unit	\$ 0.03	\$ 0.41	\$ (0.14)	\$ (0.22)	\$ (0.27)	\$ (0.26)	\$ (0.17)	\$ (0.31)

Reconciliation of GAAP Income (Loss) to DI:

<i>\$000's, except unit and per unit amounts</i>								
	Q3-07	Q2-07	Q1-07	Q4-06	Q3-06	Q2-06	Q1-06	Q4-05
Income (loss) for the period	\$ 877	\$ 10,276	\$ (2,657)	\$ (3,259)	\$ (3,275)	\$ (3,110)	\$ (1,509)	\$ (2,199)
Add:								
Amortization (excluding amortized leasing costs)	10,962	9,219	7,614	7,504	7,260	5,686	4,683	3,193
Amortized financing costs on convertible debentures	-	-	-	163	163	115	92	65
Accretion on liability component of debentures	391	490	457	172	399	326	197	162
Unit-based compensation expense	261	322	194	382	40	40	40	157
(Gain) loss on disposal of income-producing properties	(2,521)	-	-	-	-	113	(941)	-
Future income tax expense (recovery)	201	(12,028)	-	-	-	-	-	-
Other adjustments ⁽¹⁾								
Property rent	300	300	300	200	-	-	-	-
Property bid costs	-	-	-	-	-	397	-	-
Distributable income (DI)	\$ 10,471	\$ 8,579	\$ 5,908	\$ 5,162	\$ 4,587	\$ 3,567	\$ 2,562	\$ 1,378
DI per unit								
Basic ⁽²⁾	\$ 0.38	\$ 0.37	\$ 0.31	\$ 0.34	\$ 0.38	\$ 0.30	\$ 0.29	\$ 0.20
Diluted ⁽²⁾	\$ 0.37	\$ 0.35	\$ 0.30	\$ 0.33	\$ 0.35	\$ 0.28	\$ 0.27	\$ 0.20
Weighted average number of units:								
Basic ⁽²⁾	27,546,303	21,268,979	19,189,433	15,153,247	12,072,151	11,850,099	8,918,795	6,993,641
Diluted ⁽²⁾	30,519,959	24,324,124	22,630,256	18,577,492	15,609,760	15,003,921	11,502,700	7,030,560

(1) Added back to Q3-07, Q2-07, Q1-07 and Q4-06 DI is \$300, \$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								
	Q3-07	Q2-07	Q1-07	Q4-06	Q3-06	Q2-06	Q1-06	Q4-05
Income (loss) for the period	\$ 877	\$ 10,276	\$ (2,657)	\$ (3,259)	\$ (3,275)	\$ (3,110)	\$ (1,509)	\$ (2,199)
Add amortization on:								
Income-producing properties	5,284	4,340	3,260	3,079	3,010	2,211	1,806	1,318
Acquired in-place leases	5,673	4,874	4,348	4,419	4,244	3,470	2,871	1,869
Customer relationships	5	5	6	6	6	5	6	6
Tenant inducements and leasing costs	194	191	146	137	60	33	16	9
(Gain) loss on disposal of income-producing properties	(2,521)	-	-	-	-	113	(941)	-
Future income tax expense (recovery)	201	(12,028)	-	-	-	-	-	-
Other adjustments ⁽¹⁾								
Property rent	300	300	300	200	-	-	-	-
Property bid costs	-	-	-	-	-	397	-	-
Funds from operations (FFO)	\$ 10,013	\$ 7,958	\$ 5,403	\$ 4,582	\$ 4,045	\$ 3,119	\$ 2,249	\$ 1,003
FFO per unit								
Basic	\$ 0.36	\$ 0.34	\$ 0.28	\$ 0.30	\$ 0.34	\$ 0.26	\$ 0.25	\$ 0.14
Diluted	\$ 0.36	\$ 0.34	\$ 0.28	\$ 0.30	\$ 0.33	\$ 0.26	\$ 0.24	\$ 0.14
Weighted average number of units:								
Basic	27,546,303	23,325,672	19,189,433	15,153,247	12,072,151	11,850,099	8,918,795	6,993,641
Diluted	27,725,159	23,512,419	19,325,025	15,225,436	12,131,910	12,074,314	9,507,631	7,030,560

⁽¹⁾ Added back to Q3-07, Q2-07, Q1-07 and Q4-06 DI is \$300, \$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 Q3-07, Q2-07 and in Q3-06 were the strongest in the REIT's two-year history.

Management does not believe that the Q3-07 per unit results are indicative of future performance. Management expects that there will be further growth in revenues, Property NOI, FFO and DI in future periods as cash on hand at September 30, 2007, and the proceeds of the October 17, 2007 equity offering are invested in additional income-producing properties.

RELATED PARTY TRANSACTIONS

	Three month period ended		Nine month period ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Legal fees - expensed	\$ 10	\$ -	\$ 78	\$ 154
Legal fees - capitalized	247	232	1,175	687
Advisory fees	430	284	1,164	653
Acquisition fees	901	441	2,108	1,009
Property management fees	789	539	2,139	1,269
Leasing commissions	101	242	1,453	490
Building improvements	31	325	317	410
Tenant inducements	85	-	520	-
Consulting fees	-	-	-	34
Interest expense	-	11	-	73

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 September 30, 2007 is \$107 (2006, \$12).

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 September 30, 2007 is \$337 (2006, \$116). 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 September 30, 2007 is \$55 (2006, \$78). 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 September 30, 2007 is \$nil (2006, \$115).

OUTSTANDING UNIT DATA

The balance of units outstanding as of November 8, 2007, not including Class B units, is as follows:

Units outstanding at September 30, 2007	26,901,976
Units issued (Prospectus Offering)	4,230,000
Units issued (DRIP)	4,053
Units issued in lieu of interest on debenture	47
Units issued on conversion of debenture	<u>3,968</u>
Units outstanding at November 8, 2007	<u>31,140,044</u>

The balance of options outstanding as of November 8, 2007 is as follows:

	Options outstanding	Options exercisable
\$11.25 options, issued December 8, 2005	239,788	26,493
\$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	333,050	83,263
\$17.75 options, issued October 17, 2007	<u>272,000</u>	<u>-</u>
	<u>1,556,088</u>	<u>271,256</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 October 15, 2007, the REIT issued 4,053 units at a price of \$17 per unit pursuant to the DRIP.

On October 17, 2007, the REIT issued 4,230,000 units at a price of \$17.75 per unit for aggregate gross proceeds of \$75,083, pursuant to its prospectus dated October 11, 2007.

On October 17, 2007, the REIT granted to its trustees, officers and management company employees, options to acquire an aggregate of 272,000 units at a price of \$17.75 per unit. 25% of the options vest on each of the first, second, third and fourth anniversaries from the date of grant. The options expire on October 17, 2012.

On October 22, 2007, \$50 of Series A convertible debentures were converted into trust units. The REIT issued 3,968 units at the exercise price of \$12.60. A further 47 units were issued in lieu of accrued interest.

The REIT has entered into agreements with respect to the acquisitions of various properties located in British Columbia, Alberta and Manitoba. The total purchase price of the properties is \$97,800. The REIT anticipates that the acquisitions will close in November and December, 2007, and will be financed through a combination of mortgage financing and cash consideration.

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 September 30, 2007, government tenants contribute 10.1% to the REIT's overall gross revenue and occupy 10.1% 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 is TransAlta Corporation, a multi-national corporation with a market capitalization of approximately \$5 billion.

Top Ten Tenants by GLA	Share	Top Ten Tenants by Gross Revenue	Share
TransAlta Corporation	7.2%	TransAlta Corporation	8.4%
Jacobs Canada	3.4%	Jacobs Canada	3.7%
Sears	2.3%	Credit Union Central	2.4%
Credit Union Central	1.8%	MTS Allstream	2.0%
Shoppers Drug Mart	1.8%	Shoppers Drug Mart	1.9%
MTS Allstream	1.6%	Cineplex Odeon	1.6%
Cineplex Odeon	1.4%	BW Technologies (Honeywell)	1.3%
BW Technologies (Honeywell)	1.3%	Komex International	1.3%
Komex International	1.1%	Cooperators General Insurance	0.9%
Rosedale Transport	1.1%	NOVA Chemicals	0.8%
Total of Top Ten by GLA	23.0%	Total of Top Ten by Gross Revenue	24.3%

Government Entities by GLA	Share	Government Entities by Gross Revenue	Share
Federal Government	3.0%	Federal Government	2.9%
Provincial Government	5.4%	Provincial Government	5.6%
Civic or Municipal Government	1.7%	Civic or Municipal Government	1.6%
Total Government by GLA	10.1%	Total Government by Gross Revenue	10.1%

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 29.0% of the REIT's GLA will come up for renewal in the remainder of 2007 through to 2009; approximately 66.3% 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 nine months ended September 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.

Effective January 1, 2008, the REIT will be required to adopt additional accounting changes. The REIT does not expect Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments - Disclosure", and Section 3863 "Financial Instruments - Presentation" to have a material effect on the financial performance of the REIT, however, management will continue to evaluate the impact of these changes.

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.