

Interim Consolidated Financial Statements of

**ARTIS REAL ESTATE
INVESTMENT TRUST**

Three months and six months ended June 30, 2008 and 2007
(Unaudited)

ARTIS REAL ESTATE INVESTMENT TRUST

Interim Consolidated Balance Sheets
(In thousands of dollars)

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Income-producing properties (note 4)	\$ 985,050	\$ 944,612
Other assets (note 5)	134,866	140,070
Future income taxes (note 18)	11,072	11,509
Deposits on income-producing properties (note 6)	9,016	11,826
Prepaid expenses	3,424	1,326
Notes receivable (note 7)	29,651	30,494
Rent and other receivables	8,432	6,543
Cash held in trust	714	682
Cash and cash equivalents	22,541	29,386
	\$ 1,204,766	\$ 1,176,448
LIABILITIES AND UNITHOLDERS' EQUITY		
Liabilities:		
Mortgages and loans payable (note 8)	\$ 647,876	\$ 612,996
Convertible debentures (note 9)	44,291	52,732
Intangible liabilities (note 10)	95,330	99,280
Security deposits and prepaid rent	4,942	4,033
Accounts payable and other liabilities (note 11)	13,555	11,725
Bank indebtedness (note 12)	10,200	-
	816,194	780,766
Non-controlling interest (note 13)	10,242	10,182
Unitholders' equity	378,330	385,500
Contingent consideration (note 22)		
Commitments and guarantees (note 23)		
Subsequent events (notes 21 and 27)		
	\$ 1,204,766	\$ 1,176,448

See accompanying notes to interim consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Interim Consolidated Statements of Operations
 Three months and six months ended June 30, 2008 and 2007
 (Unaudited)

(In thousands of dollars, except per unit amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenue	\$ 35,310	\$ 22,442	\$ 68,771	\$ 39,763
Property operating expenses	10,936	7,505	21,114	13,347
	24,374	14,937	47,657	26,416
Interest	10,186	6,311	20,022	11,658
	14,188	8,626	27,635	14,758
Expenses:				
Corporate	1,342	1,061	2,482	2,159
Amortization	14,313	9,313	29,473	16,998
Unrealized gain on commodity derivatives	(455)	-	(1,383)	-
	15,200	10,374	30,572	19,157
Loss before income taxes, non-controlling interest and discontinued operations	(1,012)	(1,748)	(2,937)	(4,399)
Future income tax (expense) recovery (note 18)	(992)	12,027	(619)	12,025
Income (loss) before non-controlling interest and discontinued operations	(2,004)	10,279	(3,556)	7,626
Non-controlling interest (note 13)	(10)	-	(155)	-
Income (loss) from continuing operations	(2,014)	10,279	(3,711)	7,626
Income (loss) from discontinued operations (note 21)	72	(3)	(42)	(7)
Income (loss) and comprehensive income (loss) for the period	(1,942)	10,276	(3,753)	7,619
Basic income (loss) per unit (note 14 (e))				
Continuing operations	\$ (0.06)	\$ 0.45	\$ (0.12)	\$ 0.37
Discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Diluted income (loss) per unit (note 14 (e))				
Continuing operations	\$ (0.06)	\$ 0.41	\$ (0.12)	\$ 0.36
Discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

See accompanying notes to interim consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Interim Consolidated Statements of Unitholders' Equity
 Three months and six months ended June 30, 2008 and 2007
 (Unaudited)

(In thousands of dollars, except unit amounts)

	Number of Units	Capital Contributions	Equity Component of Convertible Debentures	Deficit	Contributed Surplus	Total
Unitholders' equity, December 31, 2006	15,219,261	\$ 164,991	\$ 11,659	\$ (29,533)	\$ 649	\$ 147,766
Issuance of units	11,067,647	176,338	-	-	(37)	176,301
Unit-based compensation	-	-	-	-	516	516
Conversion of convertible debentures	456,443	5,680	(1,063)	-	-	4,617
Income for the period	-	-	-	7,619	-	7,619
Distributions for the period	-	-	-	(11,119)	-	(11,119)
Unitholders' equity, June 30, 2007	26,743,351	347,009	10,596	(33,033)	1,128	325,700
Issuance of units	4,304,986	73,814	-	-	(133)	73,681
Unit-based compensation	-	-	-	-	523	523
Issuance of convertible debentures	-	-	1,125	-	-	1,125
Conversion of convertible debentures	109,731	1,443	(281)	-	-	1,162
Loss for the period	-	-	-	(1,462)	-	(1,462)
Distributions for the period	-	-	-	(15,229)	-	(15,229)
Unitholders' equity, December 31, 2007	31,158,068	422,266	11,440	(49,724)	1,518	385,500
Issuance of units	294,567	4,652	-	-	(47)	4,605
Unit-based compensation	-	-	-	-	280	280
Conversion of convertible debentures	829,406	11,543	(2,153)	-	-	9,390
Units acquired and cancelled through normal course issuer bid	(48,700)	(645)	-	(78)	-	(723)
Units acquired through normal course issuer bid, not cancelled at period end	(3,500)	(57)	-	-	-	(57)
Loss for the period	-	-	-	(3,753)	-	(3,753)
Distributions for the period	-	-	-	(16,912)	-	(16,912)
Unitholders' equity, June 30, 2008	32,229,841	\$ 437,759	\$ 9,287	\$ (70,467)	\$ 1,751	\$ 378,330

See accompanying notes to interim consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Interim Consolidated Statements of Cash Flows
 Three months and six months ended June 30, 2008 and 2007
 (Unaudited)

(In thousands of dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Cash provided by (used for):				
Operating activities:				
Income (loss) for the period	\$ (1,942)	\$ 10,276	\$ (3,753)	\$ 7,619
Adjustments for non-cash items:				
Amortization:				
Income-producing properties	6,564	4,340	13,364	7,600
Office equipment	2	2	4	3
Above-market rent	66	48	135	95
Acquired in-place leases	7,598	4,874	16,222	9,222
Customer relationships	6	5	11	11
Below-market rent	(3,585)	(2,126)	(7,416)	(3,201)
Tenant inducements and leasing costs	307	191	568	337
Above- and below-market mortgages, net	(31)	(29)	(80)	(57)
Accretion on liability component of convertible debentures	384	490	760	947
Straight-line rent adjustment	(548)	(315)	(1,110)	(565)
Unrealized gain on commodity derivatives	(455)	-	(1,383)	-
Unit-based compensation expense	144	322	280	516
Amortization of financing costs included in interest	95	52	186	101
Future income tax expense (recovery)	1,020	(12,028)	603	(12,028)
Non-controlling interest (note 13)	14	-	152	-
	9,639	6,102	18,543	10,600
Changes in non-cash operating items (note 16)	(803)	(699)	290	1,678
	8,836	5,403	18,833	12,278
Investing activities:				
Acquisition of income-producing properties, net of related debt and issuance of units (note 3)	(4,646)	(35,933)	(19,306)	(108,376)
Additions to income-producing properties	(3,473)	(46)	(5,338)	(357)
Advance of mortgage receivable	-	(14,000)	-	(14,000)
Notes receivable principal repayments	424	-	843	-
Net change to office equipment and software	9	(12)	(8)	(15)
Additions to tenant inducements and leasing costs	(669)	(1,037)	(2,023)	(1,736)
Change in deposits on income-producing properties	(73)	(3,558)	2,810	(2,401)
	(8,428)	(54,586)	(23,022)	(126,885)
Financing activities:				
Issuance of units, net of issue costs	1,320	88,386	2,528	176,301
Purchase of units under normal course issuer bid	(289)	-	(780)	-
Bank indebtedness	-	-	10,200	-
Distributions paid on REIT units	(8,598)	(6,120)	(16,912)	(11,119)
Distributions paid on Class B units, charged to non-controlling interest (note 13)	(46)	(47)	(92)	(93)
Mortgages and loans principal repayments	(2,708)	(1,585)	(5,390)	(2,885)
Advance of mortgage payable	7,790	-	7,790	-
	(2,531)	80,634	(2,656)	162,204
Increase (decrease) in cash and cash equivalents	(2,123)	31,451	(6,845)	47,597
Cash and cash equivalents at beginning of period	24,664	31,398	29,386	15,252
Cash and cash equivalents at end of period	\$ 22,541	\$ 62,849	\$ 22,541	\$ 62,849
Supplemental cash flow information:				
Interest paid, net of interest received	\$ 10,014	\$ 5,444	\$ 17,967	\$ 9,220

See accompanying notes to interim consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements
Three months and six months ended June 30, 2008 and 2007
(Unaudited)

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

1. Organization:

Artis Real Estate Investment Trust (the "REIT") is an unincorporated open-end real estate investment trust (note 14) created under, and governed by, the laws of the province of Manitoba and was created pursuant to the Declaration of Trust dated November 8, 2004, subsequently amended and restated on October 31, 2006 (the "Declaration of Trust"). The purpose of the REIT is to directly, or indirectly, own, manage, lease and (where appropriate) develop retail, industrial and office properties in Canada.

The Declaration of Trust provides that the REIT makes monthly cash distributions to unitholders of the REIT's units. The amount distributed in each year will be an amount not less than the amount of distributable income in the year set down in a policy by the Trustees (currently \$1.08 per unit).

2. Significant accounting policies:

(a) Basis of presentation:

The disclosure requirements for interim financial statements do not conform in all material respects with the requirements of Canadian generally accepted accounting principles ("GAAP") for annual statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements of the REIT as at, and for the year ended, December 31, 2007.

These interim consolidated financial statements follow the same accounting policies and methods of their application as used in the December 31, 2007 financial statements, except as described in note 2(b).

(b) Changes in accounting policies:

The CICA has issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments - Disclosures, and Handbook Section 3863, Financial Instruments - Presentation, which were adopted by the REIT on January 1, 2008.

Section 1535 includes required disclosures of an entity's objectives, policies and processes for managing capital, and quantitative data about what the entity regards as capital (note 24).

Sections 3862 and 3863 replace the existing Section 3861, Financial Instruments - Disclosure and Presentation. These new sections revise and enhance disclosure requirements, and carryforward unchanged existing presentation requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks (note 25).

The new standards have no impact on the classification and valuation of the REIT's financial instruments.

3. Acquisitions of income-producing properties:

Acquisitions:

The REIT acquired the following properties during the six months ended June 30, 2008:

<i>Property</i>	<i>Location</i>	<i>Acquisition Date</i>	<i>Type</i>
King Edward Centre	15 & 25 King Edward Centre, Coquitlam, BC	January 15, 2008	Retail
Leon's Building	6461 Metral Drive, Nanaimo, BC	February 1, 2008	Retail
Estevan Sobeys ⁽¹⁾	440 King Street, Estevan, SK	March 20, 2008	Retail
Moose Jaw Sobeys ⁽¹⁾	769 Thatcher Drive East, Moose Jaw, SK	March 20, 2008	Retail
Edson Shoppers	303 - 54th Street and 2nd Avenue, Edson, AB	April 15, 2008	Retail
Raleigh Shopping Centre	686 Springfield Road, Winnipeg, MB	April 15, 2008	Retail

(1) Estevan Sobeys and Moose Jaw Sobeys were acquired as a portfolio.

ARTIS REAL ESTATE INVESTMENT TRUST

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(Unaudited)

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

3. Acquisitions of income-producing properties (continued):

Acquisitions (continued):

The REIT acquired the following properties during the six months ended June 30, 2007:

<i>Property</i>	<i>Location</i>	<i>Acquisition Date</i>	<i>Type</i>
CDI College Building	280 Main Street, Winnipeg, MB	January 13, 2007	Office
Keewatin Distribution Centre	959 & 989 Keewatin Street, Winnipeg, MB	January 31, 2007	Industrial
Clareview Town Centre	50th Street & 137th Avenue, Edmonton, AB	February 1, 2007	Retail
Centre 70 Building ⁽¹⁾	7015 Macleod Tr. SW & 555 - 69th St. SW, Calgary, AB	February 28, 2007	Office
Honeywell Building	2840 - 2nd Avenue SE, Calgary, AB	February 28, 2007	Industrial
Millennium Centre	4909 - 49th St. & 4902 - 48th St., Red Deer, AB	February 28, 2007	Office
Bower Centre	2319 Taylor Dr. & 2310 Gaetz Ave., Red Deer, AB	March 1, 2007	Industrial
Britannia Building ⁽²⁾	703 - 6th Avenue SW, Calgary, AB	March 31, 2007	Office
Sierra Place ⁽²⁾	706 - 7th Avenue SW, Calgary, AB	March 31, 2007	Office
MTS Call Centre	365 Osborne Street, Winnipeg, MB	April 1, 2007	Office
488 Albert St ⁽³⁾	488 Albert Street, Nanaimo, BC	June 19, 2007	Office
6475 Metral Drive ⁽³⁾	6475 Metral Drive, Nanaimo, BC	June 19, 2007	Office
Aulds Corner ⁽³⁾	6551 Aulds Road, Nanaimo, BC	June 19, 2007	Retail
Can-K Building ⁽⁴⁾	8220 Davies Road, Edmonton, AB	June 30, 2007	Industrial
Mayfield Industrial Plaza ⁽⁴⁾	11304/24 - 163 Street, Edmonton, AB	June 30, 2007	Industrial

(1) The REIT acquired an undivided 85% interest in Centre 70, which is proportionately consolidated in the accounts of the REIT.

(2) The Britannia Building and Sierra Place were acquired together as the Dome Britannia Portfolio.

(3) 488 Albert Street, 6475 Metral Drive and Aulds Corner were acquired as a portfolio.

(4) Can-K Building and Mayfield Industrial Plaza were acquired as a portfolio.

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

The net assets acquired including acquisition costs were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Land	\$ 1,819	\$ 8,607	\$ 13,419	\$ 42,601
Buildings	4,967	34,042	26,976	166,988
Parking lots	4,886	900	5,186	4,287
Improvements	256	1,481	2,883	7,556
Acquired in-place leases	1,061	3,749	8,773	20,868
Above-market rent	-	(66)	9	40
Below-market rent	(317)	(1,980)	(3,466)	(16,373)
Long-term debt including acquired above- and below-market mortgages	(8,026)	(10,800)	(32,374)	(117,591)
Total consideration	4,646	35,933	21,406	108,376
Issuance of units (note 14)	-	-	(2,100)	-
Cash consideration	4,646	35,933	\$ 19,306	\$ 108,376
Acquisition costs included above	\$ 298	\$ 1,130	\$ 897	\$ 4,277

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements
 Three months and six months ended June 30, 2008 and 2007
 (Unaudited)

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

4. Income-producing properties:

	June 30, 2008 (Unaudited)		
	Cost	Accumulated amortization	Net book value
Land	\$ 244,738	\$ -	\$ 244,738
Buildings and building improvements	688,052	24,993	663,059
Leasehold interest	8,015	590	7,425
Tenant improvements	48,654	16,315	32,339
Parking lots	20,399	1,355	19,044
Property under development	2,725	-	2,725
	1,012,583	43,253	969,330
Income-producing properties held for sale (note 21)	16,425	705	15,720
	\$ 1,029,008	\$ 43,958	\$ 985,050

	December 31, 2007		
	Cost	Accumulated amortization	Net book value
Land	\$ 234,301	\$ -	\$ 234,301
Buildings and building improvements	667,846	16,944	650,902
Leasehold interest	8,015	489	7,526
Tenant improvements	46,807	12,199	34,608
Parking lots	15,513	963	14,550
Property under development	2,725	-	2,725
	\$ 975,207	\$ 30,595	\$ 944,612

5. Other assets:

	June 30, 2008 (Unaudited)		
	Cost	Accumulated amortization	Net book value
Acquired in-place leases	\$ 174,195	\$ 53,264	\$ 120,931
Above-market rent	1,566	617	949
Customer relationships	105	79	26
Tenant inducements and leasing costs	8,688	1,458	7,230
Recoverable operating costs	3,301	310	2,991
Office equipment and software	63	16	47
	187,918	55,744	132,174
Other assets held for sale (note 21)	4,067	1,375	2,692
	\$ 191,985	\$ 57,119	\$ 134,866

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements
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 (Unaudited)

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

5. Other assets (continued):

	December 31, 2007		
	Cost	Accumulated amortization	Net book value
Acquired in-place leases	\$ 168,892	\$ 38,319	\$ 130,573
Above-market rent	1,573	498	1,075
Customer relationships	105	68	37
Tenant inducements and leasing costs	6,864	958	5,906
Recoverable operating costs	2,585	149	2,436
Office equipment and software	55	12	43
	<u>\$ 180,074</u>	<u>\$ 40,004</u>	<u>\$ 140,070</u>

6. Deposits on income-producing properties:

	Six Months Ended June 30, 2008 (Unaudited)	Year Ended December 31, 2007
Deposit on income-producing property (note 13):		
Balance, beginning of period	\$ 7,330	\$ 7,743
Property rent	(600)	(1,200)
Costs incurred	-	215
Distributions on 543,781 Class B units of AX L.P.	286	572
	<u>7,016</u>	<u>7,330</u>
Deposits on other income-producing properties	<u>2,000</u>	<u>4,496</u>
	<u>\$ 9,016</u>	<u>\$ 11,826</u>

Effective February 21, 2007, the REIT entered into a purchase and sale agreement with respect to the forward purchase of the property known as Bridges Place, currently under development. The REIT anticipates that the purchase price, which is based on a predetermined formula as set out in the agreement, will be approximately \$6.8 million. The REIT has paid \$1,150 as an interim payment towards the purchase price of the income-producing property and has recorded the amount as a deposit on income-producing properties. Construction has commenced and is anticipated to be completed in 2008. The vendor may extend closing until any date up to December 1, 2008 pending the lease up of the property.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Interim Consolidated Financial Statements
 Three months and six months ended June 30, 2008 and 2007
 (Unaudited)

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

7. Notes receivable:

	June 30, 2008 (Unaudited)	December 31, 2007
Note receivable from tenant maturing in May 2023, bearing interest at 5.894% per annum, repayable in varying blended monthly installments of principal and interest. The note is unsecured and is transferable at the option of the holder. A default under the terms of the note constitutes a default of the lease of the tenant.	\$ 29,351	\$ 30,187
Note receivable maturing in November 2010, bearing interest at 5.06% per annum, repayable in blended monthly instalments of principal and interest of \$2 and is unsecured. The note was received as partial consideration for the sale of Royal Square.	300	307
	\$ 29,651	\$ 30,494

8. Mortgages and loans payable:

Substantially all of the REIT's assets have been pledged as security under mortgages and other security agreements. The mortgages and loans payable bear interest at fixed rates, with a weighted average effective rate of 5.53% at June 30, 2008, a weighted average nominal rate of 5.44% at June 30, 2008 (effective and nominal at June 30, 2007, 5.43% and 5.34%, respectively), and maturity dates ranging from November 1, 2008 to June 1, 2024.

Principal payment requirements on the mortgages and loans payable as at June 30, 2008 based on the fiscal year-end of the REIT are as follows:

2009	\$ 21,325
2010	83,433
2011	54,135
2012	45,422
2013	180,880
2014 and thereafter	253,417
	638,612
Net above- and below-market mortgage adjustments	879
Financing costs	(2,220)
Mortgages payable on assets held for sale (note 21)	10,605
	\$ 647,876

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

9. Convertible debentures:

Particulars of the REIT's outstanding convertible debentures as at June 30, 2008 and December 31, 2007 are as follows:

Convertible debenture issue	Series A convertible redeemable	Series B convertible redeemable	Series C convertible redeemable	Series D convertible redeemable	2008 (Unaudited)	2007
Issue date	August 4, 2005	November 9, 2005	May 4, 2006	November 30, 2007		
Interest rate	7.75%	7.50%	6.25%	5.00%		
Face value	\$ 720	\$ 2,313	\$ 29,920	\$ 20,000	\$ 52,953	\$ 63,952
Equity portion	135	457	7,570	1,125	9,287	11,440
Liability portion	585	1,856	22,350	18,875	43,666	52,512
Accretion to June 30, 2008 and December 31, 2007	70	210	1,609	77	1,966	2,166
Financing costs	(31)	(96)	(1,171)	(43)	(1,341)	(1,946)
Carrying value at June 30, 2008 and December 31, 2007	\$ 624	\$ 1,970	\$ 22,788	\$ 18,909	\$ 44,291	\$ 52,732

Accretion to the carrying value of the debt component was \$384 (2007, \$490) during the three months ended June 30, 2008, and \$760 (2007, \$947) during the six months ended June 30, 2008. The weighted average effective rate of the debentures at June 30, 2008 is 10.39% (June 30, 2007, 14.11%).

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10. Intangible liabilities:

	June 30, 2008 (Unaudited)		
	Cost	Accumulated amortization	Net book value
Below-market rent on income-producing properties	\$ 115,599	\$ 20,817	\$ 94,782
Below-market rent on assets held for sale (note 21)	821	273	548
Below-market rent	\$ 116,420	\$ 21,090	\$ 95,330

	December 31, 2007		
	Cost	Accumulated amortization	Net book value
Below-market rent	\$ 112,954	\$ 13,674	\$ 99,280

11. Accounts payable and other liabilities:

	June 30, 2008 (Unaudited)	December 31, 2007
Accounts payable and accrued liabilities	\$ 10,590	\$ 8,934
Distributions payable (note 15)	2,965	2,791
	\$ 13,555	\$ 11,725

12. Bank indebtedness:

On September 28, 2007, the REIT 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. \$10,000 of the credit facility is available to purchase units under the normal course issuer bid, and an additional \$7,500 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. At June 30, 2008, the REIT had utilized \$10,200 (December 31, 2007, \$nil) of the facility.

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Three months and six months ended June 30, 2008 and 2007
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13. Non-controlling interest:

Non-controlling interest represents the amount of equity related to the Class B units of a subsidiary, AX L.P. ("AXLP."). This non-controlling interest has been accounted for in accordance with EIC-151, Exchangeable Securities Issued by Subsidiaries of Income Trusts. The accounts of AXLP are consolidated in these consolidated financial statements. Class B units of AXLP are only exchangeable on a one-for-one basis, at the option of the holder, into REIT units, and are transferable to third parties with the REIT's consent.

Holders of the Class B units of AXLP are entitled to receive distributions on a per unit amount equal to a per REIT unit amount provided to holders of REIT units.

Effective October 31, 2006, the REIT entered into a purchase and sale agreement with a third party whereby the vendor will develop a Class A office building in Calgary, Alberta. Upon completion (estimated as December, 2008), the REIT will acquire the income-producing property based on a predetermined formula as set out in the agreement. In accordance with the agreement, the REIT paid \$7,800 as an interim payment towards the purchase price of the income-producing property, and recorded this amount as a deposit on income-producing properties. As consideration, the REIT issued 543,781 Class B units of AXLP at a price of \$14.34 per unit, and the REIT issued an equal number of special voting units as consideration. The Class B units have been released to the vendors, subject to trading restrictions as set out in the purchase and sale agreement. The aggregate purchase price of the income-producing property is estimated at \$90,000. In accordance with the agreement, the REIT receives monthly property rent of \$100 from the vendor, with a total of \$2,400 to be received during construction of the income-producing property. Distributions paid to the vendor on the Class B units are netted against property rent and any remaining difference is recorded as a reduction to the deposit on the income-producing property.

Effective November 30, 2006, the REIT acquired, through AXLP, an undivided 50% interest in certain lands located in Calgary, Alberta. AXLP entered into a co-ownership agreement with the vendor with respect to a 50% interest in, and the development of, a Class A office building. Both the REIT and the vendor transferred their 50% interest in the lands into the co-ownership. Construction is anticipated to commence when a sufficient level of pre-leasing has been completed. To facilitate the development of the income-producing property, the REIT may be obligated to provide up to \$6,500 of mezzanine financing to the co-ownership, bearing interest at a rate of ten percent per annum. As payment for its interest in the lands, AXLP issued 177,566 Class B units at a price of \$14.71 per unit for aggregate consideration of \$2,612. The REIT also issued an equal number of special voting units.

The details of the non-controlling interest are as follows:

Issuance of 543,781 Class B units of AXLP on October 31, 2006	\$	7,800
Issuance of 177,566 Class B units of AXLP on November 30, 2006		2,612
Costs relating to the issuance of Class B units of AXLP		(13)
Distributions on 177,566 Class B units of AXLP		(217)
Balance at December 31, 2007		10,182
Distributions on 177,566 Class B units of AXLP		(92)
Non-controlling interest from continuing operations		155
Non-controlling interest from discontinued operations (note 21)		(3)
Balance at June 30, 2008 (unaudited)	\$	10,242

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14. Capital contributions:

(a) Authorized:

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

In accordance with the Declaration of Trust, the REIT may also issue a class of special voting units, which are non-participating voting units of the REIT, to be issued to holders of securities which are exchangeable for units of the REIT (note 13). Special voting units are cancelled on the issuance of REIT units on exercise, conversion or cancellation of the corresponding exchangeable securities.

(b) Issued and outstanding:

	Number of units	Amount
Balance at December 31, 2006	15,219,261	\$ 164,991
Public offerings, net of issue costs of \$10,709 (net of future income taxes of \$1,089)	15,270,000	248,572
Conversion of Series A convertible debentures	561,538	7,050
Conversion of Series C convertible debentures	4,636	73
Options exercised	81,355	1,223
Distribution Reinvestment Plan ("DRIP")	34,278	553
Units acquired through normal course issuer bid, not cancelled at year end	(13,000)	(196)
Balance at December 31, 2007	31,158,068	422,266
Conversion of Series A convertible debentures	194,444	2,548
Conversion of Series B convertible debentures	634,962	8,995
Options exercised	22,752	263
Distribution Reinvestment Plan ("DRIP")	153,507	2,289
Units issued on acquisition of income-producing property	118,308	2,100
Units acquired and cancelled through normal course issuer bid	(48,700)	(645)
Units acquired through normal course issuer bid, not cancelled at period end	(3,500)	(57)
Balance at June 30, 2008 (unaudited)	32,229,841	\$ 437,759

At June 30, 2008, there were 721,347 special voting units issued and outstanding (note 13). There is no value assigned to the special voting units.

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

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14. Capital contributions (continued):

(c) Contributed surplus:

	Six Months Ended June 30, 2008 (Unaudited)	Year Ended December 31, 2007
Balance, beginning of period	\$ 1,518	\$ 649
Unit based compensation expense	280	1,039
Value of options exercised	(47)	(170)
Balance, end of period	\$ 1,751	\$ 1,518

Contributed surplus arises as a result of recording the fair value of options granted under the unit option plan (see note 14(d)). The fair value of the options is recorded to contributed surplus as the options vest. Upon exercise, the proceeds received, as well as any balance previously recorded to contributed surplus, are credited to capital contributions.

(d) Unit options:

The REIT has a unit option plan which is administered by the Board of Trustees of the REIT with unit options granted to trustees, management, management company employees and consultants as a form of compensation. The total number of units reserved under option for issuance may not exceed 5% of the units outstanding.

A summary of the REIT's unit options for the six months ended ended June 30 are as follows:

	2008		2007	
	Units	Weighted average exercise price	Units	Weighted average exercise price
Balance, beginning of period	1,458,336	\$ 15.52	729,393	\$ 13.20
Granted	-	-	626,050	16.78
Exercised	-	-	(18,384)	13.60
Expired	-	-	(10,000)	14.40
Balance, end of period	1,458,336	\$ 15.52	1,327,059	\$ 14.87
Options exercisable at end of period	548,614		314,227	
Weighted average fair value per unit of options granted during the period		\$ -		\$ 1.35

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14. Capital contributions (continued):

(d) Unit options (continued):

Options outstanding at June 30, 2008 consist of the following:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Options outstanding weighted average exercise price	Number exercisable
\$11.25	217,036	2.5 years	\$11.25	74,840
\$14.40	380,500	3.25 years	\$14.40	181,500
\$15.85	269,750	3.5 years	\$15.85	132,750
\$17.60	319,050	4 years	\$17.60	159,524
\$17.75	272,000	4.25 years	\$17.75	-
	1,458,336		\$ 15.52	548,614

The compensation expense related to unit options granted under the unit option plan for the three months ended June 30, 2008 amounted to \$144 (2007, \$322) and for the six months ended June 30, 2008 amounted to \$280 (2007, \$516). The balance of contributed surplus at June 30, 2008 relates to unexercised options. The compensation expense was determined based on the fair value of the options at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2008	2007
Expected option life	-	3.5 years
Risk-free interest rate	-	4.39%
Dividend yield	-	6.14%
Expected volatility	-	17.64%

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14. Capital contributions (continued):

(e) Weighted average units:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Income (loss)	\$ (1,942)	\$ 10,276	\$ (3,753)	\$ 7,619
Adjustment for convertible debentures, net of tax	-	663	-	-
Diluted income (loss)	\$ (1,942)	\$ 10,939	\$ (3,753)	\$ 7,619
The weighted average number of units outstanding was as follows:				
Basic units	32,058,889	22,604,325	31,843,162	20,547,632
Effect of dilutive securities:				
Class B units of AXLP	-	721,347	-	721,347
Unit option plan	-	188,533	-	156,531
Convertible debentures	-	2,952,241	-	-
Diluted units	32,058,889	26,466,446	31,843,162	21,425,510
Income (loss) per unit:				
Basic	\$ (0.06)	\$ 0.45	\$ (0.12)	\$ 0.37
Diluted	\$ (0.06)	\$ 0.41	\$ (0.12)	\$ 0.36

The computation of diluted income (loss) per unit for the three and six months ended June 30, 2008 does not include Class B units, convertible debentures and unit options as these instruments are anti-dilutive. The computation of diluted income per unit for the six months ended June 30, 2007 does not include convertible debentures as these instruments are anti-dilutive.

(f) Normal course issuer bid:

On December 12, 2007, the REIT announced that the Toronto Stock Exchange (the "Exchange") had approved its normal course issuer bid. Under the bid, the REIT will have the ability to purchase for cancellation up to a maximum of 3,055,099 units, representing 10% of the REIT's float of 30,550,991 on December 13, 2007. Purchases will be made at market prices through the facilities of the Exchange. The bid commenced on December 14, 2007, and will remain in effect until the earlier of December 13, 2008, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the period ended June 30, 2008, the REIT had acquired and cancelled 48,700 units at market prices aggregating \$723 resulting in excess of redemption proceeds over stated capital of \$78 which was charged to the deficit. Since December 14, 2007, the REIT had acquired 65,200 units for cancellation.

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15. Distributions to unitholders:

Distributable Income, which is defined in the Declaration of Trust, means net income in accordance with generally accepted accounting principles, 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. Distributable Income is not a generally accepted accounting principles financial measure and should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with generally accepted accounting principles as an indicator of the REIT's performance.

The REIT declared distributions to REIT unitholders of record in the amount of \$8,598 for the three months ended June 30, 2008 (2007, \$6,120) and \$16,912 for the six months ended June 30, 2008 (2007, \$11,119). The REIT declared distributions to the holders of Class B units of AXLP in the amounts of \$189 for the three months ended June 30, 2008 (2007, \$189) and \$378 for the six months ended June 30, 2008 (2007, \$378). Total distributions payable at June 30, 2008 are \$2,965 (December 31, 2007, \$2,791).

16. Changes in non-cash operating items:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Recoverable operating costs	\$ (807)	\$ (139)	\$ (1,097)	\$ (457)
Amortization of recoverable operating costs	94	44	174	44
Prepaid expenses	(666)	(546)	(715)	(577)
Mortgage receivable	-	(236)	-	(236)
Rent and other receivables	(1,264)	130	(779)	(425)
Cash held in trust	(111)	-	(32)	327
Security deposits and prepaid rent	374	257	909	1,186
Accounts payable and other liabilities	1,577	(209)	1,830	1,816
	\$ (803)	\$ (699)	\$ 290	\$ 1,678

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17. Related party transactions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Legal fees expensed	\$ 27	\$ 1	\$ 54	\$ 68
Capitalized legal fees	82	479	273	928
Advisory fees	631	415	1,216	734
Capitalized acquisition fees	63	279	262	1,207
Property management fees	1,139	735	2,142	1,350
Capitalized leasing commissions	239	-	1,483	112
Capitalized building improvements	3,150	38	4,923	286
Tenant inducements	-	292	-	435

The REIT incurred legal fees with a law firm associated with a trustee of the REIT in connection with the property acquisitions and general business matters. The amount payable at June 30, 2008 is \$18 (December 31, 2007, \$nil).

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, 2008 is \$nil (December 31, 2007, \$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.

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, 2008 is \$50 (December 31, 2007, \$nil). 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, 2008 is \$128 (December 31, 2007, \$nil).

18. 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 a specified investment flow-through trust or partnership (a "SIFT") was enacted (the "New SIFT Rules"). A SIFT includes a publicly-listed or traded partnership or trust, such as an income trust.

Under the New SIFT Rules, following a transition period for qualifying SIFTs, 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.

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18. Future income taxes (continued):

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 Conditions"). 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 REIT Conditions.

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 with 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 meet the REIT Conditions, 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 Conditions, the REIT may restructure its affairs in order to minimize, or if possible eliminate, the impact of the New SIFT Rules, if such restructuring is in the best interests of unitholders. 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.

Under the New SIFT Rules, a flow-through subsidiary of the REIT may also be a SIFT. On December 20, 2007, the Minister of Finance announced, in a backgrounder, his intention to introduce technical amendments to the SIFT definition to exclude certain flow-through subsidiaries of a SIFT that are able to meet certain ownership conditions. Draft legislation was released on July 14, 2008 for these proposed technical amendments. Based on these proposed amendments, a flow-through subsidiary of the REIT may also be a SIFT.

As management is unable to conclude at the present time if the REIT meets the REIT Conditions, 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 basis of its assets and liabilities, including those of its subsidiary partnerships, that are expected to reverse after 2008. 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 \$11,072 in the consolidated balance sheet at June 30, 2008 (December 31, 2007, \$11,509), a future income tax expense of \$1,020 reflected in consolidated loss for the three months ended June 30, 2008 (2007, recovery of \$12,028), and a future income tax expense of \$603 reflected in consolidated loss for the six months ended June 30, 2008 (2007, recovery of \$12,028). The REIT also credited capital contributions in the amount of \$60 (2007, \$nil) for the three months ended June 30, 2008 to adjust for the tax effect of finance costs transferred to capital contributions on the conversion of convertible debentures. For the six months ended June 30, 2008, the adjustment was \$166 (2007, \$nil).

The October 30, 2007, Canadian Federal Economic Statement announced several general corporate income tax rate reductions. Legislation for such rate reductions, which apply to the computation of SIFT tax, received Royal Assent on December 14, 2007. Consequently, in accounting for the REIT's future income taxes, the impact of these tax rate reductions have been applied in the periods that such temporary differences are expected to reverse.

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19. Co-ownership activities:

These interim consolidated financial statements include the REIT's proportionate share of assets, liabilities, revenue, expenses and cash flows of the co-ownerships in which it participates. The REIT is contingently liable for the obligations of its associates in certain co-ownerships. Management believes that the assets of the co-ownerships are available and are sufficient for the purpose of satisfying such obligations. The REIT's proportionate share of these co-ownerships range between 38% and 85%, summarized as follows:

	June 30, 2008 (Unaudited)		December 31, 2007	
Assets	\$	70,982	\$	72,871
Liabilities		72,017		73,232

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenue	2,774	907	5,389	1,190
Expenses	3,063	2,391	6,062	2,672
Operating income (loss) from properties	(283)	112	(667)	114
Cash flows provided by operating activities	624	262	1,567	964
Cash flows used in investing activities	(97)	(139)	(383)	(11,299)
Cash flows provided by (used in) financing activities	(413)	43	(997)	10,669

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20. Segmented information:

The REIT owns and operates various retail, office and industrial properties located in Western Canada. Information related to these property types is presented below. REIT expenses as well as interest and amortization of financing costs relating to the convertible debentures have not been allocated to the segments.

	Three months ended June 30, 2008				
	Retail	Office	Industrial	REIT	Total
Revenue	\$ 12,539	\$ 19,311	\$ 3,279	\$ 181	\$ 35,310
Property operating expenses	3,505	6,599	832	-	10,936
	9,034	12,712	2,447	181	24,374
Interest	3,329	4,574	816	1,467	10,186
Corporate expenses	-	-	-	1,342	1,342
Amortization	4,595	7,482	1,982	254	14,313
Unrealized gain on commodity derivatives	-	-	-	(455)	(455)
	7,924	12,056	2,798	2,608	25,386
Future income tax expense	1,110	656	(351)	(2,427)	(1,012)
Non-controlling interest	-	-	-	(10)	(10)
Income from discontinued operations	-	72	-	-	72
Income (loss) for the period	1,110	728	(351)	(3,429)	(1,942)
Total assets	\$ 426,026	\$ 633,419	\$ 111,712	\$ 33,609	\$ 1,204,766

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20. Segmented information (continued):

Three months ended June 30, 2007					
	Retail	Office	Industrial	REIT	Total
Revenue	\$ 7,905	\$ 12,233	\$ 1,613	\$ 691	\$ 22,442
Property operating expenses	2,369	4,735	401	-	7,505
	5,536	7,498	1,212	691	14,937
Interest	2,089	2,481	475	1,266	6,311
Corporate expenses	-	-	-	1,061	1,061
Amortization	3,377	4,584	874	478	9,313
	5,466	7,065	1,349	2,805	16,685
	70	433	(137)	(2,114)	(1,748)
Future income tax recovery	-	-	-	12,027	12,027
Loss from discontinued operations	-	(3)	-	-	(3)
Income (loss) for the period	\$ 70	\$ 430	\$ (137)	\$ 9,913	\$ 10,276
Total assets	\$ 266,144	\$ 367,306	\$ 69,163	\$ 91,428	\$ 794,041
Six Months Ended June 30, 2008					
	Retail	Office	Industrial	REIT	Total
Revenue	\$ 24,343	\$ 37,471	\$ 6,555	\$ 402	\$ 68,771
Property operating expenses	6,837	12,632	1,645	-	21,114
	17,506	24,839	4,910	402	47,657
Interest	6,195	9,241	1,637	2,949	20,022
Corporate expenses	-	-	-	2,482	2,482
Amortization	9,885	14,869	4,170	549	29,473
Unrealized gain on commodity derivatives	-	-	-	(1,383)	(1,383)
	16,080	24,110	5,807	4,597	50,594
	1,426	729	(897)	(4,195)	(2,937)
Future income tax expense	-	-	-	(619)	(619)
Non-controlling interest	-	-	-	(155)	(155)
Loss from discontinued operations	-	(42)	-	-	(42)
Income (loss) for the period	\$ 1,426	\$ 687	\$ (897)	\$ (4,969)	\$ (3,753)
Total assets	\$ 426,026	\$ 633,419	\$ 111,712	\$ 33,609	\$ 1,204,766

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20. Segmented information (continued):

	Six Months Ended June 30, 2007				
	Retail	Office	Industrial	REIT	Total
Revenue	\$ 15,512	\$ 20,499	\$ 2,641	\$ 1,111	\$ 39,763
Property operating expenses	4,609	8,114	624	-	13,347
	10,903	12,385	2,017	1,111	26,416
Interest	4,177	4,121	768	2,592	11,658
Corporate expenses	-	-	-	2,159	2,159
Amortization	6,664	8,881	1,431	22	16,998
	10,841	13,002	2,199	4,773	30,815
Future income tax recovery	62	(617)	(182)	(3,662)	(4,399)
Net loss from discontinued operations	-	-	-	12,025	12,025
	-	(7)	-	-	(7)
Income (loss) for the period	\$ 62	\$ (624)	\$ (182)	\$ 8,363	\$ 7,619
Total assets	\$ 266,144	\$ 367,306	\$ 69,163	\$ 91,428	\$ 794,041

21. Income (loss) from discontinued operations:

The REIT has entered into an unconditional agreement to sell two office properties in Calgary, Alberta; Airways Business Plaza and Glenmore Commerce Court. The properties will be sold for an aggregate of \$24,900, to be satisfied with the assumption of mortgages payable and cash consideration, which will result in an estimated gain of \$6,500. The results of operations from these properties have been separately disclosed below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenue	\$ 787	\$ 317	\$ 1,645	\$ 605
Property operating expenses	378	166	730	304
	409	151	915	301
Interest	141	55	283	111
Amortization	164	100	693	200
Net property operating income (loss)	104	(4)	(61)	(10)
Future income tax (expense) recovery (note 18)	(28)	1	16	3
Non-controlling interest (note 13)	(4)	-	3	-
Income (loss) from discontinued operations	\$ 72	\$ (3)	\$ (42)	\$ (7)

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22. Contingent consideration:

In accordance with the purchase and sale agreement for Heritage Square, the vendor is entitled to a purchase price adjustment related to future events. The purchase and sale agreement provides for contingent consideration based on certain leases expiring prior to June 30, 2011 and being re-leased at a higher rental rate, net of leasing costs. The calculation provides for the difference in rate to be capitalized at 7.5% and 30% of that amount paid to the vendor. The amount and timing of the contingent consideration are not determinable at this time, and when determinable, will be recorded as an intangible asset.

23. Commitments and guarantees:

(a) Letters of credit:

As of June 30, 2008, the REIT had issued letters of credit in the amount of \$1,700 (December 31, 2007, \$1,700).

(b) Guarantee:

AXLP has guaranteed certain debt assumed by a purchaser in connection with the disposition of Royal Square. This guarantee will remain until the debt is modified, refinanced or extinguished. Credit risk arises in the event that the purchaser defaults on repayment of their debt since it is guaranteed by the REIT. This credit risk is mitigated as the REIT has recourse under this guarantee in the event of default by the purchaser, in which case the REIT would have a claim against the underlying property. The estimated amount of debt subject to the guarantee at June 30, 2008, is \$1,679 (December 31, 2007, \$1,709), with an estimated weighted average remaining term of 2.35 years (December 31, 2007, 2.8 years). No liability in excess of the fair value of the guarantee has been recognized in these consolidated financial statements as the estimated fair value of the borrower's interest in the underlying property is greater than the mortgage payable for which the REIT provided the guarantee.

ARTIS REAL ESTATE INVESTMENT TRUST

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(Unaudited)

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

24. Capital management:

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

The REIT's Declaration of Trust permits the REIT to incur indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of such indebtedness of the REIT is not more than 70% of the gross book value of the REIT's total assets. Gross book value is defined in the Declaration of Trust as "the consolidated book value of the assets of the REIT, plus the amount of accumulated depreciation and amortization recorded in the books and records of the REIT, plus the amount of any future income tax liability arising out of any indirect acquisitions, calculated in accordance with generally accepted accounting principles". As at June 30, 2008, the ratio of such indebtedness to gross book value was 50.4% (December 31, 2007, 49.2%), which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

In addition to the covenant outlined in the Declaration of Trust, the REIT must maintain a debt to gross book value ratio of 70%, a debt service coverage ratio of 1.5, and minimum unitholders' equity of \$200,000 for the purposes of the credit facility (note 12). As at June 30, 2008, the REIT was in compliance with these requirements.

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

The total managed capital for the REIT is summarized below:

	June 30, 2008 (Unaudited)	December 31, 2007
Mortgages and loans payable	\$ 647,876	\$ 612,996
Convertible debentures	44,291	52,732
Bank indebtedness	10,200	-
Total debt	702,367	665,728
Non-controlling interest	10,242	10,182
Unitholders' equity	378,330	385,500
	\$ 1,090,939	\$ 1,061,410

25. Risk management and fair values:

(a) Risk management:

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

(i) Market risk:

(a) Interest rate risk:

The REIT is exposed to interest rate risk on its borrowings. It minimizes the risk by restricting debt to 70% of gross book value and by obtaining long-term fixed rate debt to replace short-term floating rate borrowings. In addition, management considers the weighted average term to maturity of long-term debt relative to the remaining average lease terms. At June 30, 2008, the only variable rate debt that the REIT is a party to is bank indebtedness.

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

25. Risk management and fair values (continued):

(a) Risk management (continued):

(i) Market risk (continued):

(b) Other price risk:

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

(ii) Credit risk:

The REIT is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. Management has diversified the REIT's holdings so that it owns several categories of properties (retail, office and industrial) and acquires properties throughout Western Canada. The allowance for doubtful accounts at June 30, 2008 was \$301, and \$154 at December 31, 2007. The credit quality of the rent and other receivables amount is considered adequate.

The REIT is also exposed to credit risk as a holder of notes receivable. Management mitigates this risk by carrying out appropriate credit checks and related due diligence of the borrowers, and through careful evaluation of the worth of the underlying assets held as security.

(iii) Liquidity risk:

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

The following are the estimated maturities of the REIT's mortgages, loans, bank indebtedness and convertible debentures:

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Mortgages, loans and bank indebtedness	\$ 659,469	\$ 42,182	\$ 137,568	\$ 226,302	\$ 253,417
Convertible debentures	52,953	-	3,033	29,920	20,000
	\$ 712,422	\$ 42,182	\$ 140,601	\$ 256,222	\$ 273,417

ARTIS REAL ESTATE INVESTMENT TRUST

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(Unaudited)

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

25. Risk management and fair values (continued):

(b) Fair values:

The REIT has designated its cash and cash equivalents and cash held in trust as held-for-trading; notes receivable and rent and other receivables as loans and receivables; mortgages and loans payable, convertible debentures, accounts payable and other liabilities, and bank indebtedness as other liabilities. The REIT has neither available-for-sale, nor held-to-maturity instruments.

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

The fair value of the notes receivable has been determined by discounting the cash flows of these financial assets using quarter end market rates for assets of similar terms and credit risks. Based on these assumptions, the fair value of notes receivable at June 30, 2008 has been estimated at \$29,657 (December 31, 2007, \$30,530), compared with the carrying value of \$29,651 (December 31, 2007, \$30,494).

The fair value of the mortgages and loans payable has been determined by discounting the cash flows of these financial obligations using quarter end market rates for debt of similar terms and credit risks. Based on these assumptions, the fair value of mortgages and loans payable at June 30, 2008 has been estimated at \$640,046 (December 31, 2007, \$607,981) compared with the carrying value of \$647,876 (December 31, 2007, \$612,996).

The fair value of the REIT's convertible debentures is \$54,437 (December 31, 2007, \$66,072) compared to its face value of \$52,953 (December 31, 2007, \$63,952) at June 30, 2008. Fair value is based on the market price of the debentures, or if no market price exists, fair value is determined by discounting the cash flows of these financial obligations using quarter end market rates for debt of similar terms and credit risks.

As at June 30, 2008, the REIT had entered into natural gas and electrical contracts with a fair value of \$1,383 (December 31, 2007, \$nil).

26. Future changes in accounting policies:

The CICA has issued a new accounting standard, Section 3064, Goodwill and Intangible Assets, which clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset. The REIT is in the process of evaluating the impact of this standard on its consolidated financial statements. Section 1000, Financial Statement Concepts, was also amended to provide consistency with this new standard. The new and amended standards will be effective for the REIT's 2009 fiscal year.

27. Subsequent events:

The REIT has entered into an unconditional agreement to acquire 1930 Maynard, located in the Mayland Commercial Park in Calgary, AB. The purchase price for this property is \$36,400 and the REIT has secured a commitment for a \$24,000, five-year mortgage bearing interest at a rate of 5.38% per annum. The balance of the purchase price will be satisfied with cash on hand and other financing.

The REIT has entered into an unconditional agreement to acquire a class "A" office building in Burnaby, B.C., located in the Willingdon Green Executive Park. The purchase price for this property is \$11,500 and the REIT has secured a commitment for financing in the amount of \$7,700, bearing interest at a variable rate of bank prime plus 0.75% per annum. The balance of the purchase price will be satisfied with cash on hand.

The REIT has entered into a conditional agreement to acquire the Glanford Place building, located in Victoria, B.C. The purchase price for this property is \$8,800 and the REIT has secured a commitment for a \$5,200, five-year mortgage bearing interest at a rate of 5.5% per annum. The balance of the purchase price will be satisfied with cash on hand.