



**ARTIS**

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REIT

**Management's Discussion and Analysis  
Q2-13**

On the TSX: AX.UN AX.PR.A AX.PR.U AX.PR.E AX.PR.G AX.DB.F AX.DB.U

# ARTIS REAL ESTATE INVESTMENT TRUST

Management's Discussion and Analysis - Q2-13  
(In thousands of Canadian dollars, unless otherwise noted)

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## 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, 2012 and 2011, the unaudited interim condensed consolidated financial statements for the three and six month periods ended June 30, 2013, and 2012 and the notes thereto. This MD&A has been prepared taking into account material transactions and events up to and including August 8, 2013. 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"), Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO") are non-GAAP measures commonly used by Canadian real estate investment trusts as an indicator of financial performance. "GAAP" means the generally accepted accounting principles described by the Canadian Institute of Chartered Accountants ("CICA") Handbook - Accounting, which are applicable as at the date on which any calculation using GAAP is to be made. As a publicly accountable enterprise, Artis applies the International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

Artis calculates Property NOI as revenues, measured in accordance with IFRS, 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 FFO substantially in accordance with the guidelines set out by the Real Property Association of Canada ("REALpac"), as issued in November 2012. Management considers FFO to be a valuable measure for evaluating the REIT's operating performance in achieving its objectives.

Artis calculates AFFO based on FFO for the period, net of allowances for normalized capital expenditures and leasing costs and excluding straight-line rent adjustments and unit-based compensation expense.

Property NOI, FFO and AFFO are not measures defined under IFRS. Property NOI, FFO and AFFO 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 IFRS. Readers should be further cautioned that Property NOI, FFO and AFFO as calculated by Artis may not be comparable to similar measures presented by other issuers.

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## OVERVIEW

Artis is an unincorporated closed-end real estate investment trust, created under, and governed by, the laws of the Province of Manitoba. The REIT 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").

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, the REIT's preferred units trade under the symbols AX.PR.A, AX.PR.U, AX.PR.E, AX.PR.G and the REIT's Series F and Series G convertible debentures trade under the symbols AX.DB.F and AX.DB.U, respectively. As at August 8, 2013, there were 126,127,847 units, 3,548,688 options, 13,650,000 preferred units and 72,765 restricted units of Artis outstanding (refer to the *Outstanding Unit Data* section for further details).

## PRIMARY OBJECTIVES

Artis' primary objective is to maximize total returns to our unitholders. Returns include a stable, reliable and tax efficient monthly cash distribution as well as long-term appreciation in the value of Artis' units.

Artis' management employs several key strategies to meet our primary objective:

- **Portfolio Diversification.** We build stability into our cash flows through a strategy of diversification. Our commercial properties are well diversified across the industrial, retail and office asset classes. We are also geographically diversified with properties owned across western Canada, as well as Ontario and in select markets in the United States ("U.S.").
- **Portfolio Expansion.** We build growth into our cash flows through the efficient sourcing and deployment of capital into high-quality and accretive acquisition opportunities in our target markets, or into high-yield intensification or (re)development opportunities that exist within our property portfolio.
- **Managing for Value Creation.** We build value through the active management of our portfolio, leveraging off the experience and expertise of our management team. We focus on maximizing property value and cash flows over the long-term, creating additional value through the selective disposition of assets at premium prices, and reinvesting and repositioning the portfolio on an on-going basis in higher growth markets.

The Declaration of Trust provides that Artis may make monthly cash distributions to its unitholders. The amount distributed annually (currently \$1.08 per unit on an annualized basis) will be set by the Trustees.

## U.S. INVESTMENT STRATEGY

At June 30, 2013, approximately 20.5% of Artis' portfolio weighting by pro-forma Property NOI is in the United States. Historically, commercial real estate in the U.S. has been more expensive and offered lower unlevered yields than similar property in Canada. This has now changed, and Canadian investors are able to acquire quality U.S. properties at relatively higher yields than in Canada.

Artis' management believes that this window of opportunity will not be open for long and has adopted a disciplined approach in pursuing U.S. acquisitions while the opportunity exists, as follows:

- total weighting of U.S. properties in Artis' portfolio will not exceed 30% by pro-forma Property NOI.
- unlevered yield will be accretive, and higher than that available for a comparable property in Canada.
- low interest, conventional mortgage financing will be available.
- quality local third party property management will be available.
- property will be "new generation", thus reducing the average age of Artis' overall portfolio.
- the tenant credit and lease expiry profile for the property will be more conservative than that of a comparable property in Canada, thus improving the credit profile of Artis' overall portfolio.

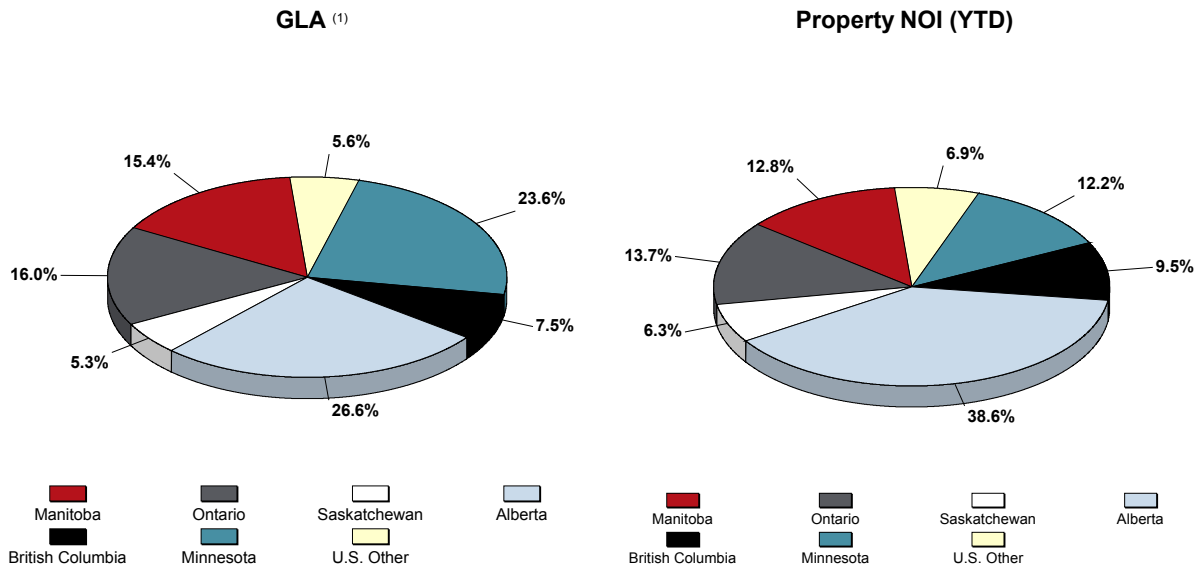
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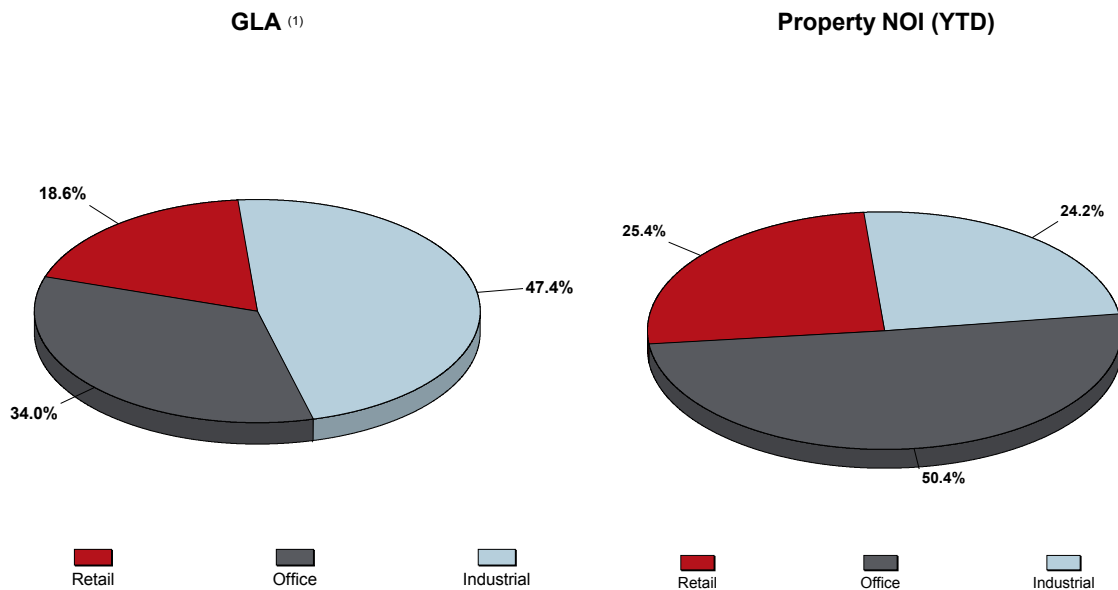
## PORTFOLIO SUMMARY

At June 30, 2013, the REIT's portfolio was comprised of 232 commercial properties totaling approximately 24.8 million square feet (S.F.) of gross leasable area ("GLA"), (24.4 million S.F., excluding one property which was sold subsequent to June 30, 2013).

### Diversification by geographical region:



### Diversification by asset class:



(1) Based on owned share of total leasable area, excluding Mid-City North, which was sold on July 15, 2013.

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## Portfolio by asset class as at June 30, 2013 (in 000's of S.F.) <sup>(1)</sup>

Asset Class	City	Province / State	Number of Properties	Owned Share of Leasable Area	% of Portfolio GLA	Occupancy %	Committed % <sup>(2)</sup>
Industrial	Acheson	AB	3	337	1.4 %	100.0 %	100.0 %
	Airdrie	AB	1	27	0.1 %	100.0 %	100.0 %
	Brampton	ON	1	301	1.2 %	100.0 %	100.0 %
	Calgary	AB	7	597	2.4 %	97.7 %	97.7 %
	Edmonton	AB	7	862	3.5 %	97.9 %	99.0 %
	Mississauga	ON	1	158	0.6 %	96.9 %	99.2 %
	Nisku	AB	1	23	0.1 %	100.0 %	100.0 %
	Red Deer	AB	1	126	0.5 %	100.0 %	100.0 %
	Regina	SK	1	119	0.5 %	100.0 %	100.0 %
	Saskatoon	SK	2	269	1.1 %	100.0 %	100.0 %
	Toronto	ON	27	2,072	8.5 %	98.2 %	98.9 %
Winnipeg	MB	25	1,363	5.6 %	95.5 %	97.0 %	
<b>Industrial total</b>			<b>77</b>	<b>6,254</b>	<b>25.5 %</b>	<b>97.8 %</b>	<b>98.6 %</b>
Office	Burnaby	BC	3	437	1.8 %	98.3 %	98.3 %
	Calgary	AB	20	2,517	10.3 %	90.8 %	96.5 %
	Edmonton	AB	1	48	0.2 %	78.9 %	86.6 %
	Mississauga	ON	2	243	1.0 %	68.3 %	87.4 %
	Nanaimo	BC	2	68	0.3 %	100.0 %	100.0 %
	Ottawa	ON	2	287	1.2 %	100.0 %	100.0 %
	Red Deer	AB	1	148	0.6 %	96.8 %	96.8 %
	Saskatoon	SK	1	64	0.3 %	100.0 %	100.0 %
	Toronto	ON	2	739	3.0 %	93.3 %	94.1 %
	Vancouver	BC	1	174	0.7 %	96.5 %	96.5 %
	Vaughan	ON	1	100	0.4 %	100.0 %	100.0 %
Winnipeg	MB	8	1,469	6.0 %	96.0 %	96.8 %	
<b>Office total</b>			<b>44</b>	<b>6,294</b>	<b>25.8 %</b>	<b>92.9 %</b>	<b>96.3 %</b>
Retail	Calgary	AB	6	477	2.0 %	97.7 %	98.0 %
	Coquitlam	BC	1	82	0.3 %	92.3 %	92.3 %
	Cranbrook	BC	1	288	1.2 %	94.6 %	94.6 %
	Delta	BC	1	75	0.3 %	98.3 %	98.3 %
	Edmonton	AB	3	281	1.2 %	100.0 %	100.0 %
	Edson	AB	1	20	0.1 %	100.0 %	100.0 %
	Estevan	SK	1	38	0.2 %	100.0 %	100.0 %
	Fort McMurray	AB	8	193	0.8 %	97.3 %	100.0 %
	Grande Prairie	AB	4	378	1.5 %	92.8 %	94.1 %
	Lethbridge	AB	1	53	0.2 %	95.2 %	95.2 %
	Medicine Hat	AB	1	162	0.7 %	97.2 %	100.0 %
	Moose Jaw	SK	1	38	0.2 %	100.0 %	100.0 %
	Nanaimo	BC	3	93	0.4 %	65.7 %	65.7 %
	Regina	SK	8	554	2.3 %	97.4 %	98.5 %
	Saskatoon	SK	3	218	0.9 %	97.4 %	97.4 %
	Spruce Grove	AB	2	203	0.8 %	83.2 %	97.4 %
	St. Albert	AB	1	21	0.1 %	100.0 %	100.0 %
	Vancouver	BC	1	91	0.4 %	90.3 %	90.3 %
	Westbank / West Kelowna	BC	3	433	1.8 %	99.8 %	99.8 %
	Whistler	BC	1	32	0.1 %	91.1 %	91.1 %
Winnipeg	MB	5	533	2.2 %	96.7 %	96.7 %	
<b>Retail total</b>			<b>56</b>	<b>4,263</b>	<b>17.7 %</b>	<b>95.6 %</b>	<b>96.8 %</b>
<b>Total Canadian portfolio</b>			<b>177</b>	<b>16,811</b>	<b>69.0 %</b>	<b>95.4 %</b>	<b>97.3 %</b>

<sup>(1)</sup> Excluding properties in redevelopment.

<sup>(2)</sup> Percentage committed is based on occupancy plus commitments on vacant space as at June 30, 2013.

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## Portfolio by asset class as at June 30, 2013 (in 000's of S.F.) continued <sup>(1)</sup>

Asset Class	City	Province / State	Number of Properties	Owned Share of Leasable Area	% of Portfolio GLA	Occupancy %	Committed % <sup>(2)</sup>
Industrial	Twin Cities Metropolitan Area	MN	30	4,617	18.9 %	95.4 %	95.7 %
	Phoenix	AZ	2	229	0.9 %	100.0 %	100.0 %
Industrial total			32	4,846	19.9 %	95.6 %	95.9 %
Office	Denver	CO	1	197	0.8 %	94.9 %	94.9 %
	Twin Cities Metropolitan Area	MN	4	866	3.5 %	86.6 %	86.6 %
	New Hartford	NY	1	123	0.5 %	100.0 %	100.0 %
	Phoenix	AZ	4	718	2.9 %	93.4 %	95.5 %
	Tampa	FL	1	107	0.4 %	100.0 %	100.0 %
Office total			11	2,011	8.2 %	91.4 %	92.1 %
Retail	Twin Cities Metropolitan Area	MN	6	275	1.1 %	97.1 %	97.1 %
Total U.S. portfolio			49	7,132	29.2 %	94.5 %	94.9 %
Total Canadian and U.S.			226	23,943	98.2 %	95.1 %	96.6 %

<sup>(1)</sup> Excluding properties in redevelopment and Mid City North, which was sold on July 15, 2013.

<sup>(2)</sup> Percentage committed is based on occupancy plus commitments on vacant space as at June 30, 2013.

## Properties in redevelopment (in 000's of S.F.)

Asset Class	City	Province / State	Number of Properties	Owned Share of Leasable Area	% of Portfolio GLA	Property	Committed % <sup>(1)</sup>
Industrial	Delta	BC	1	70	0.3 %	Cliveden Building	0.0 %
Industrial	Winnipeg	MB	1	73	0.3 %	1595 Buffalo Place	42.8 %
Industrial	Winnipeg	MB	1	91	0.4 %	27-81 Plymouth Street	87.2 %
Industrial	Winnipeg	MB	1	37	0.0 %	8-30 Plymouth Street	43.8 %
Industrial	Winnipeg	MB	1	197	0.8 %	1750 Inkster Blvd	0.0 %
Development properties total			5	468	1.8 %		27.2 %

<sup>(1)</sup> Percentage committed is based on occupancy plus commitments on vacant space as at June 30, 2013.

## Properties under construction:

Artis has a 50% ownership interest in the Centrepoint development project, located in Winnipeg, MB, which is anticipated to comprise 130,375 square feet of leasable area when all phases are complete. Phase I of the construction project, which is currently underway, is expected to comprise 97,936 square feet of leasable area; completion is anticipated in September of 2014.

Artis is currently constructing an 87,000 square foot retail building on excess lands at Linden Ridge Shopping Centre in Winnipeg, MB. This project is anticipated to be completed in Q1-14. Artis has pre-leased this space to four national tenants.

## Development initiatives:

Artis purchased Fourell Business Park in 2010 with an existing 400,000 square foot fully leased building, and land potential for future development. In 2012, Artis completed construction of Phase I, a 63,757 square foot new building on the development lands, which is 100.0% leased. Artis is currently finalizing development plans and anticipating commencing construction on Phase II in Q3-13. The budgeted cost for the Phase I and II is \$10,800 with a projected capitalization rate of 9.1%.

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Artis has been awarded a one year development exclusivity agreement as a result of their successful Expression of Interest (EOI) in a joint development/ownership venture with Longboat Development Corporation and Manitoba Public Insurance Corporation, the current land owner. The initial EOI submission called for the development of an approximately 160,000 square foot Class A office building, with an additional 25,000 square feet of hospitality/retail space, a 15 story hotel, 325 stall parkade and street level public plaza space. The air rights for the hotel will be sold to a hotel operator. The project's prime location within the City of Winnipeg's Sports, Hospitality, and Entertainment District affords it unprecedented access to both the MTS Centre as well as to the recently commenced expansion of the Winnipeg Convention Centre facilities. The Plus 15 Skywalk connections will also connect this strategic development opportunity to the rest of the downtown, including Cityplace and the Winnipeg Public Library. This is anticipated to be a project valued at over \$110,000.

On June 14, 2013 Artis acquired an approximately 13 acre parcel of land located in the Twin Cities Metropolitan Area, MN, with a plan to develop a 185,000 square foot industrial building on the property once a suitable tenant is secured. Pre-leasing for this development opportunity is under way.

## 2013 – SECOND QUARTER HIGHLIGHTS

### PORTFOLIO GROWTH

Artis acquired 8 commercial properties and completed one property under construction in Q2-13 as follows:

	Office		Retail		Industrial		Total	
	Number of Properties	S.F. (000's) <sup>(1)</sup>	Number of Properties	S.F. (000's) <sup>(1)</sup>	Number of Properties	S.F. (000's) <sup>(1)</sup>	Number of Properties	S.F. (000's) <sup>(1)</sup>
Portfolio properties at December 31, 2012	49	7,499	59	4,279	112	11,597	220	23,375
Q1-13 acquisitions	1	106	1	91	1	119	3	316
Q2-13 acquisitions	5	700	1	165	2	202	8	1,067
Q2-13 construction	-	-	1	3	-	-	1	3
Portfolio properties at June 30, 2013	55	8,305	62	4,538	115	11,918	232	24,761

<sup>(1)</sup> Based on owned share of total leasable area.

### Property acquisitions:

Property	Property Count	Acquisition Date	Location	Property Type	GLA <sup>(1)</sup>	Purchase Price
220 Portage Avenue	1	April 30, 2013	Winnipeg, MB	Office	170,158	\$ 41,000
Quarry Park Portfolio	3	May 15, 2013	Calgary, AB	Office	282,327	154,840
1700 Broadway <sup>(2)</sup>	1	May 22, 2013	Denver, CO	Office	394,151	US49,000
ASM America Headquarters Building	1	June 4, 2013	Phoenix, AZ	Industrial	130,282	US19,750
Cara Foods Building <sup>(3)</sup>	-	June 5, 2013	Vaughan, ON	Office	100,398	21,000
Oakdale Village	1	June 10, 2013	Twin Cities Metropolitan Area, MN	Retail	164,860	US34,000
PTI Building	1	June 28, 2013	Edmonton, AB	Industrial	71,654	21,019

<sup>(1)</sup> S.F. of the property at the time of acquisition, before adjusting for owned share of total leasable area.

<sup>(2)</sup> Artis acquired a 50% interest in this joint venture.

<sup>(3)</sup> Artis acquired the remaining 50% interest in this property.

Artis acquired the above eight commercial properties and the remaining 50% interest in Cara Foods Building for aggregate purchase prices of \$237,859 and US\$102,750, respectively. This represented a weighted-average capitalization rate of 6.5%. Artis also acquired two parcels of development lands - one in Winnipeg, MB for \$7,158, and the other in the Twin Cities Metropolitan Area, MN for US\$2,683. The purchase prices for the acquisitions and development lands were settled with cash on hand and from proceeds of new or assumed mortgage financing aggregating \$118,588 and US\$34,375. Subsequent to closing the Cara Foods Building acquisition, Artis refinanced the mortgage for an additional \$1,675, for a ten-year term. The weighted-average interest rate and term to maturity of these financings is 3.6% per annum and nine years, respectively.



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## **Completed properties under construction:**

During Q2-13, Artis completed the construction of a 2,650 square foot retail building located in Nanaimo, BC. This property is 100.0% leased to The Great Canadian Oil Change Ltd. on a ten-year lease.

## **FINANCING ACTIVITIES**

### **Short form base shelf prospectus:**

On June 15, 2012, the REIT filed 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 \$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 June 30, 2013, the REIT has issued common units under two offerings of \$241,610 and preferred units under three offerings for a total of \$186,250 and US\$75,000 under this short form base shelf prospectus.

### **Common unit equity offering:**

On May 9, 2013, under the short form base shelf prospectus, Artis issued 10,424,750 common units at a price of \$16.55 per unit for aggregate gross proceeds to Artis of \$172,530. This includes 1,359,750 units issued pursuant to the exercise of the underwriters' over-allotment option.

### **Debt financing and repayments:**

In Q2-13, Artis repaid two maturing mortgages in the amount of \$14,283, which included the balance of the vendor take back mortgage financing on Century Crossing III. Artis obtained new mortgage financing on two previously unencumbered properties and received upward financing on one mortgage, net of financing costs, for a total of \$9,383.

## **DISTRIBUTIONS**

In Q2-13, Artis distributed a total of \$36,402 (YTD - \$69,739) to unitholders of which \$5,129 (YTD - \$9,413) was paid by way of distribution reinvestment, pursuant to Artis' Distribution Reinvestment and Unit Purchase Plan ("DRIP").

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## SELECTED FINANCIAL INFORMATION

000's, except per unit amounts	Three month period ended June 30,		Six month period ended June 30,	
	2013	2012	2013	2012
Revenue	\$ 110,737	\$ 86,835	\$ 219,516	\$ 168,967
Property NOI	71,739	57,381	143,255	110,223
Income for the period	71,302	78,320	148,879	154,076
Basic income per common unit	0.56	0.74	1.21	1.55
Diluted income per common unit	0.53	0.70	1.15	1.54
Distributions to common unitholders	\$ 33,048	\$ 28,842	\$ 64,126	\$ 55,056
Distributions per common unit	0.27	0.27	0.54	0.54
FFO	\$ 43,927	\$ 33,329	\$ 88,704	\$ 62,877
FFO per unit	0.35	0.31	0.73	0.62
FFO after adjustments <sup>(1)</sup>	43,927	33,329	88,704	63,219
FFO per unit after adjustments <sup>(1)</sup>	0.35	0.31	0.73	0.62
FFO payout ratio after adjustments <sup>(1)</sup>	77.1 %	87.1 %	74.0 %	87.1 %
AFFO	\$ 37,420	\$ 28,991	\$ 76,284	\$ 55,591
AFFO per unit	0.30	0.27	0.63	0.56
AFFO payout ratio	90.0 %	100.0 %	85.7 %	96.4 %

<sup>(1)</sup> Calculated after adjustments for transaction costs.

Artis has been actively acquiring properties during 2012 and 2013. Due primarily to this acquisition activity as well as same property revenue growth, Q2-13 revenues increased \$23,902 or 27.5% compared to Q2-12 results (YTD - \$50,549 or 29.9%). Property NOI increased by \$14,358 or 25.0% (YTD - \$33,032 or 30.0%) compared to Q2-12 results.

FFO increased \$10,598 or 31.8% compared to Q2-12, and \$25,827 or 41.1% year-over-year. These increases are primarily attributed to the acquisitions completed in 2012 and 2013. Diluted FFO per unit increased \$0.04 or 12.9% compared to Q2-12 results, and \$0.11 or 17.7% year-over-year. Adjusted FFO has increased \$10,598 or 31.8% compared to Q2-12, and \$25,485 or 40.3% year-over-year. Diluted FFO per unit after adjustments has increased \$0.04 or 12.9% (YTD - \$0.11 or 17.7%) compared to Q2-12.

AFFO has increased \$8,429 or 29.1% compared to Q2-12, and \$20,693 or 37.2% or year-over-year. AFFO per unit has increased \$0.03 or 11.1% (YTD - \$0.07 or 12.5%) compared to Q2-12.

As a result of units issued from public offerings and units issued under the DRIP, basic units outstanding for the calculation of FFO and AFFO have substantially increased. This increase has diluted the impact of strong growth in revenues, Property NOI, FFO and AFFO on per unit results.

# ARTIS REAL ESTATE INVESTMENT TRUST

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## ANALYSIS OF OPERATING RESULTS

### REVENUE AND PROPERTY NOI

Revenue includes 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.

Artis accounts for rent step-ups by straight-lining the incremental increases over the entire non-cancelable lease term. In Q2-13, straight-line rent adjustments of \$1,326 (YTD - \$2,766) were recorded compared to \$1,550 (YTD - \$2,824) in Q2-12.

In Q2-13, the REIT recorded amortization of \$2,159 (YTD - \$4,170) as a reduction in revenue from tenant incentives compared to \$1,425 (YTD - \$2,750) in Q2-12.

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

#### Lease termination income:

Lease termination income relates to payments received from tenants where the REIT and the tenant agreed to terminate a lease prior to the contractual expiry date. Lease termination income is common in the real estate industry, however, it is unpredictable and period-over-period changes are not indicative of trends. In Q2-13, lease termination income totaled \$545 (YTD - \$2,293), compared to \$45 in Q2-12 (YTD - \$110).

### SAME PROPERTY NOI ANALYSIS

Same property comparison includes only stabilized investment properties owned on January 1, 2012, and excludes properties disposed of and properties held for sale subsequent to January 1, 2012.

	Three month period ended June 30,		Six month period ended June 30,	
	2013	2012	2013	2012
Revenue	\$ 80,441	\$ 77,521	\$ 160,798	\$ 157,320
Property operating expenses	30,088	27,746	60,099	57,431
Property NOI	50,353	49,775	100,699	99,889
Add (deduct) non-cash adjustments:				
Amortization of tenant inducements	1,966	1,362	3,856	2,633
Straight-line rent adjustment	(916)	(1,291)	(1,855)	(2,604)
Property NOI less revenue adjustments	\$ 51,403	\$ 49,846	\$ 102,700	\$ 99,918

In Q2-13, Artis achieved an increase of \$1,557 (YTD - \$2,782), or 3.1% (YTD - 2.8%) of Property NOI less non-cash revenue adjustments over Q2-12.

Lease termination income of \$235 relates to significant tenants that terminated their lease agreements during Q2-13 (YTD - \$1,938). This lease termination income has been excluded from revenue for purposes of the same property income calculation. A portion of this lease termination income has been recognized in same property revenue, to the extent that it covers lost revenue due to vacancy.

#### Same Property NOI less revenue adjustments by asset class

	Three month period ended June 30,				Six month period ended June 30,			
	2013	2012	Change	% Change	2013	2012	Change	% Change
Retail	\$ 14,243	\$ 13,512	\$ 731	5.4 %	\$ 28,181	\$ 26,760	\$ 1,421	5.3 %
Office	25,776	25,584	192	0.8 %	51,813	51,924	(111)	(0.2)%
Industrial	11,384	10,750	634	5.9 %	22,706	21,234	1,472	6.9 %
Total	\$ 51,403	\$ 49,846	\$ 1,557	3.1 %	\$ 102,700	\$ 99,918	\$ 2,782	2.8 %

# ARTIS REAL ESTATE INVESTMENT TRUST

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## Same Property NOI less revenue adjustments by geographical region

	Three month period ended June 30,				Six month period ended June 30,			
	2013	2012	Change	% Change	2013	2012	Change	% Change
Alberta	\$ 19,429	\$ 18,465	\$ 964	5.2 %	\$ 38,658	\$ 37,162	\$ 1,496	4.0 %
British Columbia	5,564	5,444	120	2.2 %	11,098	10,727	371	3.5 %
Manitoba	8,758	8,435	323	3.8 %	17,647	16,722	925	5.5 %
Ontario	5,871	6,148	(277)	(4.5)%	11,859	12,450	(591)	(4.7)%
Saskatchewan	3,517	3,423	94	2.7 %	6,963	6,803	160	2.4 %
Minnesota	6,137	6,006	131	2.2 %	12,403	12,103	300	2.5 %
U.S. - Other	2,127	1,925	202	10.5 %	4,072	3,951	121	3.1 %
<b>Total</b>	<b>\$ 51,403</b>	<b>\$ 49,846</b>	<b>\$ 1,557</b>	<b>3.1 %</b>	<b>\$ 102,700</b>	<b>\$ 99,918</b>	<b>\$ 2,782</b>	<b>2.8 %</b>

## Same property occupancy comparison

### By geographical region

	As at June 30,	
	2013	2012
Alberta	97.2 %	98.1 %
British Columbia	95.1 %	94.7 %
Manitoba	96.0 %	95.5 %
Ontario	93.2 %	97.5 %
Saskatchewan	97.9 %	97.9 %
Minnesota	92.4 %	89.8 %
U.S. - Other	95.5 %	98.9 %
<b>Total</b>	<b>95.3 %</b>	<b>95.5 %</b>

### By asset class

	As at June 30,	
	2013	2012
Retail	96.0 %	96.4 %
Office	93.6 %	96.8 %
Industrial	96.4 %	93.8 %
	<b>95.3 %</b>	<b>95.5 %</b>

## PROPERTY NOI BY ASSET CLASS

In Q2-13, revenues and Property NOI increased for all asset class segments of the portfolio in comparison to Q2-12. This growth is primarily attributable to acquisition activity.

	Three month period ended June 30,					
	2013			2012		
	Retail	Office	Industrial	Retail	Office	Industrial
Revenue	\$ 25,545	\$ 58,944	\$ 26,229	\$ 21,324	\$ 48,568	\$ 16,887
Property operating expenses	7,183	22,796	9,019	6,259	17,843	5,352
Property NOI	\$ 18,362	\$ 36,148	\$ 17,210	\$ 15,065	\$ 30,725	\$ 11,535
<i>Share of Property NOI</i>	25.6 %	50.4 %	24.0 %	26.3 %	53.6 %	20.1 %

	Six month period ended June 30,					
	2013			2012		
	Retail	Office	Industrial	Retail	Office	Industrial
Revenue	\$ 51,120	\$ 115,486	\$ 52,849	\$ 41,646	\$ 93,446	\$ 33,775
Property operating expenses	14,748	43,303	18,210	12,796	35,072	10,876
Property NOI	\$ 36,372	\$ 72,183	\$ 34,639	\$ 28,850	\$ 58,374	\$ 22,899
<i>Share of Property NOI</i>	25.4 %	50.4 %	24.2 %	26.2 %	53.0 %	20.8 %

# ARTIS REAL ESTATE INVESTMENT TRUST

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## PROPERTY NOI BY GEOGRAPHICAL REGION

In Q2-13, revenues and Property NOI increased in all regions of the portfolio in comparison to Q2-12. This growth is primarily attributable to acquisition activity.

### Three month period ended June 30, 2013

	Canada					U.S.	
	AB	BC	MB	ON	SK	MN	Other
Revenue	\$ 41,035	\$ 10,260	\$ 16,206	\$ 15,011	\$ 6,365	\$ 14,955	\$ 6,886
Property operating expenses	12,517	3,563	6,965	5,882	1,817	6,261	1,993
Property NOI	\$ 28,518	\$ 6,697	\$ 9,241	\$ 9,129	\$ 4,548	\$ 8,694	\$ 4,893
<i>Share of Property NOI</i>	39.8 %	9.3 %	13.0 %	12.7 %	6.3 %	12.1 %	6.8 %

### Three month period ended June 30, 2012

	Canada					U.S.	
	AB	BC	MB	ON	SK	MN	Other
Revenue	\$ 30,857	\$ 9,195	\$ 15,160	\$ 10,353	\$ 5,502	\$ 10,211	\$ 5,501
Property operating expenses	9,131	3,231	6,338	3,757	1,691	3,932	1,374
Property NOI	\$ 21,726	\$ 5,964	\$ 8,822	\$ 6,596	\$ 3,811	\$ 6,279	\$ 4,127
<i>Share of Property NOI</i>	37.9 %	10.4 %	15.4 %	11.5 %	6.6 %	11.0 %	7.2 %

### Six month period ended June 30, 2013

	Canada					U.S.	
	AB	BC	MB	ON	SK	MN	Other
Revenue	\$ 79,364	\$ 20,722	\$ 31,719	\$ 30,822	\$ 12,782	\$ 30,226	\$ 13,820
Property operating expenses	24,091	7,087	13,432	11,269	3,705	12,728	3,949
Property NOI	\$ 55,273	\$ 13,635	\$ 18,287	\$ 19,553	\$ 9,077	\$ 17,498	\$ 9,871
<i>Share of Property NOI</i>	38.6 %	9.5 %	12.8 %	13.7 %	6.3 %	12.2 %	6.9 %

### Six month period ended June 30, 2012

	Canada					U.S.	
	AB	BC	MB	ON	SK	MN	Other
Revenue	\$ 60,221	\$ 17,933	\$ 30,022	\$ 20,997	\$ 10,823	\$ 20,486	\$ 8,385
Property operating expenses	18,505	6,386	12,867	7,714	3,315	7,874	2,083
Property NOI	\$ 41,716	\$ 11,547	\$ 17,155	\$ 13,283	\$ 7,508	\$ 12,612	\$ 6,302
<i>Share of Property NOI</i>	37.8 %	10.5 %	15.6 %	12.1 %	6.8 %	11.5 %	5.7 %

# ARTIS REAL ESTATE INVESTMENT TRUST

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## PORTFOLIO OCCUPANCY

Occupancy levels impact the REIT's revenues and Property NOI. Occupancy and commitments at June 30, 2013 (excluding properties currently in redevelopment, under construction, or since sold), and the previous four periods, are as follows:

### Occupancy report by asset class

	<b>Q2-13 % Committed <sup>(1)</sup></b>	<b>Q2-13</b>	<b>Q1-13</b>	<b>Q4-12</b>	<b>Q3-12</b>	<b>Q2-12</b>
Retail	96.8 %	95.7 %	96.3 %	96.4 %	97.1 %	96.7 %
Office	95.3 %	92.5 %	95.2 %	95.2 %	95.0 %	94.5 %
Industrial	97.4 %	96.9 %	96.0 %	95.5 %	94.7 %	93.4 %
Total portfolio	96.6 %	95.1 %	95.8 %	95.6 %	95.3 %	94.6 %

### Occupancy report by geographical region

	<b>Q2-13 % Committed <sup>(1)</sup></b>	<b>Q2-13</b>	<b>Q1-13</b>	<b>Q4-12</b>	<b>Q3-12</b>	<b>Q2-12</b>
Canada:						
Alberta	97.5 %	94.4 %	95.9 %	96.9 %	97.0 %	96.1 %
British Columbia	95.4 %	95.4 %	96.4 %	95.3 %	94.7 %	93.7 %
Manitoba	96.9 %	95.9 %	96.4 %	96.6 %	93.5 %	94.5 %
Ontario	97.5 %	95.7 %	96.7 %	96.4 %	96.6 %	96.1 %
Saskatchewan	99.0 %	98.5 %	98.8 %	99.0 %	98.2 %	98.3 %
U.S.:						
Minnesota	94.4 %	94.1 %	93.6 %	92.3 %	92.4 %	89.8 %
U.S. - Other	96.9 %	95.8 %	97.1 %	97.0 %	96.8 %	96.6 %
Total portfolio	96.6 %	95.1 %	95.8 %	95.6 %	95.3 %	94.6 %

<sup>(1)</sup> Percentage committed is based on occupancy plus commitments on vacant space as at June 30, 2013.

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## PORTFOLIO LEASING ACTIVITY AND LEASE EXPIRIES

### Renewal summary

	Three month period ended June 30,		Six month period ended June 30,	
	2013	2012	2013	2012
Leasable area renewed	598,165	247,412	1,331,588	898,102
% Increase in rent rate	10.0 %	3.5 %	8.6 %	0.6 %

The percentage change on renewal activity is calculated by comparing the rental rate in place at the end of the expiring term to the rental rate in place at the commencement of the new term. In many cases, leases are negotiated or renewed such that there are contractual rent escalations over the course of the new lease term. In these cases, the average rent over the new term will be higher than the rate at commencement, which is not reflected in the above table results.

### Lease expiries by asset class (in S.F.) <sup>(1)</sup>

	Current Vacancy	Monthly Tenants <sup>(2)</sup>	2013	2014	2015	2016	2017 & later	Total
Office - uncommitted	392,916	68,299	209,611	602,808	726,198	625,005	4,786,489	7,411,326
Office - committed	226,913	-	604,713	34,095	27,807	-	-	893,528
<b>Total office</b>	<b>619,829</b>	<b>68,299</b>	<b>814,324</b>	<b>636,903</b>	<b>754,005</b>	<b>625,005</b>	<b>4,786,489</b>	<b>8,304,854</b>
Retail - uncommitted	146,566	45,733	52,255	323,871	423,185	522,740	2,603,712	4,118,062
Retail - committed	50,728	-	157,736	100,962	2,013	5,321	103,635	420,395
<b>Total retail</b>	<b>197,294</b>	<b>45,733</b>	<b>209,991</b>	<b>424,833</b>	<b>425,198</b>	<b>528,061</b>	<b>2,707,347</b>	<b>4,538,457</b>
Industrial - uncommitted	628,023	61,946	385,894	1,465,905	1,625,637	1,901,741	4,700,537	10,769,683
Industrial - committed	87,752	-	437,543	86,681	185,776	-	-	797,752
<b>Total industrial</b>	<b>715,775</b>	<b>61,946</b>	<b>823,437</b>	<b>1,552,586</b>	<b>1,811,413</b>	<b>1,901,741</b>	<b>4,700,537</b>	<b>11,567,435</b>
<b>Total - uncommitted</b>	<b>1,167,505</b>	<b>175,978</b>	<b>647,760</b>	<b>2,392,584</b>	<b>2,775,020</b>	<b>3,049,486</b>	<b>12,090,738</b>	<b>22,299,071</b>
<b>Total - committed</b>	<b>365,393</b>	<b>-</b>	<b>1,199,992</b>	<b>221,738</b>	<b>215,596</b>	<b>5,321</b>	<b>103,635</b>	<b>2,111,675</b>
<b>Total</b>	<b>1,532,898</b>	<b>175,978</b>	<b>1,847,752</b>	<b>2,614,322</b>	<b>2,990,616</b>	<b>3,054,807</b>	<b>12,194,373</b>	<b>24,410,746</b>

<sup>(1)</sup> Based on owned share of total leasable area, excluding Mid-City North, which was sold on July 15, 2013.

<sup>(2)</sup> Includes holdovers and renewals where term has not been negotiated.

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## In-place rents:

In-place rents reflect the actual rental rate in effect for the leasable area as at June 30, 2013. In-place rents do not reflect either the average rate over the term of the lease or the rate in place in the year of expiry.

## Market rents:

Artis reviews market rents across the portfolio on an on-going basis. Market rent estimates are based on management's best estimate for each leasable space and may take into consideration the property manager's revenue budget, recent leasing activity, current prospects, future commitments or publicly available market information. Rates applied in future expiry years do not allow for the impact of inflation, nor do they attempt to factor in anticipated higher (or lower) than normal periods of demand or market rent inflation due to specific market conditions.

## Market rents by asset class <sup>(1)</sup>

	2013	2014	2015	2016	2017 & later	Total
<b>Office</b>						
In-place rents	\$ 20.52	\$ 18.79	\$ 16.65	\$ 19.17	\$ 18.13	\$ 18.38
Market rents	20.84	20.71	19.31	21.29	19.76	20.04
Change	1.6 %	10.2 %	16.0 %	11.1 %	9.0 %	9.0 %
Revenue impact <sup>(2)</sup>	\$ 262	\$ 1,223	\$ 2,008	\$ 1,325	\$ 7,826	\$ 12,644
<b>Retail</b>						
In-place rents	\$ 20.53	\$ 18.25	\$ 14.90	\$ 20.03	\$ 17.62	\$ 17.85
Market rents	22.49	20.26	16.25	22.41	18.53	19.15
Change	9.5 %	11.0 %	9.0 %	11.9 %	5.2 %	7.3 %
Revenue impact <sup>(2)</sup>	\$ 411	\$ 852	\$ 570	\$ 1,257	\$ 2,488	\$ 5,578
<b>Industrial</b>						
In-place rents	\$ 5.58	\$ 6.72	\$ 5.77	\$ 7.04	\$ 6.96	\$ 6.63
Market rents	6.06	6.93	5.95	7.81	7.24	6.99
Change	8.7 %	3.1 %	3.1 %	10.8 %	4.0 %	5.3 %
Revenue impact <sup>(2)</sup>	\$ 399	\$ 326	\$ 321	\$ 1,453	\$ 1,302	\$ 3,801
<b>Total portfolio</b>						
In-place rents	\$ 13.86	\$ 11.53	\$ 9.81	\$ 11.77	\$ 13.71	\$ 12.70
Market rents	14.44	12.45	10.78	13.09	14.66	13.67
Change	4.2 %	8.0 %	9.9 %	11.2 %	6.9 %	7.6 %
Revenue impact <sup>(2)</sup>	\$ 1,072	\$ 2,401	\$ 2,899	\$ 4,035	\$ 11,616	\$ 22,023

<sup>(1)</sup> Based on owned share of total leasable area, excluding Mid-City North, which was sold on July 15, 2013.

<sup>(2)</sup> This impact is based on the difference between the in-place rents and the market rents for the period. This excludes the impact of any straight-line rent adjustments on revenues.

Market rents at June 30, 2013 are estimated to be 7.6% above in-place rents across the portfolio, compared to 8.9% at March 31, 2013. Today's market rents for the 2013 and 2014 lease expiries are estimated to be 4.2% and 8.0% respectively, above in-place rents. The office portfolio is still expected to be the strongest contributor to incremental rental revenue over the long term.



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## Lease expiries by geographical region (in S.F.) <sup>(1)</sup>

	Current Vacancy	Monthly Tenants <sup>(2)</sup>	2013	2014	2015	2016	2017 & later	Total
AB - uncommitted	161,684	40,277	195,176	618,691	553,547	922,756	3,317,111	5,809,242
AB - committed	200,648	-	393,776	37,298	27,807	5,321	-	664,850
<b>Total Alberta</b>	<b>362,332</b>	<b>40,277</b>	<b>588,952</b>	<b>655,989</b>	<b>581,354</b>	<b>928,077</b>	<b>3,317,111</b>	<b>6,474,092</b>
BC - uncommitted	150,819	14,454	50,659	163,023	207,158	108,095	830,599	1,524,807
BC - committed	-	-	164,473	51,373	-	-	100,046	315,892
<b>Total British Columbia</b>	<b>150,819</b>	<b>14,454</b>	<b>215,132</b>	<b>214,396</b>	<b>207,158</b>	<b>108,095</b>	<b>930,645</b>	<b>1,840,699</b>
MB - uncommitted	376,710	33,105	110,797	412,741	555,967	435,280	1,537,254	3,461,854
MB - committed	59,030	-	135,397	104,038	2,013	-	1,068	301,546
<b>Total Manitoba</b>	<b>435,740</b>	<b>33,105</b>	<b>246,194</b>	<b>516,779</b>	<b>557,980</b>	<b>435,280</b>	<b>1,538,322</b>	<b>3,763,400</b>
ON - uncommitted	98,721	17,686	81,725	424,026	454,727	642,280	1,990,913	3,710,078
ON - committed	69,926	-	119,724	-	-	-	-	189,650
<b>Total Ontario</b>	<b>168,647</b>	<b>17,686</b>	<b>201,449</b>	<b>424,026</b>	<b>454,727</b>	<b>642,280</b>	<b>1,990,913</b>	<b>3,899,728</b>
SK - uncommitted	13,715	14,780	13,659	56,768	67,767	74,208	778,850	1,019,747
SK - committed	6,411	-	136,778	29,029	105,600	-	2,521	280,339
<b>Total Saskatchewan</b>	<b>20,126</b>	<b>14,780</b>	<b>150,437</b>	<b>85,797</b>	<b>173,367</b>	<b>74,208</b>	<b>781,371</b>	<b>1,300,086</b>
MN - uncommitted	323,344	50,368	179,178	678,318	874,060	848,305	2,460,623	5,414,196
MN - committed	14,309	-	249,844	-	80,176	-	-	344,329
<b>Total Minnesota</b>	<b>337,653</b>	<b>50,368</b>	<b>429,022</b>	<b>678,318</b>	<b>954,236</b>	<b>848,305</b>	<b>2,460,623</b>	<b>5,758,525</b>
U.S. - Other - uncommitted	42,512	5,308	16,566	39,017	61,794	18,562	1,175,388	1,359,147
U.S. - Other - committed	15,069	-	-	-	-	-	-	15,069
<b>Total U.S. - Other</b>	<b>57,581</b>	<b>5,308</b>	<b>16,566</b>	<b>39,017</b>	<b>61,794</b>	<b>18,562</b>	<b>1,175,388</b>	<b>1,374,216</b>
<b>Total - uncommitted</b>	<b>1,167,505</b>	<b>175,978</b>	<b>647,760</b>	<b>2,392,584</b>	<b>2,775,020</b>	<b>3,049,486</b>	<b>12,090,738</b>	<b>22,299,071</b>
<b>Total - committed</b>	<b>365,393</b>	<b>-</b>	<b>1,199,992</b>	<b>221,738</b>	<b>215,596</b>	<b>5,321</b>	<b>103,635</b>	<b>2,111,675</b>
<b>Total</b>	<b>1,532,898</b>	<b>175,978</b>	<b>1,847,752</b>	<b>2,614,322</b>	<b>2,990,616</b>	<b>3,054,807</b>	<b>12,194,373</b>	<b>24,410,746</b>

<sup>(1)</sup> Based on owned share of total leasable area, excluding Mid-City North, which was sold on July 15, 2013.

<sup>(2)</sup> Includes holdovers and renewals where term has not been negotiated.

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## Market rents by geographical region <sup>(1)</sup>

	2013	2014	2015	2016	2017 & later	Total
<b>Alberta</b>						
In-place rents	\$ 21.61	\$ 15.25	\$ 13.34	\$ 17.88	\$ 17.82	\$ 17.49
Market rents	21.06	17.32	16.14	19.85	19.68	19.24
Change	(2.5)%	13.5 %	21.0 %	11.0 %	10.4 %	10.0 %
Revenue impact <sup>(2)</sup>	\$ (324)	\$ 1,354	\$ 1,627	\$ 1,829	\$ 6,156	\$ 10,642
<b>British Columbia</b>						
In-place rents	\$ 17.88	\$ 20.20	\$ 17.62	\$ 21.11	\$ 12.98	\$ 15.63
Market rents	18.80	20.56	17.72	21.83	13.40	16.09
Change	5.1 %	1.8 %	0.6 %	3.5 %	3.2 %	2.9 %
Revenue impact <sup>(2)</sup>	\$ 197	\$ 78	\$ 20	\$ 79	\$ 389	\$ 763
<b>Manitoba</b>						
In-place rents	\$ 9.55	\$ 10.67	\$ 10.16	\$ 12.52	\$ 12.93	\$ 11.80
Market rents	11.11	11.68	11.28	14.70	13.53	12.83
Change	16.3 %	9.6 %	11.0 %	17.4 %	4.7 %	8.8 %
Revenue impact <sup>(2)</sup>	\$ 384	\$ 527	\$ 624	\$ 951	\$ 933	\$ 3,419
<b>Ontario</b>						
In-place rents	\$ 8.38	\$ 9.60	\$ 8.02	\$ 7.65	\$ 10.03	\$ 9.23
Market rents	10.36	9.94	8.37	9.28	10.56	9.99
Change	23.7 %	3.6 %	4.4 %	21.2 %	5.3 %	8.2 %
Revenue impact <sup>(2)</sup>	\$ 399	\$ 147	\$ 160	\$ 1,043	\$ 1,059	\$ 2,808
<b>Saskatchewan</b>						
In-place rents	\$ 18.31	\$ 17.60	\$ 11.16	\$ 20.22	\$ 13.05	\$ 14.15
Market rents	20.92	19.25	11.84	21.20	13.87	15.22
Change	14.2 %	9.4 %	6.1 %	4.8 %	6.3 %	7.6 %
Revenue impact <sup>(2)</sup>	\$ 392	\$ 142	\$ 117	\$ 73	\$ 639	\$ 1,363
<b>Minnesota</b>						
In-place rents	\$ 4.21	\$ 5.63	\$ 5.52	\$ 5.62	\$ 8.49	\$ 6.81
Market rents	4.43	5.75	5.58	5.65	9.09	7.13
Change	5.4 %	2.2 %	1.0 %	0.4 %	7.0 %	4.7 %
Revenue impact <sup>(2)</sup>	\$ 97	\$ 83	\$ 52	\$ 20	\$ 1,462	\$ 1,714
<b>U.S. - Other</b>						
In-place rents	\$ 26.82	\$ 23.40	\$ 22.80	\$ 23.83	\$ 21.29	\$ 21.53
Market rents	22.39	25.20	27.63	26.00	22.13	22.54
Change	(16.5)%	7.7 %	21.2 %	9.1 %	3.9 %	4.7 %
Revenue impact <sup>(2)</sup>	\$ (73)	\$ 70	\$ 299	\$ 40	\$ 978	\$ 1,314
<b>Total portfolio</b>						
In-place rents	\$ 13.86	\$ 11.53	\$ 9.81	\$ 11.77	\$ 13.71	\$ 12.70
Market rents	14.44	12.45	10.78	13.09	14.66	13.67
Change	4.2 %	8.0 %	9.9 %	11.2 %	6.9 %	7.6 %
Revenue impact <sup>(2)</sup>	\$ 1,072	\$ 2,401	\$ 2,899	\$ 4,035	\$ 11,616	\$ 22,023

<sup>(1)</sup> Based on owned share of total leasable area, excluding Mid-City North, which was sold on July 15, 2013.

<sup>(2)</sup> This impact is based on the difference between the in-place rents and the market rents for the period. This excludes the impact of any straight-line rent adjustments on revenues.

Artis' real estate is diversified across five Canadian provinces and five U.S. states, and across the office, retail and industrial asset classes. At June 30, 2013, the three largest segments of the REIT's portfolio (by GLA) are the Twin Cities Metropolitan Area industrial properties, Calgary office properties and GTA industrial properties.

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The Twin Cities Metropolitan Area industrial properties represent 18.9% of the overall portfolio by GLA. Direct vacancy in this industrial market, as reported by CBRE, was 5.8% at June 30, 2013, unchanged from March 31, 2013, with 634,613 square feet of positive absorption reported for the quarter. As per CBRE, this was the twelfth consecutive quarter of positive absorption for this market. Average asking market lease rates decreased to \$4.57 per square foot, down from \$4.72 per square foot at March 31, 2013. Occupancy in this segment of the portfolio was 95.4% at June 30, 2013 compared to 94.0% at March 31, 2013. Artis has commitments in place for 6.7% of the unoccupied space. In 2013, 424,280 square feet comes up for renewal, which represents 1.7% of the portfolio's GLA; commitments are in place for 58.1% of the expiring space.

Calgary office properties represent 10.3% 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 Avison Young, was 6.2% at June 30, 2013, an increase from 5.7% at March 31, 2013. At June 30, 2013, the Calgary office segment of Artis' portfolio was 90.8% occupied, compared to 95.5% occupancy at March 31, 2013; however, Artis has commitments in place for 61.6% of the unoccupied space. In 2013, 404,343 square feet comes up for renewal, which represents 1.7% of the portfolio's GLA; 76.5% has been renewed or committed to new leases. Approximately 48.4% of the Calgary office GLA expires in 2017 or later.

## Lease expiries for Calgary office segment (in S.F.)<sup>(1)</sup>

	Current Vacancy	Monthly Tenants <sup>(2)</sup>	2013	2014	2015	2016	2017 & later	Total
Calgary - uncommitted	88,980	7,449	94,866	198,147	162,789	249,265	1,218,449	2,019,945
Calgary - committed	142,878	-	309,477	17,345	27,807	-	-	497,507
<b>Total Calgary office</b>	<b>231,858</b>	<b>7,449</b>	<b>404,343</b>	<b>215,492</b>	<b>190,596</b>	<b>249,265</b>	<b>1,218,449</b>	<b>2,517,452</b>
Other - uncommitted	303,936	60,850	114,745	404,661	563,409	375,740	3,568,040	5,391,381
Other - committed	84,035	-	295,236	16,750	-	-	-	396,021
<b>Total other office</b>	<b>387,971</b>	<b>60,850</b>	<b>409,981</b>	<b>421,411</b>	<b>563,409</b>	<b>375,740</b>	<b>3,568,040</b>	<b>5,787,402</b>

<sup>(1)</sup> Based on owned share of total leasable area.

<sup>(2)</sup> Includes holdovers and renewals where term has not been negotiated.

The market rents reported in the below table are reflective of management's estimates for today's market rent rates and they do not allow for the impact of inflation, nor do they attempt to factor in anticipated higher (or lower) than normal periods of demand or market rent inflation due to specific market conditions.

## Market rents for Calgary office segment<sup>(1)</sup>

	2013	2014	2015	2016	2017 & later	Total
<b>Calgary office</b>						
In-place rents	\$ 25.35	\$ 19.03	\$ 15.66	\$ 23.75	\$ 20.54	\$ 21.20
Market rents	24.17	23.12	22.17	24.31	24.01	23.83
Change	(4.7)%	21.5 %	41.6 %	2.3 %	16.9 %	12.4 %
Revenue impact <sup>(2)</sup>	\$ (480)	\$ 882	\$ 1,240	\$ 139	\$ 4,223	\$ 6,004
<b>Other office</b>						
In-place rents	\$ 15.76	\$ 18.66	\$ 16.98	\$ 16.13	\$ 17.30	\$ 17.18
Market rents	17.57	19.47	18.35	19.29	18.31	18.42
Change	11.5 %	4.3 %	8.0 %	19.6 %	5.8 %	7.2 %
Revenue impact <sup>(2)</sup>	\$ 742	\$ 341	\$ 768	\$ 1,186	\$ 3,603	\$ 6,640

<sup>(1)</sup> Based on owned share of total leasable area.

<sup>(2)</sup> This impact is based on the difference between the in-place rents and the market rents for the period. This excludes the impact of any straight-line rent adjustments on revenues.

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GTA industrial properties represent 10.3% of Artis' portfolio by GLA. According to a market report by Colliers International, availability in the GTA industrial market, was 4.1% at June 30, 2013, an increase from 3.9% at March 31, 2013. The average net rental rate in this market increased to \$4.88 per square foot, from \$4.86 per square foot last quarter. Occupancy in this segment of the portfolio was 98.3% at June 30, 2013, compared to 98.4% at March 31, 2013. Artis has commitments in place for 41.3% of the unoccupied space. In 2013, 158,401 square feet comes up for renewal, which represents 0.6% of the portfolio's GLA; 60.2% has been renewed or committed to new leases.

## CORPORATE EXPENSES

	Three month period ended June 30,		Six month period ended June 30,	
	2013	2012	2013	2012
Accounting, legal and consulting	\$ 440	\$ 442	\$ 725	\$ 847
Public company costs	289	304	661	609
Unit-based compensation	440	931	883	2,443
Salaries and benefits	537	589	1,049	1,243
Amortization	140	88	228	176
General and administrative	508	703	1,141	1,187
Total corporate expenses	\$ 2,354	\$ 3,057	\$ 4,687	\$ 6,505

Corporate expenses in Q2-13 were \$2,354 (YTD - \$4,687), or 2.1% (YTD - 2.1%) of gross revenues compared to \$3,057 (YTD - \$6,505), or 3.5% (YTD - 3.8%) of gross revenues in Q2-12.

The unit-based compensation expense recorded in Q2-13 was \$440 (YTD - \$883) compared to \$931 (YTD - \$2,443) in Q2-12. On August 2, 2012, due to the amendment to the REIT's Declaration of Trust, the REIT's cash-settled unit-based payments for its unit options became equity-settled and the cash-settled unit-based compensation liability was reclassified to equity. The fair value of unvested options as at August 2, 2012 will be recognized as an expense over their remaining vesting period. Prior to August 2, 2012, a liability for unit-based compensation was recognized and recorded at fair value at each reporting date and settlement date. Any fair value change of the liability was recognized as an expense for the period.

## INTEREST EXPENSE

The current period's interest expense is attributable to mortgages and other loans secured against the investment properties, as well as convertible debentures outstanding. Interest expense of \$25,308 (YTD - \$49,949) in Q2-13 has increased \$2,204 (YTD - \$5,140) over Q2-12, primarily due to additional mortgage financing obtained in connection with acquisitions completed in 2012 and 2013. Financing costs on mortgages and other loans are netted against the related debt, and amortized on an effective interest basis over the expected life of the debt.

The REIT's weighted-average effective rate at June 30, 2013 on mortgages and other loans secured by properties was 4.30%, compared to 4.42% at December 31, 2012. The weighted-average nominal interest rate at June 30, 2013 was 4.12% compared to 4.23% at December 31, 2012.

Artis recorded interest expense on debentures outstanding in Q2-13 of \$2,608 (YTD - \$5,171), compared to \$2,876 (YTD - \$6,160) in Q2-12.

The REIT's interest coverage ratio, defined as total revenues less property operating expenses and corporate expenses divided by interest expense, is 2.77 times for the three month period ended June 30, 2013 (YTD - 2.80 times).

## INCOME FROM INVESTMENTS IN JOINT VENTURES

Artis recorded income from investments in joint ventures of \$1,106 in Q2-13 (YTD - \$1,106), compared to \$nil (YTD - \$nil) in Q2-12. The increase over the prior year is due to the acquisition of 1700 Broadway. This income includes revenue earned from the REIT's joint ventures, net of property operating expenses, interest expense and the fair value gain on the investment properties.

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## FAIR VALUE GAIN ON INVESTMENT PROPERTIES

The changes in fair value of investment properties, period-over-period, are recognized as fair value gains and losses in the statement of operations. Fair values of the investment properties are determined through either the discounted cash flow method or the overall capitalization method which are generally accepted appraisal methodologies. External valuations are performed quarterly on a rotational basis over a four year cycle. In Q2-13, the fair value gain on investment properties is \$29,035 (YTD - \$63,859) compared to \$51,990 (YTD - \$108,861) in Q2-12. Fair value changes in individual properties result from changes in the projected income and cash flow projections of those properties, as well as from changes in capitalization rates and discount rates applied. The size and mix of the Q2-13 portfolio is significantly different than the size and mix of the portfolio in Q2-12. Capitalization rate compression and increases to expected market rents in certain portfolio segments have occurred during Q2-13 and have contributed to the fair value gain.

## FOREIGN CURRENCY TRANSLATION LOSS

In Q2-13, the REIT held cash, deposits and the Series G debentures in US dollars. These assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. This resulted in a foreign currency translation loss of \$4,622 (YTD - \$6,007) in Q2-13, compared to a loss of \$2,777 (YTD - \$2,123) in Q2-12.

## TRANSACTION COSTS

During Q2-13, \$3,589 (YTD - \$5,072) of transaction costs were expensed, compared to \$1,698 (YTD - \$3,013) in Q2-12. The transaction costs are primarily attributable to the acquisition of investment properties and joint ventures.

## GAIN (LOSS) ON FINANCIAL INSTRUMENTS

The REIT holds a number of interest rate swaps to effectively lock the interest rate on a portion of floating rate debt. The REIT recorded an unrealized gain on the fair value adjustment of the interest rate swaps outstanding of \$5,414 (YTD - gain of \$5,910) in Q2-13, compared to an unrealized loss of \$1,931 (YTD - loss of \$323) in Q2-12. The REIT anticipates holding the mortgages and interest rate swap contracts until maturity.

In Q2-13, the REIT entered into a swap contract to exchange US\$25,000 into Canadian funds and recorded an unrealized loss on its foreign exchange swap contracts of \$743.

## OTHER COMPREHENSIVE INCOME

Other comprehensive income includes the unrealized foreign currency translation gain in Q2-13 of \$14,783 (YTD - \$21,052) compared to \$5,270 (YTD - \$2,170) in Q2-12. Foreign currency translation gains and losses relate to the REIT's net investment in foreign operations in the U.S.

## INCOME TAX

The REIT currently qualifies as a mutual fund trust and a real estate investment trust ("REIT") for Canadian income tax purposes. Under current tax legislation, income distributed annually by the REIT to unitholders is a deduction in the calculation of its taxable income. As the REIT intends to distribute all of its taxable income to its unitholders, the REIT does not record a provision for current Canadian income taxes.

The Income Tax Act (Canada) contains legislations affecting the tax treatment of a specified investment flow-through ("SIFT") trust or partnership (the "SIFT Rules"). A SIFT includes a publicly-listed or traded partnership or trust, such as an income trust.

Under the SIFT Rules, certain distributions from a SIFT are not deductible in computing a SIFT's taxable income, and a SIFT is 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 tax.

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The SIFT Rules do not apply to a REIT that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the 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 SIFT Rules, the REIT believes that it has met the REIT Conditions throughout the three and six month periods ended June 30, 2013 and the year ended December 31, 2012. As a result, the REIT does not recognize any deferred income tax assets or liabilities for income tax purposes.

The REIT's U.S. subsidiary is a REIT for U.S. income tax purposes. The subsidiary intends to distribute all of its U.S. taxable income to Canada and is entitled to deduct such distributions for U.S. income tax purposes. As a result, the REIT does not record a provision for current U.S. income taxes. The U.S. subsidiary is subject to a 30% to 35% withholding tax on distributions to Canada. Any withholding taxes paid are recorded with the related distributions.

## 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 DRIP.

	<b>Three month period ended June 30, 2013</b>	<b>Six month period ended June 30, 2013</b>	<b>Year ended December 31, 2012</b>	<b>Year ended December 31, 2011</b>
Cash flow from operations	\$ 40,505	\$ 84,294	\$ 135,920	\$ 76,494
Net income	\$ 71,302	\$ 148,879	\$ 340,339	\$ 321,289
Distributions declared	\$ 36,402	\$ 69,739	\$ 117,948	\$ 87,183
Excess (shortfall) of cash flow from operations over distributions declared	\$ 4,103	\$ 14,555	\$ 17,972	\$ (10,689)
Excess of net income over distributions declared	\$ 34,900	\$ 79,140	\$ 222,391	\$ 234,106

For the three months ended June 30, 2013, cash flow from operations exceeded distributions declared by \$4,103 (YTD - \$14,555) and net income exceeded distributions declared by \$34,900 (YTD - \$79,140).

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## 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 for the period.

### Reconciliation of cash flows from operations to FFO

000's, except per unit amounts	Three month period ended June 30,		Six month period ended June 30,	
	2013	2012	2013	2012
Cash flow from operations	\$ 40,505	\$ 27,147	\$ 84,294	\$ 57,591
Add (deduct):				
Depreciation of property and equipment	(140)	(88)	(228)	(176)
Amortization of above- and below-market mortgages, net	443	314	884	603
Straight-line rent adjustment	1,326	1,550	2,766	2,824
Adjustment for investments in joint ventures	421	-	421	-
Realized foreign currency translation loss	1,648	1,134	1,263	1,301
Unrealized foreign currency loss from U.S. operations	(3,691)	(1,487)	(3,647)	(1,473)
Unit-based compensation expense	(440)	(931)	(883)	(2,443)
Accretion on liability component of convertible debentures	80	-	158	-
Accretion of financing costs included in interest	(797)	(616)	(1,606)	(1,235)
Defined benefit expense	-	(215)	-	(431)
Transaction costs on acquisitions	3,589	1,698	5,072	2,671
Additions to tenant inducements	3,241	2,646	7,157	4,188
Changes in non-cash operating items	1,096	2,177	(1,334)	(543)
Preferred unit distributions	(3,354)	-	(5,613)	-
<b>FFO for the period</b>	<b>\$ 43,927</b>	<b>\$ 33,329</b>	<b>\$ 88,704</b>	<b>\$ 62,877</b>
Add:				
Transaction costs <sup>(1)</sup>	-	-	-	342
<b>FFO for the period after adjustments</b>	<b>\$ 43,927</b>	<b>\$ 33,329</b>	<b>\$ 88,704</b>	<b>\$ 63,219</b>
FFO per unit				
Basic	\$ 0.36	\$ 0.32	\$ 0.75	\$ 0.63
Diluted	\$ 0.35	\$ 0.31	\$ 0.73	\$ 0.62
FFO per unit after adjustments				
Basic	\$ 0.36	\$ 0.32	\$ 0.75	\$ 0.63
Diluted	\$ 0.35	\$ 0.31	\$ 0.73	\$ 0.62
Weighted-average number of common units outstanding:				
Basic <sup>(2)</sup>	121,467	105,468	118,277	99,563
Diluted <sup>(2)</sup>	132,338	116,631	129,144	110,726

<sup>(1)</sup> Transaction costs added back are one time professional fees related to internalization and corporate matters.

<sup>(2)</sup> Options and convertible debentures are factored into the diluted weighted-average calculation used for FFO, to the extent that their impact is dilutive.

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The following is a reconciliation of the weighted-average number of basic common units to diluted common units and FFO to diluted FFO:

## Diluted common units reconciliation

	Three month period ended June 30,	
	2013	2012
Basic units	121,467	105,468
Add:		
Options <sup>(1)</sup>	276	-
Debentures <sup>(1)</sup>	10,595	11,163
<b>Diluted units</b>	<b>132,338</b>	<b>116,631</b>

## Diluted FFO reconciliation

	Three month period ended June 30,	
	2013	2012
FFO	\$ 43,927	\$ 33,329
Add:		
Options <sup>(1)</sup>	-	-
Debentures <sup>(1)</sup>	2,586	2,776
<b>Diluted FFO</b>	<b>\$ 46,513</b>	<b>\$ 36,105</b>

<sup>(1)</sup> All debenture series and options are dilutive in Q2-13. All debenture series are dilutive in Q2-12.

## Diluted common units reconciliation

	Six month period ended June 30,	
	2013	2012
Basic units	118,277	99,563
Add:		
Options <sup>(1)</sup>	272	-
Debentures <sup>(1)</sup>	10,595	11,163
<b>Diluted units</b>	<b>129,144</b>	<b>110,726</b>

## Diluted FFO reconciliation

	Six month period ended June 30,	
	2013	2012
FFO	\$ 88,704	\$ 62,877
Add:		
Options <sup>(1)</sup>	-	-
Debentures <sup>(1)</sup>	5,127	5,541
<b>Diluted FFO</b>	<b>\$ 93,831</b>	<b>\$ 68,418</b>

<sup>(1)</sup> All debenture series and options are dilutive in 2013. All debenture series are dilutive in 2012.



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## Reconciliation of GAAP income to FFO

	Three month period ended June 30,		Six month period ended June 30,	
	2013	2012	2013	2012
Income for the period	\$ 71,302	\$ 78,320	\$ 148,879	\$ 154,076
Add amortization on:				
Tenant inducements amortized to revenue	2,159	1,425	4,170	2,750
Add (deduct):				
Fair value gain on investment properties	(29,035)	(51,990)	(63,859)	(108,861)
Foreign currency translation loss	4,622	2,777	6,007	2,123
Transaction costs on acquisitions	3,589	1,698	5,072	2,671
Adjustment for investments in joint ventures	(685)	-	(685)	-
Unrealized (gain) loss on financial instruments	(4,671)	1,099	(5,267)	10,118
Preferred unit distributions	(3,354)	-	(5,613)	-
<b>FFO for the period</b>	<b>\$ 43,927</b>	<b>\$ 33,329</b>	<b>\$ 88,704</b>	<b>\$ 62,877</b>
Add:				
Transaction costs <sup>(1)</sup>	-	-	-	342
<b>FFO for the period after adjustments</b>	<b>\$ 43,927</b>	<b>\$ 33,329</b>	<b>\$ 88,704</b>	<b>\$ 63,219</b>

<sup>(1)</sup> Transaction costs added back are one time professional fees related to internalization and corporate matters.

In Q2-13, FFO has increased \$10,598 (YTD - \$25,827) or 31.8% (YTD - 41.1%) over Q2-12. This increase is primarily attributed to acquisitions completed in 2012 and 2013. Also contributing to the increase in FFO is lease termination income received from tenants during the first two quarters of 2013. Basic FFO per unit has increased by \$0.04 (YTD - \$0.12) or 12.5% (YTD - 19.0%) over Q2-12. On a diluted basis, FFO per unit has increased \$0.04 (YTD - \$0.11) or 12.9% (YTD - 17.7%) over Q2-12.

In Q2-13, adjusted FFO has increased \$10,598 (YTD - \$25,485) or 31.8% (YTD - 40.3%) over Q2-12. Adjusted basic FFO per unit has increased by \$0.04 (YTD - \$0.12) or 12.5% (YTD - 19.0%). Adjusted diluted FFO per unit has increased by \$0.04 (YTD - \$0.11) or 12.9% (YTD - 17.7%).

As a result of units issued under the DRIP and units issued from public offerings, 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.

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## ADJUSTED FUNDS FROM OPERATIONS ("AFFO")

Artis calculates AFFO based on FFO for the period, net of allowances for normalized capital expenditures and leasing costs and excluding straight-line rent adjustments and unit-based compensation expense.

Actual capital expenditures, which are neither revenue enhancing nor recoverable from tenants in future periods, are by nature variable and unpredictable. The allowance applied in the calculation of AFFO reflects management's best estimate of a reasonable annual capital expenditure on a long-term basis, based on the asset class mix and age and quality of the Artis portfolio properties.

Actual leasing costs, which include tenant improvements that are not capital in nature, tenant allowances and commissions, are also variable in nature. Leasing costs will fluctuate depending on the square footage of leases rolling over, in-place rates at expiry, tenant retention and local market conditions in a given year. The allowance applied in the calculation of AFFO reflects management's estimate of normalized leasing costs over the long-term, based on the asset class mix, tenant mix and conditions in Artis' target markets.

### Reconciliation of FFO to AFFO

000's, except per unit amounts	Three month period ended June 30,		Six month period ended June 30,	
	2013	2012	2013	2012
FFO for the period after adjustments	\$ 43,927	\$ 33,329	\$ 88,704	\$ 63,219
Add (deduct):				
Capital expenditures reserve	(1,121)	(656)	(1,940)	(1,279)
Leasing costs reserve	(4,482)	(3,063)	(8,579)	(5,968)
Straight-line rent adjustments	(1,344)	(1,550)	(2,784)	(2,824)
Unit-based compensation	440	931	883	2,443
<b>AFFO for the period</b>	<b>\$ 37,420</b>	<b>\$ 28,991</b>	<b>\$ 76,284</b>	<b>\$ 55,591</b>
AFFO per unit				
Basic	\$ 0.31	\$ 0.27	\$ 0.65	\$ 0.56
Diluted	\$ 0.30	\$ 0.27	\$ 0.63	\$ 0.56

In Q2-13, AFFO has increased \$8,429 (YTD - \$20,693) or 29.1% (YTD - 37.2%) over Q2-12. AFFO per unit has increased by \$0.04 (YTD - \$0.09) or 14.8% (YTD - 16.1%). Diluted AFFO per unit has increased by \$0.03 (YTD - \$0.07) or 11.1% (YTD - 12.5%) over Q2-12.

# ARTIS REAL ESTATE INVESTMENT TRUST

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## ANALYSIS OF FINANCIAL POSITION

### ASSETS

	June 30, 2013	December 31, 2012	Increase (decrease)
Non-current assets:			
Investment properties	\$ 4,721,352	\$ 4,210,360	\$ 510,992
Investments in joint ventures	35,181	7,850	27,331
Other non-current assets	22,101	22,928	(827)
Current assets:			
Cash, cash equivalents and cash held in trust	48,637	57,313	(8,676)
Investment properties held for sale	64,355	58,963	5,392
Other current assets	23,886	22,646	1,240
	<b>\$ 4,915,512</b>	<b>\$ 4,380,060</b>	<b>\$ 535,452</b>

### Investment properties, investment properties under construction and investment properties held for sale:

The increase in investment properties, investment properties under construction and investment properties held for sale is a result of the following:

	Investment properties	Investment properties under construction	Investment properties held for sale	Total
Balance, December 31, 2012	\$ 4,206,126	\$ 4,234	\$ 58,963	\$ 4,269,323
Additions:				
Acquisitions	76,680	-	-	76,680
Capital expenditures	1,975	4,326	49	6,350
Leasing costs	1,858	-	1	1,859
Reclassification of investment properties	169	(169)	-	-
Foreign currency translation gain	15,511	9	-	15,520
Straight-line rent adjustment	1,426	-	14	1,440
Tenant inducements, net of amortization	1,908	-	(3)	1,905
Fair value gain	33,810	274	740	34,824
Balance, March 31, 2013	4,339,463	8,674	59,764	4,407,901
Additions:				
Acquisitions	305,052	-	-	305,052
Capital expenditures	3,786	8,790	-	12,576
Leasing costs	1,854	-	78	1,932
Reclassification of investment properties	(7,724)	1,495	6,229	-
Foreign currency translation gain	26,787	16	-	26,803
Straight-line rent adjustment	1,311	-	15	1,326
Tenant inducements, net of amortization	1,158	(7)	(69)	1,082
Fair value gain (loss)	30,720	(23)	(1,662)	29,035
Balance, June 30, 2013	4,702,407	18,945	64,355	4,785,707

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## Acquisitions:

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 using the acquisition method.

	Three month period ended June 30,		Six month period ended June 30,	
	2013	2012	2013	2012
Cash consideration	\$ 175,941	\$ 255,605	\$ 219,811	\$ 299,283
Contingent consideration	-	200	-	200
Long-term debt, including acquired above- and below-market mortgages, net of financing costs	129,111	222,778	161,921	289,927
<b>Total</b>	<b>\$ 305,052</b>	<b>\$ 478,583</b>	<b>\$ 381,732</b>	<b>\$ 589,410</b>

## Capital expenditures:

Investment properties include certain capital expenditures related to sustaining building improvements not related to a specific lease or tenancy. Capital expenditures in Q2-13 totaled \$12,576 (YTD - \$18,926) compared to \$3,685 (YTD - \$9,194) in Q2-12. In Q2-13, revenue enhancing capital expenditures were \$8,790 (YTD - \$13,116). The remaining \$3,786 (YTD - \$5,810) of capital expenditure primarily relate to elevator modernizations, HVAC upgrades, parkade repairs, parking lot improvements and roof replacements. Approximately \$1,725 (YTD - \$3,109) of these capital expenditures are recoverable from tenants in future periods.

## Leasing costs and tenant inducements:

In Q2-13, Artis incurred \$5,173 (YTD - \$10,948) of tenant inducements and leasing costs compared to \$4,042 (YTD - \$6,365) in Q2-12. Tenant inducements include costs incurred to improve the space that primarily benefit the tenant, as well as allowances paid to tenants. Leasing costs are primarily brokers' commissions.

	Three month period ended June 30,		Six month period ended June 30,	
	2013	2012	2013	2012
Tenant inducements	\$ 3,241	\$ 2,646	\$ 7,157	\$ 4,188
Leasing costs	1,932	1,396	3,791	2,177
<b>Total</b>	<b>\$ 5,173</b>	<b>\$ 4,042</b>	<b>\$ 10,948</b>	<b>\$ 6,365</b>

## Foreign currency translation gain:

In Q2-13, the foreign currency translation gain on investment properties was \$26,803 (YTD - \$42,323) due to the change in the period end US dollar to Canadian dollar exchange rate from 1.0156 at March 31, 2013 to 1.0512 at June 30, 2013.

## Fair value gain on investment properties:

In Q2-13, the REIT recorded a gain on the fair value of investment properties of \$29,035 (YTD - \$63,859), compared to a gain of \$51,990 (YTD - \$108,861) in Q2-12. From December 31, 2012 to June 30, 2013, the REIT reflected approximately 12 basis points of compression in the weighted-average capitalization rates across the portfolio. In comparison, from December 31, 2011 to June 30, 2012, the REIT reflected approximately 21 basis points of compression in the weighted-average capitalization rates across the portfolio. The fair value gain for Q2-13 is primarily attributed to capitalization rate compression in the Winnipeg office and retail segments, as well as market rent increases in the Winnipeg industrial and Saskatchewan retail segments.

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Artis determines the fair value of investment properties, including investment properties held for sale, based upon either the discounted cash flow method or the overall capitalization method, which are generally accepted appraisal methodologies. 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 deemed appropriate for each investment property. Individual properties were valued using capitalization rates in the range of 5.25% to 9.00%. Additional information on the average capitalization rates and ranges used for the portfolio properties, assuming all properties were valued using an overall capitalization method, broken out by asset class and country are set out in the table below.

	June 30, 2013			December 31, 2012		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Office:						
U.S.	8.50%	6.25%	7.07%	8.50%	6.50%	7.14%
Canada	7.75%	5.25%	6.00%	8.25%	5.25%	6.15%
Office total	8.50%	5.25%	6.18%	8.50%	5.25%	6.34%
Industrial:						
U.S.	8.00%	6.50%	7.18%	8.00%	6.50%	7.10%
Canada	7.75%	5.75%	6.45%	8.00%	5.75%	6.59%
Industrial total	8.00%	5.75%	6.67%	8.00%	5.75%	6.74%
Retail:						
U.S.	9.00%	6.00%	7.40%	9.00%	6.25%	7.37%
Canada	7.50%	5.50%	6.27%	7.25%	5.50%	6.42%
Retail total	7.50%	5.50%	6.33%	9.00%	5.50%	6.44%
Total:						
U.S. portfolio	9.00%	6.00%	7.14%	9.00%	6.25%	7.13%
Canadian portfolio	7.25%	5.25%	6.17%	8.25%	5.25%	6.32%
Total portfolio	9.00%	5.25%	6.33%	9.00%	5.25%	6.46%

## Investments in joint ventures:

At June 30, 2013, the REIT had \$35,181 invested in joint ventures, compared to \$7,850 at December 31, 2012. The increase is primarily due to the REIT acquiring a 50% interest in the 1700 Broadway joint venture in Q2-13.

## 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 installments of principal and interest. The note is transferable at the option of the REIT and matures in May 2023. The balance outstanding on all notes receivable at June 30, 2013 is \$21,332 compared to \$23,875 at December 31, 2012.

## Cash and cash equivalents:

At June 30, 2013, the REIT had \$42,667 of cash and cash equivalents on hand, compared to \$54,494 at December 31, 2012. The balance is anticipated to be invested in investment properties in subsequent periods, used for working capital purposes or for debt repayment. All of the REIT's cash and cash equivalents are held in current accounts and/or bank guaranteed investment certificates.

# ARTIS REAL ESTATE INVESTMENT TRUST

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## LIABILITIES

	June 30, 2013	December 31, 2012	Increase (decrease)
Non-current liabilities:			
Mortgages and loans payable	\$ 2,024,305	\$ 1,860,606	\$ 163,699
Convertible debentures	187,299	182,344	4,955
Other non-current liabilities	80	76	4
Current liabilities:			
Current portion of mortgages and loans payable	195,922	213,001	(17,079)
Bank indebtedness	10,000	-	10,000
Other current liabilities	76,043	74,177	1,866
	\$ 2,493,649	\$ 2,330,204	\$ 163,445

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.

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 property and equipment as disclosed in the balance sheet and notes thereto.

Artis' mortgages, loans and bank indebtedness to GBV ratio at June 30, 2013 was 45.4%, compared to 47.3% at December 31, 2012.

	June 30, 2013	December 31, 2012
GBV	\$ 4,916,446	\$ 4,380,766
Mortgages, loans and bank indebtedness	2,230,227	2,073,607
Mortgages, loans and bank indebtedness to GBV	45.4 %	47.3 %
Preferred shares liability	\$ 80	\$ 76
Carrying value of convertible debentures	187,299	182,344
Total long-term debt and bank indebtedness	2,417,606	2,256,027
Total long-term debt and bank indebtedness to GBV	49.2 %	51.5 %

Artis REIT has an internal policy of maintaining a total debt to GBV ratio of 70% or lower. The Trustees have approved a guideline stipulating that for purposes of compliance with this policy, preferred units would be added to the debt component of the calculation. At June 30, 2013, the ratio of total long-term debt, bank indebtedness and preferred units to GBV was 54.2%.

# ARTIS REAL ESTATE INVESTMENT TRUST

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## Mortgages and loans payable:

### *Mortgage financing:*

Artis finances acquisitions in part through the arrangement or assumption of mortgage financing and consequently, substantially all of the REIT's investment properties are pledged as security under mortgages and other loans. In Q2-13, \$13,097 (YTD - \$26,156) of principal repayments were made compared to \$9,438 (YTD - \$18,379) in Q2-12.

During Q2-13, long-term debt including acquired above- and below-market mortgages, net of financing costs, added on acquisition of investment properties was \$129,111 (YTD - \$161,921). In Q2-13, Artis repaid two maturing mortgages in the amount of \$14,283. Artis obtained new mortgage financing on two previously unencumbered properties and received upward financing on one mortgage, net of financing costs, for a total of \$9,383.

The weighted-average term to maturity at June 30, 2013 is 4.6 years, increasing from 4.4 years at December 31, 2012.

### *Variable rate mortgage debt:*

Management believes that a percentage of variable rate debt is prudent in managing a portfolio of debt. At various times, management feels that 5% to 20% of the portfolio could be held in variable rate instruments and provide the benefit of lower interest rates, while keeping the overall risk at a moderate level. With the exception of the line of credit, all the REIT's variable rate debt is term debt and cannot be called on demand. The REIT has the ability to refinance, or use interest rate swaps, at any given point without incurring penalties. Management believes that interest rates will remain low for some time yet before gradually starting to rise. Management anticipates gradually reducing the floating rate exposure over the next year as we begin to see upward pressure on interest rates.

At June 30, 2013, the REIT is a party to \$499,530 of variable rate mortgage debt compared to \$529,660 at December 31, 2012. The change is primarily due to \$45,212 arising from the refinancing of a mortgage on a U.S. property from a variable rate to a fixed rate, offset by the effect of foreign exchange of \$20,745 and by principal repayments during the period of \$5,663.

At June 30, 2013, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$173,331 of variable rate mortgage debt (December 31, 2012, \$173,472). The variable rate mortgage debt less the portion protected by interest rate swaps is \$326,199 or 13.5% of total debt, excluding bank indebtedness.

The amount of variable rate mortgage debt on properties in the U.S. is \$340,355, of which \$31,536 is protected by an interest rate swap. Management believes that holding variable rate mortgage debt in the U.S. is particularly appropriate as it can be repaid at any time without penalty, and therefore, the REIT has flexibility in the event it were to ever exit the U.S. market.

Subsequent to June 30, 2013, Artis entered into interest rate swaps on six U.S. mortgages. At June 30, 2013, the pro-forma variable rate mortgage debt is \$562,024, of which \$309,777 is protected by interest rate swaps. The pro-forma variable rate mortgage debt less the portion protected by interest rate swaps is \$252,247 or 10.5% of total debt, excluding bank indebtedness.

## Convertible debentures:

Artis has three series of convertible debentures outstanding, as follows:

	Issued	Maturity	Face rate	June 30, 2013		December 31, 2012	
				Carrying value	Face value	Carrying value	Face value
Series D	30-Nov-07	30-Nov-14	5.00%	6,953	7,000	6,937	7,000
Series F	22-Apr-10	30-June-20	6.00%	84,963	86,170	84,896	86,170
Series G	21-Apr-11	30-June-18	5.75%	95,383	92,506	90,511	87,551
				\$ 187,299	\$ 185,676	\$ 182,344	\$ 180,721

The carrying value of convertible debentures has increased by \$4,955 from December 31, 2012. This increase is primarily due the change in the period end US dollar to Canadian dollar exchange rate.

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## Other liabilities and bank indebtedness:

Included in other liabilities are security deposits paid by tenants, rents prepaid by tenants at June 30, 2013, accounts payable and accruals, as well as the June 30, 2013 distribution payable to unitholders of \$11,340, subsequently paid on July 15, 2013. Bank indebtedness relates to the balance drawn on the REIT's revolving term credit facility. At June 30, 2013, there is \$10,000 drawn on the REIT's revolving term credit facility. Amounts drawn on the facility 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 \$150,788 at June 30, 2013.

## UNITHOLDERS' EQUITY

Unitholders' equity increased overall by \$372,007 between December 31, 2012 and June 30, 2013. The increase was primarily due to the issuance of units for \$272,080 and income for the period of \$148,879. This increase was offset by distributions made to unitholders of \$70,764.

## LIQUIDITY AND CAPITAL RESOURCES

In Q2-13, Artis generated \$40,505 (YTD - \$84,294) of cash flows from operating activities. Cash flows from operations assisted in funding distributions to unitholders of \$35,559 (YTD - \$69,764) and for principal repayments on mortgages and loans of \$13,097 (YTD - \$26,156).

Cash of \$17,749 (YTD - \$29,874) was used for capital building improvements, for tenant inducements and leasing costs in 2013, compared to \$7,727 (YTD - \$15,559) in 2012.

At June 30, 2013, Artis had \$42,667 of cash and cash equivalents on hand. Management anticipates that the cash on hand will be invested in investment properties in subsequent periods, used for working capital purposes or for debt repayment.

The REIT has a revolving term credit facility in the amount of \$80,000 which may be utilized for general corporate operating purposes, including the acquisition of commercial properties and the issuance of letters of credit. As at June 30, 2013, the REIT has a balance of \$10,000 drawn on the credit facility.

To its knowledge, Artis is not in default or arrears on any of its obligations, including distributions to unitholders, interest or principal payments on debt or any debt covenants for the period ended June 30, 2013.

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
Bank indebtedness	\$ 10,000	\$ 10,000	\$ -	\$ -	\$ -
Accounts payable and other liabilities	50,199	50,199	-	-	-
Mortgages and loans payable <sup>(1)</sup>	2,252,070	197,413	736,890	835,062	482,705
Convertible debentures <sup>(2)</sup>	185,676	-	7,000	92,506	86,170
<b>Total</b>	<b>\$ 2,497,945</b>	<b>\$ 257,612</b>	<b>\$ 743,890</b>	<b>\$ 927,568</b>	<b>\$ 568,875</b>

<sup>(1)</sup> This include mortgages and loans payable included in the REIT's investments in joint ventures.

<sup>(2)</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, 2013, obligations due within one year include \$50,199 of accounts payable and other liabilities, \$10,000 of bank indebtedness, \$140,708 of mortgages, and principal repayments on mortgages of \$56,705.



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## SUMMARIZED QUARTERLY INFORMATION

\$000's, except per unit amounts

	Q2-13	Q1-13	Q4-12	Q3-12	Q2-12	Q1-12	Q4-11	Q3-11
Revenue	\$110,737	\$108,779	\$105,036	\$ 98,466	\$ 86,835	\$ 82,132	\$ 82,940	\$ 78,427
Property operating expenses	38,998	37,263	38,379	34,937	29,454	29,290	30,779	29,316
	71,739	71,516	66,657	63,529	57,381	52,842	52,161	49,111
Other income (expenses):								
Corporate expenses	(2,354)	(2,333)	(2,884)	(2,604)	(3,057)	(3,448)	(3,306)	(2,663)
Interest expense	(25,308)	(24,641)	(24,764)	(24,711)	(23,104)	(21,705)	(21,943)	(21,336)
Interest income	624	483	519	566	684	876	517	599
Income from investments								
joint ventures	1,106	-	-	-	-	-	-	-
Fair value gain on								
investment properties	29,035	34,824	60,400	54,003	51,990	56,871	46,916	35,043
Gain on disposal of								
investment properties	-	-	637	-	-	-	-	481
Foreign currency translation								
(loss) gain	(4,622)	(1,385)	(240)	4,759	(2,777)	654	1,941	(5,131)
Transaction costs	(3,589)	(1,483)	(1,511)	(4,130)	(1,698)	(1,315)	(4,439)	(1,684)
Gain (loss) on financial								
instruments	4,671	596	(89)	(3,874)	(1,099)	(9,019)	(15,815)	16,785
Income tax recovery								
(expense)	-	-	-	-	-	-	10,707	(7,700)
Income for the period	71,302	77,577	98,725	87,538	78,320	75,756	66,739	63,505
Other comprehensive income								
(loss):								
Unrealized foreign currency								
translation gain (loss)	14,783	6,269	2,712	(9,538)	5,270	(3,100)	(2,967)	10,497
Comprehensive income for the								
period	\$ 86,085	\$ 83,846	\$101,437	\$ 78,000	\$ 83,590	\$ 72,656	\$ 63,772	\$ 74,002
Income per unit attributable to								
common unitholders:								
Basic	\$ 0.56	\$ 0.65	\$ 0.87	\$ 0.79	\$ 0.74	\$ 0.81	\$ 0.79	\$ 0.76
Diluted	\$ 0.53	\$ 0.62	\$ 0.81	\$ 0.77	\$ 0.70	\$ 0.80	\$ 0.79	\$ 0.49

The quarterly trend for revenues and property NOI has been impacted by acquisition and disposition activity. Management anticipates there will be further growth in revenues and Property NOI as acquisitions completed in 2012 and 2013 contribute to operating results. Income and per unit amounts are also impacted by the fair value gains on investment properties.

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## Reconciliation of GAAP income to FFO

000's, except per unit amounts	Q2-13	Q1-13	Q4-12	Q3-12	Q2-12	Q1-12	Q4-11	Q3-11
Income for the period	\$ 71,302	\$ 77,577	\$ 98,725	\$ 87,538	\$ 78,320	\$ 75,756	\$ 66,739	\$ 63,505
Add amortization on:								
Tenant inducements amortized into revenue	2,159	2,011	1,954	1,645	1,425	1,325	1,246	1,199
Unrealized (gain) loss on financial instruments	(4,671)	(596)	89	3,874	1,099	9,019	15,917	(16,829)
Transaction costs on acquisitions	3,589	1,483	1,511	4,130	1,698	973	449	1,677
Fair value gain on investment properties	(29,035)	(34,824)	(60,400)	(54,003)	(51,990)	(56,871)	(46,916)	(35,043)
Adjustment for investments in joint ventures	(685)	-	-	-	-	-	-	-
Gain on disposal of investment properties	-	-	(637)	-	-	-	-	(481)
Deferred tax (recovery) expense	-	-	-	-	-	-	(8,997)	6,817
Foreign currency translation loss (gain)	4,622	1,385	240	(4,759)	2,777	(654)	(1,941)	5,131
Preferred distributions	(3,354)	(2,259)	(2,113)	(867)	-	-	-	-
<b>FFO for the period</b>	<b>\$ 43,927</b>	<b>\$ 44,777</b>	<b>\$ 39,369</b>	<b>\$ 37,558</b>	<b>\$ 33,329</b>	<b>\$ 29,548</b>	<b>\$ 26,497</b>	<b>\$ 25,976</b>
Add back:								
Transaction costs <sup>(1)</sup>	-	-	-	-	-	342	3,990	7
Current tax (recovery) expense	-	-	-	-	-	-	(1,710)	883
(Gain) loss on equity securities	-	-	-	-	-	-	(102)	44
<b>FFO for the period after adjustments</b>	<b>\$ 43,927</b>	<b>\$ 44,777</b>	<b>\$ 39,369</b>	<b>\$ 37,558</b>	<b>\$ 33,329</b>	<b>\$ 29,890</b>	<b>\$ 28,675</b>	<b>\$ 26,910</b>
FFO per unit								
Basic	\$ 0.36	\$ 0.39	\$ 0.35	\$ 0.34	\$ 0.32	\$ 0.32	\$ 0.31	\$ 0.31
Diluted	\$ 0.35	\$ 0.38	\$ 0.34	\$ 0.33	\$ 0.31	\$ 0.31	\$ 0.31	\$ 0.30
FFO per unit after adjustments								
Basic	\$ 0.36	\$ 0.39	\$ 0.35	\$ 0.34	\$ 0.32	\$ 0.32	\$ 0.34	\$ 0.32
Diluted	\$ 0.35	\$ 0.38	\$ 0.34	\$ 0.33	\$ 0.31	\$ 0.31	\$ 0.33	\$ 0.31
Weighted-average number of common units outstanding:								
Basic <sup>(2)</sup>	121,467	115,050	110,947	109,993	105,468	93,657	84,172	83,380
Diluted <sup>(2)</sup>	132,338	125,903	121,810	120,588	116,631	105,632	98,073	97,400

<sup>(1)</sup> Transaction costs added back in Q1-12 are one time professional fees related to internalization and corporate matters. In 2011, transaction costs include a termination fee paid to a prior third party property management company upon the REIT taking over property management operations for several of its properties in Winnipeg, Manitoba and convertible debenture financing costs.

<sup>(2)</sup> Options and convertible debentures are factored into the diluted weighted-average calculation, to the extent that their impact is dilutive.

# ARTIS REAL ESTATE INVESTMENT TRUST

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## RELATED PARTY TRANSACTIONS

	Three month period ended June 30,		Six month period ended June 30,	
	2013	2012	2013	2012
Acquisition fees	-	-	-	552
Property management fees	80	81	160	161
Capitalized office furniture and fixtures	235	54	244	1,297
Capitalized office equipment	-	-	-	343
Capitalized leasing commissions	18	152	25	188
Capitalized building improvements	8,307	1,276	12,595	4,671
Capitalized tenant inducements	148	51	681	411
Property tax assessment consulting fees	22	6	22	188
Rental revenues	(42)	(41)	(84)	(82)

The REIT incurred property management fees, leasing commission fees and tenant improvement fees under property management agreements with Marwest Management Canada Ltd. ("Marwest Management") for three properties owned by the REIT. The amount payable at June 30, 2013 is \$27 (December 31, 2012, \$26).

On January 1, 2012, the REIT entered into a one-year leasing services agreement with Marwest Management, which expired on December 31, 2012. The amount payable at June 30, 2013 is \$nil (December 31, 2012, \$756).

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 June 30, 2013 is \$2,976 (December 31, 2012, \$1,137).

The REIT incurred costs for office furniture and fixtures paid to Marwest Construction Ltd. The amount payable at June 30, 2013 is \$159 (December 31, 2012, \$42). During 2012, the REIT purchased \$1,243 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 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 June 30, 2013 is \$nil (December 31, 2012, \$nil).

The REIT collects office rents from Marwest Management.

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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## OUTSTANDING UNIT DATA

The balance of units outstanding as of August 8, 2013 is as follows:

Units outstanding at June 30, 2013	125,998,798
Units issued (DRIP)	114,549
Units issued on exercise of options	<u>14,500</u>
Units outstanding at August 8, 2013	<u>126,127,847</u>

The balance of options outstanding as of August 8, 2013 is as follows:

	Options outstanding	Options exercisable
\$11.28 options, issued February 25, 2010	132,438	68,126
\$13.30 options, issued September 10, 2010	313,750	127,250
\$13.44 options, issued October 15, 2010	323,000	136,000
\$14.10 options, issued June 17, 2011	1,029,500	508,000
\$16.36 options, issued April 13, 2012	<u>1,750,000</u>	<u>469,000</u>
	<u>3,548,688</u>	<u>1,308,376</u>

The balance of restricted units outstanding as of August 8, 2013 is 72,765. None of these restricted units are vested at this time.

As of August 8, 2013, the balance of Series A preferred units outstanding is 3,450,000, the balance of Series C preferred units outstanding is 3,000,000, the balance of Series E preferred units outstanding is 4,000,000 and the balance of Series G preferred units outstanding is 3,200,000.

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## 2013 OUTLOOK

Artis continues to target high quality retail, office and industrial assets primarily in western Canada, as well as in the Greater Toronto Area (Ontario) and select markets in the U.S. As the value proposition for U.S. investment opportunities remains attractive and real estate fundamentals continue to improve, Artis may increase its portfolio weighting in the U.S. over the course of 2013.

According to the Scotiabank Global Forecast Update report of June 27, 2013, real GDP in Canada is forecast to grow 1.6% in 2013. Forecast GDP growth for the Canadian provinces where Artis owns properties is also positive, as follows: Manitoba, 1.8%; Saskatchewan, 2.8% Alberta, 2.9% British Columbia, 1.3% and Ontario, 1.4%. Real GDP in the U.S. is forecast to grow 1.8% in 2013; national year-over-year unemployment for June 2013 decreased to 7.6% from 8.2%. For the Twin Cities Metropolitan Area and the Greater Phoenix Area, where Artis' U.S. properties are concentrated, year-over-year unemployment at June 30, 2013 decreased to 4.9% from 5.5% and to 6.9% from 7.3%, respectively.

Equity markets for REITs have corrected somewhat since May of this year, as investors responded to increases in short- and long-term financing rates. Nevertheless, investors continue to favour the yields that are available on REIT investments and management anticipates that equity capital will be available for REITs in the balance of 2013. Artis is one of only a few REITs in Canada that has an Investment Grade Rating and the ability to issue both new trust units, preferred equity and unsecured debentures, which provides flexibility in accessing the capital markets depending on current investor sentiment and preference.

Access to debt capital remains strong, although bond yields have crept up. Management anticipates interest rates will continue to moderately fluctuate in a low trading range, with long-term interest rate increases being slow, well-managed and well-communicated by the central banks. Rates today in both Canada and the U.S. are still low and it is still an opportune time to term out debt, or to fix existing floating debt with interest rate swaps, at very attractive low long-term financing rates. Management's overall goal is to reduce the REIT's un-hedged floating rate debt as a percentage of total debt over the course of 2013.

DBRS has assigned an Issuer Rating of BBB (low) with a Stable trend to Artis REIT. DBRS has also assigned a rating of Pfd-3 (low) with a Stable trend to Artis' preferred units. Management anticipates that having the DBRS credit rating will be beneficial for accessing the debt and equity capital markets.

Commercial property capitalization rates in Canada compressed through the early part of this year, but have stabilized since spring. In the U.S., compression was observed in certain markets, but the trend was less marked and capitalization rates are generally still above historical levels. The summer of 2013 has been relatively quiet for significant real estate transactions, presumably as buyers and sellers on both sides of the border digest recent changes in the bond-yield curve and borrowing cost impacts on their investment return expectations. Artis' deal flow pipeline will cool in the short-term, however, management is still on track to close approximately \$500,000 of acquisitions in Canada and the U.S. by the end of 2013.

Management anticipates that real estate fundamentals in Canada and the U.S. will remain healthy, with vacancy and market rent expectations trending positively in Artis' target markets. Artis' properties are expected to perform in-line with the moderate growth expectations within its target markets; thus both Property NOI growth and Same Property NOI are anticipated to trend up over the balance of 2013.

## SUBSEQUENT EVENTS

As at June 30, 2013, Artis had \$42,667 of cash and cash equivalents on hand and \$70,000 available on the line of credit. Subsequent to June 30, 2013, the following transactions took place:

- On July 15, 2013, the REIT disposed of Mid City North, an industrial property located in the Twin Cities Metropolitan Area, Minnesota. The property was sold for \$6,295.
- On July 29, 2013, the REIT issued 3,200,000 cumulative 5-year Series G rate reset preferred trust units at a price of \$25 per unit for gross proceeds of \$80,000 (inclusive of 200,000 units issued pursuant to the exercise of the underwriters' over-allotment option). The Series G units will pay fixed cumulative preferential distributions of \$1.25 per unit per annum, at the discretion of the Board of Trustees.

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- On July 31, 2013, the REIT acquired 161 Inverness which is located in Denver, Colorado. The property was acquired for US\$71,000 and the purchase price was satisfied with cash and new 7-year mortgage financing of US\$39,050, bearing interest at a fixed rate of 3.96% per annum. The REIT has the option to extend the term of the mortgage for an additional 3 years.
- Subsequent to June 30, 2013, the REIT obtained new 7.5-year mortgage financing in the amount of US\$20,400 on Oakdale Village. A 3-year interest rate swap has been placed on the mortgage, such that the mortgage bears interest at a fixed rate of 2.80% per annum. The REIT has the option to extend the term of the mortgage for an additional 2.5 years.
- Subsequent to June 30, 2013, the REIT entered into interest rate swaps on four mortgages in the amount of US\$70,130, with a weighted-average interest rate of 2.84%.
- Subsequent to June 30, 2013, the REIT repaid the outstanding balance drawn on its credit facility.
- Subsequent to June 30, 2013, the REIT settled all outstanding foreign exchange swap contracts.
- The REIT entered into an agreement with respect to the acquisition of a property located in Arizona. The purchase price of this acquisition is US\$38,600. The REIT anticipates that the acquisition will close in September of 2013, and will be financed through a combination of cash consideration and new mortgage financing.
- Distributions in the amount of \$0.09 per unit for July 2013 were declared subsequent to June 30, 2013.

## 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 in five Canadian provinces and five U.S. states, with a significant majority of its properties, measured by GLA, located in the province of Alberta. As a result, our properties are impacted by factors specifically affecting their respective real estate markets. These factors may differ from those affecting the real estate markets in other regions of Canada and the U.S.

### INTEREST RATE AND 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.

Artis is also subject to interest rate risk associated with the REIT's revolving term credit facility, mortgages and unsecured debentures payable due to the expected requirement to refinance such debts in the year of maturity. The REIT minimizes the risk by restricting debt to 70% of gross book value and by carefully monitoring the amount of variable rate debt. The REIT has the majority of its mortgage payable and debentures in fixed rate terms. At June 30, 2013, the REIT is a party to \$509,530 of variable rate debt, (December 31, 2012, \$529,660). At June 30, 2013, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$173,331 of variable rate debt (December 31, 2012, \$173,472). The REIT has the ability to place interest rate swaps on top of variable rate debt at any time in order to effectively fix the interest rate.

The REIT's ratio of mortgages, loans and bank indebtedness to GBV is 45.4%, down from 47.3% at December 31, 2012. Approximately 3.3% of Artis' maturing mortgage debt comes up for renewal in 2013, and 11.9% in 2014. Management is in discussion with various lenders with respect to the renewal or refinancing of the 2013 mortgage maturities.

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## 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 2,046 tenant leases with a weighted-average term to maturity of 4.9 years. Approximately 62.5% of the REIT's gross revenue is derived from national or government tenants. As indicated below, the largest tenant by gross revenue is MTS Allstream, one of Canada's leading national communication companies providing voice services, internet and data services, and television. MTS Allstream is a TSX listed entity with 2012 annual revenues in excess of \$1.7 billion. The second largest tenant by gross revenue is AMEC Americas Ltd, a global supplier of consultancy, engineering and project management services to energy, power and process industries with a market capitalization of over £3.0 billion.

### Top twenty tenants by gross revenue

Tenant	% of Total Gross Revenue	Owned Share of GLA (in 000's of S.F.)	% of Total GLA	Weighted-Average Remaining Lease Term
Manitoba Telecom Services Inc.	2.0 %	322	1.4 %	9.7
AMEC Americas Ltd. <sup>(1)</sup>	1.9 %	200	0.8 %	0.2
TransAlta Corporation	1.1 %	336	1.4 %	9.9
Shoppers Drug Mart	1.0 %	155	0.7 %	5.5
Home Depot	0.9 %	159	0.7 %	9.1
IHS Global Canada Ltd.	0.9 %	77	0.3 %	4.3
Sobeys	0.8 %	191	0.8 %	7.7
TD Bank	0.8 %	123	0.5 %	7.0
Canada Institute for Health Info	0.8 %	91	0.4 %	12.2
CB Richard Ellis, Inc.	0.8 %	118	0.5 %	4.6
CGI Sys & Mgmt Consultants, Inc.	0.8 %	64	0.3 %	2.4
Fairview Health Services	0.8 %	179	0.8 %	10.2
PMC Sierra, Inc. <sup>(1)</sup>	0.8 %	148	0.6 %	0.3
Cara Operations Limited	0.8 %	100	0.4 %	15.4
3M Canada Company	0.8 %	319	1.3 %	6.8
Q9 Networks, Inc.	0.7 %	35	0.1 %	3.2
Bell Canada	0.7 %	76	0.3 %	3.0
Birchcliff Energy	0.7 %	59	0.2 %	4.4
ABB, Inc.	0.7 %	318	1.3 %	1.4
Stantec Consulting, Ltd.	0.7 %	98	0.4 %	9.5
<b>Total</b>	<b>18.5 %</b>	<b>3,168</b>	<b>13.2 %</b>	<b>6.6</b>

<sup>(1)</sup> Tenant has exercised their renewal option.

### Government tenants by gross revenue

Tenant	% of Total Gross Revenue	Owned Share of GLA (in 000's of S.F.)	% of Total GLA	Weighted-Average Remaining Lease Term
Federal Government	3.7 %	547	2.3 %	9.0
Provincial Government	3.2 %	462	1.9 %	4.1
Civic or Municipal Government	0.5 %	118	0.5 %	14.6
<b>Total</b>	<b>7.4 %</b>	<b>1,127</b>	<b>4.7 %</b>	<b>7.6</b>

Weighted-average term to maturity (entire portfolio)

4.9

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## LEASE ROLLOVER RISK

The value of investment 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 or U.S. economy would negatively impact demand for space in retail, office and industrial properties, 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	Canada					Calgary Office Only	U.S.		Total
	AB	BC	MB	SK	ON		MN	Other	
2013	2.4 %	0.9 %	1.0 %	0.6 %	0.8 %	1.7 %	1.8 %	0.1 %	7.6 %
2014	2.7 %	0.9 %	2.1 %	0.4 %	1.7 %	0.9 %	2.8 %	0.1 %	10.7 %
2015	2.4 %	0.8 %	2.3 %	0.7 %	1.9 %	0.8 %	3.9 %	0.3 %	12.3 %
2016	3.8 %	0.4 %	1.8 %	0.3 %	2.6 %	1.0 %	3.5 %	0.1 %	12.5 %
2017	2.0 %	0.8 %	1.6 %	0.8 %	2.4 %	0.9 %	2.8 %	1.2 %	11.6 %
2018	2.1 %	0.3 %	1.7 %	0.7 %	0.5 %	0.7 %	1.3 %	0.9 %	7.5 %
2019 & later	9.5 %	2.7 %	3.0 %	1.7 %	5.3 %	3.3 %	6.0 %	2.7 %	30.9 %
Month-to-month	0.2 %	0.1 %	0.1 %	0.0 %	0.1 %	0.0 %	0.1 %	0.0 %	0.6 %
Vacant	1.5 %	0.3 %	0.6 %	0.1 %	0.7 %	1.0 %	1.4 %	0.2 %	4.8 %
Properties in redevelopment	0.0 %	0.3 %	1.2 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	1.5 %
<b>Total</b>	<b>26.6 %</b>	<b>7.5 %</b>	<b>15.4 %</b>	<b>5.3 %</b>	<b>16.0 %</b>	<b>10.3 %</b>	<b>23.6 %</b>	<b>5.6 %</b>	<b>100.0 %</b>

Artis' real estate is diversified across five Canadian provinces and five U.S. states, and across the office, retail and industrial asset classes. By city and asset class, the three largest segments of the REIT's portfolio by GLA are the Twin Cities Metropolitan Area industrial properties, Calgary office properties and GTA industrial properties.

## TAX RISK

On June 22, 2007, the SIFT Rules (discussed in more detail above under the heading "Income Tax Recovery") were enacted. Under the 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 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 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, 2013 and the year ended December 31, 2012. 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 SIFT Rules.

The REIT operates in the United States through a U.S. REIT (Artis US Holdings, Inc.) which is primarily capitalized by the REIT by way of equity, debt in the form of notes owed to the REIT and preferred shares. As at June 30, 2013, Artis US Holdings, Inc. owes notes payable of US\$122,939 to the REIT which is eliminated on consolidation of the financial statements.



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The notes have been recorded as a liability for U.S. federal income tax purposes. If the Internal Revenue Service ("IRS") or a court were to determine that the notes should be treated as equity rather than debt for tax purposes, the interest on the notes would become taxable as a dividend, and therefore would not be deductible for U.S. federal income tax purposes. In addition, if the IRS were to determine that the interest rate on the notes did not represent an arm's length rate, any excess amount over arm's length would not be deductible and would be taxed as a dividend payment instead of an interest payment. This would increase the U.S. federal income tax liability of the REIT. In addition, the REIT could be subject to penalties. The increase in the tax liability could adversely affect Artis US Holdings, Inc.'s ability to make payments on the notes or the REIT's ability to make distribution on its units.

## FOREIGN CURRENCY RISK

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

## 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, 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.

## CRITICAL ACCOUNTING ESTIMATES

The policies that the REIT's management believes are the most subject to estimation and judgment are set out in the REIT's Management Discussion and Analysis for the year ended December 31, 2012.

## CHANGES IN ACCOUNTING POLICIES

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. The REIT is currently evaluating the impact of this amended standard.

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. The REIT is currently evaluating the impact of this new standard.

## CONTROLS AND PROCEDURES

### 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 IFRS. 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 NI 52-109) for the period ended June 30, 2013.

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.

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## 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, 2013, 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 NI 52-109). 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 for the period ended June 30, 2013.