



**ARTIS**

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**REIT**

**Management's Discussion & Analysis  
Q2 - 10**

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Artis Real Estate Investment Trust ("Artis" or the "REIT") should be read in conjunction with the REIT's audited annual consolidated financial statements for the years ended December 31, 2009 and 2008, the unaudited interim consolidated financial statements for the periods ended June 30, 2010 and 2009, and the notes thereto. This MD&A has been prepared taking into account material transactions and events up to and including August 10, 2010. Additional information about Artis, including the REIT's most recent Annual Information Form, has been filed with applicable Canadian securities regulatory authorities and is available at [www.sedar.com](http://www.sedar.com) or on our web site at [www.artisreit.com](http://www.artisreit.com).

### FORWARD-LOOKING DISCLAIMER

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

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

### NOTICE RESPECTING NON-GAAP MEASURES

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

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## OVERVIEW

Artis is an unincorporated open-end real estate investment trust created under, and governed by, the laws of the province of Manitoba. On February 15, 2007, Artis underwent a name change from "Westfield Real Estate Investment Trust" to "Artis Real Estate Investment Trust". On May 14, 2009, unitholders authorized the trustees of Artis to implement certain amendments to Artis' declaration of trust which, if implemented, would have the effect of converting Artis to a closed-end trust. As at August 10, 2010, the trustees of Artis have not yet implemented such amendments.

Certain of the REIT's securities are listed on the Toronto Stock Exchange ("the TSX"). The REIT's trust units ("units") trade under the symbol AX.UN, and the REIT's Series A, Series B, Series C, Series E, and Series F convertible debentures trade under the symbols AX.DB.A, AX.DB.B, AX.DB.C, AX.DB.E, and AX.DB.F respectively. As at August 10, 2010, there were 58,020,941 units, and 490,286 options of Artis outstanding (refer to the *Outstanding Unit Data* section for further details).

## PRIMARY OBJECTIVES

Artis is focused on producing a stable and growing stream of cash distributions for Unitholders from the ownership and management of high quality commercial properties. Artis focuses exclusively on retail, office and industrial properties with a major focus on western Canada.

The REIT's primary objectives are:

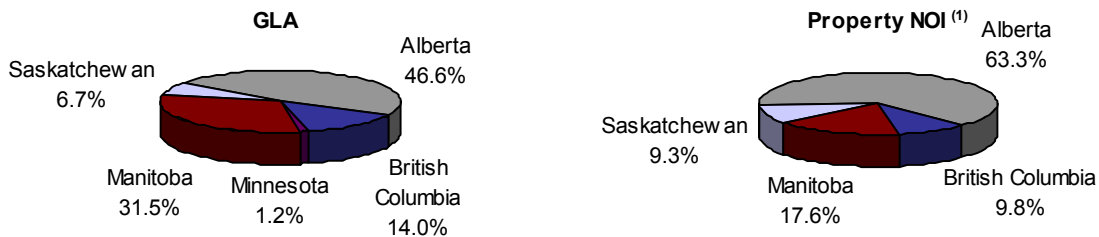
- to provide Unitholders with stable and growing cash distributions, payable monthly, and to the maximum extent practicable, income tax deferred, from investments in a diversified portfolio of income-producing commercial properties;
- to enhance the value of the REIT's assets and maximize long-term unit value through the proactive management of its assets; and
- to expand the REIT's assets base and increase its distributable income through accretive acquisitions in its target markets.

The Declaration of Trust provides that Artis make monthly cash distributions to its unitholders. The amount distributed in each year (currently \$1.08 per unit on an annualized basis) will be the amount of distributable income set down in a policy by the Trustees.

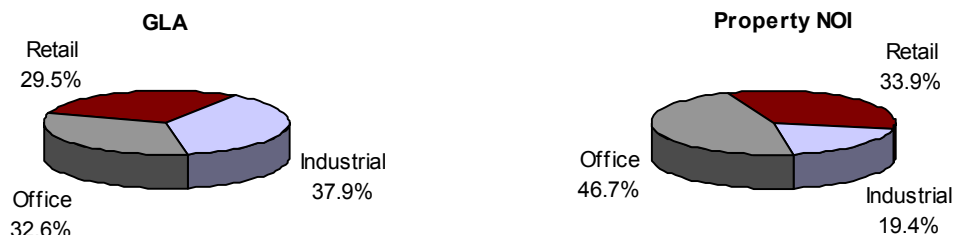
## PORTFOLIO SUMMARY

At June 30, 2010, the REIT's portfolio was comprised of 111 commercial properties located primarily across western Canada totaling approximately 9.58 million square feet (s.f.) of gross leasable area ("GLA").

### Diversification by Geographical Region:



### Diversification by Asset Class:



<sup>(1)</sup> Due to the timing of the Minnesota acquisition, Property NOI relating to this property in Q2-10 is not significant.

Portfolio by Asset Class as at June 30, 2010 (in 000's of s.f.)

Asset Class	City	Number of Properties	Owned Share of Leasable Area	% of Portfolio GLA	Occupancy %	Committed % <sup>(1)</sup>
Industrial	Acheson	2	265	2.8 %	100.0 %	100.0 %
	Calgary	4	452	4.7 %	100.0 %	100.0 %
	Delta	1	70	0.7 %	100.0 %	100.0 %
	Edmonton	5	636	6.6 %	100.0 %	100.0 %
	Nisku	1	23	0.2 %	100.0 %	100.0 %
	Red Deer	1	126	1.3 %	94.1 %	94.1 %
	Saskatoon	1	163	1.7 %	100.0 %	100.0 %
	Winnipeg	29	1,805	18.8 %	96.4 %	97.1 %
<b>Industrial total</b>		<b>44</b>	<b>3,540</b>	<b>36.8 %</b>	<b>97.9 %</b>	<b>98.3 %</b>
Office	Burnaby	2	389	4.1 %	100.0 %	100.0 %
	Calgary	11	1,337	13.9 %	95.3 %	96.2 %
	Nanaimo	2	68	0.7 %	100.0 %	100.0 %
	New Brighton	1	116	1.2 %	100.0 %	100.0 %
	Red Deer	1	149	1.5 %	92.0 %	99.9 %
	Winnipeg	6	1,021	10.7 %	96.5 %	97.8 %
<b>Office total</b>		<b>23</b>	<b>3,080</b>	<b>32.1 %</b>	<b>96.4 %</b>	<b>97.6 %</b>
Retail	Calgary	5	426	4.4 %	92.3 %	99.3 %
	Coquitlam	1	82	0.9 %	100.0 %	100.0 %
	Cranbrook	1	294	3.1 %	92.9 %	92.9 %
	Delta	1	75	0.8 %	100.0 %	100.0 %
	Edmonton	2	165	1.7 %	100.0 %	100.0 %
	Edson	1	20	0.2 %	100.0 %	100.0 %
	Estevan	1	38	0.4 %	100.0 %	100.0 %
	Fort McMurray	7	172	1.8 %	100.0 %	100.0 %
	Grande Prairie	4	379	3.9 %	95.9 %	96.6 %
	Medicine Hat	1	162	1.7 %	100.0 %	100.0 %
	Moose Jaw	1	38	0.4 %	100.0 %	100.0 %
	Nanaimo	1	36	0.4 %	100.0 %	100.0 %
	Regina	7	257	2.7 %	99.4 %	100.0 %
	Saskatoon	2	143	1.5 %	100.0 %	100.0 %
	Spruce Grove	1	112	1.2 %	94.8 %	100.0 %
	St. Albert	1	21	0.2 %	100.0 %	100.0 %
	Westbank / West Kelowna	2	231	2.4 %	99.6 %	99.6 %
	Winnipeg	1	122	1.3 %	93.8 %	93.8 %
	<b>Retail total</b>		<b>40</b>	<b>2,773</b>	<b>29.0 %</b>	<b>96.9 %</b>
		<b>107</b>	<b>9,393</b>	<b>97.9 %</b>	<b>97.1 %</b>	<b>98.2 %</b>

Properties in Redevelopment

Asset Class	City	Number of Properties	Owned Share of Leasable Area	% of Portfolio GLA	Property	Committed % <sup>(1)</sup>
Industrial	Airdrie	1	25	0.3 %	Airdrie Flex-Industrial	49.1 %
Retail	Nanaimo	1	54	0.6 %	6461 Metral Drive	40.9 %
Industrial	Winnipeg	1	64	0.7 %	801 Century Street	67.0 %
Office	Burnaby	1	47	0.5 %	Willingdon Green	56.4 %
<b>Development properties total</b>		<b>4</b>	<b>190</b>	<b>2.1 %</b>		<b>54.6 %</b>
<b>Total portfolio</b>		<b>111</b>	<b>9,583</b>	<b>100.0 %</b>		

<sup>(1)</sup> Percentage committed is based on committed leases at June 30, 2010.

## 2010 – SECOND QUARTER HIGHLIGHTS

### PORTFOLIO GROWTH

Artis acquired 7 commercial properties, the remaining 62% in the 360 Main Street property, and the ancillary Winnipeg Square Parkade during Q2-10.

	Office		Retail		Industrial		Total	
	Number of Properties	S.F. (000's)	Number of Properties	S.F. (000's)	Number of Properties	S.F. (000's)	Number of Properties	S.F. (000's)
Portfolio properties at December 31, 2009	22	2,374	34	1,948	40	2,492	96	6,814
Q1-10 acquisitions	-	-	2	231	6	1,137	8	1,368
Q2-10 acquisitions	2	753	5	645	-	-	7	1,398
Adjustments <sup>(1)</sup>	-	-	-	3	-	-	-	3
Portfolio properties at June 30, 2010	24	3,127	41	2,827	46	3,629	111	9,583

<sup>(1)</sup> Includes new commercial retail unit development at North City Centre.

### Property acquisitions:

The properties acquired during Q2-10 include Tamarack Mall and Production Court. Tamarack Mall is an enclosed shopping centre in Cranbrook, British Columbia. The centre comprises 287,741 square feet of rentable area and is 92.9% occupied. Production Court is a three-building office complex in Burnaby, British Columbia. The complex has a leasable area of 297,801 square feet and is 100% occupied. Artis also acquired the remaining 62% interest in 360 Main Street in Winnipeg, Manitoba, increasing the owned share of leasable area for the retail and office asset classes. 360 Main Street is a 32-storey Class A office tower with connected underground retail concourse. The tower comprises 545,110 square feet of leasable area and is 96.8% occupied. The Shops of Winnipeg Square has a leasable area of 56,976 square feet and is 91.0% occupied.

### FINANCING ACTIVITIES

#### Series F convertible debenture offering:

On April 22, 2010, Artis issued a \$86,250 public offering of 10-year convertible redeemable unsecured subordinated debentures (the "Series F Debentures"). This includes \$11,250 of the Series F convertible debentures issued pursuant to the exercise of the underwriters' over-allotment option. The Series F convertible debentures pay interest at a rate of 6.0% per annum and are listed on the Toronto Stock Exchange under the trading symbol AX.DB.F.

#### Equity offering:

On June 30, 2010, Artis issued 7,331,250 units at a price of \$11.00 per unit for aggregate gross proceeds of \$80,644. This includes 956,250 units issued pursuant to the exercise of the underwriters' over-allotment option.

#### Debt financing and repayments:

During Q2-10, Artis drew \$8,000 on the line of credit. Artis refinanced a maturing mortgage of \$4,453, replacing it with a new mortgage of \$8,775.

### DISTRIBUTIONS

Artis distributed a total of \$14,219 (YTD - \$26,564) to unitholders in Q2-10, of which \$1,054 (YTD - \$1,998) was paid by way of distribution reinvestment, pursuant to Artis' Distribution Reinvestment and Unit Purchase Plan.

## SELECTED FINANCIAL INFORMATION

\$000's, except per unit amounts

	Three month period ended June 30,		Six month period ended June 30,	
	2010	2009	2010	2009
Revenue	\$ 42,984	\$ 33,487	\$ 80,291	\$ 68,093
Property NOI	\$ 30,099	\$ 23,094	\$ 55,768	\$ 46,680
Income (loss) for the period	\$ (388)	\$ 110	\$ 91	\$ (13,421)
Basic income (loss) per unit	\$ (0.01)	\$ 0.00	\$ 0.00	\$ (0.41)
Distributions (including Class B units)	\$ 14,219	\$ 8,914	\$ 26,564	\$ 17,842
Distributions per unit	\$ 0.27	\$ 0.27	\$ 0.54	\$ 0.54
DI	\$ 15,278	\$ 12,899	\$ 29,065	\$ 26,797
DI per unit	\$ 0.30	\$ 0.39	\$ 0.62	\$ 0.81
DI payout ratio	90.0 %	69.2 %	87.1 %	66.7 %
FFO	\$ 15,564	\$ 13,147	\$ 29,664	\$ 27,392
FFO per unit	\$ 0.31	\$ 0.40	\$ 0.64	\$ 0.83
FFO payout ratio	87.1 %	67.5 %	84.4 %	65.1 %
Weighted-average units:				
Weighted-average units (basic)	50,097	32,726	46,620	32,557
Weighted-average units (basic) including Class B units	50,097	33,019	46,620	33,063

Artis has been actively acquiring properties since Q4-09. Due to this acquisition activity as well as same property revenue growth, Q2-10 revenues from continuing operations increased \$9,497, or 28.4% compared to Q2-09 results (YTD - \$12,198, or 17.9%). Property NOI from continuing operations increased by \$7,005, or 30.3% compared to Q2-09 results (YTD - \$9,088, or 19.5%).

DI increased \$2,379, or 18.4% compared to Q2-09, and \$2,268, or 8.5% year-over-year. FFO increased \$2,417, or 18.4% compared to Q2-09, and \$2,272, or 8.3% year-over-year. These increases are primarily attributed to the acquisitions completed in 2009 and 2010. On a per unit basis, basic DI decreased \$0.09 or 23.1% compared to Q2-09 results, and \$0.19 or 23.5% year-over-year. Basic FFO decreased \$0.09 or 22.5% compared to Q2-09 results, and \$0.19 or 22.9% year-over-year. As a result of units issued under the DRIP, units issued from public offerings, and conversion of convertible debentures, net of Normal Course Issuer Bid repurchases, basic units outstanding for the calculation of DI and FFO has substantially increased. This increase has diluted the impact of strong growth in revenues, Property NOI, DI and FFO on per unit results. Additionally, some of the equity raised remains uninvested at June 30, 2010. Management anticipates there will be further growth in revenues, Property NOI, DI and FFO, that will translate to higher per unit results as equity is invested in on-going acquisition activities in future periods.

## ANALYSIS OF OPERATING RESULTS

\$000's, except per unit amounts

	Three month period ended June 30,				Six month period ended June 30,			
	2010	% of Revenue	2009	% of Revenue	2010	% of Revenue	2009	% of Revenue
Revenue	\$ 42,984		\$ 33,487		\$ 80,291		\$ 68,093	
Property operating expenses	12,885	30.0 %	10,393	31.0 %	24,523	30.5 %	21,413	31.4 %
Property NOI	30,099	70.0 %	23,094	69.0 %	55,768	69.5 %	46,680	68.6 %
Interest	13,189	30.7 %	9,766	29.2 %	23,611	29.4 %	19,633	28.8 %
Expenses (income):	16,910		13,328		32,157		27,047	
Corporate	1,425	3.3 %	1,288	3.8 %	2,649	3.3 %	2,489	3.7 %
Amortization	15,939		12,862		29,403		28,444	
Unrealized (gain) loss on commodity derivatives	(66)		60		14		264	
	17,298		14,210		32,066		31,197	
Income (loss) before the undernoted	(388)		(882)		91		(4,150)	
Loss on termination of Interplex II agreement	-		(7,287)		-		(7,287)	
Future income tax expense	-		-		-		(10,895)	
Non-controlling interest	-		45		-		40	
Income from discontinued operations	-		8,234		-		8,871	
Income (loss) for the period	\$ (388)		\$ 110		\$ 91		\$ (13,421)	
Basic income (loss) per unit	\$ (0.01)		\$ 0.00		\$ 0.00		\$ (0.41)	
Diluted income (loss) per unit	\$ (0.01)		\$ 0.00		\$ 0.00		\$ (0.41)	
Weighted-average number of units:								
Basic	50,097		32,726		46,620		32,557	
Diluted	50,097		32,726		46,624		32,557	



## 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 Q2-10, straight-line rent adjustments of \$669 (YTD - \$1,112) were recorded compared to \$509 in Q2-09 (YTD - \$918).

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. When a lease terminates prior to the end of the lease term, the REIT writes off the unamortized balance of these intangible assets and liabilities. Artis has been actively acquiring properties since Q4-09; as in-place rent rates in a number of the acquisitions were considered to be below-market rent rates, intangible assets and liabilities were increased. These increases have been offset by the disposal of 9 commercial properties in 2009. As a result, in Q2-10 the adjustment to market rents was \$2,877 (YTD - \$5,639) compared to \$2,833 (YTD - \$6,792) in Q2-09.

In Q2-10, the REIT recorded amortization of \$108 (YTD - \$212) as a reduction in revenue from tenant incentives compared to \$63 (YTD - \$128) in Q2-09.

Revenue in Q2-10 included interest income of \$518 (YTD - \$970) compared to \$437 (YTD - \$899) in Q2-09.

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

## SAME PROPERTY NOI GROWTH

	Three month period ended		Six month period ended	
	June 30, <sup>(1)</sup>		June 30, <sup>(1)</sup>	
	2010	2009	2010	2009
Revenue	\$ 33,033	\$ 32,761	\$ 66,604	\$ 65,990
Property operating expenses	10,530	10,253	21,163	21,036
Property NOI	22,503	22,508	45,441	44,954
Add (deduct) non-cash revenue adjustments:				
Straight-line rent adjustment	(288)	(538)	(610)	(901)
Amortization of tenant inducements	106	63	207	127
Above- and below-market rent	(2,549)	(2,791)	(5,113)	(5,949)
Property NOI less non-cash revenue adjustments	\$ 19,772	\$ 19,242	\$ 39,925	\$ 38,231

<sup>(1)</sup> Same property comparison includes only income-producing properties owned on January 1, 2009, and excludes properties accounted for as discontinued operations as well as properties considered to be in redevelopment.

In Q2-10, Property NOI was consistent with Property NOI from Q2-09. YTD Property NOI increased \$487 or 1.1%. As well, Artis also achieved an increase of \$530 (YTD - \$1,694), or 2.8% (YTD - 4.4%) of Property NOI less non-cash revenue adjustments over Q2-09.

**Same Property NOI less Non-Cash Revenue Adjustments by Asset Class<sup>(1)</sup>:**

	Three month period ended June 30,				Six month period ended June 30,			
	2010	2009	Change	%	2010	2009	Change	%
				Change				Change
Retail	\$ 7,445	\$ 7,442	\$ 3	0.0 %	\$ 15,040	\$ 14,736	\$ 304	2.1 %
Office	\$ 9,660	\$ 9,176	\$ 484	5.3 %	\$ 19,589	\$ 18,217	\$ 1,372	7.5 %
Industrial	\$ 2,667	\$ 2,624	\$ 43	1.6 %	\$ 5,296	\$ 5,278	\$ 18	0.3 %
<b>Total</b>	<b>\$ 19,772</b>	<b>\$ 19,242</b>	<b>\$ 530</b>	<b>2.8 %</b>	<b>\$ 39,925</b>	<b>\$ 38,231</b>	<b>\$ 1,694</b>	<b>4.4 %</b>

**Same Property NOI less Non-Cash Revenue Adjustments by Geographical Region<sup>(1)</sup>:**

	Three month period ended June 30,				Six month period ended June 30,			
	2010	2009	Change	%	2010	2009	Change	%
				Change				Change
Alberta	\$ 13,189	\$ 12,886	\$ 303	2.4 %	\$ 26,415	\$ 25,550	\$ 865	3.4 %
British Columbia	\$ 1,123	\$ 1,103	\$ 20	1.8 %	\$ 2,237	\$ 2,180	\$ 57	2.6 %
Manitoba	\$ 3,468	\$ 3,342	\$ 126	3.8 %	\$ 7,196	\$ 6,652	\$ 544	8.2 %
Saskatchewan	\$ 1,992	\$ 1,911	\$ 81	4.2 %	\$ 4,077	\$ 3,849	\$ 228	5.9 %
<b>Total</b>	<b>\$ 19,772</b>	<b>\$ 19,242</b>	<b>\$ 530</b>	<b>2.8 %</b>	<b>\$ 39,925</b>	<b>\$ 38,231</b>	<b>\$ 1,694</b>	<b>4.4 %</b>

**Same Property Occupancy Comparison<sup>(1)</sup>**

**By Geographical Region**

	As at June 30,	
	2010	2009
Alberta	96.2 %	96.3 %
British Columbia	100.0 %	100.0 %
Manitoba	97.4 %	97.8 %
Saskatchewan	99.7 %	100.0 %
<b>Total</b>	<b>97.1 %</b>	<b>97.3 %</b>

**By Asset Class**

	As at June 30,	
	2010	2009
Industrial	98.5 %	99.1 %
Office	95.6 %	94.4 %
Retail	97.8 %	99.0 %
<b>Total</b>	<b>97.1 %</b>	<b>97.3 %</b>

<sup>(1)</sup> Same property comparison includes only income-producing properties owned on January 1, 2009, and excludes properties accounted for as discontinued operations as well as properties considered to be in redevelopment.

Same property occupancy at June 30, 2010 decreased 0.2% from 97.3% at June 30, 2009.

**PROPERTY NOI BY ASSET CLASS**

In Q2-10, revenues and Property NOI from continuing operations increased for all asset class segments of the portfolio.

Property NOI in the retail segment increased approximately 24.7%. Growth was attributable to increased acquisition activity since Q4-09.

Property NOI in the office segment increased approximately 13.5%. A significant portion of the increase was a result of the increased acquisition activity since Q4-09. Property NOI growth for this segment was also attributable to increased leasing activity in the office portfolio and the completion and lease up of the 40,000 square foot two-storey addition at Millennium Centre during 2009.

Property NOI in the industrial segment increased approximately 107.3%. The growth in the industrial segment of the portfolio was primarily driven by acquisition activity since Q4-09.

	Three month period ended June 30,					
	2010			2009		
	Retail	Office	Industrial	Retail	Office	Industrial
Revenue	\$ 14,199	\$ 19,727	\$ 8,939	\$ 11,501	\$ 17,504	\$ 4,439
Property operating expenses	3,859	6,464	2,562	3,208	5,822	1,363
Property NOI	\$ 10,340	\$ 13,263	\$ 6,377	\$ 8,293	\$ 11,682	\$ 3,076
<i>Share of Property NOI</i>	<i>34.5 %</i>	<i>44.2 %</i>	<i>21.3 %</i>	<i>36.0 %</i>	<i>50.7 %</i>	<i>13.3 %</i>

<b>Six month period ended June 30,</b>						
<b>2010</b>			<b>2009</b>			
	Retail	Office	Industrial	Retail	Office	Industrial
Revenue	\$ 26,165	\$ 38,229	\$ 15,725	\$ 23,852	\$ 35,114	\$ 9,064
Property operating expenses	7,320	12,246	4,957	6,784	11,620	3,009
Property NOI	\$ 18,845	\$ 25,983	\$ 10,768	\$ 17,068	\$ 23,494	\$ 6,055
<i>Share of Property NOI</i>	<i>33.9 %</i>	<i>46.7 %</i>	<i>19.4 %</i>	<i>36.6 %</i>	<i>50.4 %</i>	<i>13.0 %</i>

### PROPERTY NOI BY GEOGRAPHICAL REGION

In Q2-10, revenues and Property NOI from continuing operations increased in all four provinces in comparison to Q2-09.

Property NOI in the Alberta segment increased 17.1%. This increase was primarily attributable to increased acquisition activity since Q4-09.

Property NOI in the British Columbia segment increased approximately 189.4%. Acquisitions in 2009 and 2010 primarily contributed to this growth, as well as the lease up of space since Q2-09 in the Willingdon Green property.

Property NOI in the Manitoba segment increased 32.5%. This increase was primarily attributable to the impact of income-producing property acquisitions since Q4-09.

Property NOI in the Saskatchewan segment increased 31.0%. This increase was primarily attributable to the impact of the Maple Leaf Building acquisition in 2010.

<b>Three month period ended June 30,</b>								
<b>2010 <sup>(1)</sup></b>					<b>2009</b>			
	AB	BC	MB	SK	AB	BC	MB	SK
Revenue	\$ 25,719	\$ 5,168	\$ 8,489	\$ 3,489	\$ 21,909	\$ 2,050	\$ 6,539	\$ 2,946
Property operating expenses	6,817	1,582	3,600	886	5,774	811	2,849	959
Property NOI	\$ 18,902	\$ 3,586	\$ 4,889	\$ 2,603	\$ 16,135	\$ 1,239	\$ 3,690	\$ 1,987
<i>Share of Property NOI</i>	<i>63.0 %</i>	<i>12.0 %</i>	<i>16.3 %</i>	<i>8.7 %</i>	<i>70.0 %</i>	<i>5.4 %</i>	<i>16.0 %</i>	<i>8.6 %</i>

<b>Six month period ended June 30,</b>								
<b>2010 <sup>(1)</sup></b>					<b>2009</b>			
	AB	BC	MB	SK	AB	BC	MB	SK
Revenue	\$ 48,268	\$ 7,951	\$ 16,918	\$ 6,982	\$ 44,414	\$ 4,813	\$ 12,930	\$ 5,873
Property operating expenses	13,086	2,488	7,114	1,835	12,031	1,758	5,756	1,868
Property NOI	\$ 35,182	\$ 5,463	\$ 9,804	\$ 5,147	\$ 32,383	\$ 3,055	\$ 7,174	\$ 4,005
<i>Share of Property NOI</i>	<i>63.3 %</i>	<i>9.8 %</i>	<i>17.6 %</i>	<i>9.3 %</i>	<i>69.5 %</i>	<i>6.5 %</i>	<i>15.4 %</i>	<i>8.6 %</i>

<sup>(1)</sup> Due to the timing of the Minnesota acquisition, Property NOI relating to this property in Q2-10 is not significant.

## PORTFOLIO OCCUPANCY

Occupancy levels impact the REIT's revenues and Property NOI. Occupancy and commitments at June 30, 2010 (excluding properties currently in redevelopment), and the previous four periods, are as follows.

### Occupancy Report by Asset Class <sup>(1)</sup>

	Q2-10 % Committed <sup>(2)</sup>	Q2-10	Q1-10	Q4-09	Q3-09	Q2-09
Industrial	98.3%	97.9%	95.8%	96.1%	98.1%	99.2%
Office	97.6%	96.4%	95.6%	95.2%	93.1%	93.4%
Retail	98.4%	96.9%	97.7%	98.8%	99.1%	97.3%
Total Portfolio	98.2%	97.1%	96.2%	96.6%	96.4%	96.2%

### Occupancy Report by Geographical Region <sup>(1)</sup>

	Q2-10 % Committed <sup>(2)</sup>	Q2-10	Q1-10	Q4-09	Q3-09	Q2-09
Alberta	98.4%	96.9%	96.8%	96.5%	95.2%	95.4%
British Columbia	98.3%	98.2%	89.2%	83.5%	100.0%	89.9%
Manitoba	97.2%	96.3%	96.2%	98.2%	97.2%	97.8%
Minnesota	100.0%	100.0%	0.0%	0.0%	0.0%	0.0%
Saskatchewan	100.0%	99.8%	99.7%	99.6%	99.6%	100.0%
Total Portfolio	98.2%	97.1%	96.2%	96.6%	96.4%	96.2%

<sup>(1)</sup> Excluding properties currently being redeveloped.

<sup>(2)</sup> % Committed is based on occupancy and executed leases on vacant units.

Of the 190,658 square feet currently considered to be undergoing redevelopment, lease commitments are in place on 54.6% of the leasable area.

## PORTFOLIO LEASING ACTIVITY AND LEASE EXPIRIES

Artis monitors period over period changes in weighted-average rental rates for new and renewal leasing activities. In Q2-10, the weighted-average rental rates on total activity increased 7.1% (YTD – 1.8%) compared to 8.1% in Q2-09 (YTD – 10.4%). In Q2-10, the weighted-average rental rates on renewal activity increased 6.7% (YTD – 4.9%) compared to 11.2% in Q2-09 (YTD - 16.9%). This strong growth was primarily within the industrial and retail asset classes. Saskatchewan and Alberta reported the largest weighted-average rental rate increases for all leasing activity and for renewal activity specifically.

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

	Three months ended June 30, 2010		Three months ended June 30, 2009		Six months ended June 30, 2010		Six months ended June 30, 2009	
	S.F.	In-Place Rent	S.F.	In-Place Rent	S.F.	In-Place Rent	S.F.	In-Place Rent
New/renewed	257	\$ 9.70	203	\$ 12.11	617	\$ 9.24	412	\$ 13.80
Expiring	165	\$ 9.06	170	\$ 11.20	451	\$ 9.08	438	\$ 12.50
Change		\$ 0.64		\$ 0.91		\$ 0.16		\$ 1.30
% Change		7.1 %		8.1 %		1.8 %		10.4 %
% Change on renewals only		6.7 %		11.2 %		4.9 %		16.9 %

**Lease Expiries by Asset Class (in 000's of s.f.) <sup>(1) (2)</sup>**

	Office		Retail		Industrial		Total	
	GLA	%	GLA	%	GLA	%	GLA	%
2010	366	11.7 %	219	7.7 %	231	6.4 %	816	8.5 %
2011	436	14.0 %	256	9.1 %	620	17.0 %	1,312	13.7 %
2012	321	10.3 %	220	7.8 %	274	7.5 %	815	8.4 %
2013	560	17.9 %	278	9.8 %	461	12.7 %	1,299	13.6 %
2014	201	6.4 %	272	9.6 %	568	15.7 %	1,041	10.9 %
2015	201	6.4 %	153	5.4 %	216	6.0 %	570	5.9 %
2016 & later	897	28.6 %	1,310	46.4 %	1,124	31.0 %	3,331	34.8 %
	2,982	95.3 %	2,708	95.8 %	3,494	96.3 %	9,184	95.8 %
Month-to-month	16	0.5 %	1	0.1 %	2	0.1 %	19	0.2 %
Vacancies	130	4.2 %	117	4.1 %	133	3.6 %	380	4.0 %
<b>Total GLA</b>	<b>3,128</b>	<b>100.0 %</b>	<b>2,826</b>	<b>100.0 %</b>	<b>3,629</b>	<b>100.0 %</b>	<b>9,583</b>	<b>100.0 %</b>

**Commitments**

2010	55.4 %	80.2 %	59.5 %	63.2 %
2011	45.4 %	0.1 %	17.3 %	23.3 %

**Expiring Rents**

2010	\$ 15.57	\$ 10.47	\$ 5.16	\$ 11.25
2011	\$ 15.81	\$ 16.74	\$ 7.23	\$ 11.94
2012	\$ 17.26	\$ 17.61	\$ 6.17	\$ 13.62
2013 & later	\$ 17.92	\$ 16.14	\$ 7.24	\$ 13.29
<b>Total</b>	<b>\$ 17.25</b>	<b>\$ 15.86</b>	<b>\$ 7.02</b>	<b>\$ 12.94</b>

**Market Rents**

2010	\$ 16.80	\$ 11.82	\$ 5.47	\$ 12.26
2011	\$ 15.09	\$ 18.82	\$ 8.01	\$ 12.47
2012	\$ 15.64	\$ 19.59	\$ 6.93	\$ 13.78
2013 & later	\$ 18.00	\$ 18.13	\$ 7.99	\$ 14.24
<b>Total</b>	<b>\$ 17.18</b>	<b>\$ 17.80</b>	<b>\$ 7.74</b>	<b>\$ 13.77</b>

**Change**

2010	7.9 %	12.9 %	6.0 %	9.0 %
2011	(4.6)%	12.4 %	10.8 %	4.4 %
2012	(9.4)%	11.2 %	12.3 %	1.2 %
2013 & later	0.4 %	12.3 %	10.4 %	7.1 %
<b>Total</b>	<b>(0.4)%</b>	<b>12.2 %</b>	<b>10.3 %</b>	<b>6.4 %</b>

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

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

**Lease Expiries by Geographical Region (in 000's of s.f.) <sup>(1) (2)</sup>**

	Alberta		British Columbia		Manitoba		Minnesota		Saskatchewan	
	GLA	%	GLA	%	GLA	%	GLA	%	GLA	%
2010	283	6.3 %	30	2.2 %	464	15.4 %	-	0.0 %	39	6.1 %
2011	736	16.5 %	110	8.2 %	417	13.8 %	-	0.0 %	49	7.7 %
2012	310	6.9 %	136	10.1 %	355	11.8 %	-	0.0 %	14	2.2 %
2013	566	12.7 %	215	16.0 %	397	13.2 %	-	0.0 %	120	18.7 %
2014	349	7.8 %	95	7.1 %	511	17.0 %	-	0.0 %	87	13.6 %
2015	172	3.8 %	107	8.0 %	249	8.3 %	-	0.0 %	42	6.6 %
2016 & later	1,889	42.3 %	578	42.9 %	461	15.3 %	116	100.0 %	287	44.8 %
	4,305	96.3 %	1,271	94.5 %	2,854	94.8 %	116	100.0 %	638	99.7 %
Month-to-month	4	0.1 %	-	0.0 %	15	0.5 %	-	0.0 %	-	0.0 %
Vacancies	161	3.6 %	74	5.5 %	143	4.7 %	-	0.0 %	2	0.3 %
<b>Total GLA</b>	<b>4,470</b>	<b>100.0 %</b>	<b>1,345</b>	<b>100.0 %</b>	<b>3,012</b>	<b>100.0 %</b>	<b>116</b>	<b>100.0 %</b>	<b>640</b>	<b>100.0 %</b>
<b>Commitments</b>										
2010		68.9 %		49.1 %		66.3 %		0.0 %		55.7 %
2011		26.8 %		2.0 %		25.4 %		0.0 %		0.0 %
<b>Expiring Rents</b>										
2010	\$ 10.49		\$ 13.93		\$ 11.19		\$ 0.00		\$ 15.39	
2011	\$ 13.91		\$ 11.19		\$ 8.25		\$ 0.00		\$ 15.33	
2012	\$ 18.06		\$ 15.80		\$ 8.72		\$ 0.00		\$ 18.47	
2013 & later	\$ 15.25		\$ 13.26		\$ 8.88		\$ 14.88		\$ 15.40	
<b>Total</b>	<b>\$ 14.91</b>		<b>\$ 13.37</b>		<b>\$ 9.15</b>		<b>\$ 14.88</b>		<b>\$ 15.46</b>	
<b>Market Rents</b>										
2010	\$ 12.08		\$ 14.89		\$ 11.73		\$ 0.00		\$ 17.67	
2011	\$ 14.20		\$ 12.58		\$ 9.00		\$ 0.00		\$ 15.82	
2012	\$ 16.89		\$ 17.25		\$ 9.49		\$ 0.00		\$ 19.90	
2013 & later	\$ 16.56		\$ 14.28		\$ 9.22		\$ 15.00		\$ 16.30	
<b>Total</b>	<b>\$ 15.89</b>		<b>\$ 14.46</b>		<b>\$ 9.63</b>		<b>\$ 15.00</b>		<b>\$ 16.42</b>	
<b>Change</b>										
2010	15.2 %		6.9 %		4.8 %		0.0 %		14.8 %	
2011	2.1 %		12.4 %		9.1 %		0.0 %		3.2 %	
2012	(6.5)%		9.2 %		8.8 %		0.0 %		7.7 %	
2013 & later	8.6 %		7.7 %		3.8 %		0.8 %		5.8 %	
<b>Total</b>	<b>6.6 %</b>		<b>8.2 %</b>		<b>5.2 %</b>		<b>0.8 %</b>		<b>6.2 %</b>	

(1) Based on Artis' proportionate share of total leasable area.

(2) Based on expiries without deduction for future lease commitments.

Artis' real estate is diversified across the four western provinces and Minnesota, and across the office, retail and industrial asset classes. At June 30, 2010, the three largest segments of the REIT's portfolio (by GLA) are Winnipeg industrial property, Calgary office property and Winnipeg office property.

Winnipeg industrial properties represent 19.5% of the overall portfolio by GLA. Vacancy in the Winnipeg industrial market, as reported by CBRE, was approximately 4.1% at June 30, 2010, compared to 4.2% at March 31, 2010. Rent rates increased to \$6.08 psf from \$6.00. Artis has one industrial property in Winnipeg, comprising 64,208 square feet, which is considered to be in development; 67.0% of that space is now committed under new leases. Occupancy in the remainder of this segment of the portfolio was 96.4% at June 30, 2010, up from 96.1% at March 31, 2010. Occupancy plus commitments on vacant space is 97.1% for this segment, up from 96.4% at March 31, 2010. In the remainder of 2010, 220,590 square feet comes up for renewal, which represents 2.3% of the portfolio's GLA; 63.9% has been renewed or committed to a new lease. In 2011, 257,302 square feet comes up for renewal, which represents 2.7% of the portfolio's GLA.

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

	Calgary Office		Other Office		Total Office	
	GLA	%	GLA	%	GLA	%
2010	57	4.3 %	309	17.3 %	366	11.7 %
2011	267	20.0 %	169	9.4 %	436	14.0 %
2012	136	10.2 %	185	10.3 %	321	10.3 %
2013	299	22.3 %	261	14.6 %	560	17.9 %
2014	53	4.0 %	148	8.3 %	201	6.4 %
2015	37	2.8 %	164	9.1 %	201	6.4 %
2016 & later	424	31.7 %	473	26.4 %	897	28.6 %
	1,273	95.3 %	1,709	95.4 %	2,982	95.3 %
Month-to-month	2	0.1 %	14	0.8 %	16	0.5 %
Vacancies	62	4.6 %	68	3.8 %	130	4.2 %
<b>Total GLA</b>	<b>1,337</b>	<b>100.0 %</b>	<b>1,791</b>	<b>100.0 %</b>	<b>3,128</b>	<b>100.0 %</b>

**Commitments**

2010	35.2 %	59.2 %	55.4 %
2011	33.8 %	63.7 %	45.4 %

Calgary Office	Expiring Rents	Market Rents	Change
2010	\$ 14.23	\$ 14.06	(1.2)%
2011	\$ 17.07	\$ 15.51	(9.1)%
2012	\$ 20.74	\$ 15.71	(24.3)%
2013 & later	\$ 19.34	\$ 19.20	(0.7)%
<b>Total</b>	<b>\$ 18.79</b>	<b>\$ 17.82</b>	<b>(5.2)%</b>

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

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

Calgary office properties represent 13.9% of the overall portfolio by GLA. Artis' office properties are Class A, B and C buildings, in downtown, beltline and suburban locations. Overall vacancy in the Calgary office market, as reported by CBRE, was 11.0% at June 30, 2010, compared to 9.4% at March 31, 2010. Management believes that as new projects continue to be completed as planned and delivered to inventory, rental rates and occupancy levels will remain under pressure through 2012. Tenant demand has been stronger than forecast in both the suburban and downtown markets due largely to the positive impacts of continued capital investment in oil and gas in Alberta. At June 30, 2010, the Calgary office segment of Artis' portfolio was 95.3% occupied with new lease commitments in place for 21.1% of the unoccupied space, up from 94.9% occupancy at March 31, 2010. In the remainder of 2010, 57,165 square feet comes up for renewal, which represents 0.6% of the portfolio's GLA; 35.2% has been renewed. In 2011, 266,488 square feet comes up for renewal, which represents 2.8% of the portfolio's GLA; 33.8% has been renewed. Approximately 31.7% of the Calgary office GLA expires in 2016 or later.

Winnipeg office properties represent 10.7% of Artis' portfolio by GLA. Vacancy in the Winnipeg office market, as reported by CBRE, was 8.0% at June 30, 2010, compared to 8.5% at March 31, 2010. Q2-10 vacancy decreased primarily as a result of strong leasing activity in the downtown Class A market. With a stable economy and limited new development activity in the market, management anticipates this will continue to be a strong market. The REIT's Winnipeg office portfolio performed well, with vacancy at 3.5% at June 30, 2010, compared to 3.4% at March 31, 2010. In the remainder of 2010, 238,827 square feet comes up for renewal which represents 2.5% of the portfolio's GLA; 68.4% has been renewed. In 2011, 143,699 square feet comes up for renewal, which represents 1.5% of the portfolio's GLA; 73.5% has been renewed.

**INTEREST**

The current period's interest expense is attributable to mortgages and other loans secured against the income-producing properties, as well as convertible debentures outstanding and the balance drawn on the credit facility. Interest expense has increased over Q2-09 due to additional mortgage financing obtained in connection with acquisitions completed in 2009 and 2010, and the issuance of additional convertible debentures since Q2-09. In accordance with GAAP, financing costs are netted against the related debt, and interest and financing costs are recorded on an effective interest basis.

The REIT's weighted-average effective rate at June 30, 2010 on mortgages and other debt secured by properties was 5.46% compared to 5.52% at June 30, 2009. The weighted-average nominal interest rate at June 30, 2010 was 5.32% compared to 5.41% at June 30, 2009.

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 \$2,748 (YTD - \$4,618) on the carrying value of debentures outstanding in Q2-10, compared to \$1,145 (YTD - \$2,251) in Q2-09.

## CORPORATE EXPENSES

	Three month period ended June 30,		Six month period ended June 30,	
	2010	2009	2010	2009
Accounting, legal, consulting	\$ 131	\$ 150	\$ 249	\$ 317
Advisory fees	898	727	1,652	1,388
Public company costs	273	158	462	330
Unit-based compensation	30	54	41	115
Foreign currency translation gain	(96)	-	(96)	-
General and administrative	189	199	341	339
<b>Total corporate expenses</b>	<b>\$ 1,425</b>	<b>\$ 1,288</b>	<b>\$ 2,649</b>	<b>\$ 2,489</b>

In Q2-10, Artis acquired a property in New Brighton, Minnesota in the United States. The foreign currency translation gain above relates to payments made by the REIT in US dollars related to this property. Corporate expenses in Q2-10 were \$1,425 (YTD - \$2,649), or 3.3% (YTD - 3.3%) of gross revenues compared to \$1,288 (YTD - \$2,489), or 3.8% (YTD - 3.7%) of gross revenues in Q2-09.

## AMORTIZATION

Amortization includes amortization of the income-producing properties and their related intangible assets, as well as 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 \$7,935 (YTD - \$14,649) in Q2-10 compared to \$6,529 (YTD - \$14,009) in Q2-09. Intangible assets, such as the value of in-place operating leases and customer relationship values, are amortized on a straight-line basis over the term of the underlying lease agreements. In Q2-10, Artis recorded \$7,205 (YTD - \$13,212) for the amortization of intangible assets, compared to \$6,416 (YTD - \$14,869) in Q2-09.

In Q2-10, amortization expense relating to tenant inducements and leasing commissions totalled \$770 (YTD - \$1,486), compared to \$612 (YTD - \$1,317) in Q2-09.

## UNREALIZED (GAIN) LOSS ON COMMODITY DERIVATIVES

In accordance with GAAP, in Q2-10 the REIT recorded an unrealized gain on commodity derivatives of \$66 (YTD - loss of \$14), compared to loss of \$60 (YTD - loss of \$264) in Q2-09 on utility supply contracts. The REIT anticipates holding these utility contracts until maturity.

## 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.



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 (such legislation, as amended, referred to as 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. A qualifying SIFT is a trust which was a SIFT on October 31, 2006. The application of the SIFT Rules to a qualifying trust is delayed until the earlier of the trust's 2011 taxation year and the first taxation year in which it exceeds certain specified growth guidelines. In the case of the REIT, its subsequent offerings have exceeded the specified growth guidelines. 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. Please refer to the REIT's Annual Information Form for a more detailed discussion of the New SIFT Rules and their application to the REIT.

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 has reviewed the New SIFT Rules and has assessed their interpretation and application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the New SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the three and six month periods ended June 30, 2010. The future income tax asset of \$11,127 recorded in prior periods was reversed in Q1-09.

### **NON-CONTROLLING INTEREST**

Non-controlling interest represents an allocation of net income or loss to the Class B unitholders. As a result of the settlement and cancellation of the Interplex II and Interplex III agreements there are no outstanding Class B units at June 30, 2010 and there will be no further allocation to non-controlling interest, until such time as new class B units are issued.

### **INCOME FROM DISCONTINUED OPERATIONS**

Income from discontinued operations includes income from the 9 properties known as the Plainsman Building, Airways Business Plaza, Glenmore Commerce Court, McKnight Village Mall, Albert Street Mall, Bridges Place, Willowglen Business Park, Franklin Showcase Warehouse, and Raleigh Shopping Centre, which were sold during 2009, as well as the loss incurred on termination of the Interplex III agreement in Q2-09. None of the REIT's properties have been treated as discontinued operations in 2010.

## 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:

\$000's, except per unit amounts	Three month period ended June 30,		Six month period ended June 30,	
	2010	2009	2010	2009
Cash flow from operations	\$ 14,839	\$ 11,596	\$ 31,835	\$ 19,305
Add (deduct) amortization of:				
Office equipment	(29)	(25)	(56)	(50)
Above-market rent	(96)	(58)	(153)	(131)
Below-market rent	2,973	2,891	5,792	6,923
Tenant inducements and leasing costs	(770)	(612)	(1,486)	(1,317)
Tenant inducements amortized into revenue	(108)	(63)	(212)	(128)
Above-market mortgage	45	46	91	91
Add: Straight-line rent adjustment	669	509	1,112	918
Add (deduct):				
Changes in non-cash operating items	(2,001)	(1,187)	(7,401)	1,288
Financing costs, non-debenture, included in interest expense	(244)	(198)	(457)	(402)
Other adjustment				
Property rent <sup>(1)</sup>	-	-	-	300
<b>DI for the period</b>	<b>\$ 15,278</b>	<b>\$ 12,899</b>	<b>\$ 29,065</b>	<b>\$ 26,797</b>
<b>DI per unit</b>				
Basic	\$ 0.30	\$ 0.39	\$ 0.62	\$ 0.81
Diluted	\$ 0.29	\$ 0.38	\$ 0.60	\$ 0.78
<b>Weighted-average number of units</b>				
Basic <sup>(2)</sup>	50,097	33,019	46,620	33,063
Diluted <sup>(2)</sup>	59,741	36,101	54,139	36,145

<sup>(1)</sup> Included in DI is 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 due to the project being in the development phase.

<sup>(2)</sup> The weighted-average number of units used in the calculation of basic and diluted DI per unit included 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:**

	Three month period ended June 30,		Six month period ended June 30,	
	2010	2009	2010	2009
Income (loss) for the period	\$ (388)	\$ 110	\$ 91	\$ (13,421)
Add (deduct):				
Amortization (excluding amortized leasing costs)	15,140	12,945	27,861	28,878
Accretion on liability component of convertible debentures	562	373	1,058	735
Unit-based compensation expense	30	54	41	115
Loss on termination of Interplex II agreement	-	7,287	-	7,287
Gain on disposal of income-producing properties	-	(7,988)	-	(8,579)
Future income tax expense	-	-	-	11,127
Other adjustments				
Property rent <sup>(1)</sup>	-	-	-	300
Non-controlling interest <sup>(2)</sup>	-	58	-	91
Unrealized (gain) loss on commodity derivatives <sup>(3)</sup>	(66)	60	14	264
<b>DI for the period</b>	<b>\$ 15,278</b>	<b>\$ 12,899</b>	<b>\$ 29,065</b>	<b>\$ 26,797</b>

<sup>(1)</sup> Included in DI is 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 due to the project being in the development phase.

<sup>(2)</sup> Included in DI is income allocated to the non-controlling interest, as it relates to Class B units that are included in the weighted-average units outstanding for the purpose of this calculation.

<sup>(3)</sup> Included in (excluded from) DI is an unrealized (gain) loss on the change in fair value of commodity derivatives.

In Q2-10, DI increased \$2,379 (YTD - \$2,268), or 18.4% (YTD - 8.5%) over Q2-09. This increase is primarily attributed to the acquisitions completed in 2009 and 2010. Basic DI per unit decreased \$0.09 (YTD - \$0.19), or 23.1% (YTD - 23.5%) over Q2-09. On a diluted basis, DI has decreased \$0.09 (YTD - \$0.18), or 23.7% (YTD - 23.1%) over Q2-09. As a result of units issued under the DRIP, units issued from public offerings, and conversion of convertible debentures, net of Normal Course Issuer Bid repurchases, basic units outstanding for the calculation of DI has substantially increased. This increase has diluted the impact of strong growth in DI on per unit results. Additionally, some of the equity raised remains uninvested at June 30, 2010. Management anticipates there will be further growth in DI that will translate to higher per unit results as equity is invested in on-going acquisition activities in future periods.

**DISTRIBUTIONS**

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

	Three month period ended June 30,		Six month period ended June 30,		Year ended December 31,		Year ended December 31,	
	2010	2010	2010	2010	2009	2009	2008	2008
Cash flow from operations	\$ 14,839	\$ 31,835	\$ 41,113	\$ 40,963	\$ (9,189)	\$ (6,952)	\$ 35,123	\$ 35,123
Net income (loss)	\$ (388)	\$ 91	\$ (9,189)	\$ (6,952)	\$ 36,998	\$ 35,123	\$ 35,123	\$ 35,123
Distributions declared	\$ 14,219	\$ 26,564	\$ 36,998	\$ 35,123	\$ 36,998	\$ 35,123	\$ 35,123	\$ 35,123
Excess of cash flow from operations over distributions declared	\$ 620	\$ 5,271	\$ 4,115	\$ 5,840	\$ 4,115	\$ 5,840	\$ 5,840	\$ 5,840
Excess of distributions declared over net income (loss)	\$ (14,607)	\$ (26,473)	\$ (46,187)	\$ (42,075)	\$ (46,187)	\$ (42,075)	\$ (42,075)	\$ (42,075)

For the three months ended June 30, 2010, cash flow from operations exceeded distributions declared by \$620 (YTD - \$5,271).

For the three and six months ended June 30, 2010, 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:

\$000's, except per unit amounts	Three month period ended		Six month period ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Cash flow from operations	\$ 14,839	\$ 11,596	\$ 31,835	\$ 19,305
Add (deduct) amortization of:				
Office equipment	(29)	(25)	(56)	(50)
Above-market rent	(96)	(58)	(153)	(131)
Below-market rent	2,973	2,891	5,792	6,923
Above-market mortgages	45	46	91	91
Add:				
Straight-line rent adjustment	669	509	1,112	918
Add (deduct):				
Accretion on liability component of convertible debentures	(562)	(373)	(1,058)	(735)
Unit-based compensation expense	(30)	(54)	(41)	(115)
Amortization of financing costs included in interest	(244)	(198)	(457)	(402)
Changes in non-cash operating items	(2,001)	(1,187)	(7,401)	1,288
Other adjustment				
Property rent <sup>(1)</sup>	-	-	-	300
<b>FFO for the period</b>	<b>\$ 15,564</b>	<b>\$ 13,147</b>	<b>\$ 29,664</b>	<b>\$ 27,392</b>
<b>FFO per unit</b>				
Basic	\$ 0.31	\$ 0.40	\$ 0.64	\$ 0.83
Diluted	\$ 0.30	\$ 0.39	\$ 0.62	\$ 0.82
<b>Weighted-average number of units:</b>				
Basic <sup>(2)</sup>	50,097	33,019	46,620	33,063
Diluted <sup>(2)</sup>	57,786	34,146	52,184	34,190

<sup>(1)</sup> Included in FFO is 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 due to the project being in the development phase.

<sup>(2)</sup> The weighted-average number of units used in the calculation of FFO per unit included 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:**

	Three month period ended		Six month period ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Income (loss) for the period	\$ (388)	\$ 110	\$ 91	\$ (13,421)
Add amortization on:				
Income-producing properties	7,935	6,529	14,649	14,009
Acquired in-place leases	7,204	6,414	13,211	14,865
Customer relationships	1	2	1	4
Tenant inducements and leasing costs	770	612	1,486	1,317
Tenant inducements amortized to revenue	108	63	212	128
Loss on termination of Interplex II agreement	-	7,287	-	7,287
Gain on disposal of income-producing properties	-	(7,988)	-	(8,579)
Future income tax expense	-	-	-	11,127
Other adjustments				
Property rent <sup>(1)</sup>	-	-	-	300
Non-controlling interest <sup>(2)</sup>	-	58	-	91
Unrealized (gain) loss on commodity derivatives <sup>(3)</sup>	(66)	60	14	264
<b>FFO for the period</b>	<b>\$ 15,564</b>	<b>\$ 13,147</b>	<b>\$ 29,664</b>	<b>\$ 27,392</b>

<sup>(1)</sup> Included in FFO is 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 due to the project being in the development phase.

<sup>(2)</sup> Included in FFO is income allocated to the non-controlling interest, as it relates to Class B units that are included in the weighted-average units outstanding for the purpose of this calculation.

<sup>(3)</sup> Included in (excluded from) FFO is an unrealized (gain) loss on the change in fair value of commodity derivatives.

In Q2-10, FFO has increased \$2,417 (YTD - \$2,272), or 18.4% (YTD - 8.3%) over Q2-09. This increase is primarily attributed to acquisitions completed in 2009 and 2010. Basic FFO per unit has decreased by \$0.09 (YTD - \$0.19), or 22.5% (YTD - 22.9%) over Q2-09. On a diluted basis, FFO per unit has decreased \$0.09 (YTD - \$0.20), or 23.1% (YTD - 24.4%) over Q2-09. As a result of units issued under the DRIP, units issued from public offerings, and conversion of convertible debentures, net of Normal Course Issuer Bid repurchases, basic units outstanding for the calculation of FFO has substantially increased. This increase has diluted the impact of strong growth in FFO on per unit results. Additionally, some of the equity raised remains uninvested at June 30, 2010. Management anticipates there will be further growth in FFO that will translate to higher per unit results as equity is invested in on-going acquisition activities in future periods.

**ANALYSIS OF FINANCIAL POSITION**

**ASSETS**

	June 30,	December 31,	Increase
	2010	2009	
Income-producing properties	\$ 1,363,740	\$ 991,700	\$ 372,040
Other assets, including intangibles	235,019	162,247	72,772
Cash, cash equivalents and cash held in trust	101,319	36,262	65,057
	<b>\$ 1,700,078</b>	<b>\$ 1,190,209</b>	<b>\$ 509,869</b>

**Income-producing properties and related intangible assets:**

The increase in assets is a result of the acquisition of the following 7 commercial properties, net of amortization recorded, during the period ended June 30, 2010:

Property	Location	GLA	Acquisition Date	Type
Sunrise Towne Square	Spruce Grove, AB	111,978	April 1, 2010	Retail
Visions Building	Calgary, AB	50,045	April 12, 2010	Retail
Tamarack Centre	Cranbrook, BC	287,741	April 15, 2010	Retail
Eagle Ridge Corner	Fort McMurray, AB	12,654	May 14, 2010	Retail
Production Court	Burnaby, BC	297,801	May 26, 2010	Office
Grande Prairie Power Centre	Grande Prairie, AB	139,942	June 15, 2010	Retail
DSI Building	New Brighton, MN	115,667	June 30, 2010	Office

In Q2-10, the REIT purchased the remaining 62% in 360 Main Street in Winnipeg, Manitoba, as well as the Winnipeg Square Parkade which is ancillary to this property.

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. 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.

	Three month period ended June 30,		Six month period ended June 30,	
	2010	2009	2010	2009
Cash consideration	\$ 107,183	\$ -	\$ 163,475	\$ -
New or assumed mortgages including above- and below-market mortgages, net of deferred financing costs	185,213	-	288,536	-
<b>Net assets acquired</b>	<b>\$ 292,396</b>	<b>\$ -</b>	<b>\$ 452,011</b>	<b>\$ -</b>
Allocated to income-producing properties	\$ 246,477	\$ -	\$ 383,416	\$ -
Allocated to other assets	53,039	-	80,254	-
Allocated to intangible liabilities	(7,120)	-	(11,659)	-
<b>Net assets acquired</b>	<b>\$ 292,396</b>	<b>\$ -</b>	<b>\$ 452,011</b>	<b>\$ -</b>

**Notes receivable:**

In conjunction with the 2007 acquisition of TransAlta Place, the REIT acquired a note receivable in the amount of \$31,000. The note bears interest at 5.89% per annum and is repayable in varying blended monthly instalments of principal and interest. The note is transferable at the option of the REIT and matures in May 2023. The REIT has four additional notes receivable arising from the acquisition and disposition of income-producing properties.

**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.

Capital expenditures in Q2-10 totalled \$1,505 (YTD - \$3,273) compared to \$1,484 (YTD - \$1,573) in Q2-09. This includes revenue enhancing capital expenditures of \$920 related to construction of a new office building at North City Centre in Edmonton, Alberta and construction of a parkade ancillary to an existing portfolio office property in Winnipeg, Manitoba. The remaining \$585 of capital expenditures primarily relate to roof repairs at three office properties and a retail property.

**Tenant inducements and leasing costs:**

Other assets of the REIT at June 30, 2010 include \$15,880 of unamortized tenant inducement and leasing costs related to the leasing or re-leasing of space, compared to \$14,180 at December 31, 2009. 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 amortized over the terms of the underlying leases.

In Q2-10, Artis incurred \$2,136 (YTD - \$3,398) of tenant inducements and leasing costs compared to \$958 (YTD - \$3,917) in Q2-09.

	Three month period ended June 30,		Six month period ended June 30,	
	2010	2009	2010	2009
Tenant inducements	\$ 1,657	\$ 528	\$ 2,530	\$ 2,961
Leasing commissions	479	430	868	956
<b>Total</b>	<b>\$ 2,136</b>	<b>\$ 958</b>	<b>\$ 3,398</b>	<b>\$ 3,917</b>

**Future income tax assets:**

The REIT believes that it has met the REIT Conditions throughout the three and six month periods ended June 30, 2010. The future income tax asset recorded in prior periods was reversed in Q1-09. In respect of assets and liabilities of the REIT, and its flow through entities, the tax basis of net assets exceeds their net book value for accounting purposes by approximately \$47,032 at June 30, 2010 (December 31, 2009, \$39,032).

**Deposits on income-producing properties:**

At June 30, 2010, Artis had made \$2,500 of deposits on income-producing properties, compared to \$1,350 at December 31, 2009.

**Cash and cash equivalents:**

At June 30, 2010, the REIT had \$100,076 of cash and cash equivalents on hand, compared to \$35,907 at December 31, 2009. The balance is anticipated to be invested in income-producing properties 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.

**LIABILITIES**

	June 30,		December 31,		Increase (decrease)
	2010	2009	2010	2009	
Long-term debt	\$ 1,027,243	\$ 698,295	\$ 328,948		
Other liabilities	117,391	100,308	17,083		
Bank indebtedness	8,000	30,700	(22,700)		
	<b>\$ 1,152,634</b>	<b>\$ 829,303</b>	<b>\$ 323,331</b>		

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.

Artis' debt (excluding convertible debentures) to GBV ratio at June 30, 2010 was 46.9%, compared to 47.4% at December 31, 2009.

	June 30, 2010	December 31, 2009
GBV	\$ 1,896,631	\$ 1,356,994
Mortgages, loans and bank indebtedness	889,481	642,963
Mortgages, loans and bank indebtedness to GBV	46.9 %	47.4 %
Carrying value of convertible debentures	\$ 145,762	\$ 86,032
Total long-term debt and bank indebtedness	1,035,243	728,995
Total long-term debt and bank indebtedness to GBV	54.6 %	53.7 %

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

Artis REIT is currently committed to maintaining a total debt to GBV ratio of 60% or lower. In the event that the REIT issues Preferred Units, the Trustees have approved a guideline stipulating that for purposes of calculating the debt to GBV ratio, Preferred Units (although considered equity under Canadian GAAP) would be included in the debt component of the calculation.

### **Mortgages:**

Artis finances acquisitions in part through the assumption of mortgage financing and consequently, substantially all of the REIT's income-producing properties are pledged as security under mortgages and other loans. In Q2-10, \$3,819 (YTD - \$7,054) of principal repayments were made, compared to \$2,866 (YTD - \$6,232) in Q2-09.

During Q2-10, long-term debt including above- and below-market mortgages, net of deferred financing costs, added on acquisition of income-producing properties was \$185,213 (YTD - \$288,536). The REIT also paid off a maturing mortgage of \$4,453. Artis refinanced this income-producing property for \$8,775.

The weighted-average term to maturity at June 30, 2010 is 4.6 years, compared to 4.5 years at December 31, 2009.

### **Convertible debentures:**

Artis has six series of convertible debentures outstanding as at June 30, 2010, as follows:

	June 30, 2010				December 31, 2009			
	Issued	Maturity	Face rate	Carrying value	Face value	Carrying value	Face value	
Series A	4-Aug-05	4-Aug-10	7.75%	\$ 616	\$ 620	\$ 595	\$ 620	
Series B	9-Nov-05	9-Nov-10	7.50%	2,254	2,313	2,175	2,313	
Series C	4-May-06	31-May-13	6.25%	25,189	29,920	24,535	29,920	
Series D	30-Nov-07	30-Nov-14	5.00%	16,323	17,000	16,257	17,000	
Series E	9-July-09	30-June-14	7.50%	21,463	22,792	42,470	45,384	
Series F	22-Apr-10	30-June-20	6.00%	79,917	86,250	-	-	
				\$ 145,762	\$ 158,895	\$ 86,032	\$ 95,237	

The carrying value of convertible debentures has increased by \$59,730 from December 31, 2009. This increase is due to the issuance of Series F convertible debentures offset by the conversion of Series E convertible debentures during Q2-10. Also included in the carrying value is interest and financing costs which are amortized on an effective interest basis. The weighted-average effective rate of the debentures at June 30, 2010 was 8.52%, a decrease from the rate of 10.04% at December 31, 2009.



**Other liabilities and bank indebtedness:**

Other liabilities includes the unamortized below-market rent intangible liability of \$87,390 at June 30, 2010. This increased \$5,867 from \$81,523 at December 31, 2009, as a result of properties acquired during the period offset by amortization recorded during the period. Included in other liabilities are security deposits paid by tenants, rents prepaid by tenants at June 30, 2010, accounts payable and accruals, as well as the June 30, 2010 distribution payable to unitholders of \$5,208, subsequently paid on July 15, 2010. Bank indebtedness relates to the balance drawn on the REIT's revolving term credit facility. At June 30, 2010, Artis had drawn \$8,000 on the credit facility in conjunction with 2010 acquisitions. Amounts drawn on the facility bear interest at a floating rate equal to Canadian dollar bankers' acceptances with a term to maturity of 30 days, plus 3.40% per annum.

**UNITHOLDERS' EQUITY**

Unitholders' equity increased overall by \$186,538 between June 30, 2010 and December 31, 2009. The increase was primarily due to the issuance of units for \$189,146, the conversion of convertible debentures for \$21,162, the issuance of convertible debentures for \$2,662 and net income for the period of \$91. This increase was offset by the distributions made to unitholders of \$26,564.

**LIQUIDITY AND CAPITAL RESOURCES**

In Q2-10, Artis generated \$14,839 (YTD - \$31,835) of cash flows from operating activities compared to \$11,596 (YTD - \$19,305) in Q2-09. Cash flows from operations assisted in funding distributions to unitholders of \$14,219 (YTD - \$26,564) and for principal repayments on mortgages and loans of \$3,819 (YTD - \$7,054).

Cash of \$3,641 (YTD - \$6,671) was used for capital building improvements and for tenant inducements and leasing costs compared to \$2,442 (YTD - \$5,490) in Q2-09.

At June 30, 2010, Artis had \$100,076 of cash and cash equivalents on hand. Management anticipates that the cash on hand will be invested in income-producing properties in subsequent periods, or used for working capital purposes.

On September 28, 2008, Artis entered into an agreement to renew its revolving term credit facility for a total amount of \$60,000 which may be utilized to fund acquisitions of office, retail and industrial properties. The credit facility matures on September 28, 2010. \$10,000 of the facility can be utilized for general corporate purposes; \$10,000 may be utilized to provide mezzanine financing; and \$7,500 can be utilized to purchase units under the REIT's NCIB. As at June 30, 2010, the REIT had incurred bank indebtedness of \$8,000.

To its knowledge, Artis is not in default or arrears on any of its obligations, including distributions to unitholders, interest or principal payments on debt or any debt covenants for the period ended June 30, 2010.

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

**CONTRACTUAL OBLIGATIONS**

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Mortgages, loans and bank indebtedness	\$ 891,152	\$ 76,706	\$ 258,230	\$ 242,518	\$ 313,698
Convertible debentures <sup>(1)</sup>	158,895	2,933	29,920	39,792	86,250
<b>Total</b>	<b>\$ 1,050,047</b>	<b>\$ 79,639</b>	<b>\$ 288,150</b>	<b>\$ 282,310</b>	<b>\$ 399,948</b>

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

At June 30, 2010, obligations due within one year include \$50,496 of mortgages, \$8,000 drawn on the revolving term credit facility, and principal repayments on mortgages of \$18,210.

## SUMMARIZED QUARTERLY INFORMATION

\$000's, except per unit amounts <sup>(1) (2)</sup>

	Q2-10	Q1-10	Q4-09	Q3-09	Q2-09	Q1-09	Q4-08	Q3-08
Revenue	\$ 42,984	\$ 37,307	\$ 35,243	\$ 33,517	\$ 33,487	\$ 34,606	\$ 35,143	\$ 33,241
Property operating expenses	12,885	11,638	11,590	10,487	10,393	11,020	11,521	10,149
Property NOI	30,099	25,669	23,653	23,030	23,094	23,586	23,622	23,092
Interest	13,189	10,422	10,438	10,029	9,766	9,867	10,100	9,682
	16,910	15,247	13,215	13,001	13,328	13,719	13,522	13,410
Expenses (income):								
Corporate	1,425	1,224	1,330	705	1,288	1,201	1,350	1,137
Amortization	15,939	13,464	13,286	12,523	12,862	15,582	13,676	13,094
Unrealized (gain) loss on commodity derivatives	(66)	80	(95)	297	60	204	68	1,092
	17,298	14,768	14,521	13,525	14,210	16,987	15,094	15,323
Income (loss) before the undernoted	(388)	479	(1,306)	(524)	(882)	(3,268)	(1,572)	(1,913)
Loss on termination of Interplex II agreement	-	-	-	-	(7,287)	-	-	-
Non-controlling interest	-	-	-	-	45	(5)	(71)	(31)
Income (loss) before income taxes and discontinued operations	\$ (388)	\$ 479	\$ (1,306)	\$ (524)	\$ (8,124)	\$ (3,273)	\$ (1,643)	\$ (1,944)
Future income tax (expense) recovery	-	-	-	-	-	(10,895)	291	(125)
Income from discontinued operations	-	-	5,446	616	8,234	637	223	83
Income (loss) for the period	\$ (388)	\$ 479	\$ 4,140	\$ 92	\$ 110	\$ (13,531)	\$ (1,129)	\$ (1,986)
Basic income (loss) per unit	\$ (0.01)	\$ 0.01	\$ 0.11	\$ 0.00	\$ 0.00	\$ (0.42)	\$ (0.03)	\$ (0.06)
Diluted income (loss) per unit	\$ (0.01)	\$ 0.01	\$ 0.11	\$ 0.00	\$ 0.00	\$ (0.42)	\$ (0.03)	\$ (0.06)

<sup>(1)</sup> The above summarized quarterly information has been reclassified to reflect discontinued operations.

<sup>(2)</sup> Results for 2008 have been restated, refer to Note 2(b) of the Consolidated Financial Statements for the years ended December 31, 2009 and 2008.

Artis acquired a number of income-producing properties in Q2-10. Due to the acquisition activity since Q4-09, Artis has steadily increased revenues and Property NOI from continuing operations over the last few quarters. Artis has equity uninvested at June 30, 2010. Management anticipates there will be further growth in revenues and Property NOI as equity is invested in on-going acquisition activities in future periods.

**Reconciliation of GAAP Income (Loss) to DI:**

\$000's, except per unit amounts <sup>(1)</sup>	Q2-10	Q1-10	Q4-09	Q3-09	Q2-09	Q1-09	Q4-08	Q3-08
Income (loss) for the period	\$ (388)	\$ 479	\$ 4,140	\$ 92	\$ 110	\$ (13,531)	\$ (1,129)	\$ (1,986)
Add:								
Amortization (excluding amortized leasing costs)	15,140	12,721	12,597	12,175	12,945	15,933	14,314	13,922
Accretion on liability component of debentures	562	496	516	473	373	362	355	349
Unit-based compensation expense	30	11	8	37	54	61	144	143
Cancellation of options	-	-	-	(484)	-	-	-	-
Unrealized (gain) loss on commodity derivatives	(66)	80	(95)	297	60	204	68	1,092
Loss on termination of Interplex II agreement	-	-	-	-	7,287	-	-	-
(Gain) loss on disposal of income-producing properties	-	-	(5,460)	(403)	(7,988)	(591)	197	-
Future income tax expense (recovery)	-	-	-	-	-	11,127	(211)	156
Other adjustments								
Property rent <sup>(2)</sup>	-	-	-	-	-	300	300	300
Non-controlling interest <sup>(3)</sup>	-	-	-	-	58	33	79	34
<b>Distributable income (DI)</b>	<b>\$ 15,278</b>	<b>\$ 13,787</b>	<b>\$ 11,706</b>	<b>\$ 12,187</b>	<b>\$ 12,899</b>	<b>\$ 13,898</b>	<b>\$ 14,117</b>	<b>\$ 14,010</b>
<b>DI per unit</b>								
Basic	\$ 0.30	\$ 0.32	\$ 0.32	\$ 0.37	\$ 0.39	\$ 0.42	\$ 0.43	\$ 0.42
Diluted	\$ 0.29	\$ 0.31	\$ 0.30	\$ 0.34	\$ 0.38	\$ 0.41	\$ 0.41	\$ 0.41
<b>Weighted-average number of units:</b>								
Basic <sup>(4)</sup>	50,097	43,105	37,138	33,364	33,019	33,107	33,082	33,000
Diluted <sup>(4)</sup>	59,741	49,402	44,506	40,793	36,101	36,189	36,164	36,152

<sup>(1)</sup> Results for 2008 have been restated, refer to Note 2(b) of the Consolidated Financial Statements for the years ended December 31, 2009 and 2008.

<sup>(2)</sup> Included in DI is 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 Statements of Operations due to the project being in the development phase.

<sup>(3)</sup> Included in DI is income allocated to the non-controlling interest, as it relates to Class B units that are included in the weighted-average units outstanding for the purpose of this calculation.

<sup>(4)</sup> The weighted-average number of units used in the calculation of DI per unit included 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 per unit amounts <sup>(1)</sup>

	Q2-10	Q1-10	Q4-09	Q3-09	Q2-09	Q1-09	Q4-08	Q3-08
Income (loss) for the period	\$ (388)	\$ 479	\$ 4,140	\$ 92	\$ 110	\$ (13,531)	\$ (1,129)	\$ (1,986)
Add amortization on:								
Income-producing properties	7,935	6,714	6,523	6,332	6,529	7,480	6,927	6,906
Acquired in-place leases	7,204	6,007	6,073	5,841	6,414	8,451	7,385	7,011
Customer relationships	1	-	1	2	2	2	2	5
Tenant inducements and leasing costs	770	716	675	731	612	705	409	374
Tenant inducements amortized into revenue	108	104	141	71	63	65	110	-
Unrealized (gain) loss on commodity derivatives	(66)	80	(95)	297	60	204	68	1,092
Loss on termination of Interplex II agreement	-	-	-	-	7,287	-	-	-
(Gain) loss on disposal of income-producing properties	-	-	(5,460)	(403)	(7,988)	(591)	197	-
Future income tax expense (recovery)	-	-	-	-	-	11,127	(211)	156
Other adjustments								
Property rent <sup>(2)</sup>	-	-	-	-	-	300	300	300
Non-controlling interest <sup>(3)</sup>	-	-	-	-	58	33	79	34
<b>Funds from operations (FFO)</b>	<b>\$ 15,564</b>	<b>\$ 14,100</b>	<b>\$ 11,998</b>	<b>\$ 12,963</b>	<b>\$ 13,147</b>	<b>\$ 14,245</b>	<b>\$ 14,137</b>	<b>\$ 13,892</b>
<b>FFO per unit</b>								
Basic	\$ 0.31	\$ 0.33	\$ 0.32	\$ 0.39	\$ 0.40	\$ 0.43	\$ 0.43	\$ 0.42
Diluted	\$ 0.30	\$ 0.32	\$ 0.31	\$ 0.36	\$ 0.39	\$ 0.42	\$ 0.42	\$ 0.42
<b>Weighted-average number of units:</b>								
Basic <sup>(4)</sup>	50,097	43,105	37,138	33,364	33,019	33,107	33,082	33,000
Diluted <sup>(4)</sup>	57,786	47,447	42,551	38,838	34,146	34,234	34,209	34,197

<sup>(1)</sup> Results for 2008 have been restated, refer to Note 2(b) of the Consolidated Financial Statements for the years ended December 31, 2009 and 2008.

<sup>(2)</sup> Included in FFO is 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 Statements of Operations due to the project being in the development phase.

<sup>(3)</sup> Included in FFO is income allocated to the non-controlling interest, as it relates to Class B units that are included in the weighted-average units outstanding for the purpose of this calculation.

<sup>(4)</sup> The weighted-average number of units used in the calculation of FFO per unit included 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 acquired a number of income-producing properties in Q2-10. Due to the acquisition activity since Q4-09, Artis has steadily increased DI and FFO over the last few quarters. Artis has equity uninvested at June 30, 2010. Management anticipates there will be further growth in DI and FFO, that will translate to higher per unit results as equity is invested in on-going acquisition activities in future periods.

## RELATED PARTY TRANSACTIONS

	Three month period ended		Six month period ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Legal fees expensed	\$ -	\$ 61	\$ 40	\$ 141
Capitalized legal fees	847	133	1,589	578
Advisory fees	899	727	1,653	1,388
Capitalized acquisition fees	1,437	-	2,228	-
Property management fees	1,567	1,265	2,950	2,556
Capitalized leasing commissions	239	95	307	661
Capitalized building improvements	982	1,095	1,866	1,383
Capitalized tenant inducements	31	37	337	90
Services fee	-	198	-	198
Consulting fees	25	-	50	-

The REIT incurred legal fees with a law firm associated with a trustee of the REIT in connection with the prospectus offerings, the property acquisitions and general business matters. The amount payable at June 30, 2010 is \$675 (December 31, 2009, \$150).

The REIT incurred advisory fees and acquisition fees under the asset management agreement with Marwest Realty Advisors Inc. ("Marwest Realty"), a company owned and controlled by certain trustees and officers of the REIT. The amount payable at June 30, 2010 is \$9 (December 31, 2009, \$38). Under the asset management agreement, Marwest Realty 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 Realty 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 Realty is entitled to receive a termination fee equal to the anticipated fees payable until the end of the term). Marwest Realty 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 Realty 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 Management Canada Ltd. ("Marwest Management"). The amount payable at June 30, 2010 is \$276 (December 31, 2009, \$136). Marwest Management 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, 2010 is \$529 (December 31, 2009, \$302).

The services fee represents work done for all services rendered in anticipation of the purchase of the Interplex II and Interplex III properties, and the termination of said agreements. The balance payable at June 30, 2010 is \$nil (December 31, 2009, \$nil).

The consulting fees represent work performed by Marwest Realty on the International Financial Reporting Standards implementation project. The amount payable at June 30, 2010 is \$nil (December 31, 2009, \$75).

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

## OUTSTANDING UNIT DATA

The balance of units outstanding as of August 10, 2010 is as follows:

Units outstanding at June 30, 2010	57,866,113
Units issued (DRIP)	33,969
Units issued on conversion of debentures	<u>120,859</u>
Units outstanding at August 10, 2010	<u>58,020,941</u>

The balance of options outstanding as of August 10, 2010 is as follows:

	<u>Options outstanding</u>	<u>Options exercisable</u>
\$11.25 options, issued December 8, 2005	217,036	217,036
\$11.28 options, issued February 25, 2010	<u>273,250</u>	-
	<u>490,286</u>	<u>217,036</u>

## 2010 OUTLOOK

Artis focuses exclusively on retail, office and industrial properties with a major focus on western Canada. According to the Scotiabank Global Economic Research report of August 2010, real GDP in Canada is forecast to grow 3.3% in 2010. Forecast GDP growth for the western Canadian provinces is also positive, as follows: Manitoba, 3.0%; Saskatchewan, 3.3%; Alberta, 3.6%; British Columbia, 3.4%. Artis has also selectively diversified into other geographical areas where GDP growth is also anticipated to be strong, such as the greater Minneapolis / St. Paul area and the greater Toronto area.

The real estate investment market has been active, with numerous REITs competing for quality product. Capitalization rate compression continues to be observed. Since January 1, 2010, 5-year and 10-year benchmark bond rates have moved down. Spreads on mortgage financing remain low, with banks, credit unions and insurers all in the market competing for deals. Management anticipates that mortgage financing will remain inexpensive in 2010. Transaction volume is expected to be steady with further capitalization rate compression.

As at June 30, 2010, Artis had \$100,076 of cash and cash equivalents on hand in addition to \$52,000 available on the line of credit.

Subsequent to June 30, 2010, the REIT has renewed its current \$60,000 revolving term credit facility with a new \$60,000 revolving term credit facility. The acquisition line of credit is for a one-year term, with renewal at the option of the REIT for a further one-year term.

Subsequent to June 30, 2010, Artis has entered into additional agreements to acquire properties as follows:

- **Uplands Common.** Artis announced that it has entered into an unconditional agreement to acquire Uplands Common, a 100% occupied three-building retail centre in Lethbridge, Alberta. Uplands Common comprises 53,392 square feet of leasable area anchored by a new format Sobey's on a long-term lease expiring in 2023. The purchase price of \$12,520 will be financed with cash on hand and from the assumption of approximately \$7,500 of existing mortgage financing, which expires in 2015. Artis expects to close this acquisition in Q3-10.
- **1045 Howe Street.** Artis announced that it has entered into an unconditional agreement to acquire 1045 Howe Street, a nine-storey office tower, including the two-storey above ground parking garage, located in Vancouver, British Columbia. 1045 Howe Street is a Class B downtown office building comprising 101,145 square feet of leasable area. The purchase price of \$38,000 will be financed with cash on hand and from the assumption of approximately \$15,600 of existing mortgage financing, which expires in 2016. Artis expects to close this acquisition in Q3-10.

- **Cancross Court.** Artis announced that it has entered into an unconditional agreement to acquire Cancross Court, a two-building, 143,877 square foot Class A suburban office complex located in Mississauga, Ontario. Cancross Court is 100% occupied by three tenants, with a weighted-average lease term to maturity of 9.2 years. The purchase price of \$29,500 will be financed with cash on hand and from the anticipated proceeds of \$18,300 of new mortgage financing. Based on today's benchmark bond rates, Artis anticipates the interest rate on the mortgage would be approximately 4.5%. Artis expects to close this acquisition in Q3-10.
- **Concorde Corporate Centre.** Artis announced that it has entered into an unconditional agreement to acquire the Concorde Corporate Centre, a three-building Class A suburban office located in Toronto, Ontario. The buildings comprise 548,742 square feet of leasable area and are 95.0% occupied with a weighted-average lease term to maturity of 7.2 years. The purchase price of \$87,000 will be financed with cash on hand and from the anticipated proceeds of \$58,000 of new mortgage financing. Based on today's benchmark bond rates, Artis anticipates the interest rate on the mortgage would be approximately 4.5%. Artis expects to close this acquisition in Q4-10.

With available cash and room on the line of credit, management believes that Artis is well positioned to pursue additional accretive acquisitions in 2010 and further enhance future earnings.

Leasing activity has been steady in Canada's major markets. Overall absorption in 2010 was offset by the volume of new product being added to inventory, particularly in the Calgary and Toronto office markets. However, demand remains strong as the year-over-year decline in sublease space reported at Q2-10 (CBRE – June 21, 2010 Press Release) would indicate. Artis anticipates that its properties will continue to perform in line with the market. Growth may be realized as leases expire and are renewed or re-leased at higher market rates. Artis reviews the current market rents across its portfolio on an on-going basis. Management estimates that the weighted-average market rent rates at June 30, 2010 for the remaining 2010 and 2011 lease expiries are approximately 9.0% and 4.4% higher than the rates in place at expiry.

Credit risk, lease rollover risk and financing risk continue to be the top-most concerns. Artis believes it is well positioned to address these challenges for the following reasons:

- The REIT's largest tenant is AMEC Americas Ltd. which accounts for 4.4% of the REIT's gross revenues; no single tenant in the portfolio accounts for more than 5.0% of gross revenues. At June 30, 2010, approximately 66.9% of the REIT's portfolio was occupied by national or government tenants.
- At June 30, 2010, 8.5% of the portfolio's leasable area is set to expire in the remainder of 2010 and 13.7% in 2011. As of today's date, 82.7% of the 2010 and 25.7% of the 2011 leasing programs are complete. The tenant retention ratio for 2010 thus far is 82.4%.
- The REIT's ratio of mortgages, loans and bank indebtedness to GBV is 46.9%, down from 47.4% at December 31, 2009. Approximately 4.3% of Artis' maturing mortgage debt comes up for renewal in the remainder of 2010, and 4.7% in 2011. Management is currently in discussion with various lenders with respect to the renewal or refinancing of these mortgages.

## **RISKS AND UNCERTAINTIES**

### **REAL ESTATE OWNERSHIP**

All real property investments are subject to elements of risk. General economic conditions, local real estate markets, supply and demand for leased premises, competition from other available premises and various other factors affect such investments. The REIT's properties are located primarily in western Canada, with a significant majority of our properties, measured by gross leasable area, located in the province of Alberta. As a result, our properties are impacted by factors specifically affecting the real estate markets in Alberta, British Columbia, Saskatchewan and Manitoba. These factors may differ from those affecting the real estate markets in other regions of Canada. If real estate conditions in western Canada were to decline relative to real estate conditions in other regions, this could more adversely impact our revenues and results of operations than those of other more geographically diversified REITs in Canada. Our ability to manage risk through this geographical diversification is currently limited.

### **DEBT FINANCING**

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

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

### CREDIT RISK AND TENANT CONCENTRATION

Artis is exposed to risk as tenants may be unable to pay their contracted rents. Management mitigates this risk by seeking to acquire properties across several asset classes. As well, management seeks to acquire properties with strong tenant covenants in place. Artis' portfolio includes over 1,420 tenant leases with a weighted-average term to maturity of 5.8 years. As indicated below, the largest tenant by gross revenue is AMEC Americas Ltd., a global supplier of consultancy, engineering and project management services to the energy, power and process industries. AMEC Americas Ltd. is a London Exchange listed entity with 2009 annual revenues in excess of £2.5 billion. The second largest tenant by gross revenue is TransAlta Corporation, a Standard & Poor's BBB rated multi-national corporation with a market capitalization of over \$4.5 billion. As at June 30, 2010, government tenants contribute 8.6% to the REIT's overall gross revenue and occupy 6.5% of total GLA.

#### Top Twenty Tenants By Gross Revenue

Tenant	% of Total Gross Revenue	GLA (in 000's)	% of Total GLA	Weighted-Average Remaining Lease Term
AMEC Americas Ltd	4.4 %	200	2.1 %	3.17
TransAlta Corporation	2.7 %	336	3.5 %	12.92
PMC - Sierra	2.0 %	148	1.5 %	3.13
Birchcliff Energy	1.8 %	59	0.6 %	7.42
Credit Union Central	1.6 %	90	0.9 %	5.75
Shoppers Drug Mart	1.6 %	108	1.1 %	6.71
Sobeys	1.5 %	150	1.6 %	10.11
Data Sciences International	1.4 %	116	1.2 %	10.01
Kuehne + Nagel Ltd.	1.3 %	300	3.1 %	13.05
Bell Canada	1.3 %	76	0.8 %	6.00
Aikins	1.2 %	60	0.6 %	4.34
Q9 Networks Inc.	1.2 %	35	0.4 %	6.17
MTS Allstream	1.1 %	77	0.8 %	16.32
Maple Leaf Consumer Foods Inc.	1.1 %	163	1.7 %	18.99
Navistar Canada Inc.	0.9 %	158	1.7 %	9.00
Komex International	0.8 %	52	0.5 %	1.42
Cineplex Odeon	0.8 %	65	0.7 %	10.09
Suncor Energy Oil Sand LP	0.7 %	107	1.1 %	4.50
Pitblado	0.7 %	40	0.4 %	5.50
Zellers Inc.	0.7 %	206	2.1 %	9.97
<b>Total</b>	<b>28.8 %</b>	<b>2,546</b>	<b>26.4 %</b>	<b>8.97</b>

#### Government Tenants By Gross Revenue

Tenant	% of Total Gross Revenue	GLA (in 000's)	% of Total GLA	Weighted-Average Remaining Lease Term
Federal Government	4.4 %	312	3.3 %	3.34
Provincial Government	3.2 %	210	2.2 %	3.45
Civic or Municipal Government	1.0 %	98	1.0 %	5.87
<b>Total</b>	<b>8.6 %</b>	<b>620</b>	<b>6.5 %</b>	<b>3.78</b>

Weighted-Average Term to Maturity (Entire Portfolio)

5.81



## LEASE ROLLOVER RISK

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

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

Expiry Year	Alberta	British Columbia	Manitoba	Minnesota	Saskatchewan	Calgary Office Only	Total
2010	3.0 %	0.3 %	4.8 %	0.0 %	0.4 %	0.6 %	8.5 %
2011	7.7 %	1.1 %	4.4 %	0.0 %	0.5 %	2.8 %	13.7 %
2012	3.2 %	1.4 %	3.7 %	0.0 %	0.1 %	1.4 %	8.4 %
2013	6.0 %	2.2 %	4.1 %	0.0 %	1.3 %	3.1 %	13.6 %
2014	3.6 %	1.0 %	5.4 %	0.0 %	0.9 %	0.6 %	10.9 %
2015	1.8 %	1.1 %	2.6 %	0.0 %	0.4 %	0.4 %	5.9 %
2016 & later	19.6 %	6.1 %	4.8 %	1.2 %	3.1 %	4.4 %	34.8 %
Month-to-month	0.0 %	0.0 %	0.2 %	0.0 %	0.0 %	0.0 %	0.2 %
Vacant	1.7 %	0.8 %	1.5 %	0.0 %	0.0 %	0.6 %	4.0 %
<b>Total GLA (in 000's)</b>	<b>4,470</b>	<b>1,345</b>	<b>3,012</b>	<b>116</b>	<b>640</b>	<b>1,337</b>	<b>9,583</b>

Artis' real estate is diversified across the four western provinces and Minnesota, and across the office, retail and industrial asset classes. At June 30, 2010, the portfolio by GLA is weighted towards Manitoba and Alberta properties. By city and asset class, the three largest segments of the REIT's portfolio by GLA are Winnipeg industrial property, Calgary office property and Winnipeg office property.

As of today's date, approximately 63.9% of the Winnipeg industrial and 35.2% of the Calgary office lease expiries remaining in 2010 are already renewed or committed under new leases. In total, 82.7% of the 2010 and 25.7% of the 2011 leasing programs are complete, and the retention ratio thus far in 2010 is 82.4%.

## 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 Conditions"). In order to meet the REIT Conditions, a trust must meet a number of technical tests that do not fully accommodate common real estate and business structures. Prior to the end of 2008, the REIT undertook various restructuring activities in order to attempt to meet the requirements of the REIT Conditions, and the REIT intends to comply with the REIT Conditions so that the New SIFT Rules will not apply to the REIT in 2009 and subsequent years. The REIT believes that it has met the REIT Conditions throughout the three and six month periods ended June 30, 2010. There can be no assurances, however, that the REIT will continue to be able to satisfy the REIT Conditions in the future such that the REIT will not be subject to the tax imposed by the New SIFT Rules.

Under the New SIFT Rules, a flow-through subsidiary of the REIT may also be a SIFT. Certain technical amendments to the SIFT definition to exclude certain flow-through subsidiaries of a SIFT that are able to meet certain ownership conditions were passed into law on March 12, 2009.

## **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.

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

## **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.

### **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 where applicable.

### **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**

The REIT currently qualifies as a mutual fund trust for Canadian income tax purposes. 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"). The REIT has reviewed the New SIFT Rules and has assessed their interpretation and application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the New SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the three and six month periods ended June 30, 2010. The future income tax asset recorded in prior periods was reversed and charged to continuing and discontinued operations in Q1-09.

## **CHANGES IN ACCOUNTING POLICIES**

There are no Canadian GAAP accounting pronouncements effective on or before January 1, 2011 that are expected to have a significant impact on the REIT.

### **INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the adoption of International Financial Reporting Standards ("IFRS") would be effective for interim and annual periods beginning on or after January 1, 2011 for profit oriented Canadian publicly accountable enterprises. IFRS will replace Canada's current GAAP for these enterprises. Comparative IFRS information for the previous fiscal year will also have to be reported. These new standards will be effective for the REIT on January 1, 2011.

Upon commencement of the IFRS transition project, the REIT established a project team led by the Chief Financial Officer, and includes representatives from various areas of the organization, as necessary, to achieve a smooth transition to IFRS. The project team has identified the following key elements as part of the REIT's transition project, as well as the current progress that has been made on each element.

#### **Communication and training:**

Regular progress reporting to the Audit Committee of the Board of Trustees on the status of the IFRS transition project has continued through Q2-10. In 2009, management performed an analysis of the impact of all IFRS standards and has developed recommendations on the majority of the accounting policy choices. There are still certain policies that are under review as there remain some areas of uncertainty. As policies are finalized they will be brought to the Audit Committee for approval. Management expects that all IFRS accounting policies will be reviewed and approved by the Audit Committee by the end of the third quarter of 2010. Please see below under impact of IFRS conversion on accounting policies for a discussion of the significant accounting policies identified by the REIT.

The REIT has ensured that employees involved in the project team have attended on-going education and training sessions since commencement of the project. The Audit Committee has received training during 2009 and additional training in 2010 has been scheduled. All employees who are part of the project team have access to IFRS standards and standard updates as they are released.

#### **Information systems:**

The REIT has completed the review of its information systems and the effect of IFRS on these systems. No major changes to the systems are planned for 2010 and 2011. During Q2-10, the REIT continues to compile IFRS financial information utilizing its financial statement reporting software, which is external to the REIT's current accounting system. Use of the financial statement reporting software allows the REIT to incorporate IFRS adjustments in order to transition the GAAP general ledger to IFRS-compliant financial information.

The REIT is using a discounted cash flow software package to create internal property valuations for the fair value modelling of its investment property. The REIT has appropriate staff members utilizing this software package, and has ensured that they have been provided with an appropriate level of training.

#### **Internal controls over financial reporting and disclosure:**

The REIT began its analysis on internal controls over financial reporting and disclosure relating to the IFRS conversion during the second quarter of 2010. This will be an on-going process as accounting policies and the investment property valuation process are finalized and controls are developed, and will be completed by the end of the fourth quarter of 2010. Thereafter, changes to internal controls will be assessed in conjunction with changes to IFRS standards.

#### **Impact of IFRS conversion on accounting policies:**

The REIT has identified the following key IFRS standards which may result in significant accounting policy changes upon implementation. At this time, management cannot quantify the impact of any of the significant changes identified in the following discussion on the REIT's financial statements. Accounting policy changes may also result in changes to both the REIT's consolidated balance sheet and consolidated statement of operations, as well as changes to note disclosure.

### Investment property

Under International Accounting Standard ("IAS") 40 – *Investment Property* ("IAS 40"), Investment property is defined as property held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services, for administrative purposes or for sale in the ordinary course of business. Under IAS 40, investment property is measured initially at cost. Subsequent to initial recognition, an entity chooses as its accounting policy either the fair value model or the cost model and should apply that policy to all of its investment property.

Under the fair value model, the REIT would present the investment properties at the fair value as determined using valuations of each of the investment properties to reflect market conditions at the end of the reporting period. The fair value of the investment properties would be recorded on the consolidated balance sheet and the change due to revaluation each period would be recognized in the consolidated statement of operations. As the investment properties would be recorded at fair value, no amortization expense would be required to be recorded.

The cost model under IAS 40 is similar to Canadian GAAP in that the investment property is carried on the consolidated balance sheet at its cost less accumulated amortization. If the REIT chooses to value its investment properties using the cost model, the fair value of such investment properties would be disclosed in the notes to the consolidated financial statements.

IFRS 1 – *First-Time Adoption of IFRS* ("IFRS 1") allows the REIT to choose to use the fair value as the deemed cost of the investment property on transition to IFRS whether it chooses the fair value or cost model.

The REIT has analyzed IAS 40 and reviewed the differences that would arise under each of the fair value and cost models. The REIT has not yet finalized which model will be applied to investment property, however, management anticipates that the policy decision will be made in the third quarter of 2010. As noted above, fair value information will be required under either model.

The REIT has retained an external valuation firm to assist in developing the fair values of the REIT's investment properties. The external valuations will be done on a rotational basis over a 4 year cycle to ensure that each property will have been externally valued once during the cycle. During the 4 year cycle, the investment properties that are not evaluated externally will be valued through the REIT's internal valuation process.

### Impairment

Under GAAP, only if events or circumstances indicate that the carrying value of the income-producing property may be impaired, a recoverability analysis is performed based upon estimated undiscounted cash flows to be generated from the income-producing property. If the analysis indicates that the carrying value is not recoverable from future cash flows, the income-producing property is written-down to estimated fair value and an impairment loss is recognized.

Under IAS 36 – *Impairment of Assets* ("IAS 36"), impairment indicators must be assessed at each reporting period, as well as when events or circumstances indicate there may be an impairment. Also, the recoverability analysis is performed based on comparing carrying value to the greater of fair value less costs to sell, or value-in-use, as opposed to undiscounted future cash flows. Value-in-use is defined as the discounted present value of estimated future cash flows expected to arise from the planned use of an asset, and from its disposal at the end of its useful life. This difference may result in assets being impaired under IAS 36, while there may not have been an impairment under GAAP.

### Leases

GAAP requires the REIT to record tenant incentives as a reduction of rental revenue. Standing Interpretations Committee 15 - *Operating Leases - Incentives* ("SIC-15"), requires the same treatment as required under GAAP, however, the definition of tenant incentives may differ from the REIT's current application of GAAP. The REIT has commenced its review of the nature of existing capitalized leasing costs using the definitions of tenant incentives and tenant improvements under SIC-15. It is likely that more capitalized leasing costs will be classified as tenant incentives under IFRS than under GAAP. This difference would result in a reduction of revenue as more tenant costs would be amortized against revenue. The REIT cannot yet quantify the impact on revenue due to this difference.

A significant difference between lease accounting principles under GAAP and IFRS is that IFRS focuses more on the substance of the arrangement. IAS 17 - *Leases*, uses qualitative factors in determining lease classification, where under GAAP, bright line tests are used to determine if a lease is an operating or finance lease. This difference may result in the REIT classifying a lease as a finance lease rather than an operating lease. Under IFRS, in certain circumstances, land leases are considered to be finance leases. The REIT currently treats all land leases as operating leases. The REIT has commenced the review of its leases in order to determine if under IFRS, each lease would be treated as a financing or operating lease.

### Co-ownerships

Currently under GAAP, the REIT uses proportionate consolidation for its four jointly controlled properties. IAS 31 – *Interests in Joint Ventures* ("IAS 31"), allows the choice to either proportionately consolidate jointly controlled properties or account for such interests using the equity method. Currently, there would be no effect on how the REIT accounts for its co-ownerships upon conversion to IFRS. However, the International Accounting Standards Board ("IASB") is currently considering Exposure Draft 9 – *Joint Arrangements*, which proposes to eliminate the option to proportionately consolidate interests in jointly controlled entities. The IASB has indicated that it expects to issue a new standard to replace IAS 31 in the third quarter of 2010, which is expected to be applicable for the REIT in 2012 or later. The effect of this new standard would be a reclassification of the assets and liabilities of these jointly controlled properties to show as a net balance on the REIT's consolidated balance sheet and a reclassification of the revenues and expenses of these properties to show as a net balance on the REIT's consolidated statement of operations.

### Business combinations

Under GAAP, an entity shall account for each business combination by applying the purchase method, whereby the cost of acquisition includes direct, incremental acquisition related costs. IFRS 3R – *Business Combinations*, differs from GAAP in that all transactions costs are expensed immediately. As well, IFRS has a broader definition of what constitutes a business. Currently under GAAP, the REIT accounts for the acquisitions of investment properties as asset acquisitions rather than business combinations. Under IFRS, single property acquisitions may be required to be accounted for as business combinations.

The REIT has completed the review of their prior property acquisitions and has determined that none of the acquisitions meet the IFRS definition of a business combination. Therefore, at transition the implementation of this standard will have no impact on the REIT's consolidated financial statements.

### Trust units

GAAP has a less restrictive definition of financial liabilities than IFRS as it does not give specific guidance to settling contracts with the issuer's own equity instruments. Therefore, the REIT currently accounts for their trust units as equity. However, IAS 32 – *Financial Instruments*, has a more rigorous definition of what constitutes a financial liability which includes equity instruments if they have a contractual obligation to deliver cash or other financial assets to another entity. Canadian REITs have been modifying their Declarations of Trust in order to make the distributions non-mandatory, with the consent of unitholders, in order to be able to classify their trust units as equity on their balance sheet under IFRS. This modification to the REIT's Declaration of Trust was approved at the Annual and Special Meeting held on May 14, 2010.

The Declaration of Trust prior to May 14, 2010 provided that the REIT make 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 as set down in a policy by the Trustees. Therefore, as the REIT has a contractual obligation to make cash distributions to unitholders, trust units will be considered a financial liability under IFRS at the Transition Date (January 1, 2010).

### Income taxes

On January 1, 2009 and through to June 30, 2010, the REIT believes it has met the SIFT rules, which has resulted in the REIT no longer being required to record future taxes. However, there is uncertainty as to whether the guidance under IAS 12 – *Income Taxes* ("IAS 12") is applicable to the REIT. If IAS 12 is applicable, the REIT will be required to record future income taxes, despite the fact that the REIT currently meets the SIFT rules. If IAS 12 is not applicable, the REIT would not be required to record future income taxes if the income earned by the REIT is distributed in full. This is an industry-wide issue which is currently under discussion and there is no definitive date as to when the issue will be addressed in the future. The REIT is of the view that IAS 12 will not be applicable, and continues to follow the necessary requirements of the SIFT legislation.

### Discontinued operations

The definition of a discontinued operation is more restrictive under IFRS than it is under GAAP. Under IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, only components that represent a separate major line of business or geographical area of operations, or a subsidiary acquired exclusively with a view to resale can be classified as discontinued operations. Currently under GAAP, the REIT classifies individual properties held for sale through unconditional agreements, and individual properties sold as discontinued operations. Under IFRS, the REIT is less likely to disclose discontinued operations as the sale of a single property is not likely to meet the IFRS definition of a discontinued operation. The current classifications will likely change under IFRS, which would result in a reclassification between income from continuing operations and income from discontinued operations, with no change to net income.

### Share-based compensation

In accordance with GAAP, the REIT accounts for unit options issued under its unit option plan using the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period. As noted above, the REIT's Declaration of Trust was not amended until May 14, 2010. Therefore, at the IFRS Transition Date, the REIT's unit option plan is considered to be cash-settled and will be recorded as a liability at fair value in accordance with IFRS 2 - *Share-based Payment*.

### Convertible debentures

As the REIT's Declaration of Trust was not amended until May 14, 2010, the conversion feature of the convertible debentures is cash-settled at the IFRS Transition Date. Therefore, the convertible debentures are not a compound financial instrument under IAS 32 - *Financial Instruments - Presentation*. Rather, they comprise a liability for the interest and principal amount, plus a derivative instrument for the conversion option measured at fair value.

### IFRS 1

The IFRS 1 standard provides guidance to entities who are adopting IFRS for the first time. Accounting changes are to be applied retrospectively to an entity's financial statements when transitioning from GAAP to IFRS. In order to facilitate the transition, IFRS 1 allows certain optional exemptions and mandatory exceptions to applying IFRS retrospectively. The most significant exemption to the REIT has been discussed above under investment property. IFRS 1 allows the REIT to fair value its properties at the Transition Date and use the fair value as its deemed cost if it were to select the cost model. Going forward, amortization of the investment property would be based on this deemed cost. This is a one-time election available to an entity at the IFRS Transition Date. The remaining exemptions and exceptions are either not applicable or will not have a significant impact on the REIT.

### **Financial statement presentation:**

Management continues to work on drafting IFRS financial statements and note disclosures. This is an on-going project throughout 2010 as decisions on accounting policies are finalized and their impact is determined.

## **CONTROLS AND PROCEDURES**

### **DISCLOSURE CONTROLS AND PROCEDURES**

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

As of June 30, 2010, an evaluation was carried out, under the supervision of and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the REIT's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings). Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the REIT's disclosure controls and procedures were effective as at June 30, 2010.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Chief Executive Officer and Chief Financial Officer evaluated, or caused to be evaluated, the design of the REIT's internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at June 30, 2010.

During the period ended June 30, 2010, no changes to internal controls over financial reporting have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

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.