

Interim Consolidated Financial Statements of

**ARTIS REAL ESTATE  
INVESTMENT TRUST**

(Formerly Westfield Real Estate Investment Trust)

Three months ended March 31, 2008 and 2007  
(Unaudited)

# ARTIS REAL ESTATE INVESTMENT TRUST

(Formerly Westfield Real Estate Investment Trust)

Interim Consolidated Balance Sheets

(In thousands of dollars)

	March 31, 2008 (Unaudited)	December 31, 2007
<b>ASSETS</b>		
Income-producing properties (note 4)	\$ 976,213	\$ 944,612
Other assets (note 5)	140,411	140,070
Future income taxes (note 18)	12,032	11,509
Deposits on income-producing properties (note 6)	8,943	11,826
Prepaid expenses	2,303	1,326
Notes receivable (note 7)	30,075	30,494
Rent and other receivables	6,620	6,543
Cash held in trust	603	682
Cash and cash equivalents	24,664	29,386
	\$ 1,201,864	\$ 1,176,448
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
Liabilities:		
Mortgages and loans payable (note 8)	\$ 634,704	\$ 612,996
Convertible debentures (note 9)	47,330	52,732
Intangible liabilities (note 10)	98,598	99,280
Security deposits and prepaid rent	4,568	4,033
Accounts payable and other liabilities (note 11)	11,978	11,725
Bank indebtedness (note 12)	10,200	-
	807,378	780,766
Non-controlling interest (note 13)	10,274	10,182
Unitholders' equity	384,212	385,500
Contingent consideration (note 21)		
Commitments and guarantees (note 22)		
Subsequent events (note 26)		
	\$ 1,201,864	\$ 1,176,448

See accompanying notes to interim consolidated financial statements.

# ARTIS REAL ESTATE INVESTMENT TRUST

(Formerly Westfield Real Estate Investment Trust)

Interim Consolidated Statements of Operations  
Three months ended March 31, 2008 and 2007  
(Unaudited)

(In thousands of dollars, except per unit amounts)

	2008	2007
Revenue	\$ 34,319	\$ 17,609
Property operating expenses	10,530	5,980
	23,789	11,629
Interest	9,978	5,427
	13,811	6,202
Expenses:		
Corporate	1,140	1,098
Amortization	15,689	7,761
Unrealized gain on commodity derivatives	(928)	-
	15,901	8,859
Loss before income taxes and non-controlling interest	(2,090)	(2,657)
Future income tax recovery (note 18)	417	-
Loss before non-controlling interest	(1,673)	(2,657)
Non-controlling interest (note 13)	(138)	-
Loss and comprehensive loss for the period	(1,811)	(2,657)
Basic and diluted loss per unit (note 14 (e))	\$ (0.06)	\$ (0.14)

See accompanying notes to interim consolidated financial statements.

# ARTIS REAL ESTATE INVESTMENT TRUST

(Formerly Westfield Real Estate Investment Trust)

Interim Consolidated Statements of Unitholders' Equity  
Three months ended March 31, 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	5,810,366	87,914	-	-	-	87,914
Unit-based compensation	-	-	-	-	194	194
Conversion of convertible debentures	46,913	591	(111)	-	-	480
Loss for the period	-	-	-	(2,657)	-	(2,657)
Distributions for the period	-	-	-	(4,999)	-	(4,999)
Unitholders' equity, March 31, 2007	21,076,540	253,496	11,548	(37,189)	843	228,698
Issuance of units	9,562,267	162,238	-	-	(170)	162,068
Unit-based compensation	-	-	-	-	845	845
Issuance of convertible debentures	-	-	1,125	-	-	1,125
Conversion of convertible debentures	519,261	6,532	(1,233)	-	-	5,299
Income for the period	-	-	-	8,814	-	8,814
Distributions for the period	-	-	-	(21,349)	-	(21,349)
Unitholders' equity, December 31, 2007	31,158,068	422,266	11,440	(49,724)	1,518	385,500
Issuance of units	210,135	3,331	-	-	(47)	3,284
Unit-based compensation	-	-	-	-	136	136
Conversion of convertible debentures	529,402	7,260	(1,352)	-	-	5,908
Units acquired and cancelled through normal course issuer bid	(32,600)	(426)	-	(42)	-	(468)
Units acquired through normal course issuer bid, not cancelled at period end	(1,500)	(23)	-	-	-	(23)
Loss for the period	-	-	-	(1,811)	-	(1,811)
Distributions for the period	-	-	-	(8,314)	-	(8,314)
Unitholders' equity, March 31, 2008	31,863,505	\$ 432,408	\$ 10,088	\$ (59,891)	\$ 1,607	\$ 384,212

See accompanying notes to interim consolidated financial statements.

# ARTIS REAL ESTATE INVESTMENT TRUST

(Formerly Westfield Real Estate Investment Trust)

Interim Consolidated Statements of Cash Flows  
Three months ended March 31, 2008 and 2007  
(Unaudited)

(In thousands of dollars)

	2008	2007
Cash provided by (used for):		
Operating activities:		
Loss for the period	\$ (1,811)	\$ (2,657)
Adjustments for non-cash items:		
Amortization:		
Income-producing properties	6,800	3,260
Office equipment	2	1
Above-market rent	69	47
Acquired in-place leases	8,624	4,348
Customer relationships	5	6
Below-market rent	(3,831)	(1,122)
Tenant inducements and leasing costs	261	146
Above- and below-market mortgages, net	(49)	(28)
Accretion on liability component of convertible debentures	376	457
Straight-line rent adjustment	(562)	(250)
Unrealized gain on commodity derivatives	(928)	-
Unit-based compensation expense	136	194
Amortization of deferred financing costs included in interest	91	49
Future income tax recovery	(417)	-
Net earnings attributable to non-controlling interest (note 13)	138	-
	8,904	4,451
Changes in non-cash operating items (note 16)	1,093	2,377
	9,997	6,828
Investing activities:		
Acquisition of income-producing properties, net of related debt (note 3)	(14,660)	(72,443)
Additions to income-producing properties	(1,865)	(311)
Notes receivable principal repayments	419	-
Additions to office equipment and software	(17)	(3)
Additions to tenant inducements and leasing costs	(1,354)	(652)
Change in deposits on income-producing properties	2,883	1,157
	(14,594)	(72,252)
Financing activities:		
Issuance of units, net of issue costs	1,208	87,915
Purchase of units under normal course issuer bid	(491)	-
Bank indebtedness	10,200	-
Distributions paid on REIT units	(8,314)	(4,999)
Distributions paid on Class B units, charged to non-controlling interest (note 13)	(46)	(46)
Mortgages and loans principal repayments	(2,682)	(1,300)
	(125)	81,570
(Decrease) increase in cash and cash equivalents	(4,722)	16,146
Cash and cash equivalents at beginning of period	29,386	15,252
Cash and cash equivalents at end of period	\$ 24,664	\$ 31,398
Supplemental cash flow information:		
Interest paid, net of interest received	\$ 7,953	\$ 3,776

See accompanying notes to consolidated financial statements.

# ARTIS REAL ESTATE INVESTMENT TRUST

(Formerly Westfield Real Estate Investment Trust)

Notes to Interim Consolidated Financial Statements  
Three months ended March 31, 2008 and 2007  
(Unaudited)

(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 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 \$1.05 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:

### Acquisitions:

The REIT acquired the following properties during the three months ended March 31, 2008:

<i>Property</i>	<i>Location</i>	<i>Acquisition Date</i>	<i>Type</i>
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 <sup>(1)</sup>	440 King Street, Estevan, SK	March 20, 2008	Retail
Moose Jaw Sobeys <sup>(1)</sup>	769 Thatcher Drive East, Moose Jaw, SK	March 20, 2008	Retail

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

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

### Acquisitions (continued):

The REIT acquired the following properties during the three months ended March 31, 2007:

<i>Property</i>	<i>Location</i>	<i>Acquisition Date</i>	<i>Type</i>
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 <sup>(1)</sup>	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 <sup>(2)</sup>	703 - 6th Avenue SW, Calgary, AB	March 31, 2007	Office
Sierra Place <sup>(2)</sup>	706 - 7th Avenue SW, Calgary, AB	March 31, 2007	Office

(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.

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.

The net assets acquired including acquisition costs were as follows:

	Three Months Ended March 31,	
	2008 (Unaudited)	2007 (Unaudited)
Land	\$ 11,600	\$ 33,994
Buildings	22,009	132,946
Parking lots	300	3,388
Improvements	2,627	6,075
Acquired in-place leases	7,712	17,118
Above-market rent	9	106
Below-market rent	(3,149)	(14,394)
Long-term debt including acquired above- and below-market mortgages	(24,348)	(106,790)
Total consideration	16,760	72,443
Issuance of units (note 14)	(2,100)	-
Cash consideration	\$ 14,660	\$ 72,443
Acquisition costs included above	\$ 599	\$ 3,147

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## 4. Income-producing properties:

	March 31, 2008 (Unaudited)		
	Cost	Accumulated amortization	Net book value
Land	\$ 245,902	\$ -	\$ 245,902
Buildings and building improvements	691,719	21,154	670,565
Leasehold interest	8,015	540	7,475
Tenant improvements	49,434	14,542	34,892
Parking lots	15,813	1,159	14,654
Property under development	2,725	-	2,725
	<u>\$ 1,013,608</u>	<u>\$ 37,395</u>	<u>\$ 976,213</u>

	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
	<u>\$ 975,207</u>	<u>\$ 30,595</u>	<u>\$ 944,612</u>

## 5. Other assets:

	March 31, 2008 (Unaudited)		
	Cost	Accumulated amortization	Net book value
Acquired in-place leases	\$ 176,605	\$ 46,944	\$ 129,661
Above-market rent	1,582	567	1,015
Customer relationships	105	73	32
Tenant inducements and leasing costs	8,217	1,219	6,998
Deferred recoverable operating costs	2,875	228	2,647
Office equipment and software	72	14	58
	<u>\$ 189,456</u>	<u>\$ 49,045</u>	<u>\$ 140,411</u>

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## 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
Deferred recoverable operating costs	2,585	149	2,436
Office equipment and software	55	12	43
	<u>\$ 180,074</u>	<u>\$ 40,004</u>	<u>\$ 140,070</u>

## 6. Deposits on income-producing properties:

	Three Months Ended March 31, 2008 (Unaudited)	Year Ended December 31, 2007
Deposit on income-producing property (note 13):		
Balance, beginning of period	\$ 7,330	\$ 7,743
Property rent	(300)	(1,200)
Costs incurred	-	215
Distributions on 543,781 Class B units of AX L.P.	143	572
	<u>7,173</u>	<u>7,330</u>
Deposits on other income-producing properties	<u>1,770</u>	<u>4,496</u>
	<u>\$ 8,943</u>	<u>\$ 11,826</u>

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 \$6.8 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.

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## 7. Notes receivable:

	March 31, 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 instalments 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.	\$ 29,772	\$ 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.	303	307
	\$ 30,075	\$ 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 5.53% at March 31, 2008, a weighted average nominal rate of 5.44% at March 31, 2008 (effective and nominal at March 31, 2007, 5.51% and 5.43%, respectively), and maturity dates ranging from November 1, 2008 to January 1, 2018.

Principal payment requirements on the mortgages and loans payable as at March 31, 2008 based on the fiscal year-end of the REIT are as follows:

2008	\$	21,294
2009		42,669
2010		94,624
2011		53,400
2012		167,462
2013 and thereafter		256,407
		635,856
Net of above- and below-market mortgage adjustments		1,154
Deferred financing costs		(2,306)
	\$	634,704

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## 9. Convertible debentures:

Particulars of the REIT's outstanding convertible debentures as at March 31, 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	\$ 721	\$ 6,362	\$ 29,920	\$ 20,000	\$ 57,003	\$ 63,952
Equity portion	136	1,257	7,570	1,125	10,088	11,440
Liability portion	585	5,105	22,350	18,875	46,915	52,512
Accretion to March 31, 2008 and December 31, 2007	65	513	1,364	44	1,986	2,166
Deferred financing costs	(36)	(282)	(1,209)	(44)	(1,571)	(1,946)
Carrying value at March 31, 2008 and December 31, 2007	\$ 614	\$ 5,336	\$ 22,505	\$ 18,875	\$ 47,330	\$ 52,732

Accretion to the carrying value of the debt component was \$376 (2007, \$457) during the three months ended March 31, 2008. The weighted average effective rate of the debentures at March 31, 2008 is 10.71% (March 31, 2007, 14.26%).

# ARTIS REAL ESTATE INVESTMENT TRUST

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

## 10. Intangible liabilities:

	March 31, 2008 (Unaudited)		
	Cost	Accumulated amortization	Net book value
Below-market rent	\$ 116,103	\$ 17,505	\$ 98,598

  

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

## 11. Accounts payable and other liabilities:

	March 31, 2008 (Unaudited)		December 31, 2007
Accounts payable and accrued liabilities	\$ 9,135	\$ 8,934	
Distributions payable (note 15)	2,843	2,791	
	\$ 11,978	\$ 11,725	

## 12. Bank indebtedness:

On September 28, 2007, the REIT entered into an agreement for a revolving term credit facility in the amount of \$75,000, which may be utilized to fund acquisitions of office, retail and industrial properties. \$10,000 of the credit facility is available to purchase units under the normal course issuer bid, and an additional \$7,500 may be used for general corporate purposes. The credit facility matures at the earlier of one year after the initial advance, and October 1, 2008. 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 1.85 percent per annum. The credit facility is secured by a first charge on Delta Centre, Grain Exchange Building, Johnston Terminal and Sears Centre. At March 31, 2008, the REIT had utilized \$10,200 (December 31, 2007, \$nil) of the facility.

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## 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. Upon completion (estimated as June, 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 2008, for completion in 2010. 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's 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)
<u>Distributions on 177,566 Class B units of AXLP</u>		<u>(217)</u>
Balance at December 31, 2007		10,182
Distributions on 177,566 Class B units of AXLP		(46)
<u>Non-controlling interest's share of income for the period</u>		<u>138</u>
<u>Balance at March 31, 2008 (unaudited)</u>	<u>\$</u>	<u>10,274</u>

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

## 14. 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 the notes of 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 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	\$ 165,288
Adoption of new accounting policies	-	(297)
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	194,365	2,545
Conversion of Series B convertible debentures	335,037	4,715
Options exercised	22,752	276
Distribution Reinvestment Plan ("DRIP")	69,075	955
Units issued on acquisition of income-producing property	118,308	2,100
Units acquired and cancelled through normal course issuer bid	(32,600)	(426)
Units acquired through normal course issuer bid, not cancelled at period end	(1,500)	(23)
Balance at March 31, 2008 (unaudited)	31,863,505	\$ 432,408

At March 31, 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.

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## 14. Capital contributions (continued):

(c) Contributed surplus:

	Three Months Ended March 31, 2008 (Unaudited)	Year Ended December 31, 2007
Balance, beginning of period	\$ 1,518	\$ 649
Unit based compensation expense	136	1,039
Value of options exercised	(47)	(170)
Balance, end of period	\$ 1,607	\$ 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 three months ended March 31 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	-	-	293,000	15.85
Exercised	(22,752)	11.25	-	-
Expired	-	-	(10,000)	14.40
Balance, end of period	1,458,336	\$ 15.52	1,012,393	\$ 13.96
Options exercisable at end of period	468,852		249,348	
Weighted average fair value per unit of options granted during the period		\$ -		\$ 1.62

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## 14. Capital contributions (continued):

(d) Unit options (continued):

Options outstanding at March 31, 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	2.75 years	\$11.25	74,840
\$14.40	380,500	3.5 years	\$14.40	181,500
\$15.85	269,750	3.75 years	\$15.85	132,750
\$17.60	319,050	4.25 years	\$17.60	79,762
\$17.75	272,000	4.5 years	\$17.75	-
	1,458,336		\$ 15.52	468,852

The compensation expense related to unit options granted under the unit option plan for the three months March 31, 2008 amounted to \$136 (2007, \$194). The balance of contributed surplus at March 31, 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	-	4.03%
Dividend yield	-	6.25%
Expected volatility	-	21.56%

(e) Weighted average units:

	Three Months Ended March 31,	
	2008	2007
Loss and diluted loss	\$ (1,811)	\$ (2,657)

The weighted average number of units outstanding was as follows:

	2008	2007
Basic and diluted units	31,624,159	18,468,086
Loss per unit:		
Basic	\$ (0.06)	\$ (0.14)
Diluted	\$ (0.06)	\$ (0.14)

The computation of diluted loss per unit for the three months ended March 31, 2008 and 2007 does not include Class B units, convertible debentures and unit options as these instruments are anti-dilutive.

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## 14. Capital contributions (continued):

(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 March 31, 2008, the REIT had acquired 32,600 units for cancellation at market prices aggregating \$491 resulting in excess of redemption proceeds over stated capital of \$42 which was charged to the deficit. To March 31, 2008, the REIT had acquired 45,600 units for cancellation.

## 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 \$8,314 for the three months March 31, 2008 (2007, \$4,999). The REIT declared distributions to the holders of Class B units of AXLP in the amount of \$189 for the three months March 31, 2008 (2007, \$189). Total distributions payable at March 31, 2008 are \$2,843 (December 31, 2007, \$2,791).

## 16. Changes in non-cash operating items:

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	Three Months Ended March 31,	
	2008	2007
Deferred recoverable operating costs	\$ (290)	\$ (318)
Amortization of deferred recoverable operating costs	80	-
Prepaid expenses	(49)	(31)
Rent and other receivables	485	(555)
Cash held in trust	79	327
Security deposits and prepaid rent	535	929
Accounts payable and other liabilities	253	2,025
	<hr/>	<hr/>
	\$ 1,093	\$ 2,377

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## 17. Related party transactions:

	Three Months Ended March 31,	
	2008	2007
Legal fees expensed	\$ 27	\$ 67
Capitalized legal fees	191	449
Advisory fees	585	319
Capitalized acquisition fees	199	928
Property management fees	1,003	615
Capitalized leasing commissions	1,244	112
Capitalized building improvements	1,773	248
Tenant inducements	-	143

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 March 31, 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 March 31, 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 March 31, 2008 is \$224 (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 March 31, 2008 is \$233 (December 31, 2007, \$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.

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.

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## 18. Future income taxes (continued):

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 (the "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. Based on the wording in the Backgrounder, it would appear that a flow-through subsidiary of the REIT would be a SIFT, however, until the legislation contemplated by the Backgrounder is enacted, there will continue to be uncertainty.

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 liabilities 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 \$12,032 in the consolidated balance sheet at March 31, 2008 and a future income tax recovery of \$417 reflected in consolidated loss for the period ended March 31, 2008. The REIT also credited capital contributions in the amount of \$106 to adjust for the tax effect of deferred finance costs transferred to capital contributions on the conversion of convertible debentures.

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.

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## 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:

	March 31, 2008	December 31, 2007
Assets	\$ 71,706	\$ 72,871
Liabilities	72,451	73,232

  

	Three Months Ended March 31, 2008	2007
Revenue	2,615	283
Expenses	2,999	281
Operating income (loss) from properties	(384)	2
Cash flows provided by operating activities	943	702
Cash flows used in investing activities	(286)	(11,160)
Cash flows provided by (used in) financing activities	(584)	10,626

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

	Three Months Ended March 31, 2008				
	Retail	Office	Industrial	REIT	Total
Revenue	\$ 11,804	\$ 19,017	\$ 3,277	\$ 221	\$ 34,319
Property operating expenses	3,332	6,385	813	-	10,530
	8,472	12,632	2,464	221	23,789
Interest	2,866	4,810	820	1,482	9,978
Corporate expenses	-	-	-	1,140	1,140
Amortization	5,287	8,202	2,188	12	15,689
Unrealized gain on commodity derivatives	-	-	-	(928)	(928)
	8,153	13,012	3,008	1,706	25,879
	319	(380)	(544)	(1,485)	(2,090)
Future income tax recovery	-	-	-	417	417
Non-controlling interest	-	-	-	(138)	(138)
Income (loss) for the period	\$ 319	\$ (380)	\$ (544)	\$ (1,206)	\$ (1,811)
Total assets	\$ 421,596	\$ 631,594	\$ 112,719	\$ 35,955	\$ 1,201,864

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## 20. Segmented information (continued):

Three Months Ended March 31, 2007					
	Retail	Office	Industrial	REIT	Total
Revenue	\$ 7,607	\$ 8,554	\$ 1,028	\$ 420	\$ 17,609
Property operating expenses	2,240	3,517	223	-	5,980
	5,367	5,037	805	420	11,629
Interest	2,090	1,696	294	1,326	5,406
Corporate expenses	-	-	-	1,098	1,098
Amortization	3,284	3,930	557	11	7,782
	5,374	5,626	851	2,435	14,286
Loss for the period	\$ (7)	\$ (589)	\$ (46)	\$ (2,015)	\$ (2,657)
Total assets	\$ 258,010	\$ 327,983	\$ 64,722	\$ 40,879	\$ 691,594

## 21. 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.

## 22. Commitments and guarantees

### (a) Letters of credit

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

### (b) Guarantee

The REIT 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 March 31, 2008, is \$1,694 (December 31, 2007, \$1,709), with an estimated weighted average remaining term of 2.6 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.

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## 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 March 31, 2008, the ratio of such indebtedness to gross book value was 50.1% (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 1.5, and minimum unitholders' equity of \$200,000 for the purposes of the credit facility (note 12). As at March 31, 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:

	March 31, 2008 (Unaudited)	December 31, 2007
Mortgages and loans payable	\$ 634,704	\$ 612,996
Convertible debentures	47,330	52,732
Bank indebtedness	10,200	-
Net debt	692,234	665,728
Non-controlling interest	10,274	10,182
Unitholders' equity	384,212	385,500
	\$ 1,086,720	\$ 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 March 31, 2008, the only variable rate debt that the REIT is a party to is bank indebtedness.

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## 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 March 31, 2008 was \$282, 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	\$ 644,904	\$ 31,494	\$ 137,411	\$ 219,806	\$ 256,193
Convertible debentures	57,003	-	7,083	-	49,920
	<u>\$ 701,907</u>	<u>\$ 31,494</u>	<u>\$ 144,494</u>	<u>\$ 219,806</u>	<u>\$ 306,113</u>

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## 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 March 31, 2008 has been estimated at \$30,025 (December 31, 2007, \$30,530), compared with the carrying value of \$30,075 (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 March 31, 2008 has been estimated at \$628,820 (December 31, 2007, \$607,981) compared with the carrying value of \$634,704 (December 31, 2007, \$612,996).

The fair value of the REIT's convertible debentures is \$59,105 (December 31, 2007, \$66,072) compared to its face value of \$57,003 (December 31, 2007, \$63,952) at March 31, 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 March 31, 2008, the REIT had entered into natural gas and electrical contracts with a fair value of \$928 (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.

## 26. Subsequent events:

On April 15, 2008, the REIT acquired Edson Shoppers, located in Edson, Alberta. The property was acquired for \$5,800 and the purchase price was satisfied with a combination of cash and existing mortgage financing in the amount of \$4,172 bearing interest at a rate of 5.72% per annum.

On April 15, 2008, the REIT acquired the Raleigh Shopping Centre, located in Winnipeg, Manitoba. The property was acquired from trusts controlled by certain Trustees of the REIT for \$1,500 and the purchase price was satisfied with a combination of cash and existing mortgage financing in the amount of \$583 bearing interest at a rate of 5.85% per annum.

On May 1, 2008, the outstanding mortgage on the Woodlands property was satisfied using proceeds of a new mortgage on the property. The new mortgage is in the amount of \$12,000, bears interest at a fixed rate of 5.11% and matures on May 1, 2013.