Interim Consolidated Financial Statements of

ARTIS REAL ESTATE INVESTMENT TRUST

Three months and nine months ended September 30, 2008 and 2007
(Unaudited)

ARTIS REAL ESTATE INVESTMENT TRUST

Interim Consolidated Balance Sheets
(In thousands of dollars)

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Income-producing properties (note 4)	$ 1,022,476	$ 944,612
Other assets (note 5)	148,237	140,070
Future income taxes (note 18)	10,916	11,509
Deposits on income-producing properties (note 6)	8,166	11,826
Prepaid expenses	2,233	1,326
Notes receivable (note 7)	29,239	30,494
Rent and other receivables	8,017	6,543
Cash held in trust	738	682
Cash and cash equivalents	18,283	29,386
	$ 1,248,305	$ 1,176,448
LIABILITIES AND UNITHOLDERS' EQUITY		
Liabilities:		
Mortgages and loans payable (note 8)	$ 676,668	$ 612,996
Convertible debentures (note 9)	44,551	52,732
Intangible liabilities (note 10)	94,334	99,280
Security deposits and prepaid rent	4,977	4,033
Accounts payable and other liabilities (note 11)	25,948	11,725
Bank indebtedness (note 12)	22,600	-
	869,078	780,766
Non-controlling interest (note 13)	10,227	10,182
Unitholders' equity	369,000	385,500
Commitments and guarantees (note 22)		
	$ 1,248,305	$ 1,176,448

See accompanying notes to interim consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

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

(In thousands of dollars, except per unit amounts)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Revenue	$ 36,063	$ 26,688	$ 104,834	$ 66,451
Property operating expenses	11,398	8,186	32,512	21,533
	24,665	18,502	72,322	44,918
Interest	10,308	7,629	30,330	19,287
	14,357	10,873	41,992	25,631
Expenses:				
Corporate	1,137	1,257	3,619	3,416
Amortization	14,125	11,042	43,598	28,040
Unrealized (gain) loss on commodity derivatives	1,092	-	(291)	-
	16,354	12,299	46,926	31,456
Loss before the undernoted	(1,997)	(1,426)	(4,934)	(5,825)
Gain on disposal of income-producing properties	-	2,521	-	2,521
Future income tax (expense) recovery (note 18)	(92)	(206)	(710)	11,818
Income (loss) before non-controlling interest and discontinued operations	(2,089)	889	(5,644)	8,514
Non-controlling interest (note 13)	(23)	-	(178)	-
Income (loss) from continuing operations	(2,112)	889	(5,822)	8,514
Income (loss) from discontinued operations (note 21)	172	(12)	129	(18)
Income (loss) and comprehensive income (loss) for the period	(1,940)	877	(5,693)	8,496
Basic income (loss) per unit (note 14 (e))				
Continuing operations	$ (0.07)	$ 0.03	$ (0.19)	$ 0.37
Discontinued operations	$ 0.01	$ 0.00	$ 0.01	$ 0.00
Diluted income (loss) per unit (note 14 (e))				
Continuing operations	$ (0.07)	$ 0.03	$ (0.19)	$ 0.36
Discontinued operations	$ 0.01	$ 0.00	$ 0.01	$ 0.00

See accompanying notes to interim consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

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

(In thousands of dollars, except unit amounts)

	Number of Units	Capital Contributions	Equity Component of Convertible Debentures	Deficit	Contributed Surplus	Total
Unitholders' equity, December 31, 2006	15,219,261	$ 164,991	$ 11,659	$ (29,533)	$ 649	$ 147,766
Issuance of units	11,120,718	177,079	-	-	(129)	176,950
Unit-based compensation	-	-	-	-	777	777
Conversion of convertible debentures	561,997	7,026	(1,334)	-	-	5,692
Income for the period	-	-	-	8,496	-	8,496
Distributions for the period	-	-	-	(18,170)	-	(18,170)
Unitholders' equity, September 30, 2007	26,901,976	349,096	10,325	(39,207)	1,297	321,511
Issuance of units	4,264,915	73,269	-	-	(41)	73,228
Unit-based compensation	-	-	-	-	262	262
Issuance of convertible debentures	-	-	1,125	-	-	1,125
Conversion of convertible debentures	4,177	97	(10)	-	-	87
Units acquired through normal course issuer bid, not cancelled at period end	(13,000)	(196)	-	-	-	(196)
Loss for the period	-	-	-	(2,339)	-	(2,339)
Distributions for the period	-	-	-	(8,178)	-	(8,178)
Unitholders' equity, December 31, 2007	31,158,068	422,266	11,440	(49,724)	1,518	385,500
Issuance of units	384,877	5,979	-	-	(47)	5,932
Unit-based compensation	-	-	-	-	423	423
Conversion of convertible debentures	837,341	11,651	(2,172)	-	-	9,479
Units acquired and cancelled through normal course issuer bid	(54,000)	(717)	-	(91)	-	(808)
Units acquired through normal course issuer bid, not cancelled at period end	(13,600)	(203)	-	-	-	(203)
Loss for the period	-	-	-	(5,693)	-	(5,693)
Distributions for the period	-	-	-	(25,630)	-	(25,630)
Unitholders' equity, September 30, 2008	32,312,686	$ 438,976	$ 9,268	$ (81,138)	$ 1,894	$ 369,000

See accompanying notes to interim consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

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

(In thousands of dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Cash provided by (used for):				
Operating activities:				
Income (loss) for the period	$ (1,940)	$ 877	$ (5,693)	$ 8,496
Adjustments for non-cash items:				
Amortization:				
Income-producing properties	6,734	5,284	20,098	12,884
Office equipment	2	2	6	5
Above-market rent	84	63	219	158
Acquired in-place leases	7,011	5,673	23,233	14,894
Customer relationships	5	5	16	16
Below-market rent	(3,469)	(3,159)	(10,885)	(6,360)
Tenant inducements and leasing costs	374	194	942	553
Above- and below-market mortgages, net	(53)	(27)	(133)	(84)
Accretion on liability component of convertible debentures	349	391	1,109	1,339
Straight-line rent adjustment	(391)	(339)	(1,501)	(904)
Gain on disposal of income-producing properties	-	(2,521)	-	(2,521)
Unrealized (gain) loss on commodity derivatives	1,092	-	(291)	-
Unit-based compensation expense	143	261	423	777
Amortization of financing costs included in interest	96	61	282	162
Future income tax expense (recovery)	156	201	759	(11,827)
Non-controlling interest (note 13)	34	-	186	-
	10,227	6,966	28,770	17,588
Changes in non-cash operating items (note 16)	12,231	(1,779)	12,521	207
	22,458	5,187	41,291	17,795
Investing activities:				
Acquisition of income-producing properties, net of related debt and issuance of units (note 3)	(24,160)	(17,718)	(43,466)	(126,448)
Disposition of income-producing properties, net of mortgage and costs	-	2,562	-	2,562
Additions to income-producing properties	(2,622)	(70)	(7,960)	(429)
Repayment of mortgage receivable	-	14,403	-	14,403
Advance of mortgage receivable	-	(31,650)	-	(45,650)
Notes receivable principal repayments	412	-	1,255	-
Additions to office equipment and software	(392)	(14)	(400)	(29)
Additions to tenant inducements and leasing costs	(2,762)	(531)	(4,785)	(2,240)
Change in deposits on income-producing properties	850	1,819	3,660	(582)
	(28,674)	(31,199)	(51,696)	(158,413)
Financing activities:				
Issuance of units, net of issue costs	1,327	649	3,855	176,950
Purchase of units under normal course issuer bid	(231)	-	(1,011)	-
Bank indebtedness	12,400	-	22,600	-
Distributions paid on REIT units	(8,718)	(7,051)	(25,630)	(18,170)
Distributions paid on Class B units, charged to non-controlling interest (note 13)	(49)	(47)	(141)	(140)
Mortgages and loans principal repayments	(2,771)	(1,714)	(8,161)	(4,600)
Advance of mortgage payable	-	-	7,790	-
	1,958	(8,163)	(698)	154,040
Increase (decrease) in cash and cash equivalents	(4,258)	(34,175)	(11,103)	13,422
Cash and cash equivalents at beginning of period	22,541	62,849	29,386	15,252
Cash and cash equivalents at end of period	$ 18,283	$ 28,674	$ 18,283	$ 28,674
Supplemental cash flow information:				
Interest paid, net of interest received	$ 8,645	$ 5,310	$ 26,609	$ 14,529

See accompanying notes to interim consolidated financial statements.

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

1. Organization:

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

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

2. Significant accounting policies:

(a) Basis of presentation:

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

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

(b) Changes in accounting policies:

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

Section 1535 includes required disclosures of an entity's objectives, policies and processes for managing capital, and quantitative data about what the entity regards as capital (note 23).

Sections 3862 and 3863 replace the existing Section 3861, Financial Instruments - Disclosure and Presentation. These new sections revise and enhance disclosure requirements, and carryforward unchanged existing presentation requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks (note 24).

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

3. Acquisitions of income-producing properties:

The REIT acquired the following properties during the nine months ended September 30, 2008:

Property	*Location*	*Acquisition Date*	*Type*
King Edward Centre	15 & 25 King Edward Centre, Coquitlam, BC	January 15, 2008	Retail
Leon's Building	6461 Metral Drive, Nanaimo, BC	February 1, 2008	Retail
Estevan Sobeys(1)	440 King Street, Estevan, SK	March 20, 2008	Retail
Moose Jaw Sobeys(1)	769 Thatcher Drive East, Moose Jaw, SK	March 20, 2008	Retail
Edson Shoppers	303 - 54th Street and 2nd Avenue, Edson, AB	April 15, 2008	Retail
Raleigh Shopping Centre	686 Springfield Road, Winnipeg, MB	April 15, 2008	Retail
Maynard Technology Centre	1930 Maynard Road, Calgary, AB	August 29, 2008	Industrial
Willingdon Green Building	3175/3185 Willingdon Green, Burnaby, BC	September 2, 2008	Office

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

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

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

The REIT acquired the following properties during the nine months ended September 30, 2007:

Property	*Location*	*Acquisition Date*	*Type*
CDI College Building	280 Main Street, Winnipeg, MB	January 13, 2007	Office
Keewatin Distribution Centre	959 & 989 Keewatin Street, Winnipeg, MB	January 31, 2007	Industrial
Clareview Town Centre	50th Street & 137th Avenue, Edmonton, AB	February 1, 2007	Retail
Centre 70 Building (1)	7015 Macleod Tr. SW & 555 - 69th St. SW, Calgary, AB	February 28, 2007	Office
Honeywell Building	2840 - 2nd Avenue SE, Calgary, AB	February 28, 2007	Industrial
Millennium Centre	4909 - 49th St. & 4902 - 48th St., Red Deer, AB	February 28, 2007	Office
Bower Centre	2319 Taylor Dr. & 2310 Gaetz Ave., Red Deer, AB	March 1, 2007	Industrial
Britannia Building (2)	703 - 6th Avenue SW, Calgary, AB	March 31, 2007	Office
Sierra Place (2)	706 - 7th Avenue SW, Calgary, AB	March 31, 2007	Office
MTS Call Centre	365 Osborne Street, Winnipeg, MB	April 1, 2007	Office
488 Albert St (3)	488 Albert Street, Nanaimo, BC	June 19, 2007	Office
6475 Metral Drive (3)	6475 Metral Drive, Nanaimo, BC	June 19, 2007	Office
Aulds Corner (3)	6551 Aulds Road, Nanaimo, BC	June 19, 2007	Retail
Can-K Building (4)	8220 Davies Road, Edmonton, AB	June 30, 2007	Industrial
Mayfield Industrial Plaza (4)	11304/24 - 163 Street, Edmonton, AB	June 30, 2007	Industrial
TransAlta Place (5)	110 - 12th Avenue SW, Calgary, AB	July 5, 2007	Office
Winnipeg Square (6)	360 Main Street, Winnipeg, MB	August 29, 2007	Office/Retail
Pepco Building	608 - 17th Avenue, Nisku, AB	September 15, 2007	Industrial
Delta Shoppers Mall	8037 - 120th Street, Delta, BC	September 24, 2007	Retail

(1) The REIT acquired an undivided 85% interest in Centre 70, which is proportionately consolidated in the accounts of the REIT.
(2) The Britannia Building and Sierra Place were acquired together as the Dome Britannia Portfolio.
(3) 488 Albert Street, 6475 Metral Drive and Aulds Corner were acquired as a portfolio.
(4) Can-K Building and Mayfield Industrial Plaza were acquired as a portfolio.
(5) The acquisition of TransAlta Place also included the acquisition of a note receivable for $31,000 (note 7).
(6) The REIT acquired an undivided 38% interest in the air rights leasehold with respect to Winnipeg Square, which is proportionately consolidated in the accounts of the REIT.

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

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

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

The net assets acquired including acquisition costs were as follows:

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Land	$ 8,315	$ 34,350	$ 21,734	$ 76,951
Buildings	30,641	144,036	57,617	311,024
Parking lots	300	1,000	5,486	5,287
Improvements	2,282	9,188	5,165	16,744
Acquired in-place leases	16,386	40,810	25,159	61,678
Above-market rent	229	350	238	390
Below-market rent	(2,474)	(68,411)	(5,940)	(84,739)
Long-term debt including acquired above- and below-market mortgages	(31,519)	(143,605)	(63,893)	(260,887)
Total consideration	24,160	17,718	45,566	126,448
Issuance of units (note 14)	-	-	(2,100)	-
Cash consideration	24,160	17,718	$ 43,466	$ 126,448
Acquisition costs included above	$ 675	$ 2,578	$ 1,572	$ 6,856

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

4. Income-producing properties:

	September 30, 2008 (Unaudited)		
	Cost	Accumulated amortization	Net book value
Land	$ 253,053	$ -	$ 253,053
Buildings and building improvements	720,753	29,389	691,364
Leasehold interest	8,015	641	7,374
Tenant improvements	50,936	18,343	32,593
Parking lots	21,261	1,614	19,647
Property under development	2,725	-	2,725
	1,056,743	49,987	1,006,756
Income-producing properties held for sale (note 21)	16,425	705	15,720
	$ 1,073,168	$ 50,692	$ 1,022,476

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

5. Other assets:

	September 30, 2008 (Unaudited)		
	Cost	Accumulated amortization	Net book value
Acquired in-place leases	$ 190,581	$ 60,275	$ 130,306
Above-market rent	1,795	701	1,094
Customer relationships	105	84	21
Tenant inducements and leasing costs	11,416	1,884	9,532
Recoverable operating costs	4,448	427	4,021
Office equipment and software	455	18	437
	208,800	63,389	145,411
Other assets held for sale (note 21)	4,224	1,398	2,826
	$ 213,024	$ 64,787	$ 148,237

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

5. Other assets (continued):

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

6. Deposits on income-producing properties:

	Nine Months Ended September 30, 2008 (Unaudited)	Year Ended December 31, 2007
Deposit on income-producing property (note 13):		
Balance, beginning of period	$ 7,330	$ 7,743
Property rent	(900)	(1,200)
Costs incurred	-	215
Distributions on 543,781 Class B units of AX L.P.	436	572
	6,866	7,330
Deposits on other income-producing properties	1,300	4,496
	$ 8,166	$ 11,826

Effective February 21, 2007, the REIT entered into a purchase and sale agreement with respect to the forward purchase of the property known as Bridges Place, currently under development. The REIT anticipates that the purchase price, which is based on a predetermined formula as set out in the agreement, will be approximately $6.5 million. The REIT has paid $1,150 as an interim payment towards the purchase price of the income-producing property and has recorded the amount as a deposit on income-producing properties. Construction has commenced and is anticipated to be completed in 2008. The vendor may extend closing until any date up to December 1, 2008 pending the lease up of the property.

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

7. Notes receivable:

	September 30, 2008 (Unaudited)	December 31, 2007
Note receivable from tenant maturing in May 2023, bearing interest at 5.894% per annum, repayable in varying blended monthly installments of principal and interest. The note is unsecured and is transferable at the option of the holder. A default under the terms of the note constitutes a default of the lease of the tenant.	$ 28,942	$ 30,187
Note receivable maturing in November 2010, bearing interest at 5.06% per annum, repayable in blended monthly instalments of principal and interest of $2 and is unsecured. The note was received as partial consideration for the sale of Royal Square.	297	307
	$ 29,239	$ 30,494

8. Mortgages and loans payable:

Substantially all of the REIT's assets have been pledged as security under mortgages and other security agreements. The mortgages and loans payable bear interest at fixed rates, with a weighted average effective rate of 5.52% at September 30, 2008, a weighted average nominal rate of 5.43% at September 30, 2008 (effective and nominal at September 30, 2007, 5.50% and 5.41%, respectively), and maturity dates ranging from November 1, 2008 to June 1, 2024.

Principal payment requirements on the mortgages and loans payable as at September 30, 2008 are as follows:

2009	$ 29,795
2010	83,946
2011	72,599
2012	105,056
2013	124,446
2014 and thereafter	251,797
	667,639
Net above- and below-market mortgage adjustments	826
Financing costs	(2,347)
Mortgages payable on assets held for sale (note 21)	10,550
	$ 676,668

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

9. Convertible debentures:

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

Convertible debenture issue	Series A convertible redeemable	Series B convertible redeemable	Series C convertible redeemable	Series D convertible redeemable	2008 (Unaudited)	2007
Issue date	August 4, 2005	November 9, 2005	May 4, 2006	November 30, 2007		
Interest rate	7.75%	7.50%	6.25%	5.00%		
Face value	$ 620	$ 2,313	$ 29,920	$ 20,000	$ 52,853	$ 63,952
Equity portion	116	457	7,570	1,125	9,268	11,440
Liability portion	504	1,856	22,350	18,875	43,585	52,512
Accretion to September 30, 2008 and December 31, 2007	66	247	1,842	111	2,266	2,166
Financing costs	(25)	(101)	(1,132)	(42)	(1,300)	(1,946)
Carrying value at September 30, 2008 and December 31, 2007	$ 545	$ 2,002	$ 23,060	$ 18,944	$ 44,551	$ 52,732

Accretion to the carrying value of the debt component was $349 (2007, $391) during the three months ended September 30, 2008, and $1,109 (2007, $1,339) during the nine months ended September 30, 2008. The weighted average effective rate of the debentures at September 30, 2008 is 10.33% (September 30, 2007, 14.06%).

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

10. Intangible liabilities:

	September 30, 2008 (Unaudited)		
	Cost	Accumulated amortization	Net book value
Below-market rent on income-producing properties	$ 118,072	$ 24,286	$ 93,786
Below-market rent on assets held for sale (note 21)	821	273	548
Below-market rent	$ 118,893	$ 24,559	$ 94,334

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

11. Accounts payable and other liabilities:

	September 30, 2008 (Unaudited)	December 31, 2007
Accounts payable and accrued liabilities	$ 22,966	$ 8,934
Distributions payable (note 15)	2,982	2,791
	$ 25,948	$ 11,725

12. Bank indebtedness:

On September 28, 2008, the REIT entered into an amended and restated loan agreement for a revolving term credit facility in the amount of $60,000, which may be utilized to fund acquisitions of office, retail and industrial properties. $7,500 of the credit facility is available to purchase units under the normal course issuer bid, $10,000 may be utilized to provide mezzanine financing, and an additional $10,000 may be used for general corporate purposes. The credit facility may be extended for an additional year at the REIT's option; if the option is not exercised, the credit facility matures on September 28, 2009. Amounts drawn on the facility will bear interest at a floating rate equal to Canadian dollar bankers' acceptances with a term to maturity of 30 days, plus 3.4 percent per annum. The credit facility is secured by a first charge on Delta Centre, Grain Exchange Building, Johnston Terminal and Sears Centre. At September 30, 2008, the REIT had utilized $22,600 (December 31, 2007, $nil) of the facility.

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

13. Non-controlling interest:

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

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

Effective October 31, 2006, the REIT entered into a purchase and sale agreement with a third party whereby the vendor will develop a Class A office building in Calgary, Alberta. The purchase and sale agreement contains a scheduled closing date of November 1, 2008, with the vendor having the option to extend closing for an additional 12 months. The final purchase price of the income-producing property is to be calculated in accordance with a pre-determined formula, and is estimated at $90,000. In accordance with the agreement, the REIT paid $7,800 as an interim payment towards the purchase price of the income-producing property, and recorded this amount as a deposit on income-producing properties. As consideration, the REIT issued 543,781 Class B units of AXLP at a price of $14.34 per unit, and the REIT issued an equal number of special voting units as consideration. The Class B units have been released to the vendors, subject to trading restrictions as set out in the purchase and sale agreement. In accordance with the agreement, the REIT receives monthly property rent of $100 from the vendor until the closing of the purchase transaction. Distributions paid to the vendor on the Class B units are netted against property rent and any remaining difference is recorded as a reduction to the deposit on the income-producing property.

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

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

Issuance of 543,781 Class B units of AXLP on October 31, 2006	$	7,800
Issuance of 177,566 Class B units of AXLP on November 30, 2006		2,612
Costs relating to the issuance of Class B units of AXLP		(13)
Distributions on 177,566 Class B units of AXLP		(217)
Balance at December 31, 2007		10,182
Distributions on 177,566 Class B units of AXLP		(141)
Non-controlling interest from continuing operations		178
Non-controlling interest from discontinued operations (note 21)		8
Balance at September 30, 2008 (unaudited)	$	10,227

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

14. Capital contributions:

(a) Authorized:

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

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

(b) Issued and outstanding:

	Number of units	Amount
Balance at December 31, 2006	15,219,261	$ 164,991
Public offerings, net of issue costs of $10,709 (net of future income taxes of $1,089)	15,270,000	248,572
Conversion of Series A convertible debentures	561,538	7,050
Conversion of Series C convertible debentures	4,636	73
Options exercised	81,355	1,223
Distribution Reinvestment Plan ("DRIP")	34,278	553
Units acquired through normal course issuer bid, not cancelled at year end	(13,000)	(196)
Balance at December 31, 2007	31,158,068	422,266
Conversion of Series A convertible debentures	202,379	2,656
Conversion of Series B convertible debentures	634,962	8,995
Options exercised	22,752	263
Distribution Reinvestment Plan (“DRIP”)	243,817	3,616
Units issued on acquisition of income-producing property	118,308	2,100
Units acquired and cancelled through normal course issuer bid	(54,000)	(717)
Units acquired through normal course issuer bid, not cancelled at period end	(13,600)	(203)
Balance at September 30, 2008 (unaudited)	32,312,686	$ 438,976

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

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

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

14. Capital contributions (continued):

(c) Contributed surplus:

	Nine Months Ended September 30, 2008 (Unaudited)	Year Ended December 31, 2007
Balance, beginning of period	$ 1,518	$ 649
Unit based compensation expense	423	1,039
Value of options exercised	(47)	(170)
Balance, end of period	$ 1,894	$ 1,518

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

(d) Unit options:

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

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

	2008		2007	
	Units	Weighted average exercise price	Units	Weighted average exercise price
Balance, beginning of period	1,481,088	$ 15.47	729,393	$ 13.20
Granted	-	-	626,050	16.78
Exercised	(22,752)	11.25	(61,355)	12.47
Expired	-	-	(10,000)	14.40
Balance, end of period	1,458,336	$ 15.52	1,284,088	$ 14.97
Options exercisable at end of period	548,614		271,256	
Weighted average fair value per unit of options granted during the period		$ -		$ 1.35

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

14. Capital contributions (continued):

(d) Unit options (continued):

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

Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Options outstanding weighted average exercise price	Number exercisable
$11.25	217,036	2.25 years	$11.25	74,840
$14.40	380,500	3 years	$14.40	181,500
$15.85	269,750	3.25 years	$15.85	132,750
$17.60	319,050	3.75 years	$17.60	159,524
$17.75	272,000	4 years	$17.75	-
	1,458,336		$ 15.52	548,614

The compensation expense related to unit options granted under the unit option plan for the three months ended September 30, 2008 amounted to $143 (2007, $261) and for the nine months ended September 30, 2008 amounted to $423 (2007, $777). The balance of contributed surplus at September 30, 2008 relates to unexercised options. The compensation expense was determined based on the fair value of the options at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

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

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

14. Capital contributions (continued):

(e) Weighted average units:

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Income (loss)	$ (1,940)	$ 877	$ (5,693)	$ 8,496
Diluted income (loss)	$ (1,940)	$ 877	$ (5,693)	$ 8,496
The weighted average number of units outstanding was as follows:				
Basic units	32,278,801	26,824,956	31,993,296	22,663,067
Effect of dilutive securities:				
Class B units of AXLP	-	721,347	-	721,347
Unit option plan	-	186,374	-	167,432
Diluted units	32,278,801	27,732,677	31,993,296	23,551,846
Income (loss) per unit:				
Basic	$ (0.06)	$ 0.03	$ (0.18)	$ 0.37
Diluted	$ (0.06)	$ 0.03	$ (0.18)	$ 0.36

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

(f) Normal course issuer bid:

On December 12, 2007, the REIT announced that the Toronto Stock Exchange (the "Exchange") had approved its normal course issuer bid. Under the bid, the REIT will have the ability to purchase for cancellation up to a maximum of 3,055,099 units, representing 10% of the REIT's float of 30,550,991 on December 13, 2007. Purchases will be made at market prices through the facilities of the Exchange. The bid commenced on December 14, 2007, and will remain in effect until the earlier of December 13, 2008, or the date on which the REIT has purchased the maximum number of units permitted under the bid. During the period ended September 30, 2008 the REIT had acquired 67,600 units and cancelled 54,000 units at market prices aggregating $1,011 resulting in excess of redemption proceeds over stated capital of $91 which was charged to the deficit. Since December 14, 2007, the REIT had acquired 80,600 units for cancellation.

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

15. Distributions to unitholders:

Distributable Income, which is defined in the Declaration of Trust, means net income in accordance with generally accepted accounting principles, subject to certain adjustments as set out in the Declaration of Trust, including: (i) adding back amortization (excluding leasing costs) and accretion to the carrying value of debt and (ii) excluding gains or losses on the disposition of any asset, and (iii) adding or deducting other adjustments as determined by the Trustees at their discretion. Distributable Income is not a generally accepted accounting principles financial measure and should not be construed as an alternative to net income or cash flow from operating activities determined in accordance with generally accepted accounting principles as an indicator of the REIT's performance.

The REIT declared distributions to REIT unitholders of record in the amount of $8,718 for the three months ended September 30, 2008 (2007, $7,051) and $25,630 for the nine months ended September 30, 2008 (2007, $18,170). The REIT declared distributions to the holders of Class B units of AXLP in the amounts of $195 for the three months ended September 30, 2008 (2007, $189) and $577 for the nine months ended September 30, 2008 (2007, $568). Total distributions payable at September 30, 2008 are $2,982 (December 31, 2007, $2,791).

16. Changes in non-cash operating items:

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Recoverable operating costs	$ (1,270)	$ (576)	$ (2,367)	$ (1,033)
Amortization of recoverable operating costs	140	30	314	74
Prepaid expenses	99	182	(616)	(395)
Mortgage receivable	-	230	-	(6)
Rent and other receivables	858	(4,265)	79	(4,382)
Cash held in trust	(24)	-	(56)	327
Security deposits and prepaid rent	35	783	944	1,969
Accounts payable and other liabilities	12,393	1,837	14,223	3,653
	$ 12,231	$ (1,779)	$ 12,521	$ 207

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

17. Related party transactions:

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Legal fees expensed	$ 27	$ 10	$ 81	$ 78
Capitalized legal fees	-	247	273	1,175
Advisory fees	642	430	1,858	1,164
Capitalized acquisition fees	240	901	502	2,108
Property management fees	1,323	789	3,465	2,139
Capitalized leasing commissions	1,188	101	2,671	1,453
Capitalized building improvements	2,747	31	9,670	317
Tenant inducements	-	85	-	520
Recoverable operating costs	12	-	12	-
Consulting fees	13	-	13	-

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

The REIT incurred advisory fees and acquisition fees under the asset management agreement with Marwest Management Canada Ltd. ("Marwest"), a company owned and controlled by certain trustees and officers of the REIT. The amount payable at September 30, 2008 is $nil (December 31, 2007, $nil). Under the asset management agreement, Marwest is entitled to an annual advisory fee equal to 0.25% of the adjusted cost base of the REIT's assets and an acquisition fee equal to 0.5% of the cost of each property acquired.

The REIT incurred property management fees, leasing commission fees, and tenant improvement fees under the property management agreement with Marwest. The amount payable at September 30, 2008 is $nil (December 31, 2007, $nil). Marwest acts as the general property manager for the REIT's properties and is entitled to management fees, leasing renewal commissions and tenant improvement fees at commercially reasonable rates.

The REIT incurred costs for building improvements and tenant inducements paid to Marwest Construction Ltd., a company related to certain trustees and officers of the REIT. The amount payable at September 30, 2008 is $nil (December 31, 2007, $nil).

During 2008, the REIT acquired an income-producing property from entities under the control of certain Trustees of the REIT for an aggregate purchase price of $1,500. The amount payable to the vendors in relation to the acquisition at September 30, 2008 is $nil.

18. Future income taxes:

The REIT currently qualifies as a mutual fund trust for Canadian income tax purposes. Prior to new legislation relating to the federal income taxation of publicly listed or traded trusts, as discussed below, income earned by the REIT and distributed annually to unitholders was not, and would not be, subject to taxation in the REIT, but was taxed at the individual unitholder level. For financial statement reporting purposes, the tax deductibility of the REIT's distributions was treated as an exception from taxation as the REIT distributed, and was committed to continue distributing, all of its taxable income to its unitholders. Accordingly, the REIT did not previously record a provision for income taxes or future income tax assets or liabilities.

On June 22, 2007, new legislation relating to, among other things, the federal income taxation of a specified investment flow-through trust or partnership (a "SIFT") was enacted (the “New SIFT Rules"). A SIFT includes a publicly-listed or traded partnership or trust, such as an income trust.

18. Future income taxes (continued):

Under the New SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as returns of capital should generally not be subject to the tax.

The New SIFT Rules do not apply to a “real estate investment trust" that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT is currently reviewing the New SIFT Rules and is assessing their interpretation and application to the REIT's assets and revenues. There are uncertainties in the interpretation and application of the New SIFT Rules and it is not possible, at the current time, to determine with certainty whether the REIT will meet the REIT Conditions.

The New SIFT Rules provide that a SIFT which was publicly traded before November 1, 2006 will become subject to the tax on distributions commencing with the 2011 taxation year. However, a SIFT may become subject to this tax prior to 2011 if its equity capital increases beyond certain limits measured against the market capitalization of the SIFT at the close of trading on October 31, 2006 (the "Safe Harbour Limits"). In the case of the REIT, its subsequent offerings have exceeded the Safe Harbour Limits. Therefore, commencing on January 1, 2007, subject to the REIT’s ability to meet the REIT Conditions, the REIT is subject to tax on certain income which may adversely impact the level of cash otherwise available for distribution.

If the REIT does not meet the REIT Conditions, the REIT may restructure its affairs in order to minimize, or if possible eliminate, the impact of the New SIFT Rules, if such restructuring is in the best interests of unitholders. There can be no assurances, however, that the REIT would be able to restructure such that the REIT would not be subject to the tax imposed by the New SIFT Rules, or that any such restructuring, if implemented, would not result in material costs or other adverse consequences to the REIT and its unitholders.

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

As management is unable to conclude at the present time if the REIT meets the REIT Conditions, and therefore cannot conclude that the New SIFT Rules do not apply to it, the REIT commenced recognizing future income tax assets and liabilities with respect to the temporary differences between the carrying amounts and tax basis of its assets and liabilities, including those of its subsidiary partnerships, that are expected to reverse after 2008. Future income tax assets or liabilties are recorded using tax rates and laws expected to apply when the temporary differences are expected to reverse. The New SIFT Rules resulted in the REIT including a future income tax asset of $10,916 in the consolidated balance sheet at September 30, 2008 (December 31, 2007, $11,509), a future income tax expense of $156 reflected in consolidated loss for the three months ended September 30, 2008 (2007, $201), and a future income tax expense of $759 reflected in consolidated loss for the nine months ended September 30, 2008 (2007, recovery of $11,827). The REIT also credited capital contributions in the amount of $nil (2007, $nil) for the three months ended September 30, 2008 to adjust for the tax effect of finance costs transferred to capital contributions on the conversion of convertible debentures. For the nine months ended September 30, 2008, the adjustment was $166 (2007, $nil).

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

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

19. Co-ownership activities:

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

	September 30, 2008 (Unaudited)	December 31, 2007
Assets	$ 69,876	$ 72,871
Liabilities	71,329	73,232

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenue	2,698	1,616	8,093	2,806
Expenses	3,117	1,668	9,179	2,744
Operating income (loss) from properties	(419)	(52)	(1,086)	62
Cash flows provided by (used in) operating activities	(58)	(317)	1,509	647
Cash flows used in investing activities	(173)	(11,144)	(556)	(22,443)
Cash flows provided by (used in) financing activities	(83)	11,336	(1,080)	22,005

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

20. Segmented information:

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

	Three months ended September 30, 2008				
	Retail	Office	Industrial	REIT	Total
Revenue	$ 12,526	$ 19,739	$ 3,694	$ 104	$ 36,063
Property operating expenses	3,550	6,714	1,134	-	11,398
	8,976	13,025	2,560	104	24,665
Interest	3,183	4,645	1,029	1,451	10,308
Corporate expenses	-	-	-	1,137	1,137
Amortization	4,542	7,497	2,074	12	14,125
Unrealized loss on commodity derivatives	-	-	-	1,092	1,092
	7,725	12,142	3,103	3,692	26,662
	1,251	883	(543)	(3,588)	(1,997)
Future income tax expense	-	-	-	(92)	(92)
Non-controlling interest	-	-	-	(23)	(23)
Income from discontinued operations	-	172	-	-	172
Income (loss) for the period	1,251	1,055	(543)	(3,703)	(1,940)
Total assets	$ 422,487	$ 650,001	$ 149,238	$ 26,579	$ 1,248,305

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

20. Segmented information (continued):

	Three months ended September 30, 2007				
	Retail	Office	Industrial	REIT	Total
Revenue	$ 8,123	$ 16,388	$ 1,812	$ 365	$ 26,688
Property operating expenses	2,320	5,443	423	-	8,186
	5,803	10,945	1,389	365	18,502
Interest	2,100	3,894	514	1,121	7,629
Corporate expenses	-	-	-	1,257	1,257
Amortization	3,421	6,628	981	12	11,042
	5,521	10,522	1,495	2,390	19,928
	282	423	(106)	(2,025)	(1,426)
Gain on disposal of income-producing property	-	-	-	2,521	2,521
Future income tax recovery	-	-	-	(206)	(206)
Loss from discontinued operations	-	(12)	-	-	(12)
Income (loss) for the period	$ 282	$ 411	$ (106)	$ 290	$ 877
Total assets	$ 288,575	$ 593,460	$ 72,150	$ 42,661	$ 996,846

	Nine Months Ended September 30, 2008				
	Retail	Office	Industrial	REIT	Total
Revenue	$ 36,869	$ 57,210	$ 10,249	$ 506	$ 104,834
Property operating expenses	10,387	19,346	2,779	-	32,512
	26,482	37,864	7,470	506	72,322
Interest	9,378	13,886	2,666	4,400	30,330
Corporate expenses	-	-	-	3,619	3,619
Amortization	14,417	22,902	6,244	35	43,598
Unrealized gain on commodity derivatives	-	-	-	(291)	(291)
	23,795	36,788	8,910	7,763	77,256
	2,687	1,076	(1,440)	(7,257)	(4,934)
Future income tax expense	-	-	-	(710)	(710)
Non-controlling interest	-	-	-	(178)	(178)
Income from discontinued operations	-	129	-	-	129
Income (loss) for the period	$ 2,687	$ 1,205	$ (1,440)	$ (8,145)	$ (5,693)
Total assets	$ 422,487	$ 650,001	$ 149,238	$ 26,579	$ 1,248,305

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

20. Segmented information (continued):

	Nine Months Ended September 30, 2007				
	Retail	Office	Industrial	REIT	Total
Revenue	$ 23,636	$ 36,887	$ 4,453	$ 1,475	$ 66,451
Property operating expenses	6,925	13,556	1,047	5	21,533
	16,711	23,331	3,406	1,470	44,918
Interest	6,281	8,011	1,282	3,713	19,287
Corporate expenses	-	-	-	3,416	3,416
Amortization	10,081	15,513	2,412	34	28,040
	16,362	23,524	3,694	7,163	50,743
	349	(193)	(288)	(5,693)	(5,825)
Gain on disposal of income-producing properties	2,521	-	-	-	2,521
Future income tax recovery	-	-	-	11,818	11,818
Loss from discontinued operations	-	(18)	-	-	(18)
Income (loss) for the period	$ 2,870	$ (211)	$ (288)	$ 6,125	$ 8,496
Total assets	$ 288,575	$ 593,460	$ 72,150	$ 42,661	$ 996,846

21. Income (loss) from discontinued operations:

The REIT has entered into an unconditional agreement to sell two office properties in Calgary, Alberta; Airways Business Plaza and Glenmore Commerce Court. The properties will be sold for an aggregate of $24,900, to be satisfied with the assumption of mortgages payable and cash consideration, which will result in an estimated gain of $6,500. The disposition was originally expected to close in the third quarter of 2008, however subsequent to period end the closing has been rescheduled to the first quarter of 2009. The results of operations from these properties have been separately disclosed below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenue	$ 769	$ 353	$ 2,414	$ 958
Property operating expenses	377	199	1,107	503
	392	154	1,307	455
Interest	140	55	423	166
Amortization	5	116	698	316
Net property operating income (loss)	247	(17)	186	(27)
Future income tax (expense) recovery (note 18)	(64)	5	(49)	9
Non-controlling interest (note 13)	(11)	-	(8)	-
Income (loss) from discontinued operations	$ 172	$ (12)	$ 129	$ (18)

22. Commitments and guarantees:

(a) Letters of credit:

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

(b) Guarantee:

AXLP has guaranteed certain debt assumed by a purchaser in connection with the disposition of Royal Square. This guarantee will remain until the debt is modified, refinanced or extinguished. Credit risk arises in the event that the purchaser defaults on repayment of their debt since it is guaranteed by the REIT. This credit risk is mitigated as the REIT has recourse under this guarantee in the event of default by the purchaser, in which case the REIT would have a claim against the underlying property. The estimated amount of debt subject to the guarantee at September 30, 2008, is $1,664 (December 31, 2007, $1,709), with an estimated weighted average remaining term of 2.1 years (December 31, 2007, 2.8 years). No liability in excess of the fair value of the guarantee has been recognized in these consolidated financial statements as the estimated fair value of the borrower's interest in the underlying property is greater than the mortgage payable for which the REIT provided the guarantee.

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

23. Capital management:

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

The REIT's Declaration of Trust permits the REIT to incur indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of such indebtedness of the REIT is not more than 70% of the gross book value of the REIT's total assets. Gross book value is defined in the Declaration of Trust as "the consolidated book value of the assets of the REIT, plus the amount of accumulated depreciation and amortization recorded in the books and records of the REIT, plus the amount of any future income tax liability arising out of any indirect acquisitions, calculated in accordance with generally accepted accounting principles". As at September 30, 2008, the ratio of such indebtedness to gross book value was 51.3% (December 31, 2007, 49.2%), which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

In addition to the covenant outlined in the Declaration of Trust, the REIT must maintain a debt to gross book value ratio of 70%, a debt service coverage ratio of 1.4, and minimum unitholders' equity of $275,000 for the purposes of the credit facility (note 12). As at September 30, 2008, the REIT was in compliance with these requirements.

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

The total managed capital for the REIT is summarized below:

	September 30, 2008 (Unaudited)	December 31, 2007
Mortgages and loans payable	$ 676,668	$ 612,996
Convertible debentures	44,551	52,732
Bank indebtedness	22,600	-
Total debt	743,819	665,728
Non-controlling interest	10,227	10,182
Unitholders' equity	369,000	385,500
	$ 1,123,046	$ 1,061,410

24. Risk management and fair values:

(a) Risk management:

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

(i) Market risk:

(a) Interest rate risk:

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

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

24. Risk management and fair values (continued):

(a) Risk management (continued):

(i) Market risk (continued):

(b) Other price risk:

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

(ii) Credit risk:

The REIT is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. Management has diversified the REIT's holdings so that it owns several categories of properties (retail, office and industrial) and acquires properties throughout Western Canada. The allowance for doubtful accounts at September 30, 2008 was $316, and $154 at December 31, 2007. The credit quality of the rent and other receivables amount is considered adequate.

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

(iii) Liquidity risk:

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

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

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Mortgages, loans and bank indebtedness	$ 700,839	$ 62,995	$ 156,545	$ 229,502	$ 251,797
Convertible debentures	52,853	-	2,933	29,920	20,000
	$ 753,692	$ 62,995	$ 159,478	$ 259,422	$ 271,797

24. Risk management and fair values (continued):

(b) Fair values:

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

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

The fair value of the notes receivable has been determined by discounting the cash flows of these financial assets using quarter end market rates for assets of similar terms and credit risks. Based on these assumptions, the fair value of notes receivable at September 30, 2008 has been estimated at $29,468 (December 31, 2007, $30,530), compared with the carrying value of $29,239 (December 31, 2007, $30,494).

The fair value of the mortgages and loans payable has been determined by discounting the cash flows of these financial obligations using quarter end market rates for debt of similar terms and credit risks. Based on these assumptions, the fair value of mortgages and loans payable at September 30, 2008 has been estimated at $669,673 (December 31, 2007, $607,981) compared with the carrying value of $676,668 (December 31, 2007, $612,996).

The fair value of the REIT's convertible debentures is $54,016 (December 31, 2007, $66,072) compared to its face value of $52,853 (December 31, 2007, $63,952) at September 30, 2008. Fair value is based on the market price of the debentures, or if no market price exists, fair value is determined by discounting the cash flows of these financial obligations using quarter end market rates for debt of similar terms and credit risks.

As at September 30, 2008, the REIT had entered into natural gas and electrical contracts with a fair value of $291 (December 31, 2007, $nil).

25. Future changes in accounting policies:

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

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

The REIT's management is currently in the process of evaluating the potential impact of IFRS to the consolidated financial statements. This will be an ongoing process as new standards and recommendations are issued by the International Accounting Standards Board and the AcSB. The REIT's consolidated financial performance and financial position as disclosed in the current GAAP financial statements may be significantly different when presented in accordance with IFRS.