

Interim Condensed Consolidated Financial Statements of

ARTIS REAL ESTATE INVESTMENT TRUST

Three and six months ended June 30, 2014 and 2013
(Unaudited)

(In Canadian dollars)

ARTIS REAL ESTATE INVESTMENT TRUST

Interim Condensed Consolidated Balance Sheets
(Unaudited)

(In thousands of Canadian dollars)

	June 30, 2014	December 31, 2013
ASSETS		
Non-current assets:		
Investment properties (note 4)	\$ 4,952,257	\$ 4,851,877
Investment properties under development (note 4)	19,921	47,281
Investments in joint ventures (note 21)	91,496	42,434
Property and equipment (note 5)	2,849	2,872
Notes receivable (note 6)	17,883	18,741
	5,084,406	4,963,205
Current assets:		
Investment properties held for sale (note 4)	45,415	-
Deposits on investment properties	103	103
Prepaid expenses and other assets (note 7)	8,723	10,694
Notes receivable (note 6)	1,855	1,723
Accounts receivable and other receivables (note 8)	14,306	12,537
Cash held in trust	6,066	5,553
Cash and cash equivalents	122,883	48,222
	199,351	78,832
	\$ 5,283,757	\$ 5,042,037
LIABILITIES AND UNITHOLDERS' EQUITY		
Non-current liabilities:		
Mortgages and loans payable (note 9)	\$ 1,886,978	\$ 2,006,614
Senior unsecured debentures (note 10)	124,159	-
Convertible debentures (note 11)	181,449	181,282
Preferred shares liability	82	81
	2,192,668	2,187,977
Current liabilities:		
Mortgages and loans payable (note 9)	375,312	280,983
Convertible debentures (note 11)	1,497	3,982
Security deposits and prepaid rent	28,064	25,787
Accounts payable and other liabilities (note 12)	59,520	59,061
Bank indebtedness (note 13)	1,175	-
	465,568	369,813
	2,658,236	2,557,790
Unitholders' equity (note 14)	2,625,521	2,484,247
Commitments and guarantees (note 23)		
Subsequent events (note 26)	\$ 5,283,757	\$ 5,042,037

See accompanying notes to interim condensed consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Interim Condensed Consolidated Statements of Operations
 Three and six months ended June 30, 2014 and 2013
 (Unaudited)

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Revenue	\$ 119,896	\$ 110,737	\$ 243,549	\$ 219,516
Property operating expenses	42,827	38,998	89,145	76,261
	77,069	71,739	154,404	143,255
Other income (expenses):				
Corporate expenses	(2,582)	(2,354)	(5,112)	(4,687)
Interest expense	(27,342)	(25,308)	(53,932)	(49,949)
Interest income	521	624	912	1,107
(Loss) income from investments in joint ventures (note 21)	(165)	1,106	589	1,106
Fair value gain on investment properties (note 4)	18,565	29,035	7,858	63,859
Foreign currency translation loss	(8,406)	(4,622)	(12,761)	(6,007)
Transaction costs (note 16)	(1,396)	(3,589)	(1,484)	(5,072)
(Loss) gain on financial instruments (note 17)	(2,792)	4,671	(6,016)	5,267
Income for the period	53,472	71,302	84,458	148,879
Other comprehensive (loss) income that may be reclassified to net income in subsequent periods:				
Unrealized foreign currency translation (loss) gain	(9,637)	14,783	8,865	21,052
Comprehensive income for the period	\$ 43,835	\$ 86,085	\$ 93,323	\$ 169,931
Basic income per unit attributable to common unitholders (note 14 (d))	\$ 0.37	\$ 0.56	\$ 0.59	\$ 1.21
Diluted income per unit attributable to common unitholders (note 14 (d))	\$ 0.36	\$ 0.53	\$ 0.58	\$ 1.15
Weighted-average number of common units outstanding (note 14 (d)):				
Basic	131,097,964	121,467,433	129,243,710	118,276,685
Diluted	141,773,455	132,337,834	139,902,513	129,144,212

See accompanying notes to interim condensed consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Interim Condensed Consolidated Statements of Changes in Unitholders' Equity

Six months ended June 30, 2014 and 2013

(Unaudited)

(In thousands of Canadian dollars)

	Common units capital contributions	Equity component of convertible debentures	Equity	Accumulated other comprehensive (loss) income	Contributed surplus	Total common equity	Total preferred equity	Total
Unitholders' equity, December 31, 2012	\$ 1,449,301	\$ 11,253	\$ 434,864	\$ (1,783)	\$ 4,354	\$1,897,989	\$ 151,867	\$ 2,049,856
Changes for the period:								
Issuance of units, net of issue costs	175,781	-	-	-	(268)	175,513	96,567	272,080
Unit-based compensation (note 19 (b)(i))	-	-	-	-	760	760	-	760
Income	-	-	148,879	-	-	148,879	-	148,879
Other comprehensive income	-	-	-	21,052	-	21,052	-	21,052
Distributions	-	-	(70,764)	-	-	(70,764)	-	(70,764)
Unitholders' equity, June 30, 2013	1,625,082	11,253	512,979	19,269	4,846	2,173,429	248,434	2,421,863
Changes for the period:								
Issuance of units, net of issue costs	13,137	-	-	-	(351)	12,786	77,189	89,975
Unit-based compensation	-	-	-	-	721	721	-	721
Redemption of convertible debentures	-	(99)	-	-	-	(99)	-	(99)
Income	-	-	42,276	-	-	42,276	-	42,276
Other comprehensive income	-	-	-	6,048	-	6,048	-	6,048
Distributions	-	-	(76,537)	-	-	(76,537)	-	(76,537)
Unitholders' equity, December 31, 2013	1,638,219	11,154	478,718	25,317	5,216	2,158,624	325,623	2,484,247
Changes for the period:								
Issuance of units, net of issue costs	128,064	-	-	-	(317)	127,747	-	127,747
Unit-based compensation (note 19 (b)(i))	-	-	-	-	328	328	-	328
Redemption of convertible debentures	-	(82)	-	-	-	(82)	-	(82)
Income	-	-	84,458	-	-	84,458	-	84,458
Other comprehensive income	-	-	-	8,865	-	8,865	-	8,865
Distributions	-	-	(80,042)	-	-	(80,042)	-	(80,042)
Unitholders' equity, June 30 2014	\$ 1,766,283	\$ 11,072	\$ 483,134	\$ 34,182	\$ 5,227	\$2,299,898	\$ 325,623	\$ 2,625,521

See accompanying notes to interim condensed consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Interim Condensed Consolidated Statements of Cash Flows
Three and six months ended June 30, 2014 and 2013
(Unaudited)

(In thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Cash provided by (used in):				
Operating activities:				
Income for the period	\$ 53,472	\$ 71,302	\$ 84,458	\$ 148,879
Adjustments for non-cash items:				
Fair value gain on investment properties (note 4)	(18,565)	(29,035)	(7,858)	(63,859)
Depreciation of property and equipment	148	140	286	228
Loss (income) from investments in joint ventures (note 21)	165	(1,106)	(589)	(1,106)
Distributions from joint venture	-	-	172	-
Amortization:				
Tenant inducements amortized to revenue	2,535	2,159	4,981	4,170
Above- and below-market mortgages, net	(459)	(443)	(918)	(884)
Accretion on liability component of debentures	(59)	(80)	(156)	(158)
Straight-line rent adjustment (note 4)	(1,122)	(1,326)	(2,457)	(2,766)
Unrealized foreign currency translation loss	10,147	6,665	6,760	8,391
Unrealized fair value loss (gain) on financial instruments (note 17)	2,792	(4,671)	6,016	(5,267)
Unit-based compensation expense (note 19 (b))	386	440	859	883
Amortization of financing costs included in interest	727	797	1,500	1,606
Changes in non-cash operating items (note 18)	(3,640)	(1,096)	(5,844)	1,334
	46,527	43,746	87,210	91,451
Investing activities:				
Acquisition of investment properties, net of related debt (note 3)	(59,277)	(175,941)	(59,277)	(219,811)
Proceeds from dispositions of investment properties, net of costs (note 3)	13,208	-	16,672	-
Additions to investment properties (note 4)	(4,411)	(3,786)	(5,699)	(5,810)
Additions to investment properties under development (note 4)	(3,584)	(8,790)	(9,049)	(13,116)
Additions to joint ventures (note 21)	(38,454)	(26,220)	(49,038)	(26,220)
Additions to tenant inducements	(4,255)	(3,241)	(8,095)	(7,157)
Additions to leasing costs (note 4)	(1,766)	(1,932)	(3,823)	(3,791)
Notes receivable principal repayments	299	449	726	890
Additions to property and equipment	(60)	(268)	(263)	(300)
Repayment of note receivable	-	-	-	1,653
Change in deposits on investment properties	1,351	10,850	-	(1,853)
	(96,949)	(208,879)	(117,846)	(275,515)
Financing activities:				
Issuance of common units, net of issue costs	116,676	170,605	127,747	175,513
Issuance of preferred units, net of issue costs	-	8	-	96,567
Issuance of senior unsecured debentures, net of financing costs	(21)	-	124,117	-
Repayment of convertible debentures	-	-	(2,500)	-
Change in bank indebtedness	1,175	(10,000)	1,175	10,000
Distributions paid on common units	(35,169)	(32,078)	(69,536)	(64,151)
Distributions paid on preferred units	(4,370)	(3,481)	(8,778)	(5,613)
Mortgages and loans principal repayments	(14,589)	(13,097)	(29,286)	(26,156)
Repayment of mortgages and loans payable	(36,559)	(14,283)	(38,962)	(48,687)
Advance of mortgages and loans payable, net of financing costs	-	9,383	-	34,102
	27,143	107,057	103,977	171,575
Foreign exchange (loss) gain on cash held in foreign currency	(7,141)	295	1,320	662
(Decrease) increase in cash and cash equivalents	(30,420)	(57,781)	74,661	(11,827)
Cash and cash equivalents at beginning of period	153,303	100,448	48,222	54,494
Cash and cash equivalents at end of period	\$ 122,883	\$ 42,667	\$ 122,883	\$ 42,667
Supplemental cash flow information:				
Interest paid	\$ 28,956	\$ 27,217	\$ 52,761	\$ 49,241
Interest received	521	624	912	1,107

See accompanying notes to interim condensed consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Interim Condensed Consolidated Financial Statements
Three and six months ended June 30, 2014 and 2013
(Unaudited)

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

1. Organization:

Artis Real Estate Investment Trust (the "REIT") is an unincorporated closed-end real estate investment trust 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"). The purpose of the REIT is to directly, or indirectly, own, manage, lease and (where appropriate) develop retail, industrial and office properties in Canada and the United States (the "U.S."). The registered office of the REIT is 360 Main Street, Suite 300, Winnipeg, Manitoba, R3C 3Z3.

The Declaration of Trust provides that the REIT may make cash distributions to unitholders of the REIT. The amount distributed annually (currently \$1.08 per common unit, \$1.3125 per Series A preferred unit, US\$1.3125 per Series C preferred unit, \$1.1875 per Series E preferred unit and \$1.25 per Series G preferred unit) will be set by the Board of Trustees.

2. Significant accounting policies:

(a) Basis of presentation and measurement:

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

The interim condensed consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2013 except for those standards adopted as described in note 2 (c). The consolidated financial statements are prepared on a going concern basis and have been presented in Canadian dollars rounded to the nearest thousand unless otherwise indicated.

These interim condensed consolidated financial statements should be read in conjunction with the REIT's consolidated financial statements for the year ended December 31, 2013.

(b) Use of estimates and judgments:

The preparation of the consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. The critical accounting estimates and judgments have been set out in note 2 to the REIT's consolidated financial statements for the year ended December 31, 2013.

(c) Accounting policies adopted during the period:

IAS 32 - *Offsetting Financial Assets and Liabilities*, as amended by the IASB in December 2011, clarifies certain aspects of offsetting and net and gross settlement, and is effective for annual periods beginning on or after January 1, 2014. This amendment did not result in a material impact on the consolidated financial statements.

IFRIC interpretation 21 - *Levies* was issued by the IASB in May 2013. The interpretation considers the guidance in IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets* for the recognition of a levy liability due to an obligating event described in the legislation that brings about payment of the levy. It is effective for annual periods beginning on or after January 1, 2014. This interpretation did not result in a material impact on the consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

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2. Significant accounting policies (continued):

(d) Future changes in accounting policies:

In November 2013, the IASB amended IAS 19 - *Employee Benefits*. The amendment clarifies the requirements that relate to how contributions should be attributed to periods of service, and is effective for annual periods beginning on or after July 1, 2014. The REIT does not expect that this standard will result in a material impact on the consolidated financial statements.

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, 2018. The REIT is currently evaluating the impact of this new standard.

In May 2014, the IASB amended IFRS 11 – *Joint Arrangements*. The amendment clarifies the accounting for acquisitions of interests in joint operations, and is effective for annual periods beginning on or after January 1, 2016. The REIT is currently evaluating the impact of this new standard.

The IASB issued IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15") in May 2014. IFRS 15 provides a single, principles based five-step model to be applied to the recognition of revenue from contracts with customers. IFRS 15 replaces IAS 11 – *Construction Contracts*, IAS 18 – *Revenue*, IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate* and SIC 31 – *Revenue - Barter Transactions Involving Advertising Services*. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The REIT is currently evaluating the impact of this new standard.

In May 2014, the IAS amended IAS 16 – *Property, Plant and Equipment*. The amendment clarifies acceptable methods of depreciation and amortization, and is effective for annual periods beginning on or after January 1, 2016. The REIT is currently evaluating the impact of this new standard.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Interim Condensed Consolidated Financial Statements
 Three and six months ended June 30, 2014 and 2013
 (Unaudited)

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

3. Acquisitions and dispositions of investment properties:

Acquisitions:

The REIT acquired the following properties during the six months ended June 30, 2014:

Property	Property count	Location	Acquisition date	Type
Hudson's Bay Centre ⁽¹⁾	1	Denver, CO	April 15, 2014	Office
Estevan Shoppers Mall	1	Estevan, SK	May 1, 2014	Retail
601 Tower at Carlson	1	Twin Cities Area, MN	June 11, 2014	Office
Crosstown North Business Center II & VI	2	Twin Cities Area, MN	June 16, 2014	Industrial

⁽¹⁾ The REIT acquired a 50% interest in this joint venture.

The REIT acquired development land located in the Phoenix Metropolitan Area, Arizona and in Houston, Texas as part of joint venture arrangements during the six months ended June 30, 2014.

The REIT acquired the following properties during the six months ended June 30, 2013:

Property	Property count	Location	Acquisition date	Type
1110 Pettigrew Avenue	1	Regina, SK	January 15, 2013	Industrial
Century Crossing III ⁽¹⁾	1	Edmonton Capital Region, AB	February 11, 2013, June 28, 2013	Retail
495 Richmond Road	1	Ottawa, ON	March 15, 2013	Office
220 Portage Avenue	1	Winnipeg, MB	April 30, 2013	Office
Quarry Park Portfolio	3	Calgary, AB	May 15, 2013	Office
1700 Broadway ⁽²⁾	1	Denver, CO	May 22, 2013	Office
ASM America Headquarters Building	1	Phoenix, AZ	June 4, 2013	Industrial
Cara Foods Building ⁽³⁾	-	Greater Toronto Area, ON	June 5, 2013	Office
Oakdale Village	1	Twin Cities Area, MN	June 10, 2013	Retail
PTI Building	1	Edmonton Capital Region, AB	June 28, 2013	Industrial

⁽¹⁾ The REIT closed the first part of this two-part acquisition on February 11, 2013 and the second part on June 28, 2013.

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

⁽³⁾ The REIT acquired the remaining 50% interest in this property.

The REIT also acquired development land located in Winnipeg, Manitoba and in the Twin Cities Area, Minnesota during the six months ended June 30, 2013.

ARTIS REAL ESTATE INVESTMENT TRUST

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 (Unaudited)

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

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

Acquisitions (continued):

These acquisitions have been accounted for using the acquisition method, with the results of operations included in the REIT's accounts from the date of acquisition. The net assets acquired, excluding joint ventures, were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Investment properties	\$ 99,512	\$ 305,052	\$ 99,512	\$ 381,732
Long-term debt, including acquired above- and below-market mortgages, net of financing costs	(40,235)	(129,111)	(40,235)	(161,921)
Cash consideration	\$ 59,277	\$ 175,941	\$ 59,277	\$ 219,811
Transaction costs expensed (note 16)	\$ 810	\$ 2,890	\$ 835	\$ 4,373

Dispositions:

The REIT disposed of the following properties during the six months ended June 30, 2014:

Property	Location	Disposition date	Type
15 Blair Drive	Greater Toronto Area, ON	March 31, 2014	Industrial
King Edward Centre	Greater Vancouver Regional District, BC	May 22, 2014	Retail

The proceeds from the sale of the above properties, net of costs, were \$16,672. The assets and liabilities associated with the properties were derecognized.

The REIT did not dispose of any properties during the six months ended June 30, 2013.

ARTIS REAL ESTATE INVESTMENT TRUST

Notes to Interim Condensed Consolidated Financial Statements
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4. Investment properties, investment properties under development and investment properties held for sale:

	Six months ended June 30, 2014		
	Investment properties	Investment properties under development	Investment properties held for sale
Balance, beginning of period	\$ 4,851,877	\$ 47,281	\$ -
Additions:			
Acquisitions (note 3)	99,512	-	-
Capital expenditures	5,699	9,049	-
Leasing costs	3,823	-	-
Dispositions	(16,672)	-	-
Reclassification of investment properties under development	36,246	(36,246)	-
Reclassification of investment properties held for sale	(45,415)	-	45,415
Foreign currency translation gain	3,061	534	-
Straight-line rent adjustment	2,457	-	-
Tenant inducements additions, net of amortization	3,063	51	-
Fair value gain (loss)	8,606	(748)	-
Balance, end of period	\$ 4,952,257	\$ 19,921	\$ 45,415

	Year ended December 31, 2013		
	Investment properties	Investment properties under development	Investment properties held for sale
Balance, beginning of year	\$ 4,206,126	\$ 4,234	\$ 58,963
Additions:			
Acquisitions	497,964	-	-
Capital expenditures	19,015	40,549	65
Leasing costs	8,145	226	101
Dispositions	(5,358)	-	(6,080)
Reclassification of investment properties under development	3,079	(3,079)	-
Reclassification of investment properties held for sale	51,849	-	(51,849)
Foreign currency translation gain (loss)	56,073	201	(134)
Straight-line rent adjustment	5,496	-	47
Tenant inducements additions, net of amortization	8,953	(20)	207
Fair value gain (loss)	535	5,170	(1,320)
Balance, end of year	\$ 4,851,877	\$ 47,281	\$ -

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Notes to Interim Condensed Consolidated Financial Statements
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4. Investment properties, investment properties under development and investment properties held for sale (continued):

External valuations are performed quarterly on a rotational basis over a four year cycle. For the three and six months ended June 30, 2014, 17 and 30 investment properties, respectively, of the total portfolio of 243 properties at June 30, 2014 (7.0% and 12.3%) were appraised by qualified external valuation professionals. The REIT uses similar assumptions and valuation techniques in its internal valuations as used by the external valuation professionals.

The REIT determined the fair value of investment properties based upon either the discounted cash flow method or the overall capitalization method, which are generally accepted appraisal methodologies. There were no changes to the REIT's internal valuation methodology during the six months ended June 30, 2014 and the year ended December 31, 2013.

Under the discounted cash flow method, expected future cash flows are discounted using an appropriate rate based on the risk of the property. Expected future cash flows for each investment property are based upon, but not limited to, rental income from current leases, budgeted and actual expenses, and assumptions about rental income from future leases. The REIT uses leasing history, market reports, tenant profiles and building assessments, among other things, in determining the most appropriate assumptions. Discount and capitalization rates are estimated using market surveys, available appraisals and market comparables. Under the overall capitalization method, year one income is stabilized and capitalized at a rate appropriate for each investment property. The stabilized income incorporates allowances for vacancy, management fees and structural repair reserves. The resulting capitalized value is further adjusted, where appropriate, for costs to stabilize the income and non-recoverable capital expenditures.

A change in the discount or capitalization rates used could have a material impact on the fair value of the REIT's investment properties. When discount or capitalization rates compress, the estimated fair values of investment properties increase. When discount or capitalization rates expand, the estimated fair values of investment properties decrease.

A change in estimated future rental income and expenses could have a material impact on the fair value of the REIT's investment properties. Estimated rental income and expenses are affected by, but not limited to, changes in rent and expense growth and occupancy rates.

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4. Investment properties, investment properties under development and investment properties held for sale (continued):

Under the fair value hierarchy, the fair value of the REIT's investment properties is considered a Level 3, as described in note 25 (b).

The REIT has used the following rates and investment horizons in estimating the fair value of investment properties:

	June 30, 2014			December 31, 2013		
	Maximum	Minimum	Weighted-average	Maximum	Minimum	Weighted-average
Western Canada:						
Discount rate	9.00%	6.50%	7.42%	9.25%	6.50%	7.43%
Terminal capitalization rate	8.50%	5.50%	6.52%	8.00%	5.50%	6.47%
Capitalization rate	8.25%	5.25%	6.24%	7.50%	5.25%	6.18%
Investment horizon (years)	18.0	10.0	10.8	18.0	10.0	10.8
Central Canada:						
Discount rate	8.50%	7.25%	7.71%	8.75%	7.50%	7.89%
Terminal capitalization rate	8.00%	6.00%	6.62%	8.00%	6.00%	6.75%
Capitalization rate	8.00%	5.75%	6.41%	7.75%	6.00%	6.58%
Investment horizon (years)	13.0	10.0	10.3	15.0	10.0	10.3
Eastern Canada:						
Discount rate	7.75%	6.75%	7.28%	8.00%	6.75%	7.27%
Terminal capitalization rate	7.00%	5.75%	6.59%	7.00%	5.75%	6.51%
Capitalization rate	7.00%	5.50%	6.33%	7.00%	5.50%	6.29%
Investment horizon (years)	15.0	10.0	11.4	15.0	10.0	11.2
U.S.:						
Discount rate	9.50%	7.00%	8.18%	9.50%	7.00%	8.16%
Terminal capitalization rate	9.00%	6.00%	7.31%	9.00%	6.00%	7.29%
Capitalization rate	8.75%	6.00%	7.07%	8.75%	6.00%	7.06%
Investment horizon (years)	20.0	10.0	11.1	20.0	10.0	11.1
Overall:						
Discount rate	9.50%	6.50%	7.60%	9.50%	6.50%	7.60%
Terminal capitalization rate	9.00%	5.50%	6.70%	9.00%	5.50%	6.66%
Capitalization rate	8.75%	5.25%	6.44%	8.75%	5.25%	6.41%
Investment horizon (years)	20.0	10.0	10.8	20.0	10.0	10.8

The above information represents the REIT's entire portfolio of investment properties.

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4. Investment properties, investment properties under development and investment properties held for sale (continued):

The following sensitivity table outlines the impact of a 0.25% change in the weighted-average capitalization rate on investment properties at June 30, 2014:

	Change to fair value if capitalization rate increases by 0.25%	Change to fair value if capitalization rate decreases by 0.25%
Western Canada	\$ (104,459)	\$ 113,292
Central Canada	(24,822)	26,869
Eastern Canada	(22,564)	24,437
U.S.	(37,408)	40,209
	\$ (189,253)	\$ 204,807

At June 30, 2014, the REIT had two investment properties listed for sale with an external broker. The fair value of these investment properties of \$45,415 has been classified as held for sale at June 30, 2014.

At June 30, 2014, included in investment properties is \$27,841 (December 31, 2013, \$25,438) of net straight-line rent receivables arising from the recognition of rental income on a straight-line basis over the lease term in accordance with IAS 17 - *Leases*.

Investment properties include properties held under operating leases with an aggregate fair value of \$92,373 at June 30, 2014 (December 31, 2013, \$90,606).

At June 30, 2014, investment properties with a fair value of \$4,728,357 (December 31, 2013, \$4,671,490) are pledged as security under mortgage agreements and credit facilities.

5. Property and equipment:

	June 30, 2014	December 31, 2013
Office furniture and fixtures	\$ 3,201	\$ 3,026
Office equipment and software	1,151	1,063
Accumulated depreciation	(1,503)	(1,217)
	\$ 2,849	\$ 2,872

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6. Notes receivable:

	June 30, 2014	December 31, 2013
Note receivable from tenant maturing in May 2023, bearing interest at 5.89% per annum, repayable in varying blended monthly installments of principal and interest. A default under the terms of the note constitutes a default of the lease of the tenant.	\$ 19,533	\$ 20,385
Other notes receivable	205	79
	19,738	20,464
Current portion	1,855	1,723
Non-current portion	\$ 17,883	\$ 18,741

7. Prepaid expenses and other assets:

	June 30, 2014	December 31, 2013
Prepaid insurance	\$ 825	\$ 2,283
Prepaid taxes	4,787	1,965
Derivative instruments swaps (note 25 (b))	1,303	4,279
Other	1,808	2,167
	\$ 8,723	\$ 10,694

8. Accounts receivable and other receivables:

	June 30, 2014	December 31, 2013
Rents receivable (note 25 (a)(ii))	\$ 6,193	\$ 3,335
Allowance for doubtful accounts (note 25 (a)(ii))	(438)	(139)
Accrued recovery income	2,501	4,114
Other amounts receivable	6,050	5,227
	\$ 14,306	\$ 12,537

Included in other amounts receivable at June 30, 2014 are \$2,341 accrued as a result of a contingent consideration clause included in the GSA Phoenix Professional Office Building purchase and sale agreement, insurance proceeds of \$635 and \$1,510 for tenant improvement work completed that is recoverable from a tenant.

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9. Mortgages and loans payable:

	June 30, 2014	December 31, 2013
Mortgages and loans payable	\$ 2,266,742	\$ 2,291,636
Net above- and below-market mortgage adjustments	4,054	4,972
Financing costs	(8,506)	(9,011)
	2,262,290	2,287,597
Current portion	375,312	280,983
Non-current portion	\$ 1,886,978	\$ 2,006,614

Substantially all of the REIT's assets have been pledged as security under mortgages and other security agreements. The majority of mortgages and loans payable bear interest at fixed rates. The weighted-average effective rate on all mortgages and loans payable is 4.26% and the weighted-average nominal rate is 4.11% at June 30, 2014 (December 31, 2013, 4.27% and 4.10%, respectively). Maturity dates range from July 1, 2014 to February 14, 2032.

10. Senior unsecured debentures:

On March 27, 2014, under the June 15, 2012 short form base shelf prospectus, the REIT issued 3.753% Series A senior unsecured debentures totaling \$125,000. Interest is payable semi-annually on March 27 and September 27. The REIT may redeem the debentures at any time on a minimum of 30 days notice, in whole or in part, at a price equal to the greater of (i) the price of the debentures calculated to provide a yield to maturity equal to the then Government of Canada bond yield plus 0.50% and (ii) par, together in each case with accrued and unpaid interest to the date fixed for redemption. These debentures rank equally with all other indebtedness of the REIT.

Interest expense on the senior unsecured debentures is determined by applying an effective rate of 3.91% to the outstanding liability balance. The difference between actual cash interest payments and interest expense is accreted to the liability.

Senior unsecured debenture issue	Issue date	Maturity date	Interest rate
Series A	March 27, 2014	March 27, 2019	3.753%

Senior unsecured debenture issue	Face value	Financing costs	Carrying value	Current portion	Non-current portion
Series A	\$ 125,000	\$ (841)	\$ 124,159	\$ -	\$ 124,159
June 30, 2014	\$ 125,000	\$ (841)	\$ 124,159	\$ -	\$ 124,159
December 31, 2013	-	-	-	-	-

Accretion on financing costs increased the carrying value of the liability by \$40 and \$42 during the three and six months ended June 30, 2014, respectively (2013, \$nil and \$nil).

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11. Convertible debentures:

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

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

Convertible redeemable debenture issue	Face value	Equity portion	Liability portion	Accretion	Carrying value	Current portion	Non-current portion
Series D	\$ 1,500	\$ 49	\$ 1,484	\$ 13	\$ 1,497	\$ 1,497	\$ -
Series F	86,170	11,023	84,841	265	85,106	-	85,106
Series G	93,949	-	97,331	(988)	96,343	-	96,343
June 30, 2014	\$ 181,619	\$ 11,072	\$ 183,656	\$ (710)	\$ 182,946	\$ 1,497	\$ 181,449
December 31, 2013	183,767	11,154	185,764	(500)	185,264	3,982	181,282

Accretion reduced the carrying value of the liability component by \$99 and \$198 during the three and six months ended June 30, 2014, respectively (2013, \$80 and \$158).

On January 15, 2014, the REIT redeemed \$2,500 of the Series D convertible debentures for cash.

12. Accounts payable and other liabilities:

	June 30, 2014	December 31, 2013
Accounts payable and accrued liabilities	\$ 23,210	\$ 30,420
Distributions payable	12,841	12,088
Accrued interest	8,045	7,019
Accrued property taxes	3,558	2,899
Tenant installments payable	4,103	2,932
Derivative instruments swaps (note 25 (b))	5,416	2,395
Cash-settled unit-based payments liability	870	355
Other	1,477	953
	\$ 59,520	\$ 59,061

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13. Bank indebtedness:

On September 6, 2012, the REIT entered into a revolving term credit facility in the amount of \$80,000, which can be utilized for general corporate operating purposes, including the acquisition of commercial properties and the issuance of letters of credit. The credit facility matures on September 6, 2014. Amounts drawn on the facility 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 \$139,263 at June 30, 2014 (December 31, 2013, \$138,171). At June 30, 2014, the REIT had no balance drawn on the facility (December 31, 2013, \$nil).

On April 10, 2014, the REIT entered into a revolving term credit facility in the amount of \$15,000 to finance tenant improvement work at an industrial property under a joint operation arrangement. Amounts drawn on the facility bear interest at prime plus 0.20%. At June 30, 2014, the REIT's share of the balance drawn on the facility is \$1,175.

14. Unitholders' equity:

(a) Common units:

(i) Authorized:

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

(ii) Issued and outstanding:

	Number of units	Amount
Balance at December 31, 2012	114,884,469	\$ 1,449,301
Public offerings, net of issue costs of \$7,297	10,424,750	165,232
Options exercised	220,912	3,469
Distribution Reinvestment and Unit Purchase Plan	1,408,345	20,217
Balance at December 31, 2013	126,938,476	1,638,219
Public offering, net of issue costs of \$5,028	7,147,250	110,043
Options and restricted units exercised	105,309	1,645
Distribution Reinvestment and Unit Purchase Plan	796,095	11,907
At-the-market equity financing	320,000	4,469
Balance at June 30, 2014	135,307,130	\$ 1,766,283

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

(iii) Normal course issuer bid:

On December 12, 2013, the REIT announced that the Toronto Stock Exchange (the "Exchange") had approved the renewal of its normal course issuer bid. Under the renewed bid, the REIT will have the ability to purchase for cancellation up to a maximum of 12,573,852 units, representing 10% of the REIT's float of 125,738,528 units on November 30, 2013. Purchases will be made at market prices through the facilities of the Exchange. This bid will remain in effect until the earlier of December 16, 2014, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the three and six months ended June 30, 2014 and 2013, the REIT did not acquire units through the normal course issuer bid.

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14. Unitholders' equity (continued):

(a) Common units (continued):

(iv) At-the-market equity financing:

The REIT has entered into an Equity Distribution Agreement dated September 17, 2010, as amended and restated on September 18, 2012, with an exclusive agent for the issuance and sale, from time to time, until July 15, 2014 of up to 5,300,000 units of the REIT by way of "at-the-market distributions". The timing of any sale of units and the number of units actually sold during such period are at the discretion of the REIT. Sales of units, if any, pursuant to the Equity Distribution Agreement will be made in transactions that are deemed to be "at-the-market distributions", including sales made directly on the Exchange. On January 31, 2014, 320,000 units were issued pursuant to this arrangement at an average price per unit of \$15.09 for gross proceeds of \$4,830. Net proceeds were \$4,469, which included commission costs of \$145.

(b) Preferred units:

In accordance with the Declaration of Trust, the REIT may issue an unlimited number of preferred units. Particulars of the REIT's outstanding preferred units are as follows:

Preferred unit series	Issue date	Number of units outstanding	Gross proceeds	Annual distribution rate	Distribution rate reset date
Series A	August 2, 2012	3,450,000	\$ 86,250	5.25 %	September 30, 2017
Series C ⁽¹⁾	September 18, 2012	3,000,000	US\$75,000	5.25 %	March 31, 2018
Series E	March 21, 2013	4,000,000	100,000	4.75 %	September 30, 2018
Series G	July 29, 2013	3,200,000	80,000	5.00 %	July 31, 2019

(1) The Series C Preferred Units are denominated in US dollars.

The REIT may redeem the Series A, Series C, Series E or Series G Units on the respective distribution rate reset date and every five years thereafter. The holders of the Series A, Series C, Series E and Series G Units have the right to reclassify their Units into Series B, Series D, Series F and Series H Units, respectively, on the distribution rate reset date and every five years thereafter.

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

(c) Short form base shelf prospectus:

On June 15, 2012, the REIT issued a short form base shelf prospectus. The REIT may from time to time during the 25-month period that this short form base shelf prospectus is valid, offer and issue the following securities up to a maximum of \$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, 2014, the REIT has issued common units under three offerings in the amount of \$356,680, preferred units under four offerings in the amount of \$266,250 and US\$75,000 and senior unsecured debentures under one offering in the amount of \$125,000 under this short form base shelf prospectus.

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14. Unitholders' equity (continued):

(d) Weighted-average common units:

	Three months ended		Six months ended	
	2014	June 30, 2013	2014	June 30, 2013
Income for the period	\$ 53,472	\$ 71,302	\$ 84,458	\$ 148,879
Adjustment for distributions to preferred unitholders (note 15)	(4,370)	(3,354)	(8,778)	(5,613)
Income for the period attributable to common unitholders	49,102	67,948	75,680	143,266
Adjustment for convertible debentures	2,583	2,586	5,152	5,127
Adjustment for restricted units	-	-	31	-
Diluted income attributable to common unitholders for the period	\$ 51,685	\$ 70,534	\$ 80,863	\$ 148,393

The weighted-average number of common units outstanding was as follows:

Basic common units	131,097,964	121,467,433	129,243,710	118,276,685
Effect of dilutive securities:				
Unit options	194,398	275,758	177,872	272,884
Convertible debentures	10,284,784	10,594,643	10,284,784	10,594,643
Restricted units	196,309	-	196,147	-
Diluted common units	141,773,455	132,337,834	139,902,513	129,144,212

Income per unit attributable to common unitholders:

Basic	\$ 0.37	\$ 0.56	\$ 0.59	\$ 1.21
Diluted	\$ 0.36	\$ 0.53	\$ 0.58	\$ 1.15

The computation of diluted income per unit attributable to common unitholders only includes unit options, convertible debentures and restricted units when these instruments are dilutive.

15. Distributions to unitholders:

Total distributions declared to unitholders are as follows:

	Three months ended		Three months ended	
	June 30, 2014		June 30, 2013	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	\$ 35,852	\$ 0.27	\$ 33,048	\$ 0.27
Preferred unitholders - Series A	1,132	0.33	1,132	0.33
Preferred unitholders - Series C	1,051	0.35	1,035	0.35
Preferred unitholders - Series E	1,187	0.30	1,187	0.30
Preferred unitholders - Series G	1,000	0.31	-	-

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15. Distributions to unitholders (continued):

	Six months ended June 30, 2014		Six months ended June 30, 2013	
	Total distributions	Distributions per unit	Total distributions	Distributions per unit
Common unitholders	\$ 70,289	\$ 0.54	\$ 64,126	\$ 0.54
Preferred unitholders - Series A	2,264	0.66	2,264	0.66
Preferred unitholders - Series C	2,139	0.71	2,035	0.68
Preferred unitholders - Series E	2,375	0.59	1,314	0.33
Preferred unitholders - Series G	2,000	0.63	-	-

16. Transaction costs:

The REIT incurred transaction costs in relation to the following:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Acquisitions of investment properties	\$ 810	\$ 2,890	\$ 835	\$ 4,373
Acquisitions of joint ventures	586	699	649	699
	\$ 1,396	\$ 3,589	\$ 1,484	\$ 5,072

17. (Loss) gain on financial instruments:

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

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Convertible debentures	\$ -	\$ -	\$ 72	\$ -
Interest rate swaps	(2,738)	5,414	(6,088)	5,910
Forward and swap foreign exchange contracts	(54)	(743)	-	(643)
	\$ (2,792)	\$ 4,671	\$ (6,016)	\$ 5,267

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18. Changes in non-cash operating items:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Prepaid expenses and other assets	\$ (761)	\$ (1,014)	\$ (1,214)	\$ (2,153)
Accounts receivable and other receivables	1,669	5,212	(1,731)	3,228
Cash held in trust	330	(2,059)	(513)	(3,151)
Security deposits and prepaid rent	2,058	599	2,238	2,090
Accounts payable and other liabilities	(6,936)	(3,834)	(4,624)	1,320
	\$ (3,640)	\$ (1,096)	\$ (5,844)	\$ 1,334

19. Employee benefits:

(a) Defined benefit pension plans:

The REIT has defined benefit plans providing pension benefits to certain employees. The ultimate retirement benefit is defined by a formula that provides a unit of benefit for each year of service. Employer contributions are not specified or defined within the plan text; they are based on the result of actuarial valuations which determine the level of funding required to meet the total obligation as estimated at the time of valuation. The REIT uses December 31 as a measurement date for accounting purposes for its defined benefit pension plans.

The fair value of the plan assets at June 30, 2014 is \$3,762 (December 31, 2013, \$2,937). The recognized pension obligation, net of plan assets at June 30, 2014 is \$nil (December 31, 2013, \$nil). The net expense for the defined benefit plans for the three and six months ended June 30, 2014 is \$327 and \$598 (2013, \$262 and \$523), respectively, and is included in corporate expenses.

(b) Unit-based compensation:

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

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19. Employee benefits (continued):

(b) Unit-based compensation (continued):

(i) Unit options:

Unit-based compensation expense related to unit options outstanding under the equity incentive plan for the three and six months ended June 30, 2014 amounted to \$148 and \$328 (2013, \$379 and \$760), respectively. These unit options vest equally over a four-year period from the grant date.

A summary of the REIT's unit options outstanding are as follows:

	Six months ended June 30, 2014		Six months ended June 30, 2013	
	Units	Weighted- average exercise price	Units	Weighted- average exercise price
Balance, beginning of period	3,365,213	\$ 15.03	3,689,875	\$ 14.92
Exercised	(104,963)	12.60	(86,937)	12.50
Expired	(291,750)	15.32	(39,750)	15.29
Balance, end of period	2,968,500	\$ 15.09	3,563,188	\$ 14.97
Options exercisable at end of period	1,802,500		1,321,376	

Options outstanding at June 30, 2014 consist of the following:

Exercise price	Number outstanding	Weighted- average remaining contractual life	Options outstanding weighted-average exercise price	Number exercisable
\$ 11.28	69,750	0.75 years	\$ 11.28	69,750
\$ 13.30	221,000	1.25 years	\$ 13.30	137,750
\$ 13.44	261,500	1.50 years	\$ 13.44	178,250
\$ 14.10	875,250	2.00 years	\$ 14.10	646,250
\$ 16.36	1,541,000	2.75 years	\$ 16.36	770,500
	2,968,500		\$ 15.09	1,802,500

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19. Employee benefits (continued):

(b) Unit-based compensation (continued):

(ii) Restricted units:

Unit-based compensation expense related to restricted units outstanding under the equity incentive plan for the three and six months ended June 30, 2014 amounted to \$238 and \$531 (2013, \$61 and \$123), respectively. Restricted units vest on and after the third anniversary of the date of grant. The restricted units accrue additional restricted units during the vesting period, and are credited when the restricted units vest. Each restricted unit is valued at the closing price of the REIT's common units on the balance sheet date.

A summary of the REIT's restricted units outstanding are as follows:

	Six months ended June 30, 2014	Six months ended June 30, 2013
	Units	Units
Balance, beginning of period	203,957	45,060
Granted	29,700	26,697
Accrued	7,008	1,537
Exercised	(855)	(254)
Expired	(14,127)	(251)
Balance, end of period	225,683	72,789
Restricted units vested at end of period	-	-

At June 30, 2014, no deferred units or installment units have been granted under the REIT's equity incentive plan.

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20. Related party transactions:

The REIT may issue unit-based awards to trustees, officers, employees and consultants (note 19).

Other related party transactions are outlined as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Property management fees	\$ 82	\$ 80	\$ 165	\$ 160
Capitalized office furniture and fixtures	6	235	71	244
Capitalized leasing commissions	69	18	71	25
Capitalized building improvements and project management fees	3,495	8,307	7,567	12,595
Capitalized tenant inducements	329	148	330	681
Property tax assessment consulting fees	48	22	337	22
Rental revenues	(40)	(42)	(84)	(84)

The REIT incurred property management fees, leasing commission fees and project management fees under property management agreements with Marwest Management Canada Ltd. ("Marwest Management"), a company related to certain trustees and officers of the REIT, for three properties owned by the REIT. The amount payable at June 30, 2014 is \$27 (December 31, 2013, \$27).

The REIT incurred costs for office furniture and fixtures paid to Marwest Construction Ltd. ("Marwest Construction"), a company related to certain trustees and officers of the REIT. The amount payable at June 30, 2014 is \$nil (December 31, 2013, \$nil).

The REIT incurred costs for building improvements and tenant inducements paid to Marwest Construction and Marwest Development Corporation, a company related to certain trustees and officers of the REIT. The amount payable at June 30, 2014 is \$1,516 (December 31, 2013, \$1,161).

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, 2014 is \$nil (December 31, 2013, \$7).

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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20. Related party transactions (continued):

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

Name of entity	Country	Ownership interest	
		June 30, 2014	December 31, 2013
Artis General Partner Ltd.	Canada	100%	100%
AX L.P.	Canada	100%	100%
Artis Property Management General Partner Ltd.	Canada	100%	100%
AX Property Management L.P.	Canada	100%	100%
Winnipeg Square Leaseco, Inc.	Canada	100%	100%
AX Longboat G.P. Inc.	Canada	50%	50%
AX Longboat L.P.	Canada	50%	50%
Artis US Holdings, Inc.	U.S.	100%	100%
Artis US Holdings II GP, Inc.	U.S.	100%	-
Artis US Holdings II, LLC	U.S.	100%	-
Artis US Holdings II L.P.	U.S.	100%	-
Artis Core Park West Land, Ltd.	U.S.	90%	-
Park Lucero I L.P.	U.S.	90%	-
Park Lucero II L.P.	U.S.	90%	-
Artis HRA 1700 Broadway GP, LLC	U.S.	50%	50%
Artis HRA 1700 Broadway L.P.	U.S.	50%	50%
Artis HRA Hudsons Bay GP, LLC	U.S.	50%	-
Artis HRA Hudsons Bay L.P.	U.S.	50%	-

21. Joint arrangements:

The REIT had interests in the following joint arrangements:

Property	Principal purpose	Type of arrangement	Ownership interest	
			June 30, 2014	December 31, 2013
Core Park West	Investment property	Joint venture	90%	-
Park Lucero	Investment property	Joint venture	90%	-
1700 Broadway	Investment property	Joint venture	50%	50%
Centrepoint	Investment property	Joint venture	50%	50%
Hudson's Bay Centre	Investment property	Joint venture	50%	-
Centre 70 Building	Investment property	Joint operation	85%	85%
Whistler Hilton Retail Plaza	Investment property	Joint operation	85%	85%
Westbank Hub Centre North	Investment property	Joint operation	75%	75%
Westbank Hub Shopping Centre	Investment property	Joint operation	75%	75%
Cliveden Building	Investment property	Joint operation	50%	50%
Kincaid Building	Investment property	Joint operation	50%	50%

During the six months ended June 30, 2014, the REIT entered into three joint venture arrangements. Park Lucero is a development project located in the Phoenix Metropolitan Area, Arizona, Hudson's Bay Centre is an office property in Denver, Colorado and Core Park West is a development project located in Houston, Texas. The REIT contributed \$49,687 to these joint venture arrangements, inclusive of transaction costs of \$649 (note 16) which were expensed during the six months ended June 30, 2014.

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21. Joint arrangements (continued):

The REIT is contingently liable for the obligations of certain joint arrangements. As at June 30, 2014, the co-owners' share of mortgage liabilities is \$73,734 (December 31, 2013, \$57,485). Management believes that the assets available from its joint arrangements are sufficient for the purpose of satisfying such obligations.

Summarized financial information of the REIT's share in its joint venture arrangements is as follows:

	June 30, 2014		December 31, 2013			
Non-current assets:						
Investment properties	\$	82,694	\$	56,913		
Investment properties under development		60,937		17,690		
Current assets:						
Prepaid expenses and other assets		275		26		
Accounts receivable and other receivables		182		305		
Cash held in trust		918		736		
Cash and cash equivalents		2,519		1,201		
		147,525		76,871		
Non-current liabilities:						
Mortgages and loans payable		49,813		30,706		
Current liabilities:						
Mortgages and loans payable		730		520		
Security deposits and prepaid rent		832		158		
Accounts payable and other liabilities		4,654		3,053		
		56,029		34,437		
Investments in joint ventures	\$	91,496	\$	42,434		
		Three months ended		Six months ended		
		June 30,		June 30,		
		2014	2013	2014	2013	
Revenue	\$	2,087	\$	689	\$	689
Property operating expenses		900		184		184
		1,187		505		505
Other income (expenses):						
Interest expense		(303)		(87)		(87)
Fair value (loss) gain on investment properties		(1,049)		688		688
Income for the period from investments in joint ventures	\$	(165)	\$	1,106	\$	589
					\$	1,106

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22. Segmented information:

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

Three months ended June 30, 2014						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Revenue	\$ 59,522	\$ 17,162	\$ 15,035	\$ 28,227	\$ (50)	\$ 119,896
Property operating expenses	18,633	7,765	5,551	10,878	-	42,827
	40,889	9,397	9,484	17,349	(50)	77,069
Other income (expenses):						
Corporate expenses	-	-	-	-	(2,582)	(2,582)
Interest expense	(11,938)	(3,429)	(3,110)	(4,922)	(3,943)	(27,342)
Interest income	322	7	8	12	172	521
(Loss) income from investments						
in joint ventures	-	(463)	-	298	-	(165)
Fair value gain (loss) on						
investment properties	13,542	8,180	(3,394)	237	-	18,565
Foreign currency translation loss	-	-	-	-	(8,406)	(8,406)
Transaction costs	(325)	-	-	(1,071)	-	(1,396)
Loss on financial instruments	-	-	-	-	(2,792)	(2,792)
Income (loss) for the period	\$ 42,490	\$ 13,692	\$ 2,988	\$ 11,903	\$ (17,601)	\$ 53,472
Acquisitions of investment						
properties	\$ 10,100	\$ -	\$ -	\$ 89,412	\$ -	\$ 99,512
Additions to investment properties						
and investment properties						
under development	2,542	4,154	1,114	185	-	7,995
Additions to leasing costs	691	402	171	502	-	1,766
Additions to tenant inducements	2,240	421	162	1,432	-	4,255

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22. Segmented information (continued):

	Three months ended June 30, 2013					
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Revenue	\$ 57,660	\$ 16,206	\$ 15,011	\$ 21,841	\$ 19	\$ 110,737
Property operating expenses	17,897	6,965	5,882	8,254	-	38,998
	39,763	9,241	9,129	13,587	19	71,739
Other income (expenses):						
Corporate expenses	-	-	-	-	(2,354)	(2,354)
Interest expense	(11,938)	(3,451)	(3,096)	(3,977)	(2,846)	(25,308)
Interest income	357	14	20	12	221	624
Income from investments in joint ventures	-	-	-	1,106	-	1,106
Fair value gain (loss) on investment properties	7,541	20,422	1,202	(130)	-	29,035
Foreign currency translation loss	-	-	-	-	(4,622)	(4,622)
Transaction costs	(553)	(1,440)	(376)	(1,220)	-	(3,589)
Gain on financial instruments	-	-	-	-	4,671	4,671
Income (loss) for the period	\$ 35,170	\$ 24,786	\$ 6,879	\$ 9,378	\$ (4,911)	\$ 71,302
Acquisitions of investment properties	\$ 176,571	\$ 48,158	\$ 21,000	\$ 59,323	\$ -	\$ 305,052
Additions to investment properties and investment properties under development	2,008	8,822	308	1,438	-	12,576
Additions to leasing costs	671	223	476	562	-	1,932
Additions to tenant inducements	952	250	553	1,486	-	3,241

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22. Segmented information (continued):

Six months ended June 30, 2014						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Revenue	\$ 120,766	\$ 34,760	\$ 30,954	\$ 56,984	\$ 85	\$ 243,549
Property operating expenses	39,211	15,981	11,760	22,193	-	89,145
	81,555	18,779	19,194	34,791	85	154,404
Other income (expenses):						
Corporate expenses	-	-	-	-	(5,112)	(5,112)
Interest expense	(24,007)	(6,889)	(6,237)	(9,987)	(6,812)	(53,932)
Interest income	635	20	17	26	214	912
(Loss) income from investments in joint ventures	-	(3,706)	-	4,295	-	589
Fair value gain (loss) on investment properties	5,643	8,441	(5,562)	(664)	-	7,858
Foreign currency translation loss	-	-	-	-	(12,761)	(12,761)
Transaction costs	(325)	-	-	(1,159)	-	(1,484)
Loss on financial instruments	-	-	-	-	(6,016)	(6,016)
Income (loss) for the period	\$ 63,501	\$ 16,645	\$ 7,412	\$ 27,302	\$ (30,402)	\$ 84,458
Acquisitions of investment properties	\$ 10,100	\$ -	\$ -	\$ 89,412	\$ -	\$ 99,512
Additions to investment properties and investment properties under development	4,477	6,406	1,117	2,748	-	14,748
Additions to leasing costs	1,404	476	801	1,142	-	3,823
Additions to tenant inducements	4,313	1,205	182	2,395	-	8,095
June 30, 2014						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Total assets	\$ 2,714,323	\$ 683,850	\$ 596,186	\$ 1,188,368	\$ 101,030	\$ 5,283,757
Total liabilities	1,150,733	293,121	305,732	578,959	329,691	2,658,236

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22. Segmented information (continued):

Six months ended June 30, 2013						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Revenue	\$ 112,868	\$ 31,719	\$ 30,822	\$ 44,046	\$ 61	\$ 219,516
Property operating expenses	34,883	13,432	11,269	16,677	-	76,261
	77,985	18,287	19,553	27,369	61	143,255
Other income (expenses):						
Corporate expenses	-	-	-	-	(4,687)	(4,687)
Interest expense	(23,745)	(6,751)	(5,930)	(7,792)	(5,731)	(49,949)
Interest income	704	51	37	23	292	1,107
Income from investments in joint ventures	-	-	-	1,106	-	1,106
Fair value gain on investment properties	31,246	30,268	1,602	743	-	63,859
Foreign currency translation loss	-	-	-	-	(6,007)	(6,007)
Transaction costs	(896)	(1,440)	(1,501)	(1,235)	-	(5,072)
Gain on financial instruments	-	-	-	-	5,267	5,267
Income (loss) for the period	\$ 85,294	\$ 40,415	\$ 13,761	\$ 20,214	\$ (10,805)	\$ 148,879
Acquisitions of investment properties	\$ 215,171	\$ 48,158	\$ 59,080	\$ 59,323	\$ -	\$ 381,732
Additions to investment properties and investment properties under development	3,469	13,251	436	1,770	-	18,926
Additions to leasing costs	1,791	326	607	1,067	-	3,791
Additions to tenant inducements	2,134	1,627	993	2,403	-	7,157
December 31, 2013						
	Western Canada	Central Canada	Eastern Canada	U.S.	REIT	Total
Total assets	\$ 2,705,378	\$ 672,699	\$ 602,903	\$ 1,035,970	\$ 25,087	\$ 5,042,037
Total liabilities	1,168,121	296,084	311,168	581,004	201,413	2,557,790

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23. Commitments and guarantees:

(a) Letters of credit:

As of June 30, 2014, the REIT had issued letters of credit in the amount of \$662 (December 31, 2013, \$851).

(b) Guarantees:

AX L.P. has guaranteed certain debt assumed by a purchaser in connection with the disposition of a property. This guarantee will remain until the debt is modified, refinanced or extinguished. Credit risk arises in the event that the purchaser defaults on repayment of their debt since it is guaranteed by the REIT. This credit risk is mitigated as the REIT has recourse under this guarantee in the event of default by the purchaser, in which case the REIT would have a claim against the underlying property. The estimated amount of debt subject to the guarantee at June 30, 2014 is \$5,346 (December 31, 2013, \$5,427), with an estimated weighted-average remaining term of 3.4 years (December 31, 2013, 3.9 years). No liability in excess of the fair value of the guarantee has been recognized in these consolidated financial statements as the estimated fair value of the borrower's interests in the underlying property is greater than the mortgage payable for which the REIT provided the guarantee.

24. Capital management:

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

The REIT's Declaration of Trust permits the REIT to incur indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of such indebtedness of the REIT is not more than 70% of the gross book value of the REIT's total assets. Gross book value as defined in the Declaration of Trust includes the consolidated book value of the assets of the REIT, plus the amount of accumulated depreciation and amortization recorded in the books and records of the REIT, plus the amount of any deferred tax liability arising out of any indirect acquisitions, calculated in accordance with generally accepted accounting principles. As at June 30, 2014, the ratio of such indebtedness to gross book value was 45.2% (December 31, 2013, 45.4%), which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

In addition to the covenant outlined in the Declaration of Trust, the REIT must maintain a debt to gross book value ratio of less than 70%, a minimum debt service coverage ratio of 1.4, and a minimum adjusted unitholders' equity of \$750,000 for the purposes of the credit facility (note 13). As at June 30, 2014, the REIT was in compliance with these requirements.

In accordance with the Series A senior unsecured debenture supplemental indenture, the REIT must maintain a consolidated EBITDA to consolidated interest expense ratio of not less than 1.65, consolidated indebtedness to aggregate assets of not less than 65% and minimum adjusted unitholders' equity of \$300,000. As at June 30, 2014, the REIT was in compliance with these requirements.

The REIT's mortgage providers also have various financial covenants. The REIT monitors these covenants, which are primarily debt service coverage ratios, and is in compliance with these requirements.

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24. Capital management (continued):

The total managed capital for the REIT is summarized below:

	June 30, 2014	December 31, 2013
Mortgages and loans payable (note 9)	\$ 2,262,290	\$ 2,287,597
Senior unsecured debentures (note 10)	124,159	-
Convertible debentures (note 11)	182,946	185,264
Bank indebtedness (note 13)	1,175	-
Total debt	2,570,570	2,472,861
Unitholders' equity	2,625,521	2,484,247
	\$ 5,196,091	\$ 4,957,108

25. Risk management and fair values:

(a) Risk management:

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

(i) Market risk:

(a) Interest rate risk:

The REIT is exposed to interest rate risk on its borrowings. It minimizes the risk by restricting debt to 70% of the gross book value of the REIT's total assets and by monitoring the amount of variable rate debt. The REIT has the majority of its mortgage payable and debentures in fixed rate terms. In addition, management considers the weighted-average term to maturity of long-term debt relative to the remaining average lease terms. At June 30, 2014, the REIT is a party to \$576,539 of variable rate debt (December 31, 2013, \$575,463). At June 30, 2014, the REIT had entered into interest rate swaps to hedge the interest rate risk associated with \$360,737 of variable rate debt (December 31, 2013, \$323,489).

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25. Risk management and fair values (continued):

(a) Risk management (continued):

(i) Market risk (continued):

(b) Foreign currency risk:

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

A \$0.10 weakening in the US dollar against the average Canadian dollar exchange rate of 1.0892 and 1.0979 for the three and six months ended June 30, 2014, respectively, and the period end exchange rate of 1.0676 at June 30, 2014 would have increased net income by approximately \$5,927 and \$4,525 for the three and six months ended June 30, 2014, respectively. A \$0.10 weakening in the US dollar against the Canadian dollar would have decreased other comprehensive income by approximately \$55,902 and \$54,500 for the three and six months ended June 30, 2014, respectively. Conversely, a \$0.10 strengthening in the US dollar against the Canadian dollar would have had an equal but opposite effect. This analysis assumes that all variables, in particular interest rates, remain constant.

(c) Other price risk:

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

(ii) Credit risk:

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

The REIT is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. The REIT's properties are diversified across the industrial, retail and office asset classes, and geographically diversified with properties owned across five Canadian provinces and six U.S. states. Included in property operating expenses is an impairment loss on accounts receivable and other receivables of \$211 and \$411 during the three and six months ended June 30, 2014 (2013, \$78 and \$72), respectively. The credit quality of the accounts receivable and other receivables amount is considered adequate.

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25. Risk management and fair values (continued):

(a) Risk management (continued):

(ii) Credit risk (continued):

	June 30, 2014	December 31, 2013
Past due 0 - 30 days	\$ 2,869	\$ 2,315
Past due 31 - 90 days	2,264	456
Past due more than 91 days	1,060	564
	6,193	3,335
Allowance for doubtful accounts	(438)	(139)
	\$ 5,755	\$ 3,196

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

(iii) Liquidity risk:

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

The following are the estimated maturities of the REIT's non-derivative financial liabilities at June 30, 2014 including bank indebtedness, accounts payable and other liabilities, convertible debentures, senior unsecured debentures and mortgages and loans payable. All debentures are disclosed at their face value.

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Bank indebtedness	\$ 1,175	\$ 1,175	\$ -	\$ -	\$ -
Accounts payable and other liabilities ⁽¹⁾	64,174	64,174	-	-	-
Convertible debentures	181,619	1,500	-	93,949	86,170
Senior unsecured debentures	125,000	-	-	125,000	-
Mortgages and loans payable ⁽¹⁾	2,317,554	376,707	773,441	552,597	614,809
	\$ 2,689,522	\$ 443,556	\$ 773,441	\$ 771,546	\$ 700,979

(1) This includes balances included in the REIT's investments in joint ventures.

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25. Risk management and fair values (continued):

(b) Fair values:

The REIT uses a three-level hierarchy that reflects the significance of the inputs used in making fair value measurements of its financial instruments and its investment properties. Level 1 of the fair value hierarchy uses quoted market prices in active markets for identical assets or liabilities to determine the fair value of assets and liabilities. Level 2 includes valuations using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 valuations are based on inputs for the asset or liability that are not based on observable market data.

	Fair value hierarchy	June 30, 2014		December 31, 2013	
		Carrying value	Fair value	Carrying value	Fair value
Assets:					
Investment properties	Level 3	\$ 4,952,257	\$ 4,952,257	\$ 4,851,877	\$ 4,851,877
Investment properties under development	Level 3	19,921	19,921	47,281	47,281
Notes receivable	Level 2	19,738	20,888	20,464	21,181
Investment properties held for sale	Level 3	45,415	45,415	-	-
Mortgage interest rate swaps	Level 2	1,303	1,303	4,279	4,279
		5,038,634	5,039,784	4,923,901	4,924,618
Liabilities:					
Mortgages and loans payable	Level 2	2,262,290	2,304,896	2,287,597	2,307,518
Senior unsecured debentures	Level 2	124,159	126,068	-	-
Convertible debentures	Level 1, 2 ⁽¹⁾	182,946	192,529	185,264	190,206
Mortgage interest rate swaps	Level 2	5,416	5,416	2,395	2,395
		2,574,811	2,628,909	2,475,256	2,500,119
		\$ 2,463,823	\$ 2,410,875	\$ 2,448,645	\$ 2,424,499

(1) Convertible debentures excluding Series D are measured using a Level 1 methodology and Series D convertible debentures are valued using a Level 2 methodology.

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

The fair value of notes receivable has been determined by discounting the cash flows of these financial assets using period end market rates for assets of similar terms and credit risks.

The fair value of mortgages and loans payable has been determined by discounting the cash flows of these financial obligations using period end market rates for debt of similar terms and credit risks.

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25. Risk management and fair values (continued):

(b) Fair values (continued):

The fair values of the senior unsecured debentures and the convertible debentures are based on the market price of the debentures, or if no market price exists, the fair values are determined by discounting the cash flows of these financial obligations using period end market rates for debt of similar terms and credit risks.

The REIT entered into interest rate swaps on a number of mortgages. The swaps are not designated in a hedge relationship. An unrealized loss of \$2,738 and \$6,088 was recorded for the three and six months ended June 30, 2014 (2013, gain of \$5,414 and \$5,910), respectively, in relation to the fair value of these interest rate swaps.

26. Subsequent events:

On July 2, 2014, the REIT repaid two maturing mortgages in the amount of \$35,845.

On July 15, 2014, the REIT declared a monthly distribution of \$0.09 per unit for July 2014.

On July 15, 2014, the REIT declared a quarterly cash distribution of \$0.3125 per Series G unit for the quarter ending July 31, 2014.

On July 17, 2014, the REIT issued a new short form base shelf prospectus. The REIT may from time to time during the 25-month period that this short form base shelf prospectus is valid, offer and issue the following securities up to a maximum of \$2,000,000 of initial offering price: (i) trust units of the REIT; (ii) preferred trust units, which may be issuable in series; (iii) debt securities, which may consist of debentures, notes or other types of debt and may be issuable in series; (iv) unit purchase warrants; and (v) subscription receipts to purchase trust securities.

27. Approval of financial statements:

The interim condensed consolidated financial statements were approved by the Board of Trustees and authorized for issue on August 7, 2014.