

Consolidated Financial Statements of

**ARTIS REAL ESTATE
INVESTMENT TRUST**

(Formerly Westfield Real Estate Investment Trust)

December 31, 2006 and 2005



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AUDITORS' REPORT

To the Unitholders of Artis Real Estate Investment Trust

We have audited the consolidated balance sheets of Artis Real Estate Investment Trust as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of Artis Real Estate Investment Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Artis Real Estate Investment Trust as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed "**KPMG LLP**"

Chartered Accountants

Winnipeg, Canada

March 1, 2007

ARTIS REAL ESTATE INVESTMENT TRUST

(Formerly Westfield Real Estate Investment Trust)

Consolidated Balance Sheets

As at December 31, 2006 and 2005

(In thousands of dollars)

	2006	2005
ASSETS		
Income-producing properties (note 4)	\$ 388,845	\$ 209,658
Other assets (note 5)	70,348	47,984
Deferred financing costs, net of accumulated amortization of \$871 (2005, \$124)	4,057	2,523
Deposits on income-producing properties (note 6)	10,343	425
Prepaid expenses	812	271
Rent and other receivables	2,956	1,446
Cash held in trust	327	1,033
Cash and cash equivalents	15,252	9,927
	\$ 492,940	\$ 273,267
LIABILITIES AND UNITHOLDERS' EQUITY		
Liabilities:		
Mortgages and loans payable (note 7)	\$ 272,341	\$ 168,889
Convertible debentures (note 8)	40,503	21,945
Intangible liabilities (note 9)	13,341	7,299
Security deposits and prepaid rent	1,402	964
Accounts payable and other liabilities (note 10)	7,233	4,810
	334,820	203,907
Non-controlling interest (note 11)	10,368	-
Unitholders' equity:		
Capital contributions (note 12 (b))	165,288	70,151
Contributed surplus (note 12 (c))	649	176
Equity component of convertible debentures (note 8)	11,659	5,024
Deficit	(29,844)	(5,991)
	147,752	69,360
Contingent consideration (note 18)		
Subsequent events (note 21)		
	\$ 492,940	\$ 273,267

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(Signed) "Armin Martens" Trustee

(Signed) "Delmore Crewson" Trustee

ARTIS REAL ESTATE INVESTMENT TRUST

(Formerly Westfield Real Estate Investment Trust)

Consolidated Statements of Operations and Deficit
Years ended December 31, 2006 and 2005

(In thousands of dollars, except per unit amounts)

	2006	2005
Revenue	\$ 53,522	\$ 9,644
Property operating expenses	19,271	3,424
Interest	34,251	6,220
	17,003	3,165
Expenses:	17,248	3,055
Corporate	3,081	913
Amortization	26,148	4,661
	29,229	5,574
Loss before the undernoted	(11,981)	(2,519)
Gain on disposal of income-producing properties (note 3)	828	-
Loss for the year	(11,153)	(2,519)
Deficit, beginning of year	(5,991)	(142)
	(17,144)	(2,661)
Distributions (note 13)	(12,700)	(3,330)
Deficit, end of year	\$ (29,844)	\$ (5,991)
Basic and diluted loss per unit	\$ (0.94)	\$ (0.74)

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

(Formerly Westfield Real Estate Investment Trust)

Consolidated Statements of Cash Flows
Years ended December 31, 2006 and 2005

(In thousands of dollars)

	2006	2005
Cash provided by (used for):		
Operating activities:		
Loss for the year	\$ (11,153)	\$ (2,519)
Adjustments for non-cash items:		
Amortization:		
Income-producing properties	10,106	1,900
Office equipment	4	1
Above-market rent	213	67
Acquired in-place leases	15,004	2,597
Customer relationships	23	30
Deferred financing costs	765	124
Below-market rent	(3,249)	(715)
Tenant inducements and leasing costs	246	9
Above-market mortgages	(81)	(9)
Accretion on liability component of convertible debentures	1,094	238
Straight-line rent adjustment	(1,063)	(207)
Gain on disposal of income-producing properties	(828)	-
Unit based compensation expense	502	157
Units issued for Trustee compensation	15	-
	11,598	1,673
Changes in non-cash operating items (note 14)	2,022	3,033
	13,620	4,706
Investing activities:		
Acquisition of income-producing properties, net of related debt (note 3)	(85,200)	(83,638)
Dispositions of income-producing properties, net of mortgages and costs (note 3)	3,440	-
Additions to income-producing properties	(1,741)	-
Additions to office equipment	(15)	(5)
Additions to tenant inducements and leasing costs	(3,319)	(342)
Change in deposits on income-producing properties	(2,118)	(158)
	(88,953)	(84,143)
Financing activities:		
Issuance of REIT units, net of issue costs	89,192	64,715
Costs incurred on issuance of Class B units (note 11)	(13)	-
Issuance of convertible debentures	30,000	26,737
Distributions paid on REIT units	(12,700)	(3,330)
Distributions paid on Class B units, charged to non-controlling interest (note 11)	(31)	-
Mortgages and loans principal repayments	(4,261)	(554)
Repayment of mortgages and loans payable	(19,230)	(20,920)
Proceeds from mortgage refinancing	-	22,088
Deferred financing costs	(2,299)	(2,642)
	80,658	86,094
Increase in cash and cash equivalents	5,325	6,657
Cash and cash equivalents at beginning of year	9,927	3,270
Cash and cash equivalents at end of year	\$ 15,252	\$ 9,927
Supplemental cash flow information:		
Interest paid, net of interest received	\$ 14,212	\$ 1,795
Non-cash investing and financing activities:		
Deposit on income-producing property and related issuance of Class B units are excluded from investing and financing activities	7,800	-

See accompanying notes to consolidated financial statements.

ARTIS REAL ESTATE INVESTMENT TRUST

(Formerly Westfield Real Estate Investment Trust)

Notes to Consolidated Financial Statements
Years ended December 31, 2006 and 2005

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

1. Organization:

Artis Real Estate Investment Trust (the "REIT"), formerly Westfield Real Estate Investment Trust, is an unincorporated open-end real estate investment trust (note 12) 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 equal to not less than the greater of: (i) the amount of distributable income in the year set down in a policy by the Trustees (currently \$1.05 per unit); and (ii) an amount of net income and net realized capital gains for the year as is necessary to ensure that the REIT will not be subject to tax in accordance with the terms of the Declaration of Trust.

2. Significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the REIT and its subsidiaries, together with its proportionate share of the assets, liabilities, revenue and expenses of the co-ownership in which it participates.

(b) Income-producing properties, other assets and intangible liabilities:

Income-producing properties include tangible and intangible assets.

Tangible assets include land, buildings, a leasehold interest, parking lots and improvements. Intangible assets include the value of in-place lease agreements, the value of the differential between original and market rents for in-place leases and the value of customer relationships.

Income-producing properties are carried at cost less accumulated amortization. If events or circumstances indicate that the carrying value of the income-producing property may be impaired, a recoverability analysis is performed based upon estimated undiscounted cash flows to be generated from the income-producing property. If the analysis indicates that the carrying value is not recoverable from future cash flows, the income-producing property is written-down to estimated fair value and an impairment loss is recognized.

Upon acquisition of properties, the purchase price is allocated based on estimated fair values to land, building, parking lots, tenant improvements and intangibles, including the value of above and below market leases, acquired in-place leases, and tenant relationships, if any.

Property under development includes initial acquisition costs, other direct costs and realty taxes, interest, and operating revenue and expenses during the period of development.

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Notes to Consolidated Financial Statements
Years ended December 31, 2006 and 2005

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

2. Significant accounting policies (continued):

Amortization on income-producing properties, other assets and intangible liabilities is provided on the following basis and rates:

Asset	Basis	Rate/years
Buildings	Straight-line	up to 40
Building Improvements	Straight-line	up to 20
Tenant Improvements	Straight-line	Remaining term of lease agreement and renewal years where applicable
Leasehold interest	Straight-line	40
Parking lots	Straight-line	20
Office equipment	Straight-line	5
Acquired in-place leases	Straight-line	Remaining term of lease agreement and renewal years where applicable
Above-market rent	Straight-line	Remaining term of lease agreement and fixed-rate non-cancelable renewal years
Below-market rent	Straight-line	Remaining term of lease agreement and fixed-rate non-cancelable renewal years
Tenant inducements and leasing costs	Straight-line	Term of lease agreement
Customer relationships	Straight-line	Remaining term of lease agreement and renewal years where applicable

(c) Deferred costs:

Deferred recoverable operating costs are deferred and amortized over the period which they are recoverable from tenants.

Deferred financing costs represent costs incurred relating to the issuance of the convertible debentures and the financing by way of mortgage or vendor take-back loans related to the REIT's income-producing properties. Amortization is provided on a straight-line basis, over the term of the related debt.

(d) Cash and cash equivalents:

Cash and cash equivalents consist of cash with financial institutions and includes short-term investments with maturities of three months or less.

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2. Significant accounting policies (continued):

(e) Revenue recognition:

Revenue from income-producing properties includes rents earned from tenants under lease agreements, percentage rent, realty tax and operating costs recoveries and other incidental income and is recognized as revenue over the term of the underlying leases. All rent steps in lease agreements are accounted for on a straight-line basis over the term of the respective leases. Percentage rent is not recognized until a tenant is obligated to pay such rent.

(f) Co-ownership:

The REIT carries out a portion of its activities through a co-ownership agreement and records its proportionate share of assets, liabilities, revenues, expenses and cash flows of the co-ownership in which it participates.

(g) Earnings per unit:

Basic earnings (loss) per REIT unit is computed by dividing net earnings (loss) by the weighted average units outstanding during the reporting year. Diluted earnings (loss) per unit is calculated based on the weighted average number of units outstanding during the year, plus the effect of dilutive unit equivalents such as options. The diluted per unit amounts are calculated using the treasury stock method, as if all the unit equivalents where average market price exceeds issue price had been exercised at the beginning of the reporting year, or the year of issue, as the case may be, and that the funds obtained thereby were used to purchase units of the REIT at the average trading price of the units during the year.

(h) Unit-based compensation:

The REIT accounts for unit options issued under its unit option plan using the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period.

(i) Income taxes:

The REIT became an open-ended real estate investment trust (note 12) during 2006. The REIT is taxed as a mutual fund trust for income tax purposes. Pursuant to the terms of the Declaration of Trust, the trustees intend to make distributions not less than the amounts necessary to ensure that the REIT will not be liable to pay income taxes. Therefore, no provision for income taxes is required on income earned by the REIT and its flow through entities (note 16).

(j) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions 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 year. Actual results could differ from those estimates.

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

3. Acquisitions and dispositions of income-producing properties:

Acquisitions:

The REIT acquired the following properties during 2006:

<i>Property</i>	<i>Location</i>	<i>Acquisition Date</i>	<i>Type</i>
Northwest Centre	4500 and 4520-16th Ave. NW, Calgary, AB	February 28, 2006	Office
Southwood Corner	10233 Elbow Drive, Calgary, AB	March 31, 2006	Retail
Circle 8	3120, 3124, 3126, 3134 8th St. E, Saskatoon, SK	March 31, 2006	Retail
Reenders Square	3-11 Reenders Drive, Winnipeg, MB	March 31, 2006	Retail
Sunridge Spectrum	2555 - 32nd St. NE, Calgary, AB	May 31, 2006	Retail
McCall Lake	1338-36 Ave. NE, Calgary, AB	June 30, 2006	Industrial
Heritage Square	8500 MacLeod Trail SE, Calgary, AB	July 13, 2006	Office
Franklin Showcase Warehouse	700-33rd Street NE & 3501-8th Avenue NE, Calgary, AB	July 14, 2006	Industrial
Horizon Heights	3508 - 32nd Avenue NE, Calgary, AB	July 17, 2006	Retail
Liberton Square	504, 506, & 506A St. Albert Trail, St. Albert, AB	November 1, 2006	Retail
Delta Centre	16515 - 116th Avenue, Edmonton, AB	December 31, 2006	Industrial

The REIT also acquired an undivided 50% interest in certain lands located in Calgary, Alberta (note 11).

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

The REIT acquired the following properties during 2005:

<i>Property</i>	<i>Location</i>	<i>Acquisition Date</i>	<i>Type</i>
Royal Square	15 Worobetz Place, Saskatoon, SK	February 1, 2005	Retail
Capital City Centre	1825 & 1875 E. Victoria Ave., Regina, SK	February 2, 2005	Retail
Johnston Terminal	25 Forks Market Road, Winnipeg, MB	August 1, 2005	Office
Sears Centre	12429 - 99 Street, Grande Prairie, AB	August 15, 2005	Retail
Southview Centre	3201 - 13th Avenue SE, Medicine Hat, AB	August 31, 2005	Retail
Airways Business Park	1935 - 32nd Avenue NE, Calgary, AB	September 16, 2005	Office
Edgemont Mall	34 Edgedale Drive NW, Calgary, AB	September 30, 2005	Retail
Landmark Shoppers	4150 Albert Street, Regina, SK	September 30, 2005	Retail
Strathcona Shoppers	2202 Broad Street, Regina, SK	September 30, 2005	Retail
Canarama Mall	7 Assiniboine Drive, Saskatoon, SK	September 30, 2005	Retail
Grain Exchange Building	167 Lombard Ave, Winnipeg, MB	September 30, 2005	Office
Hamilton Building	395 Main Street, Winnipeg, MB	September 30, 2005	Office
McKnight Village	5220 Falsbridge Dr. NE, Calgary, AB	October 31, 2005	Retail
Hillhurst Building	301-14th Street NW, Calgary, AB	October 31, 2005	Office
Campana Place	609-14th Street NW, Calgary, AB	October 31, 2005	Office
Xentel Building	417-14th Street NW, Calgary, AB	October 31, 2005	Office
Willowglen Business Park	Manning Road and Manning Close NE, Calgary, AB	November 15, 2005	Office
Plainsman Building	301 Victoria, Kamloops, BC	November 30, 2005	Office
Gateway Power Centre	100 & 105A Avenue, Grande Prairie, AB	December 1, 2005	Retail
Albert Street Mall	111 Albert St., Regina, SK	December 15, 2005	Retail
East Landing Mall	2525 Quance St., Regina, SK	December 15, 2005	Retail
East Landing Plaza	2525 Quance St., Regina, SK	December 15, 2005	Retail
Fleet Street Enterprises	2220 Victoria Ave., Regina, SK	December 15, 2005	Retail
West Landing Mall	570 University Park Drive, Regina, SK	December 15, 2005	Retail
Keystone Village Mall	1300-18th Street, Brandon, MB	December 15, 2005	Retail
Centre 15 Building	1509 Centre Street S, Calgary, AB	December 16, 2005	Office

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

Acquisitions (continued):

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

The net assets acquired including acquisition costs were as follows:

	2006	2005
Land	\$ 56,837	\$ 51,164
Buildings	119,666	127,349
Leasehold interest	6	8,009
Parking lots	3,800	4,270
Property under development	2,632	-
Tenant improvements	10,800	14,351
Acquired in-place leases	35,460	48,091
Above-market rent	201	925
Customer relationships	-	97
Below-market rent	(9,379)	(7,959)
Long-term debt including acquired above-market mortgage	(132,211)	(162,659)
Total consideration	87,812	83,638
Issuance of Class B units (note 11)	(2,612)	-
Cash consideration	\$ 85,200	\$ 83,638
Acquisition costs included above	\$ 9,141	\$ 4,570

Dispositions:

During 2006, the REIT disposed of the following properties:

<i>Property</i>	<i>Location</i>	<i>Disposition Date</i>	<i>Type</i>
Edgemont Mall	34 Edgedale Drive NW, Calgary, AB	January 12, 2006	Retail
Keystone Village Mall	1300-18th Street, Brandon, MB	June 15, 2006	Retail

The proceeds from the sale of Edgemont Mall, net of costs, were \$5,117. Consideration received was the assumption of the existing mortgage in the amount of \$2,976 and cash in the amount of \$2,141. The assets, intangible assets and liabilities associated with the property were removed from the books and a gain on sale of property in the amount of \$941 was recorded.

The proceeds from the sale of Keystone Village Mall, net of costs, were \$3,510. Consideration received was the assumption of the existing mortgage in the amount of \$2,211 and cash in the amount of \$1,299. The assets, intangible assets and liabilities associated with the property were removed from the books and a loss on sale of property in the amount of \$113 was recorded.

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Years ended December 31, 2006 and 2005

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

4. Income-producing properties:

	December 31, 2006		
	Cost	Accumulated amortization	Net book value
Land	\$ 108,066	\$ -	\$ 108,066
Buildings and building improvements	247,942	5,708	242,234
Leasehold interest	8,015	286	7,729
Tenant improvements	26,225	5,694	20,531
Parking lots	8,020	367	7,653
Property under development	2,632	-	2,632
	<u>\$ 400,900</u>	<u>\$ 12,055</u>	<u>\$ 388,845</u>

	December 31, 2005		
	Cost	Accumulated amortization	Net book value
Land	\$ 52,365	\$ -	\$ 52,365
Buildings and building improvements	131,167	834	130,333
Leasehold interest	8,009	83	7,926
Tenant improvements	15,776	1,064	14,712
Parking lots	4,370	48	4,322
	<u>\$ 211,687</u>	<u>\$ 2,029</u>	<u>\$ 209,658</u>

5. Other assets:

	December 31, 2006		
	Cost	Accumulated amortization	Net book value
Acquired in-place leases	\$ 82,898	\$ 17,489	\$ 65,409
Above-market rent	1,179	283	896
Customer relationships	115	54	61
Tenant inducements and leasing costs	3,661	255	3,406
Deferred recoverable operating costs	557	-	557
Office equipment	24	5	19
	<u>\$ 88,434</u>	<u>\$ 18,086</u>	<u>\$ 70,348</u>

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Notes to Consolidated Financial Statements
Years ended December 31, 2006 and 2005

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

5. Other assets (continued):

	December 31, 2005		
	Cost	Accumulated amortization	Net book value
Acquired in-place leases	\$ 49,302	\$ 2,658	\$ 46,644
Above-market rent	985	70	915
Customer relationships	115	31	84
Tenant inducements and leasing costs	342	9	333
Office equipment	9	1	8
	\$ 50,753	\$ 2,769	\$ 47,984

6. Deposits on income-producing properties:

	2006	2005
Deposit on income-producing property (note 11):		
Initial deposit	\$ 7,800	\$ -
Property rent	(200)	-
Distributions on 543,781 Class B units of AX L.P.	143	-
	7,743	-
Deposits on other income-producing properties	2,600	425
	\$ 10,343	\$ 425

7. 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 rate of 5.46% at December 31, 2006 (2005, 5.24%) and maturity dates ranging from December 15, 2007 to November 1, 2016.

Principal payment requirements on the mortgages and loans payable are as follows:

2007	\$ 9,415
2008	15,445
2009	10,444
2010	32,728
2011	26,321
2012 and thereafter	177,375
	271,728
Above-market mortgage adjustments	613
	\$ 272,341

The acquisition in the prior year of one property, known as Sears Centre, was concluded on an agreement for sale basis. Title to the Sears Centre property was held in escrow pending satisfaction of the outstanding vendor loan. On October 15, 2006, the outstanding vendor loan was repaid and ownership of the property was transferred to the REIT effective that date.

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8. Convertible debentures:

In conjunction with the conclusion of the Johnston Terminal Headsublease transaction on August 1, 2005 and the exercise of the prepayment of rent privilege on August 3, 2005, the REIT issued a 7.25% convertible debenture in the amount of \$875 convertible into units of the REIT at \$6 per unit, to the vendor, an entity controlled by certain Trustees of the REIT. The convertible debenture was a compound financial instrument and the proceeds of the issue were allocated between a liability and equity component in the amount of \$829 and \$46, respectively. The equity component reflected the equity value of the conversion option embedded in the convertible debenture. On August 3, 2006 the convertible debenture matured and the holder exercised its option and converted the debenture into 145,833 units at an exercise price of \$6 per unit. The carrying value of the debenture on maturity of \$875, together with the equity component attributed to the debenture of \$46, was recorded as a capital contribution in the year.

In conjunction with the private placement offering that closed August 4, 2005, the REIT issued Series A convertible redeemable 7.75% debentures totaling \$15,000. Interest is paid semi-annually on February 4 and August 4. The convertible debentures are convertible into units of the REIT by the holder at \$12.60 after August 4, 2006, and redeemable for cash at the option of the REIT at any time after August 4, 2007 provided that the market price of the units exceeds 150% of the conversion price, and will be redeemable at the option of the REIT at any time after August 4, 2009 provided that the market price of the units exceeds 125% of the conversion price. Debentures that are not converted into units of the REIT are to be repaid in cash on maturity, being August 4, 2010. The convertible debentures are compound financial instruments and the proceeds of the offering, at the time of issue, were allocated between a liability and equity component in the amount of \$12,169 and \$2,831, respectively. The equity component reflects the equity value of the conversion option embedded in the convertible debentures. During the year, Series A convertible debentures with a face value of \$4,815 were converted and the REIT issued 382,138 units at the exercise price of \$12.60 per unit. The carrying value of the debt component was reduced by \$4,071 and the equity component was reduced by \$909, with an offsetting increase to capital contributions of \$4,980. An additional 13 units were issued in lieu of accrued interest.

In conjunction with the private placement offering that closed November 9, 2005, the REIT issued Series B convertible redeemable 7.5% debentures totaling \$10,862. Interest is paid semi-annually on May 9 and November 9. The convertible debentures are convertible into units of the REIT by the holder after November 9, 2007 at a price of \$13.50 per unit. The debentures are redeemable for cash at the option of the REIT (i) at any time after November 9, 2007 provided that the market price of the units exceeds 150% of the conversion price; and (ii) at any time after November 9, 2009 provided that the market price of the units exceeds 125% of the conversion price. The debentures rank *pari passu* with the convertible debentures issued August 4, 2005. Debentures that are not converted into units of the REIT are to be repaid in cash on maturity, being November 9, 2010. The convertible debentures are compound financial instruments and the proceeds of the offering, at the time of issue, were allocated between a liability and equity component in the amount of \$8,715 and \$2,147, respectively. The equity component reflects the equity value of the conversion option embedded in the convertible debentures. None of the Series B convertible debentures were converted into units of the REIT in fiscal 2006.

In conjunction with the prospectus that closed May 4, 2006, the REIT issued Series C convertible redeemable 6.25% debentures totaling \$30,000. Interest is paid semi-annually on May 31 and November 30. The convertible debentures are convertible into units of the REIT by the holder after May 31, 2009 at a price of \$17.25 per unit. The debentures are redeemable for cash at the option of the REIT (i) at any time after May 31, 2009 provided that the market price of the units exceeds 125% of the conversion price; and (ii) at any time after May 31, 2011. The debentures rank *pari passu* with the convertible debentures issued August 4, 2005 and November 9, 2005. Debentures that are not converted into units of the REIT are to be repaid in cash on maturity, being May 31, 2013. The convertible debentures are compound financial instruments and the proceeds of the offering, at the time of issue, were allocated between a liability and equity component in the amount of \$22,410 and \$7,590, respectively. The equity component reflects the equity value of the conversion option embedded in the convertible debentures. None of the Series C convertible debentures were converted into units of the REIT in fiscal 2006.

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8. Convertible debentures (continued):

Using a term until maturity, the liability portion of the debentures at the date of issuance represents the present value of the mandatory cash payments of interest plus the present value of the principal amount due under the terms of the debentures discounted at 13%, or in the case of the Series C debentures, 11.75%, being the rate of interest that would be applicable to a debt-only instrument of comparable term and risk. The equity component, which represents the value ascribed to the conversion option issued, is calculated as the difference between the amount issued and the liability component. Interest expense is determined by applying the discount rate against the outstanding liability component of the debentures. The difference between actual interest payments and interest expense is treated as an addition to the liability component of the debentures.

Particulars of the REIT's outstanding convertible debentures as at December 31, 2006 are as follows:

Convertible debenture issue	Series A convertible redeemable	Series B convertible redeemable	Series C convertible redeemable	2006	2005
Issue date	August 4, 2005	November 9, 2005	May 4, 2006		
Interest rate	7.75%	7.5%	6.25%		
Face value	\$ 10,185	\$ 10,862	\$ 30,000	\$ 51,047	\$ 26,737
Equity portion	1,922	2,147	7,590	11,659	5,024
Liability portion	8,263	8,715	22,410	39,388	21,712
Accretion to December 31	436	378	301	1,115	233
Carrying value December 31	\$ 8,699	\$ 9,093	\$ 22,711	\$ 40,503	\$ 21,945

Accretion to the carrying value of the debt component was \$1,094 (2005, \$238) during the year ended December 31, 2006.

9. Intangible liabilities:

	December 31, 2006		
	Cost	Accumulated amortization	Net book value
Below-market rent	\$ 17,302	\$ 3,961	\$ 13,341

	December 31, 2005		
	Cost	Accumulated amortization	Net book value
Below-market rent	\$ 8,018	\$ 719	\$ 7,299

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10. Accounts payable and other liabilities:

	2006	2005
Accounts payable and accrued liabilities	\$ 5,727	\$ 4,114
Distributions payable (note 13)	1,506	696
	\$ 7,233	\$ 4,810

11. 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. Upon completion (estimated as November, 2008), the REIT will acquire the income-producing property based on a predetermined formula as set out in the agreement. 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. The aggregate purchase price of the income-producing property is estimated at \$90,000. In accordance with the agreement, the REIT receives monthly property rent of \$100 from the vendor, with a total of \$2,400 to be received during construction of the income-producing property. 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 in the first half of 2007, for completion in 2009. To facilitate the development of the income-producing property, the REIT may 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		(31)
Balance at December 31, 2006	\$	10,368

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12. Capital contributions:

(a) Authorized:

The REIT completed its conversion into an "open-ended" mutual fund trust under the provisions of the Income Tax Act (Canada) effective October 31, 2006. In accordance with the Amended and Restated 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 Amended and Restated 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 a wholly-owned subsidiary of the REIT.

In accordance with the Amended and Restated 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 11). Special voting units are cancelled on the issuance of REIT units on exercise, conversion or cancellation of the corresponding exchangeable securities.

Effective February 1, 2006, the REIT consolidated its units on a 15 for one basis. All unit and per unit disclosures are presented on a post-consolidation basis.

(b) Issued and outstanding:

Units stated on a post-consolidation basis	Number of units	Amount
Balance at December 31, 2004	1,080,799	\$ 4,886
Private placements, net of issue costs of \$4,739	6,683,564	64,172
Conversion of convertible debentures	101,571	526
Warrants exercised	29,889	179
Broker warrants exercised	27,991	151
Options exercised	36,000	237
Balance at December 31, 2005	7,959,814	70,151
Public offerings, net of issue costs of \$5,624	6,657,138	88,693
Conversion of \$875 convertible debenture	145,833	921
Conversion of Series A convertible debentures	382,151	4,980
Options exercised	69,000	469
Distribution Reinvestment Plan ("DRIP")	4,264	59
Units issued for Trustee compensation	1,066	15
Fractional units eliminated on consolidation	(5)	-
Balance at December 31, 2006	15,219,261	\$ 165,288

At December 31, 2006, there were 721,347 special voting units issued and outstanding (note 11). There is no value assigned to the special voting units.

On June 27, 2006, Westfield announced its new Distribution Reinvestment Plan ("DRIP"). Under the terms of the DRIP, Unitholders now have the option to elect to receive all or a portion of their regular monthly distributions in additional REIT units.

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12. Capital contributions (continued):

(c) Contributed surplus:

	2006	2005
Balance, beginning of year	\$ 176	\$ 44
Unit based compensation expense	502	157
Value of options exercised	(29)	(25)
Balance, end of year	\$ 649	\$ 176

Contributed surplus arises as a result of recording the fair value of options granted under the unit option plan (see note 12(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, is 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 are as follows:

	2006		2005	
	Units	Weighted average exercise price	Units	Weighted average exercise price
Balance at beginning of year	348,393	\$ 10.29	100,000	\$ 6.00
Granted	450,000	14.40	284,393	11.25
Exercised	(69,000)	6.38	(36,000)	6.00
Balance at end of year	729,393	\$ 13.20	348,393	\$ 10.29
Options exercisable at end of year	178,598		135,098	
Weighted average fair value per unit of options granted during the year		\$ 2.16		\$ 2.10

Options outstanding at December 31, 2006 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	279,393	4.00 years	\$11.25	66,098
\$14.40	450,000	4.75 years	\$14.40	112,500
	729,393		\$ 13.20	178,598

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12. Capital contributions (continued):

(d) Unit options (continued):

The compensation expense related to unit options granted under the unit option plan for the year ended December 31, 2006 amounted to \$502 (2005, \$157). The balance of contributed surplus at December 31, 2006 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:

	2006	2005
Expected option life	5 years	5 years
Risk-free interest rate	4.01%	4%
Dividend yield	7.3%	9.3%
Expected volatility	31.83%	41.12%

(e) Weighted average units:

The weighted average number of units outstanding for the year ended December 31, 2006 is 11,907,917 (2005, 3,399,747). The computation of diluted loss per unit for the years ended December 31, 2006 and 2005 does not include convertible debentures and unit options as these instruments are anti-dilutive.

13. 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 a 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 \$12,700 for the year ended December 31, 2006 (2005, \$3,330). The REIT declared distributions to the holders of Class B units of AXLP in the amount of \$174 for the year ended December 31, 2006 (2005, nil). Total distributions payable at December 31, 2006 are \$1,506 (2005, \$696).

14. Changes in non-cash operating items:

	2006	2005
Deferred recoverable operating costs	\$ (557)	\$ -
Prepaid expenses	(541)	(229)
Rent and other receivables	(447)	(1,229)
Cash held in trust	706	(1,033)
Security deposits and prepaid rent	438	891
Accounts payable and other liabilities	2,423	4,633
	\$ 2,022	\$ 3,033

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15. Related party transactions:

	2006	2005
Legal fees - expensed	\$ 203	\$ 265
Legal fees - capitalized	580	521
Advisory fees	939	155
Acquisition fees	1,057	1,206
Property management fees	1,830	241
Leasing commissions	762	-
Building improvements	1,002	-
Tenant improvement fees	-	43
Consulting fees	43	-
Interest expense	73	280

The REIT incurred legal fees with a law firm associated with a Trustee of the REIT in connection with the prospectus offerings, the property acquisitions and general business matters. The amount payable at December 31, 2006 is \$12 (2005, \$314).

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 December 31, 2006 is \$116 (2005, \$224). 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 December 31, 2006 is \$78 (2005, \$80). 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 paid to Marwest Construction Ltd., a company related to certain trustees and officers of the REIT. The amount payable at December 31, 2006 is \$115 (2005, nil).

The REIT incurred consulting fees with an engineering firm associated with a Trustee of the REIT. There is no balance payable at December 31, 2006.

During the year ended December 31, 2005, the REIT acquired two income-producing properties from corporations under the control of certain Trustees of the REIT for an aggregate purchase price of \$24,800. The amount payable to the vendors in relation to the acquisitions at December 31, 2006 is nil (2005, \$563), excluding the amounts noted below. In conjunction with the acquisition of one of the properties, the REIT issued a \$875 convertible debenture, with the debenture fully converted into units of the REIT on August 3, 2006. The REIT also issued a \$7,100 debenture bearing interest at the prime interest rate plus 1/8% to the vendor of this property. At December 31, 2006 the balance owing on the debenture is nil (2005, \$103).

In conjunction with the acquisition of the other property, the REIT obtained vendor take-back financing in the amount of \$9,940 bearing interest at 5%. The vendor take-back financing was repaid by the REIT on January 5, 2006.

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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16. Income taxes:

The REIT currently qualifies as a Mutual Fund Trust for Canadian income tax purposes and, as discussed in note 2, does not record a provision for income taxes on income earned by the REIT and its flow-through entities. On December 21, 2006, The Minister of Finance (Canada) released draft legislation (the "Proposals") relating to the federal income taxation of publicly traded income trusts and certain other publicly traded flow-through entities.

Under the Proposals, certain distributions from a "specified investment flow-through" trust or partnership (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, the Proposals provide that distributions paid by a SIFT as returns of capital should not be subject to the tax.

The Proposals provide that a SIFT which was publicly listed before November 1, 2006 (an "Existing Trust") would become subject to the tax on distributions commencing with the 2011 taxation year end. However, an Existing Trust may become subject to this tax prior to the 2011 taxation year end if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006. In the case of the REIT, its subsequent offerings have exceeded the guidelines on the amount of normal growth allowed. Accordingly, in the event that the REIT was a SIFT as finally enacted, the Proposals would be expected to apply commencing on January 1, 2007.

Under the Proposals, the new taxation regime will not apply to a Real Estate Investment Trust (a "Trust") that continues to meet prescribed conditions relating to the nature of its income and investments (the "Trust Conditions"). Unless an Existing Trust, that was a Real Estate Investment Trust at the time of the Proposals, is able to continuously meet all Trust Conditions, the Proposals, if enacted, would immediately subject an Existing Trust to tax, which may adversely impact the level of cash otherwise available for distribution.

As the Proposals are currently drafted, the REIT does not meet the Trust Conditions which contain a number of technical provisions that do not fully accommodate common real estate properties and business structures. If the Proposals are enacted as currently drafted, the REIT would become subject to tax on certain income and, at the date of substantive enactment, the REIT would record future income tax assets and liabilities in respect of accounting and tax basis differences that are expected to reverse in future periods, with a corresponding credit or charge to consolidated earnings for the period.

In respect of assets and liabilities of the REIT, and its flow through entities, the tax basis of net assets exceeds their net book value for accounting purposes by approximately \$25,540 at December 31, 2006. At December 31, 2005, the net book value for accounting purposes of net assets exceeds their tax basis by approximately \$7,060.

It is possible that changes will be made to the Proposals prior to their enactment. If the Proposals are not changed, the REIT may need to restructure its affairs in order to minimize, or if possible eliminate, the impact of the Proposals. There can be no assurances, however, that changes will be made to the Proposals, or that the REIT would be able to restructure such that the REIT would not be subject to the tax contemplated by the Proposals.

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17. 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 deferred financing costs relating to the convertible debentures have not been allocated to the segments.

Year ended December 31, 2006					
	Retail	Office	Industrial	REIT	Total
Revenue	\$ 25,356	\$ 26,353	\$ 889	\$ 924	\$ 53,522
Property operating expenses	7,082	11,940	249	-	19,271
	18,274	14,413	640	924	34,251
Interest	6,920	5,551	275	4,257	17,003
Corporate expenses	-	-	-	3,081	3,081
Amortization	11,672	13,402	518	556	26,148
	18,592	18,953	793	7,894	46,232
	(318)	(4,540)	(153)	(6,970)	(11,981)
Gain on disposal of income-producing properties	828	-	-	-	828
Income (loss) for the year	\$ 510	\$ (4,540)	\$ (153)	\$ (6,970)	\$ (11,153)
Total assets	\$ 246,932	\$ 204,085	\$ 20,712	\$ 21,211	\$ 492,940
Year ended December 31, 2005					
	Retail	Office	REIT	Total	
Revenue	\$ 5,519	\$ 3,677	\$ 448	\$ 9,644	
Property operating expenses	1,389	2,035	-	3,424	
	4,130	1,642	448	6,220	
Interest	1,608	566	991	3,165	
Corporate expenses	131	126	656	913	
Amortization	2,801	1,754	106	4,661	
	4,540	2,446	1,753	8,739	
Loss for the year	\$ (410)	\$ (804)	\$ (1,305)	\$ (2,519)	
Total assets	\$ 145,695	\$ 117,094	\$ 10,478	\$ 273,267	

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18. Contingent consideration

In accordance with the purchase and sale agreement for Heritage Square, the vendor is entitled to a purchase price adjustment related to future events. The purchase and sale agreement provides for contingent consideration based on certain leases expiring prior to June 30, 2011 and being re-leased at a higher rental rate, net of leasing costs. The calculation provides for the difference in rate to be capitalized at 7.5% and 30% of that amount paid to the vendor. The amount and timing of the contingent consideration are not determinable at this time, and when determinable, will be recorded as an intangible asset.

19. 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) Interest rate risk:

The REIT is exposed to interest rate risk on its borrowings. It minimizes this risk by restricting total debt to 70% of gross book value and by attaining 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.

(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.

(b) Fair values:

The fair value of the REIT's cash and cash equivalents, cash held in trust, rent and other receivables, accounts payable and other liabilities, and security deposits and prepaid rent approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments.

The fair value of the mortgages and loans payable has been determined by discounting the cash flows of these financial obligations using year-end market rates for debt of similar terms and credit risks. Based on these assumptions, the fair value of mortgages and loans payable at December 31, 2006 has been estimated at \$275,679 (2005, \$170,289) compared with the carrying value of \$272,341 (2005, \$168,889)

The fair value of the REIT's convertible debentures is \$53,169 (2005, \$26,970) compared to its face value of \$51,047 (2005, \$26,737) at December 31, 2006. Fair value is based on the market price of the debentures.

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20. Future changes in accounting policies:

The CICA has issued two new accounting standards that will be adopted by the REIT in the fiscal year commencing January 1, 2007. The standards are applied retroactively, without restatement of prior periods.

(a) Financial Instruments - Recognition and Measurement:

Section 3855, "Financial Instruments - Recognition and Measurement" establishes standards for the recognition and measurement of financial assets, financial liabilities and non-financial derivatives. Financial instruments will ordinarily be measured at fair value on initial recognition. Subsequent measurement is determined by the classification of the financial instrument as held-to-maturity, loans and receivables, held-for-trading or available-for-sale.

Impacts on the REIT include:

- (i) Interest on debt instruments is recognized at the effective interest rate, with deferred finance costs netted against the related debt;
- (ii) Embedded derivative features in lease agreements would be valued at market;
- (iii) Any embedded derivative features in debt agreements, including mortgage or debenture agreements, would be valued at market.

Leases are specifically excluded from the definition of financial instruments, unless there are derivative features embedded in the lease.

(b) Comprehensive Income:

Section 1530, "Comprehensive Income" requires presentation of Comprehensive Income in a separate statement. Components of the new statement include unrealized gains and losses related to financial assets classified under Section 3855 as available-for-sale and changes in the fair value of certain hedging instruments.

The REIT is in the process of assessing the full impact of the standards on the consolidated financial statements. Any adjustment required as a result of our assessment will be recognized by restating opening deficit at January 1, 2007.

21. Subsequent events:

On February 8, 2007, the REIT issued 5,050,000 units at a price of \$15.85 per unit for aggregate gross proceeds of \$80,043, pursuant to its prospectus dated February 1, 2007. On February 20, 2007, the underwriters exercised their over-allotment option and the REIT issued an additional 757,500 units at a price of \$15.85 per unit for aggregate gross proceeds of \$12,006.

On February 8, 2007, the REIT granted to its trustees, officers and management personnel, options to acquire an aggregate of 293,000 units at a price of \$15.85 per unit. 25% of the options vested immediately, with the balance vesting in equal amounts on the first, second and third anniversaries of the date of grant. The options expire on February 8, 2012.

On January 12, 2007, the REIT acquired the CDI College Building, located in Winnipeg, Manitoba. The property was acquired for \$4,590 and the purchase price was satisfied with a combination of cash and new mortgage financing in the amount of \$3,100 bearing interest at a rate of 5.15% per annum.

On January 31, 2007, the REIT acquired Keewatin Distribution Centre, located in Winnipeg, Manitoba. The property was acquired for \$9,600 and the purchase price was satisfied with a combination of cash and new mortgage financing in the amount of \$6,500 bearing interest at a rate of 5.09% per annum.

On February 1, 2007, the REIT acquired Clareview Town Centre, located in Edmonton, Alberta. The property was acquired for \$13,800 and the purchase price was satisfied with a combination of cash and new mortgage financing in the amount of \$8,280 bearing interest at a rate of 5.22% per annum.

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21. Subsequent events (continued):

On February 28, 2007, the REIT acquired Centre 70, located in Calgary, Alberta. The property was acquired for \$31,500 and the purchase price was satisfied with a combination of cash and new mortgage financing in the amount of \$18,750 bearing interest at a rate of 5.25% per annum.

On February 28, 2007, the REIT acquired the BWT Honeywell Building, located in Calgary, Alberta. The property was acquired for \$15,841 and the purchase price was satisfied with a combination of cash and existing mortgage financing in the amount of \$2,660 bearing interest at a rate of 7.24% per annum. The existing mortgage was subsequently repaid and new mortgage financing in the amount of \$9,653 was assumed bearing interest at a rate of 5% per annum.

On February 28, 2007, the REIT acquired Millenium Centre, located in Red Deer, Alberta. The property was acquired for \$25,500 and the purchase price was satisfied with a combination of cash and existing mortgage financing in the amount of \$13,109 bearing interest at a rate of 4.89% per annum.

On March 1, 2007, the REIT acquired Bower Centre, located in Red Deer, Alberta. The property was acquired for \$15,784 and the purchase price was satisfied with a combination of cash and new mortgage financing in the amount of \$10,300 bearing interest at a rate of 5.17% per annum.

The REIT has also entered into agreements to acquire 2 properties for purchase prices aggregating approximately \$78,850. These acquisitions are expected to close in March, 2007, and will be financed through a combination of mortgage financing and cash consideration.