

Interim Condensed Consolidated Financial Statements of

**ARTIS REAL ESTATE
INVESTMENT TRUST**

Three months and nine months ended September 30, 2012 and 2011
(Unaudited)

(In Canadian dollars)

ARTIS REAL ESTATE INVESTMENT TRUST

Interim Condensed Consolidated Balance Sheets

(In thousands of Canadian dollars)

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Non-current assets:		
Investment properties (note 4)	\$ 3,996,918	\$ 3,003,604
Investment properties under construction (note 4)	4,135	20,463
Property and equipment (note 5)	2,266	311
Notes receivable	20,973	23,752
	4,024,292	3,048,130
Current assets:		
Deposits on investment properties	2,550	5,614
Prepaid expenses	6,950	5,150
Notes receivable	3,349	1,685
Accounts receivable and other receivables	14,291	11,876
Cash held in trust	2,724	1,039
Cash and cash equivalents	119,246	94,094
	149,110	119,458
	\$ 4,173,402	\$ 3,167,588
LIABILITIES AND UNITHOLDERS' EQUITY		
Non-current liabilities:		
Mortgages and loans payable (note 6)	\$ 1,771,697	\$ 1,428,334
Convertible debentures (note 7)	181,399	235,746
Defined benefit liability (note 8 (a))	647	-
Preferred share liability	75	78
	1,953,818	1,664,158
Current liabilities:		
Mortgages and loans payable (note 6)	207,703	139,065
Security deposits and prepaid rent	23,281	14,160
Accounts payable and other liabilities (note 9)	53,643	42,490
Bank indebtedness (note 10)	25,400	37,900
	310,027	233,615
	2,263,845	1,897,773
Unitholders' equity	1,909,557	1,269,815
Commitments and guarantees (note 18)		
Subsequent events (note 21)		
	\$ 4,173,402	\$ 3,167,588

See accompanying notes to interim condensed consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Interim Condensed Consolidated Statements of Operations
 Three months and nine months ended September 30, 2012 and 2011
 (Unaudited)

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Revenue	\$ 98,466	\$ 78,427	\$ 267,433	\$ 207,572
Property operating expenses	34,937	29,316	93,681	76,920
	63,529	49,111	173,752	130,652
Interest income	566	599	2,126	2,063
	64,095	49,710	175,878	132,715
Expenses (income):				
Interest	24,711	21,336	69,520	56,999
Corporate	2,604	2,663	9,109	7,749
Foreign currency translation (gain) loss	(4,759)	5,131	(2,636)	3,209
	22,556	29,130	75,993	67,957
Income before other items	41,539	20,580	99,885	64,758
Income tax expense	-	(7,700)	-	(10,238)
Transaction costs	(4,130)	(1,684)	(7,143)	(12,012)
(Loss) gain on financial instruments (note 13)	(3,874)	16,785	(13,992)	12,128
Gain on disposal of investment properties (note 3)	-	481	-	736
Realized fair value gain on investment property (note 3)	60	-	60	-
Unrealized fair value gain on investment properties (note 4)	53,943	35,043	162,804	199,178
Income for the period	87,538	63,505	241,614	254,550
Other comprehensive income (loss):				
Unrealized foreign currency translation (loss) gain	(9,538)	10,497	(7,368)	6,150
Comprehensive income for the period	\$ 78,000	\$ 74,002	\$ 234,246	\$ 260,700
Basic income per unit attributable to common unitholders (note 11 (d))	\$ 0.79	\$ 0.76	\$ 2.34	\$ 3.25
Diluted income per unit attributable to common unitholders (note 11 (d))	\$ 0.77	\$ 0.49	\$ 2.32	\$ 2.74
Weighted-average number of common units outstanding (note 11 (d)):				
Basic	109,993,170	83,380,489	103,065,034	78,416,311
Diluted	120,587,813	97,400,063	113,659,677	90,577,881

See accompanying notes to interim condensed consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Interim Condensed Consolidated Statements of Changes in Unitholders' Equity
 Nine months ended September 30, 2012 and 2011
 (Unaudited)

(In thousands of Canadian dollars, except unit amounts)

	Common units capital contributions	Equity component of convertible debentures	Equity (deficit)	Accumulated other comprehensive (loss) income	Contributed surplus	Total common equity	Total preferred equity	Total
Unitholders' equity, December 31, 2010	\$ 875,234	\$ -	\$ (20,694)	\$ (310)	\$ -	\$ 854,230	\$ -	\$ 854,230
Changes for the period:								
Issuance of units, net of issue costs	102,553	-	-	-	-	102,553	-	102,553
Conversion of convertible debentures	5,729	-	-	-	-	5,729	-	5,729
Income	-	-	254,550	-	-	254,550	-	254,550
Other comprehensive income	-	-	-	6,150	-	6,150	-	6,150
Distributions	-	-	(64,122)	-	-	(64,122)	-	(64,122)
Unitholders' equity, September 30, 2011	983,516	-	169,734	5,840	-	1,159,090	-	1,159,090
Changes for the period:								
Issuance of units, net of issue costs	68,880	-	-	-	-	68,880	-	68,880
Conversion of convertible debentures	1,134	-	-	-	-	1,134	-	1,134
Income	-	-	66,739	-	-	66,739	-	66,739
Other comprehensive loss	-	-	-	(2,967)	-	(2,967)	-	(2,967)
Distributions	-	-	(23,061)	-	-	(23,061)	-	(23,061)
Unitholders' equity, December 31, 2011	1,053,530	-	213,412	2,873	-	1,269,815	-	1,269,815
Changes for the period:								
Issuance of units, net of issue costs	310,993	-	-	-	(59)	310,934	152,025	462,959
Reclassification of convertible debentures liability to equity (note 7)	-	11,587	-	-	-	11,587	-	11,587
Reclassification of unit-based payments liability to equity (note 11(a)(v))	-	-	-	-	3,544	3,544	-	3,544
Unit-based compensation	-	-	-	-	376	376	-	376
Redemption of convertible debentures	-	(328)	-	-	-	(328)	-	(328)
Conversion of convertible debentures	13,942	(6)	-	-	-	13,936	-	13,936
Income	-	-	241,614	-	-	241,614	-	241,614
Other comprehensive loss	-	-	-	(7,368)	-	(7,368)	-	(7,368)
Distributions	-	-	(86,578)	-	-	(86,578)	-	(86,578)
Unitholders' equity, September 30, 2012	\$ 1,378,465	\$ 11,253	\$ 368,448	\$ (4,495)	\$ 3,861	\$ 1,757,532	\$ 152,025	\$ 1,909,557

See accompanying notes to interim condensed consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Interim Condensed Consolidated Statements of Cash Flows
Three months and nine months ended September 30, 2012 and 2011
(Unaudited)

(In thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Cash provided by (used in):				
Operating activities:				
Income for the period	\$ 87,538	\$ 63,505	\$ 241,614	\$ 254,550
Adjustments for non-cash items:				
Fair value gain on investment properties	(54,003)	(35,043)	(162,864)	(199,178)
Depreciation of property and equipment	88	31	264	88
Amortization:				
Tenant inducements amortized to revenue	1,645	1,199	4,395	3,313
Above- and below-market mortgages, net	(469)	(241)	(1,072)	(572)
Accretion on liability component of convertible debentures	(43)	-	(43)	-
Straight-line rent adjustment	(1,089)	(1,479)	(3,913)	(4,006)
Unrealized foreign currency translation (gain) loss	(1,362)	4,890	933	3,629
Gain on disposal of investment properties	-	(481)	-	(736)
Unrealized fair value loss (gain) on financial instruments	3,874	(16,530)	13,992	(10,524)
Unit-based compensation expense	942	(204)	3,385	263
Accretion of financing costs included in interest	744	564	1,979	1,412
Deferred tax expense	-	6,817	-	8,558
Defined benefit expense	216	-	647	-
	38,081	23,028	99,317	56,797
Additions to tenant inducements	(6,970)	(2,568)	(11,158)	(6,697)
Changes in non-cash operating items (note 14)	13,661	7,037	13,415	5,013
	44,772	27,497	101,574	55,113
Investing activities:				
Acquisition of investment properties, net of related debt	(110,848)	(66,116)	(412,619)	(256,260)
Proceeds from disposition of investment properties, net of costs	750	1,366	750	8,146
Additions to investment properties	(7,768)	(3,502)	(11,997)	(4,500)
Additions to investment properties under construction	(2,650)	(2,546)	(10,357)	(10,620)
Purchase of investment in equity securities	-	-	-	(5,683)
Proceeds from sale of equity securities	-	2,321	-	13,863
Advance of notes receivable	(6)	-	(149)	-
Notes receivable principal repayments	401	405	1,264	1,294
Net change to property and equipment	(237)	(83)	(2,219)	(83)
Additions to leasing costs	(1,901)	(945)	(4,078)	(3,314)
Change in deposits on investment properties	8,249	5,875	3,000	9,900
	(114,010)	(63,225)	(436,405)	(247,257)
Financing activities:				
Issuance of common units, net of issue costs	6,161	2,942	310,311	102,479
Issuance of preferred units, net of issue costs	152,025	-	152,025	-
Issuance of convertible debentures	-	-	-	83,767
Repayment of convertible debentures	(10,000)	-	(40,172)	-
Change in bank indebtedness	400	-	(12,500)	29,900
Distributions paid on common units	(30,618)	(22,528)	(83,795)	(64,122)
Distributions paid on preferred units	(732)	-	(732)	-
Mortgages and loans principal repayments	(11,110)	(7,828)	(29,489)	(20,945)
Repayment of mortgages and loans payable	(10,639)	-	(21,558)	(4,828)
Advance of mortgages and loans payable, net of financing costs	42,203	30,843	87,861	34,718
	137,690	3,429	361,951	160,969
Foreign exchange (loss) gain on cash held in foreign currency	(1,507)	1,684	(1,968)	1,335
Increase (decrease) in cash and cash equivalents	66,945	(30,615)	25,152	(29,840)
Cash and cash equivalents at beginning of period	52,301	89,099	94,094	88,324
Cash and cash equivalents at end of period	\$ 119,246	\$ 58,484	\$ 119,246	\$ 58,484
Supplemental cash flow information:				
Interest paid	\$ 21,398	\$ 16,948	\$ 65,258	\$ 51,658
Interest received	567	600	2,128	2,065
Taxes paid	-	-	-	152

See accompanying notes to interim condensed consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Interim Condensed Consolidated Financial Statements
Three months and nine months ended September 30, 2012 and 2011
(Unaudited)

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

1. Organization:

Artis Real Estate Investment Trust (the "REIT") is an unincorporated closed-end real estate investment trust (note 11) created under, and governed by, the laws of the Province of Manitoba and was created pursuant to the Declaration of Trust dated November 8, 2004, as most recently amended and restated on August 2, 2012 (the "Declaration of Trust"). The purpose of the REIT is to directly, or indirectly, own, manage, lease and (where appropriate) develop retail, industrial and office properties in Canada and the United States (the "U.S."). The registered office of the REIT is 360 Main Street, Suite 300, Winnipeg, Manitoba, R3C 3Z3.

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

2. Significant accounting policies:

(a) Basis of presentation and measurement:

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting*. Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed.

The interim condensed consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2011. The consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars rounded to the nearest thousand unless otherwise indicated.

These interim condensed consolidated financial statements should be read in conjunction with the REIT's consolidated financial statements for the year ended December 31, 2011.

(b) Defined benefit liability:

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

(c) Unit-based compensation:

The REIT may issue unit-based awards to trustees, officers, employees and consultants. For equity-settled unit-based payment transactions, the REIT measures compensation expense at the grant date fair value recognized over the vesting period.

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. The critical accounting estimates and judgments have been set out in note 2 to the REIT's consolidated financial statements for the year ended December 31, 2011.

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Notes to Interim Condensed Consolidated Financial Statements
Three months and nine months ended September 30, 2012 and 2011
(Unaudited)

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

2. Significant accounting policies (continued):

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

In 2012, the REIT created defined benefit plans providing pension benefits to certain employees. Management estimates the defined benefit liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties.

(e) Future changes in accounting policies:

In June 2011, the IASB amended IAS 19 – *Employee Benefits*. The amendments eliminate an option to defer the recognition of gains and losses, known as the ‘corridor method’; streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhance the disclosure requirements for defined benefit plans, effective for annual periods beginning on or after January 1, 2013.

In December 2011, the IASB amended IAS 32 - *Offsetting Financial Assets and Liabilities*. The amendment clarifies certain aspects of offsetting and net and gross settlement, and is effective for annual periods beginning on or after January 1, 2014.

IFRS 7 - *Financial Instruments: Disclosures*, as amended by the IASB in December 2011 requires entities to provide disclosures related to offsetting financial assets and liabilities. The amendment is effective for annual periods beginning on or after January 1, 2013.

IFRS 9 - *Financial Instruments* ("IFRS 9") will replace IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. IFRS 9 was amended by the IASB in October 2010 to provide guidance on the classification and reclassification of financial liabilities, their measurement, and the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss. When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the credit risk of the instrument must be recognized in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

In May 2011, the IASB issued IFRS 10 - *Consolidated Financial Statements* ("IFRS 10"), IFRS 11 - *Joint Arrangements* ("IFRS 11") and IFRS 12 - *Disclosure of Interests in Other Entities* ("IFRS 12"). IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 - *Consolidated and Separate Financial Statements* and SIC-12 - *Consolidation - Special Purpose Entities*. IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 - *Interests in Joint Ventures* and SIC-13 - *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new standards, the IASB also issued amended and retitled IAS 27 - *Separate Financial Statements* and IAS 28 - *Investments in Associates and Joint Ventures*. The new requirements are effective for annual periods beginning on or after January 1, 2013.

IFRS 13 - *Fair Value Measurement* ("IFRS 13") defines fair value, sets out in a single standard a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other standards require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after January 1, 2013.

The REIT is currently evaluating the impact of these new and amended standards on its financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Interim Condensed Consolidated Financial Statements
Three months and nine months ended September 30, 2012 and 2011
(Unaudited)

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

3. Acquisitions and dispositions of investment properties:

Acquisitions:

The REIT acquired the following properties during the nine months ended September 30, 2012:

Property	Location	Acquisition date	Type
North 48 Commercial Complex	Saskatoon, SK	January 31, 2012	Office
Aluma Systems Building	Edmonton, AB	February 24, 2012	Industrial
GSA Phoenix Professional Office Building	Phoenix, AZ	March 29, 2012	Office
Westbank Hub Centre North ⁽¹⁾	West Kelowna, BC	April 16, 2012	Retail
Linden Ridge Shopping Centre	Winnipeg, MB	April 23, 2012	Retail
Trimac House	Calgary, AB	April 30, 2012	Office
Crowfoot Corner	Calgary, AB	April 30, 2012	Retail
MAX at Kierland	Scottsdale, AZ	May 25, 2012	Office
LaSalle Office Portfolio ⁽²⁾	Calgary, AB	June 11, 2012	Office
Whistler Hilton Retail Plaza ⁽³⁾	Whistler, BC	June 14, 2012	Retail
RER Industrial Portfolio ⁽⁴⁾	Minneapolis, MN	July 6, 2012	Industrial
GTA Industrial Portfolio ⁽⁵⁾	Toronto, ON	July 17, 2012	Industrial
Westbank Hub Shopping Centre ⁽⁶⁾	West Kelowna, BC	August 16, 2012	Retail
201 Edson	Saskatoon, SK	August 27, 2012	Industrial
Meadowvale Gateway Portfolio ⁽⁷⁾	Mississauga, ON	September 20, 2012	Industrial

⁽¹⁾ The REIT acquired an additional 25% interest in this property, excluding a portion under development.

⁽²⁾ The LaSalle Office Portfolio is comprised of 4 office buildings.

⁽³⁾ The REIT acquired an 85% interest in this property.

⁽⁴⁾ The RER Industrial Portfolio is comprised of 4 industrial buildings located in the Greater Minneapolis Area.

⁽⁵⁾ The GTA Industrial Portfolio is comprised of 17 industrial buildings located in the Greater Toronto Area.

⁽⁶⁾ The REIT acquired a 75% interest in this property.

⁽⁷⁾ The Meadowvale Gateway Portfolio is comprised of 5 industrial buildings.

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

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Interim Condensed Consolidated Financial Statements
Three months and nine months ended September 30, 2012 and 2011
(Unaudited)

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

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

Acquisitions (continued):

The REIT acquired the following properties during the nine months ended September 30, 2011:

Property	Location	Acquisition date	Type
ADT Building	Calgary, AB	January 7, 2011	Industrial
Dominion Construction Building	Calgary, AB	January 7, 2011	Industrial
EMC Building	Edmonton, AB	February 28, 2011	Office
Stinson Office Park	Minneapolis, MN	March 31, 2011	Office
Minneapolis Industrial Portfolio ⁽¹⁾	Minneapolis, MN	March 31, 2011	Industrial
Cara Foods Building ⁽²⁾	Vaughan, ON	April 15, 2011	Office
3M Distribution Facility	Toronto, ON	April 29, 2011	Industrial
1165 Kenaston	Ottawa, ON	May 27, 2011	Office
Victoria Square Shopping Centre	Regina, SK	May 31, 2011	Retail
Ryan Retail Portfolio ⁽³⁾	Minneapolis, MN	May 31, 2011	Retail
605 Waterford Park	Minneapolis, MN	June 1, 2011	Office
McGillivray Cineplex	Winnipeg, MB	June 10, 2011	Retail
415 Yonge Street	Toronto, ON	June 28, 2011	Office
Union Hills Office Plaza	Phoenix, AZ	June 30, 2011	Office
201 Westcreek Boulevard	Toronto, ON	June 30, 2011	Industrial
Plymouth Corporate Campus	Minneapolis, MN	July 6, 2011	Industrial
Stampede Station	Calgary, AB	July 26, 2011	Office
MTS Place	Winnipeg, MB	August 31, 2011	Office
7499 East Paradise Lane	Phoenix, AZ	September 15, 2011	Industrial

⁽¹⁾ The second tranche of the Minneapolis Industrial Portfolio is comprised of 9 multi-tenant properties.

⁽²⁾ The REIT acquired a 50% interest in this property.

⁽³⁾ The Ryan Retail Portfolio is comprised of 5 shopping centres.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Interim Condensed Consolidated Financial Statements
 Three months and nine months ended September 30, 2012 and 2011
 (Unaudited)

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

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

Acquisitions (continued):

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

The net assets acquired were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Investment properties	\$ 204,901	\$ 175,445	\$ 796,553	\$ 615,206
Investment property under construction	-	-	246	-
Long-term debt, including acquired above- and below-market mortgages, net of financing costs	(94,053)	(109,329)	(383,980)	(358,946)
Contingent consideration	-	-	(200)	-
Cash consideration	\$ 110,848	\$ 66,116	\$ 412,619	\$ 256,260
Transaction costs expensed	\$ 4,130	\$ 1,677	\$ 6,801	\$ 8,372

In accordance with the purchase and sale agreement for the GSA Phoenix Professional Office Building, the purchase price will be adjusted if the net operating income ("NOI") during the period April 1, 2012 to March 31, 2013 is not equal to US\$5,621. Should the NOI be less than US\$5,621, the vendor will pay the REIT the product of the shortfall and 13.33. Should the NOI exceed US\$5,621, the REIT will pay the vendor the product of the overage and 13.33. The REIT has not recorded an adjustment to the purchase price at September 30, 2012.

In accordance with the purchase and sale agreement for the Linden Ridge Shopping Centre, the REIT is obligated to pay a development fee should the REIT develop certain excess lands acquired.

In accordance with the purchase and sale agreement for the Whistler Hilton Retail Plaza, the purchase price will be adjusted should the REIT develop a commercial building on certain leasehold lands. Should specific conditions be satisfied prior to June 14, 2014, the REIT shall pay to the vendor 50% of the average annual base or minimum rent payable by the tenant occupying the new building for the term to a maximum of 5 years divided by a capitalization rate of 7.0% less specified costs. The REIT has not recorded an adjustment to the purchase price at September 30, 2012.

Dispositions:

The REIT disposed of surplus land at an investment property during the nine months ended September 30, 2012. The proceeds from the sale, net of costs, were \$750. The assets and liabilities associated with the land were derecognized. The land was sold at its fair value and therefore, no gain or loss was recorded on the sale. The previous unrealized fair value gain recorded on this land from January 1, 2012 to June 30, 2012 was recognized as a realized gain during the three months ended September 30, 2012.

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Notes to Interim Condensed Consolidated Financial Statements
Three months and nine months ended September 30, 2012 and 2011
(Unaudited)

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

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

Dispositions (continued):

The REIT disposed of the following properties during the nine months ended September 30, 2011:

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

4. Investment properties and investment properties under construction:

	Nine months ended September 30, 2012 (unaudited)		Year ended December 31, 2011	
	Investment properties	Investment properties under construction	Investment properties	Investment properties under construction
Balance, beginning of period	\$ 3,003,604	\$ 20,463	\$ 2,052,780	\$ 5,405
Additions:				
Acquisitions (note 3)	796,553	246	678,716	-
Capital expenditures	11,997	10,357	8,333	19,608
Leasing costs	4,078	-	4,313	-
Dispositions	(750)	-	(13,002)	-
Reclassification of investment properties under construction	27,210	(27,210)	4,550	(4,550)
Foreign currency translation (loss) gain	(18,979)	(56)	12,199	-
Straight-line rent adjustment	3,913	-	5,514	-
Net change to tenant inducements	6,763	-	4,107	-
Fair value gain	162,529	335	246,094	-
Balance, end of period	\$ 3,996,918	\$ 4,135	\$ 3,003,604	\$ 20,463

External valuations are performed quarterly on a rotational basis over a four year cycle. For the third quarter cycle, 10 investment properties with an aggregate fair value of \$197,987 at September 30, 2012 (December 31, 2011, \$145,425) were valued by qualified external valuation professionals.

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

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Interim Condensed Consolidated Financial Statements
 Three months and nine months ended September 30, 2012 and 2011
 (Unaudited)

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

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

The key valuation assumptions for investment properties are as follows:

	September 30, 2012			December 31, 2011		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Discount rate	9.50%	7.00%	7.83%	9.50%	7.25%	8.02%
Terminal capitalization rate	8.75%	5.75%	6.89%	9.00%	6.00%	7.04%
Capitalization rate	8.25%	5.50%	6.61%	8.50%	6.25%	7.08%
Investment horizon (years)	19.0	10.0	10.4	20.0	10.0	10.6

Key valuation assumptions at September 30, 2012 reflect rates that represent the REIT's entire portfolio of investment properties.

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

At September 30, 2012, included in investment properties is \$18,081 (December 31, 2011, \$14,234) of net straight-line rent receivables arising from the recognition of rental income on a straight-line basis over the lease term in accordance with IAS 17 - *Leases*.

Investment properties include properties held under operating leases with an aggregate fair value of \$90,073 at September 30, 2012 (December 31, 2011, \$45,777).

At September 30, 2012, investment properties with a fair value of \$3,901,810 (December 31, 2011, \$2,913,117) are pledged as security under mortgage agreements and the credit facility.

5. Property and equipment:

	September 30, 2012 (Unaudited)	December 31, 2011
Office furniture and fixtures	\$ 1,853	\$ -
Office equipment and software	1,030	664
Accumulated depreciation	(617)	(353)
	\$ 2,266	\$ 311

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6. Mortgages and loans payable:

	September 30, 2012 (Unaudited)	December 31, 2011
Mortgages and loans payable	\$ 1,982,090	\$ 1,569,857
Net above- and below-market mortgage adjustments	6,609	4,620
Financing costs	(9,299)	(7,078)
	1,979,400	1,567,399
Current portion	207,703	139,065
Non-current portion	\$ 1,771,697	\$ 1,428,334

Substantially all of the REIT's assets have been pledged as security under mortgages and other security agreements. The majority of mortgages and loans payable bear interest at fixed rates. The weighted-average effective rate on all mortgages and loans payable is 4.49% and the weighted-average nominal rate is 4.30% at September 30, 2012 (December 31, 2011, 4.79% and 4.61%, respectively). Maturity dates range from October 1, 2012 to February 14, 2032.

7. Convertible debentures:

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

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

Convertible redeemable debenture issue	Face value	Equity portion	Liability portion	Accretion	Carrying value	Current portion	Non-current portion
Series D	\$ 7,000	\$ 230	\$ 6,918	\$ 11	\$ 6,929	\$ -	\$ 6,929
Series F	86,170	11,023	84,841	22	84,863	-	84,863
Series G	86,566	-	89,683	(76)	89,607	-	89,607
September 30, 2012 (unaudited)	\$ 179,736	\$ 11,253	\$ 181,442	\$ (43)	\$ 181,399	\$ -	\$ 181,399
December 31, 2011	231,999	-	235,746	-	235,746	-	235,746

On March 15, 2012, the REIT redeemed all outstanding Series C convertible redeemable 6.25% debentures pursuant to the trust indenture dated May 4, 2006. On the date of redemption, the REIT repaid the \$29,891 face value outstanding.

On June 29, 2012, the REIT redeemed all outstanding Series E convertible redeemable 7.50% debentures pursuant to the trust indenture dated July 9, 2009. On the date of redemption, the REIT repaid the \$281 face value outstanding.

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7. Convertible debentures (continued):

On August 2, 2012, the REIT amended its Declaration of Trust to become a closed-end trust thereby removing the redemption right attached to its common units. As a result of this amendment, the REIT's convertible debentures were reclassified from financial liabilities to compound financial instruments. Accordingly, at August 2, 2012, \$11,587 was reclassified from liabilities to equity.

On September 21, 2012, \$10,000 of the Series D convertible redeemable 5.0% debentures were redeemed for cash.

8. Employee benefits:

(a) Defined benefit liability:

In 2012, the REIT created defined benefit plans providing pension benefits to certain employees. The ultimate retirement benefit is defined by a formula that provides a unit of benefit for each year of service. Employer contributions are not specified or defined within the plan text; they are based on the result of actuarial valuations which determine the level of funding required to meet the total obligation as estimated at the time of valuation. The REIT's defined benefit plans are unfunded as at September 30, 2012.

The REIT uses December 31 as a measurement date for accounting purposes for its defined benefit pension plans.

The net expense for the defined benefit plans for the three and nine months ended September 30, 2012 is \$216 and \$647, respectively, and is included in corporate expenses.

(b) Short-term employee benefits:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Short-term employee benefits	\$ 2,867	\$ -	\$ 8,944	\$ -
Unit-based compensation	942	(204)	3,385	263
	\$ 3,809	\$ (204)	\$ 12,329	\$ 263

Short-term employee benefits include salaries, bonuses and other short-term benefits.

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9. Accounts payable and other liabilities:

	September 30, 2012 (Unaudited)	December 31, 2011
Accounts payable and accrued liabilities	\$ 43,593	\$ 33,334
Distributions payable (note 12)	10,050	7,999
Cash-settled unit-based payments liability (note 11(a)(v))	-	1,157
	\$ 53,643	\$ 42,490

10. Bank indebtedness:

On September 6, 2012, the REIT entered into a revolving term credit facility in the amount of \$80,000, which can be utilized for general corporate operating purposes, including the acquisition of commercial properties and the issuance of letters of credit. The credit facility matures on September 6, 2014. Amounts drawn on the facility will bear interest at prime plus 1.00% or at the bankers' acceptance rate plus 2.00%. The credit facility is secured by a first charge on certain investment properties with a carrying value of \$148,142 at September 30, 2012. At September 30, 2012, the REIT had \$25,400 drawn on the facility. At December 31, 2011, the REIT had \$37,900 drawn on its previous credit facility.

11. Unitholders' equity:

(a) Common units:

(i) Authorized:

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

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11. Unitholders' equity (continued):

(a) Common units (continued):

(ii) Issued and outstanding:

	Number of units	Amount
Balance at December 31, 2010	75,477,308	\$ 875,234
Public offerings, net of issue costs of \$7,616	12,119,750	161,515
Conversion of Series E convertible debentures	501,158	6,863
Options exercised	30,500	422
Distribution Reinvestment and Unit Purchase Plan	744,189	9,496
Balance at December 31, 2011	88,872,905	1,053,530
Public offerings, net of issue costs of \$13,587	19,335,000	295,789
Conversion of Series C convertible debentures	1,681	29
Conversion of Series E convertible debentures	973,311	13,824
Conversion of Series F convertible debentures	5,159	89
Options exercised	226,840	3,661
Distribution Reinvestment and Unit Purchase Plan	745,358	11,543
Balance at September 30, 2012 (unaudited)	110,160,254	\$ 1,378,465

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

(iii) Normal course issuer bid:

On December 9, 2011, the REIT announced that the Toronto Stock Exchange (the "Exchange") had approved the renewal of its normal course issuer bid. Under the renewed bid, the REIT will have the ability to purchase for cancellation up to a maximum of 8,283,192 units, representing 10% of the REIT's float of 82,831,922 units on November 30, 2011. Purchases will be made at market prices through the facilities of the Exchange. The bid commenced on December 14, 2007, and will remain in effect until the earlier of December 14, 2012, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the three months and nine months ended September 30, 2012 and 2011, the REIT did not acquire units through the normal course issuer bid. Since December 14, 2007, the REIT has acquired 410,200 units for cancellation.

(iv) At-the-market equity financing:

The REIT has entered into an Equity Distribution Agreement dated September 17, 2010 with an exclusive agent for the issuance and sale, from time to time, until July 15, 2014 of up to 5,300,000 units of the REIT by way of "at-the-market distributions". The timing of any sale of units and the number of units actually sold during such period are at the discretion of the REIT. Sales of units, if any, pursuant to the Equity Distribution Agreement will be made in transactions that are deemed to be "at-the-market distributions", including sales made directly on the Exchange. As at September 30, 2012, no units have been issued pursuant to this arrangement.

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11. Unitholders' equity (continued):

(a) Common units (continued):

(v) Equity-settled unit-based compensation:

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

On August 2, 2012, the REIT amended its Declaration of Trust to become a closed-end trust thereby removing the redemption right attached to its common units. As a result of this amendment, the REIT's cash-settled unit-based payments became equity-settled and the liability of \$3,544 was reclassified to equity at August 2, 2012.

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

Unit-based compensation expense related to unit options granted under the equity incentive plan for the three months and nine months ended September 30, 2012 amounted to \$926 and \$3,369 (2011, \$(204) and \$263), respectively.

A summary of the REIT's unit options outstanding for the nine months ended September 30, are as follows:

	2012		2011	
	Units	Weighted-average exercise price	Units	Weighted-average exercise price
Balance, beginning of period	2,164,250	\$ 13.52	1,070,250	\$ 12.84
Granted	1,849,500	16.36	1,200,000	14.10
Exercised	(226,840)	13.52	(29,750)	11.28
Expired	(60,000)	15.00	(4,500)	13.14
Balance, end of period	3,726,910	\$ 14.91	2,236,000	\$ 13.54
Options exercisable at end of period	536,285		137,188	

The weighted-average unit price at the date of exercise for unit options exercised during the nine months ended September 30, 2012 was \$16.58 (2011, \$13.86).

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11. Unitholders' equity (continued):

(a) Common units (continued):

(v) Equity-settled unit-based compensation (continued):

Options outstanding at September 30, 2012 consist of the following:

Exercise price	Number outstanding	Weighted-average remaining contractual life	Options outstanding weighted-average exercise price	Number exercisable
\$ 11.28	180,375	2.50 years	\$ 11.28	49,500
\$ 13.30	343,500	3.00 years	\$ 13.30	152,000
\$ 13.44	353,750	3.25 years	\$ 13.44	65,750
\$ 14.10	1,069,785	3.75 years	\$ 14.10	265,035
\$ 16.36	1,779,500	4.50 years	\$ 16.36	4,000
	3,726,910		\$ 14.91	536,285

A summary of the REIT's restricted units outstanding for the nine months ended September 30, are as follows:

	2012	2011
	Units	Units
Balance, beginning of period	-	-
Granted	9,600	-
Accrued	157	-
Balance, end of period	9,757	-
Restricted units vested at end of period	-	-

Unit-based compensation expense related to restricted units granted under the equity incentive plan for the three months and nine months ended September 30, 2012 amounted to \$16 and \$16, respectively.

Restricted units vest on and after the third anniversary of the date of grant. The restricted units accrue additional restricted units during the vesting period, and are credited when the restricted units vest.

At September 30, 2012, no deferred units or installment units have been granted under the REIT's equity incentive plan.

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11. Unitholders' equity (continued):

(b) Preferred units:

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

(i) Series A:

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

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

(ii) Series C:

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

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

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

(c) Short form base shelf prospectus:

On July 28, 2010, the REIT issued a short form base shelf prospectus. The REIT may from time to time during the 25-month period that this short form base shelf prospectus is valid, offer and issue the following securities up to a maximum of \$750,000 of initial offering price: (i) trust units of the REIT; (ii) preferred trust units, which may be issuable in series; (iii) debt securities, which may consist of debentures, notes or other types of debt and may be issuable in series; (iv) unit purchase warrants; and (v) subscription receipts to purchase trust securities. As at September 30, 2012, the REIT has issued common units under six offerings in the aggregate amount of \$587,002 and a US\$88,000 offering of convertible debentures under the short form base shelf prospectus.

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11. Unitholders' equity (continued):

(c) Short form base shelf prospectus (continued):

On June 15, 2012, the REIT issued a new short form base shelf prospectus. The REIT may from time to time during the 25-month period that this short form base shelf prospectus is valid, offer and issue the following securities up to a maximum of \$2,000,000 of initial offering price: (i) trust units of the REIT; (ii) preferred trust units, which may be issuable in series; (iii) debt securities, which may consist of debentures, notes or other types of debt and may be issuable in series; (iv) unit purchase warrants; and (v) subscription receipts to purchase trust securities. As at September 30, 2012, the REIT has issued preferred units under two offerings in the amount of \$86,250 and US\$75,000 under this short form base shelf prospectus.

(d) Weighted-average common units:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Income for the period	\$ 87,538	\$ 63,505	\$ 241,614	\$ 254,550
Adjustment for distributions to preferred unitholders	(867)	-	(867)	-
Income for the period attributable to common unitholders	86,671	63,505	240,747	254,550
Adjustment for unit options	-	(121)	-	(186)
Adjustment for convertible debentures	6,720	(15,456)	22,673	(5,999)
Diluted income attributable to common unitholders for the period	\$ 93,391	\$ 47,928	\$ 263,420	\$ 248,365
The weighted-average number of common units outstanding was as follows:				
Basic common units	109,993,170	83,380,489	103,065,034	78,416,311
Effect of dilutive securities:				
Unit options	-	34,585	-	46,549
Convertible debentures	10,594,643	13,984,989	10,594,643	12,115,021
Diluted common units	120,587,813	97,400,063	113,659,677	90,577,881
Income per unit attributable to common unitholders:				
Basic	\$ 0.79	\$ 0.76	\$ 2.34	\$ 3.25
Diluted	\$ 0.77	\$ 0.49	\$ 2.32	\$ 2.74

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

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12. Distributions to unitholders:

Total distributions declared to unitholders for the three months ended September 30 are as follows:

	2012		2011	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	\$ 29,715	\$ 0.27	\$ 22,528	\$ 0.27
Preferred unitholders - Series A	732	0.21	-	-
Preferred unitholders - Series C	135	0.05	-	-

Total distributions declared to unitholders for the nine months ended September 30 are as follows:

	2012		2011	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	\$ 84,771	\$ 0.81	\$ 64,122	\$ 0.81
Preferred unitholders - Series A	732	0.21	-	-
Preferred unitholders - Series C	135	0.05	-	-

13. (Loss) gain on financial instruments:

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Fair value (loss) gain:				
Convertible debentures	\$ (3,883)	\$ 18,887	\$ (13,915)	\$ 14,686
Commodity derivatives	-	(11)	-	198
Interest rate swaps	246	(3,667)	(77)	(4,088)
Forward and swap contracts	(237)	1,620	-	1,724
Investment in equity securities	-	(44)	-	(392)
	\$ (3,874)	\$ 16,785	\$ (13,992)	\$ 12,128

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14. Changes in non-cash operating items:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Prepaid expenses	\$ 874	\$ 296	\$ (1,939)	\$ (4,074)
Accounts receivable and other receivables	1,318	(3,457)	(2,450)	(6,379)
Cash held in trust	(257)	(187)	(1,685)	(561)
Security deposits and prepaid rent	1,028	201	9,260	3,382
Accounts payable and other liabilities	10,698	10,184	10,229	12,645
	\$ 13,661	\$ 7,037	\$ 13,415	\$ 5,013

15. Related party transactions:

The REIT may issue unit-based awards to trustees, officers, employees and consultants (note 11(a)(v)).

Other related party transactions are outlined as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Advisory fees	\$ -	\$ 1,623	\$ -	\$ 4,347
Acquisition fees	-	864	552	3,056
Property management fees	77	3,045	238	8,017
Recoverable property management salaries and wages	-	363	-	1,601
Capitalized office furniture and fixtures	94	-	1,391	-
Capitalized office equipment	-	-	343	-
Capitalized leasing commissions	671	123	859	635
Capitalized building improvements	4,022	3,253	8,693	11,417
Capitalized tenant inducements	412	1,602	823	2,257
Disposition of investment property	(750)	-	(750)	-
Property tax assessment consulting fees	-	60	188	64
Consulting fees	-	25	-	75
Legal fees	642	186	2,261	1,269
Rental revenues	(563)	(666)	(1,684)	(1,961)

Effective January 1, 2012, the REIT internalized its asset and property management functions. The asset management agreement with Marwest Realty Advisors Inc. ("Marwest Realty"), a company owned and controlled by certain trustees and officers of the REIT, was terminated effective December 31, 2011. No fees or penalties were paid to Marwest Realty upon termination of this agreement. On December 31, 2011, the omnibus property management agreement was assigned to the REIT from Marwest Management Canada Ltd. ("Marwest Management"), a company owned and controlled by certain trustees and officers of the REIT, which encompasses all investment properties owned by the REIT. No fees or penalties were paid to Marwest Management upon assignment of this agreement.

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15. Related party transactions (continued):

Prior to the termination of the asset management agreement, Marwest Realty was entitled to an annual advisory fee equal to 0.25% of the adjusted cost base of the REIT's assets and an acquisition fee equal to 0.5% of the cost of each property acquired. Acquisition fees incurred during the nine months ended September 30, 2012 relate to acquisitions which were unconditional prior to the termination of the agreement. The REIT was obligated to pay Marwest Realty for services provided in respect to these acquisitions. The amount payable at September 30, 2012 is \$nil (December 31, 2011, \$567). There are no further outstanding obligations related to this agreement.

The REIT incurred property management fees, leasing commission fees and tenant improvement fees under property management agreements with Marwest Management for three properties owned by the REIT. The amount payable at September 30, 2012 is \$27.

On January 1, 2012, the REIT entered into a one-year leasing services agreement with Marwest Management. The amount payable at September 30, 2012 is \$318.

Prior to the assignment of the property management agreement, the agreement entitled Marwest Management to property management fees, recoverable property management salaries and wages, leasing commission fees, and tenant improvement fees. The amount payable at December 31, 2011 was \$1,949.

The REIT incurred costs for building improvements and tenant inducements paid to Marwest Construction Ltd., Marwest Development Corporation, and Nova 3 Engineering, companies related to certain trustees and officers of the REIT. The amount payable at September 30, 2012 is \$1,090 (December 31, 2011, \$354).

The REIT purchased \$1,297 of office furniture and fixtures and \$343 of office equipment from Marwest Management as a result of the internalization of the asset and property management functions. The REIT also incurred costs for office furniture and fixtures paid to Marwest Construction Ltd. The amount payable at September 30, 2012 is \$nil.

The REIT sold surplus land at an investment property to a company controlled by a trustee of the REIT. The amount receivable at September 30, 2012 is \$750.

The REIT incurred costs for property tax assessment consulting paid to Fairtax Realty Advocates, a company under control of close family members of key management personnel. The amount payable at September 30, 2012 is \$nil (December 31, 2011, \$13).

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

The REIT incurred legal fees with a law firm associated with a trustee of the REIT in connection with prospectus offerings, property acquisitions and general business matters. The amount payable at September 30, 2012 is \$517 (December 31, 2011, \$200).

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

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

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15. Related party transactions (continued):

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

Name of entity	Ownership interest	
	September 30, 2012	December 31, 2011
Artis General Partner Ltd.	100%	100%
AX L.P.	100%	100%
Artis US Holdings, Inc.	100%	100%
Osborne Street Call Centre Partnership	-	100%
Winnipeg Square Leaseco Inc.	100%	100%
AX Property Management L.P.	100%	100%
Artis Property Management General Partner Ltd.	100%	100%
AX Longboat G.P. Inc.	50%	-
AX Longboat L.P.	50%	-

16. Jointly controlled assets:

These consolidated financial statements include the REIT's share of assets, liabilities, revenues, expenses and cash flows of jointly controlled assets as at September 30, 2012. The REIT is contingently liable for the obligations of its joint venturers in certain jointly controlled assets. Management believes that the jointly controlled assets available are sufficient for the purpose of satisfying such obligations. The REIT has interests in the following jointly controlled assets:

Name of entity	Principal purpose	Ownership interest	
		September 30, 2012	December 31, 2011
Centre 70 Building	Investment property	85%	85%
Kincaid Building	Investment property	50%	50%
Cliveden Building	Investment property	50%	50%
Westbank Hub Centre North ⁽¹⁾	Investment property	75%	50%
Cara Foods Building	Investment property	50%	50%
Centrepont	Investment property	50%	-
Whistler Hilton Retail Plaza	Investment property	85%	-
Westbank Hub Shopping Centre	Investment property	75%	-

⁽¹⁾ The REIT acquired an additional 25% interest in this property, excluding a portion under development.

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16. Jointly controlled assets (continued):

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

	September 30, 2012 (Unaudited)		December 31, 2011	
Non-current assets	\$	176,027	\$	98,816
Current assets		4,626		1,223
		180,653		100,039
Non-current liabilities		74,789		50,637
Current liabilities		19,052		2,145
	\$	93,841	\$	52,782

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Revenue	\$	3,483	\$	2,531
Expenses		2,045		1,537
		1,438		994
Unrealized fair value (loss) gain on investment properties		(927)		(984)
		1,438		994
Operating income from properties	\$	511	\$	10
Cash flows provided by operating activities	\$	1,014	\$	903
Cash flows used in investing activities		(15,553)		(87)
Cash flows provided by (used in) financing activities		14,124		(1,017)
		14,124		(1,017)

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17. Segmented information:

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

	Three months ended September 30, 2012					
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Revenue	\$ 46,690	\$ 21,133	\$ 12,703	\$ 17,865	\$ 75	\$ 98,466
Property operating expenses	15,460	8,067	4,856	6,554	-	34,937
Interest income	31,230 342	13,066 9	7,847 12	11,311 11	75 192	63,529 566
	31,572	13,075	7,859	11,322	267	64,095
Interest expense	10,920	4,703	2,576	3,443	3,069	24,711
Corporate expenses	-	-	-	-	2,604	2,604
Foreign currency translation gain	-	-	-	-	(4,759)	(4,759)
	10,920	4,703	2,576	3,443	914	22,556
	20,652	8,372	5,283	7,879	(647)	41,539
Transaction costs	(86)	(69)	(3,842)	(133)	-	(4,130)
Loss on financial instruments	-	-	-	-	(3,874)	(3,874)
Fair value gain on investment properties	37,289	8,784	6,408	1,522	-	54,003
Income (loss) for the period	\$ 57,855	\$ 17,087	\$ 7,849	\$ 9,268	\$ (4,521)	\$ 87,538
Acquisitions of investment properties	\$ 29,287	\$ 9,250	\$ 128,983	\$ 37,381	\$ -	\$ 204,901
Additions to investment properties and investment properties under construction	5,384	3,248	460	1,326	-	10,418
Additions to leasing costs	864	803	153	81	-	1,901
Additions to tenant inducements	3,885	2,022	320	743	-	6,970

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17. Segmented information (continued):

	Three months ended September 30, 2011					
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Revenue	\$ 37,585	\$ 19,046	\$ 10,678	\$ 11,118	\$ -	\$ 78,427
Property operating expenses	13,109	7,795	4,143	4,269	-	29,316
	24,476	11,251	6,535	6,849	-	49,111
Interest income	369	5	5	15	205	599
	24,845	11,256	6,540	6,864	205	49,710
Interest expense	9,160	4,218	2,287	1,751	3,920	21,336
Corporate expenses	-	-	-	-	2,663	2,663
Foreign currency translation loss	-	-	-	-	5,131	5,131
	9,160	4,218	2,287	1,751	11,714	29,130
	15,685	7,038	4,253	5,113	(11,509)	20,580
Income tax expense	-	-	-	(7,700)	-	(7,700)
Transaction costs	(614)	(357)	(316)	(390)	(7)	(1,684)
Gain on financial instruments	-	-	-	-	16,785	16,785
Gain on disposal of investment property	-	-	-	481	-	481
Fair value gain on investment properties	15,558	1,763	3,062	14,660	-	35,043
Income for the period	\$ 30,629	\$ 8,444	\$ 6,999	\$ 12,164	\$ 5,269	\$ 63,505
Acquisitions of investment properties	\$ 90,000	\$ 57,090	\$ -	\$ 28,355	\$ -	\$ 175,445
Additions to investment properties and investment properties under construction	1,279	3,949	250	570	-	6,048
Additions to leasing costs	318	270	83	274	-	945
Additions to tenant inducements	1,710	475	102	281	-	2,568

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17. Segmented information (continued):

Nine months ended September 30, 2012						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Revenue	\$ 124,844	\$ 61,978	\$ 33,700	\$ 46,736	\$ 175	\$ 267,433
Property operating expenses	40,350	24,250	12,570	16,511	-	93,681
Interest income	84,494	37,728	21,130	30,225	175	173,752
	1,105	32	29	292	668	2,126
	85,599	37,760	21,159	30,517	843	175,878
Interest expense	30,268	13,807	7,075	8,705	9,665	69,520
Corporate expenses	-	-	-	-	9,109	9,109
Foreign currency translation gain	-	-	-	-	(2,636)	(2,636)
	30,268	13,807	7,075	8,705	16,138	75,993
	55,331	23,953	14,084	21,812	(15,295)	99,885
Transaction costs	(1,532)	(572)	(3,842)	(855)	(342)	(7,143)
Loss on financial instruments	-	-	-	-	(13,992)	(13,992)
Fair value gain on investment properties	101,001	20,436	22,165	19,262	-	162,864
Income (loss) for the period	\$ 154,800	\$ 43,817	\$ 32,407	\$ 40,219	\$ (29,629)	\$ 241,614
Acquisitions of investment properties	\$ 412,656	\$ 62,338	\$ 128,983	\$ 192,822	\$ -	\$ 796,799
Additions to investment properties and investment properties under construction	9,457	9,265	515	3,117	-	22,354
Additions to leasing costs	1,699	1,547	279	553	-	4,078
Additions to tenant inducements	5,500	3,213	794	1,651	-	11,158
September 30, 2012						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Total assets	\$ 2,106,929	\$ 791,412	\$ 522,728	\$ 653,367	\$ 98,966	\$ 4,173,402
Total liabilities	989,276	386,269	262,722	400,069	225,509	2,263,845

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17. Segmented information (continued):

Nine months ended September 30, 2011						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Revenue	\$ 107,034	\$ 52,448	\$ 25,371	\$ 22,719	\$ -	\$ 207,572
Property operating expenses	36,760	21,348	10,445	8,367	-	76,920
	70,274	31,100	14,926	14,352	-	130,652
Interest income	1,114	23	15	16	895	2,063
	71,388	31,123	14,941	14,368	895	132,715
Interest expense	26,592	11,796	4,882	3,809	9,920	56,999
Corporate expenses	-	-	-	-	7,749	7,749
Foreign currency translation loss	-	-	-	-	3,209	3,209
	26,592	11,796	4,882	3,809	20,878	67,957
	44,796	19,327	10,059	10,559	(19,983)	64,758
Income tax expense	-	-	-	(10,238)	-	(10,238)
Transaction costs	(799)	(765)	(4,658)	(2,150)	(3,640)	(12,012)
Gain on financial instruments	-	-	-	-	12,128	12,128
Gain on disposal of investment properties	-	255	-	481	-	736
Fair value gain on investment properties	137,539	24,154	19,223	18,262	-	199,178
Income (loss) for the period	\$ 181,536	\$ 42,971	\$ 24,624	\$ 16,914	\$ (11,495)	\$ 254,550
Acquisitions of investment properties	\$ 109,983	\$ 119,530	\$ 165,920	\$ 219,773	\$ -	\$ 615,206
Additions to investment properties and investment properties under construction	3,864	10,403	276	577	-	15,120
Additions to leasing costs	1,664	695	302	653	-	3,314
Additions to tenant inducements	3,051	2,451	172	1,023	-	6,697
December 31, 2011						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Total assets	\$ 1,578,327	\$ 691,319	\$ 367,215	\$ 448,835	\$ 81,892	\$ 3,167,588
Total liabilities	765,084	360,868	212,832	271,036	287,953	1,897,773

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18. Commitments and guarantees:

(a) Letters of credit:

As of September 30, 2012, the REIT had issued letters of credit in the amount of \$119 (December 31, 2011, \$1,728).

(b) Guarantees:

AX L.P. has guaranteed certain debt assumed by a purchaser in connection with the disposition of a property. This guarantee will remain until the debt is modified, refinanced or extinguished. Credit risk arises in the event that the purchaser defaults on repayment of their debt since it is guaranteed by the REIT. This credit risk is mitigated as the REIT has recourse under this guarantee in the event of default by the purchaser, in which case the REIT would have a claim against the underlying property. The estimated amount of debt subject to the guarantee at September 30, 2012 is \$5,622 (December 31, 2011, \$5,733), with an estimated weighted-average remaining term of 5.2 years (December 31, 2011, 5.9 years). No liability in excess of the fair value of the guarantee has been recognized in these consolidated financial statements as the estimated fair value of the borrower's interests in the underlying property is greater than the mortgage payable for which the REIT provided the guarantee.

19. Capital management:

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

The REIT's Declaration of Trust permits the REIT to incur indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of such indebtedness of the REIT is not more than 70% of the gross book value of the REIT's total assets. Gross book value is defined in the Declaration of Trust as "the consolidated book value of the assets of the REIT, plus the amount of accumulated depreciation and amortization recorded in the books and records of the REIT, plus the amount of any deferred tax liability arising out of any indirect acquisitions, calculated in accordance with generally accepted accounting principles". As at September 30, 2012, the ratio of such indebtedness to gross book value was 48.0% (December 31, 2011, 50.7%), which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

In addition to the covenant outlined in the Declaration of Trust, the REIT must maintain a debt to gross book value ratio of 70%, a debt service coverage ratio of 1.4, and adjusted unitholders' equity of \$750,000 for the purposes of the credit facility (note 10). As at September 30, 2012, the REIT was in compliance with these requirements.

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19. Capital management (continued):

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

The total managed capital for the REIT is summarized below:

	September 30, 2012 (Unaudited)	December 31, 2011
Mortgages and loans payable	\$ 1,979,400	\$ 1,567,399
Convertible debentures	181,399	235,746
Bank indebtedness	25,400	37,900
Total debt	2,186,199	1,841,045
Unitholders' equity	1,909,557	1,269,815
	\$ 4,095,756	\$ 3,110,860

20. Risk management and fair values:

(a) Risk management:

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

(i) Market risk:

(a) Interest rate risk:

The REIT is exposed to interest rate risk on its borrowings. It minimizes the risk by restricting debt to 70% of the gross book value of the REIT's total assets and by limiting the amount of variable rate debt. The REIT has the majority of its mortgage payable and debentures in fixed rate terms. In addition, management considers the weighted-average term to maturity of long-term debt relative to the remaining average lease terms. At September 30, 2012, the REIT is a party to \$455,753 of variable rate debt, including the outstanding balance of bank indebtedness (December 31, 2011, \$386,388). At September 30, 2012, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$98,144 of variable rate debt (December 31, 2011, \$65,061).

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

	Impact on interest expense
Variable rate debt	\$ 2,504
Fixed rate debt due within one year	1,488
	\$ 3,992

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20. Risk management and fair values (continued):

(a) Risk management (continued):

(i) Market risk (continued):

(b) Foreign currency risk:

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

A \$0.10 weakening in the US dollar against the average Canadian dollar exchange rate of 0.9915 and 1.0019 for the three and nine months ended September 30, 2012, respectively, and the period end exchange rate of 0.9837 at September 30, 2012 would have increased net income by approximately \$65 for the three months ended September 30, 2012 and would have decreased net income by \$2,112 for the nine months ended September 30, 2012. A \$0.10 weakening in the US dollar against the Canadian dollar would also have increased other comprehensive loss by approximately \$27,678 and \$29,855 for the three and nine months ended September 30, 2012, respectively. Conversely, a \$0.10 strengthening in the US dollar against the Canadian dollar would have had an equal but opposite effect. This analysis assumes that all variables, in particular interest rates, remain constant.

(c) Other price risk:

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

(ii) Credit risk:

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

The REIT is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. The REIT's properties are diversified across the industrial, retail and office asset classes, and geographically diversified with properties owned across five Canadian provinces and four U.S. states. Included in property operating expenses is a (recovery) impairment loss on accounts receivable and other receivables of \$(9) and \$165 during the three months and nine months ended September 30, 2012 (2011, \$12 and \$154, respectively). The credit quality of the accounts receivable and other receivables amount is considered adequate.

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20. Risk management and fair values (continued):

(a) Risk management (continued):

(ii) Credit risk (continued):

The aging of accounts receivable is summarized as follows:

	September 30, 2012 (Unaudited)	December 31, 2011
Past due 0 - 30 days	\$ 2,139	\$ 1,516
Past due 31 - 90 days	1,033	301
Past due more than 91 days	1,145	612
	4,317	2,429
Allowance for doubtful accounts	(210)	(157)
	\$ 4,107	\$ 2,272

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

(iii) Liquidity risk:

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

The following are the estimated maturities of the REIT's non-derivative financial liabilities at September 30, 2012 including accounts payable and other liabilities, mortgages and loans payable, bank indebtedness and convertible debentures, with convertible debentures disclosed at their face value:

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Accounts payable and other liabilities	\$ 53,643	\$ 53,643	\$ -	\$ -	\$ -
Mortgages, loans and bank indebtedness	2,007,490	234,113	617,306	912,383	243,688
Convertible debentures	179,736	-	7,000	-	172,736
	\$ 2,240,869	\$ 287,756	\$ 624,306	\$ 912,383	\$ 416,424

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20. Risk management and fair values (continued):

(b) Fair values:

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

The fair value of notes receivable has been determined by discounting the cash flows of these financial assets using period end market rates for assets of similar terms and credit risks. Based on these assumptions, the fair value of notes receivable at September 30, 2012 has been estimated at \$25,943 (December 31, 2011, \$23,974), compared with the carrying value of \$24,322 (December 31, 2011, \$25,437).

The fair value of mortgages and loans payable has been determined by discounting the cash flows of these financial obligations using period end market rates for debt of similar terms and credit risks. Based on these assumptions, the fair value of mortgages and loans payable at September 30, 2012 has been estimated at \$2,034,614 (December 31, 2011, \$1,629,144) compared with the carrying value of \$1,979,400 (December 31, 2011, \$1,567,399).

The fair value of the REIT's convertible debentures is \$191,781 (December 31, 2011, \$235,746) compared to its face value of \$179,736 (December 31, 2011, \$231,999) at September 30, 2012. Fair value is based on the market price of the debentures, or if no market price exists, fair value is determined by discounting the cash flows of these financial obligations using period end market rates for debt of similar terms and credit risks.

The REIT entered into interest rate swaps on six mortgages. The swaps are not designated in a hedge relationship. An unrealized gain of \$246 was recorded for the three months ended September 30, 2012 (2011, loss of \$3,667) and an unrealized loss of \$77 for the nine months ended September 30, 2012 (2011, loss of \$4,088) in relation to the fair value of these interest rate swaps, resulting in a fair value liability at September 30, 2012 of \$3,930 (December 31, 2011, \$3,853).

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

21. Subsequent events:

On October 1, 2012, the REIT repaid a maturing vendor-take back mortgage on an office property in the amount of \$3,421.

On October 4, 2012, the REIT refinanced a mortgage on a retail property in West Kelowna, British Columbia, obtaining additional proceeds of \$325.

On October 11, 2012, the REIT acquired an additional 25% in the portion of Westbank Hub Centre North that was previously under development to bring its total ownership interest in this investment property to 75%. The additional ownership interest was acquired for \$1,760 and the purchase price was satisfied with a combination of cash and an additional 25% interest in the existing mortgage financing.

On October 11, 2012, the REIT obtained additional financing of \$2,459 for a retail property in Winnipeg, Manitoba.

On October 12, 2012, the REIT disposed of 112 Pennsylvania Avenue, an industrial property located in the Greater Toronto Area, Ontario. The property was sold for \$2,900 and was satisfied with cash. The REIT repaid the mortgage balance owing on this property of \$1,073.

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21. Subsequent events (continued):

On October 24, 2012, the REIT obtained new 10-year mortgage financing in the amount of \$20,000 for the Meadowvale Gateway Portfolio, which bears interest at 4.01% per annum.

On October 26, 2012, the REIT acquired the Minneapolis Industrial Portfolio II which is comprised of 11 industrial buildings located in Minneapolis, Minnesota. The industrial portfolio was acquired for US\$96,550 and the purchase price was satisfied through a combination of cash and new seven-year mortgage financing, which bears interest at LIBOR plus 2.25% per annum. The loan provides for a three-year renewal period at the option of the REIT. The REIT entered into an interest rate swap concurrently for US\$30,000 of the mortgage for a 10-year term effectively locking the interest rate on this portion of the mortgage at 4.13% per annum.

On October 31, 2012, the REIT acquired Namao South which is located in Edmonton, Alberta. The property was acquired for \$51,000 and the purchase price was satisfied through a combination of cash and new seven-year mortgage financing which bears interest at 3.52% per annum.

On November 1, 2012, the REIT entered into a swap contract to exchange US\$20,000 into Canadian funds.

The REIT entered into agreements with respect to the acquisition of properties located in Alberta, Saskatchewan and Ontario. The total purchase price of the properties is \$65,783. The REIT anticipates that the acquisitions will close in November 2012 and April 2013, and will be financed through a combination of cash consideration and either existing or new mortgage financing.

Distributions in the amount of \$0.09 per unit for October 2012 were declared subsequent to September 30, 2012.

22. Approval of financial statements:

The interim condensed consolidated financial statements were approved by the Board of Trustees and authorized for issue on November 7, 2012.