



# Management's Discussion & Analysis

Q2 - 2006

On the TSX: WFD.UN WFD.DB.A WFD.DB.B WFD.DB.C

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") of the financial condition and results of operations of Westfield Real Estate Investment Trust ("Westfield" or "the REIT") should be read in conjunction with Westfield's audited annual consolidated financial statements for the years ended December 31, 2005 and 2004, the unaudited consolidated financial statements for the periods ended June 30, 2006 and 2005 and the notes thereto, and the Statement of Consolidated Forecasted Net Income (the "forecast") for the year ended December 31, 2006 included in Westfield's short form prospectus dated February 27, 2006. This MD&A has been prepared taking into account material transactions and events up to and including August 10, 2006. Additional information about Westfield, including the Annual Information Form, has been filed with applicable Canadian securities regulatory authorities and is available at [www.sedar.com](http://www.sedar.com).

### FORWARD-LOOKING DISCLAIMER

This MD&A contains forward-looking statements. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward looking statements. Without limiting the foregoing, the words "expects", "anticipates", "intends", "estimates", "projects", and similar expressions are intended to identify forward looking statements.

Westfield is subject to significant risks and uncertainties which may cause the actual results, performance or achievements of Westfield to be materially different from any future results, performance or achievements expressed or implied in these forward-looking statements. Such risk factors include, but are not limited to, risks associated with real property ownership, availability of cash flow, general uninsured losses, future property acquisitions, environmental matters, tax related matters, debt financing, unitholder liability, potential conflicts of interest, potential dilution, reliance on key personnel, changes in legislation and potential changes in the tax treatment of trusts. Westfield cannot assure investors that actual results will be consistent with any forward-looking statement and Westfield assumes no obligation to update or revise such forward-looking statements to reflect actual events or new circumstances. All forward-looking statements contained in this MD&A are qualified by this cautionary statement.

### NON-GAAP MEASURES

Distributable Income ("DI"), Property Net Operating Income ("Property NOI" or "NOI") and Funds from Operations ("FFO") are non-GAAP measures commonly used by Canadian income trusts as an indicator of financial performance. "GAAP" means the generally accepted accounting principles described and promulgated by the Canadian Institute of Chartered Accountants which are applicable as at the date on which any calculation using GAAP is to be made.

Management uses DI Property NOI and FFO to analyze operating performance. As one of the factors that may be considered relevant by prospective investors is the cash distributed by Westfield relative to the price of the units, management believes that DI and FFO are useful supplemental measures that may assist prospective investors in assessing an investment in the units.

DI, Property NOI and FFO are not measures recognized under GAAP and do not have a standardized meaning prescribed by GAAP. Therefore, DI, Property NOI and FFO may not be comparable to similar measures presented by other issuers. Neither DI nor FFO are intended to represent operating profits for the period or from a property nor should either be viewed as an alternative to net income, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP.

Where these measures are referred to in this MD&A, Westfield defines DI in accordance with its Declaration of Trust as 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.

Westfield defines Property NOI as property revenues, prepared in accordance with GAAP, less property operating expenses (such as taxes, utilities, repairs and maintenance). Property NOI does not include charges for interest and amortization. Westfield calculates FFO in accordance with the guideline set out by REALPAC. Other real estate investment trusts may calculate FFO on a different basis that is not comparable to Westfield's FFO.

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## **OVERVIEW**

Westfield Properties Ltd. was incorporated under the *Canada Business Corporation Act* on December 18, 2003. The company's shares were listed for trading on the TSX Venture Exchange ("the Exchange") on February 14, 2004 as a "Capital Pool Company". The company completed its qualifying transaction on June 1, 2004, and was approved as a Tier 2 real estate issuer on the TSX Venture Exchange.

Westfield Real Estate Investment Trust ("Westfield" or "the REIT") is an unincorporated closed-end real estate investment trust 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. The REIT entered into a plan of arrangement on December 20, 2004 whereby Westfield Properties Ltd. was continued as the REIT and all of Westfield Properties Ltd.'s common shares were exchanged for a similar number of REIT units. The financial statements and MD&A reflect a continuation of Westfield Properties Ltd. with the results of Westfield Properties Ltd. from December 18, 2003 to December 20, 2004 and the REIT from that date forward.

Effective April 17, 2006, Westfield was listed on the Toronto Stock Exchange (the "TSX") with units trading under the symbol WFD.UN. The REIT's convertible debentures also listed on the TSX and trade under the symbols WFD.DB.A, WFD.DB.B and WFD.DB.C. As at August 10, 2006, there were 12,025,707 units and 291,393 options of the REIT outstanding (refer to the Subsequent Events section for further details).

### ***Westfield's Primary Objectives***

Westfield's geographic focus is on primary and growing secondary markets in western Canada, with a particular emphasis on Alberta. Westfield is focused on quality commercial properties; retail, office and industrial, with strong tenancies in place.

Westfield's primary objectives are:

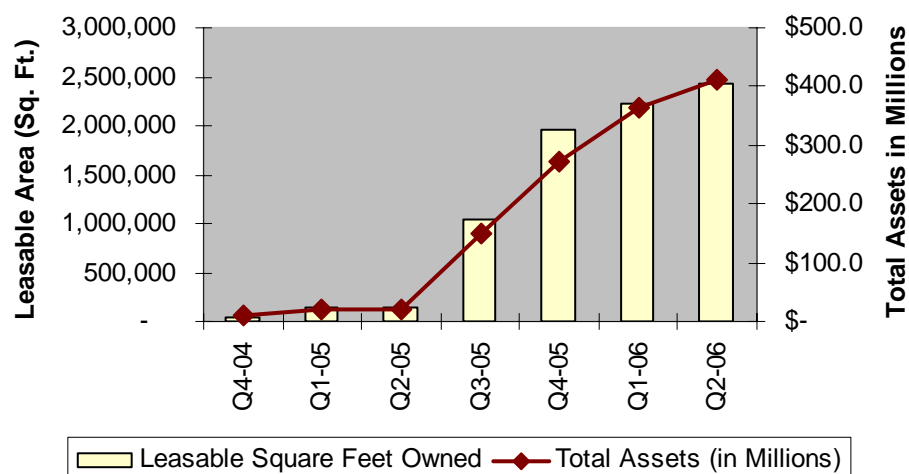
- to provide unitholders with stable and growing cash distributions, payable monthly and, to the maximum extent practicable, income tax deferred, from investments in a diversified portfolio of income-producing office, retail and industrial properties located in western Canada, primarily in Alberta;
- to enhance the value of Westfield's assets and maximize long-term unit value through the active management of its assets; and
- to expand Westfield's asset base and increase its DI through accretive acquisitions in western Canada.

The Declaration of Trust provides that Westfield make monthly cash distributions to its unitholders. The amount distributed in each year will be in an amount equal to not less than the greater of: (i) the percentage of DI in the year set down in a policy by the Trustees (currently \$1.05 per unit on an annualized basis); 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.

### ***Westfield's Portfolio Summary***

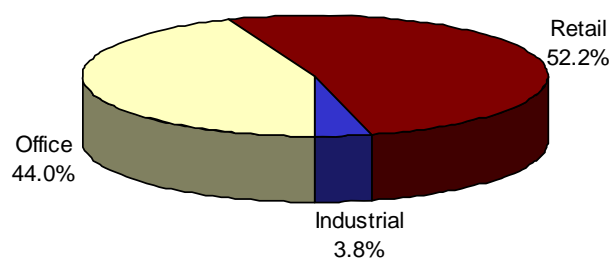
Since becoming a publicly traded real estate investment trust on December 20, 2004, Westfield has demonstrated its ability to grow its portfolio through accretive acquisitions.

### Quarterly Growth

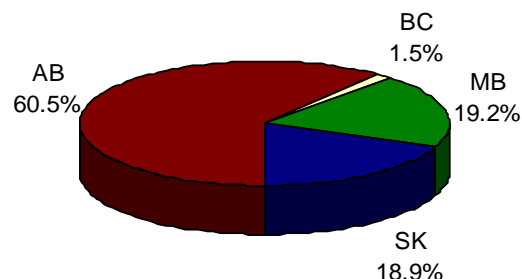


In 2006, Westfield has continued to acquire in its target market, successfully concluding six new acquisitions by the end of the second quarter (four in Q1 and two in Q2). At June 30, 2006, Westfield's portfolio was comprised of 31 properties located in Manitoba, Saskatchewan, Alberta, and British Columbia totaling 2,428,268 square feet of leasable area. Average occupancy across the portfolio was 94.1% at June 30, 2006, an increase from 93.4% at December 31, 2005. Westfield seeks to develop a diversified portfolio of retail, office and industrial properties across western Canada. By leasable square feet, the portfolio is weighted 60.5% in Alberta consistent with the REIT's stated focus.

Leasable Square Feet by Asset Class



Leasable Square Feet by Province



At June 30, 2005, Westfield owned three retail properties (one in Alberta and two in Saskatchewan), representing 136,321 square feet of leasable area, 94.1% occupied.

Investors are invited to visit our website at [www.westfieldreit.ca](http://www.westfieldreit.ca) or SEDAR at [www.sedar.ca](http://www.sedar.ca) for further information.

## 2006 – SECOND QUARTER HIGHLIGHTS

### Acquisitions

<b>Sunridge Spectrum Shopping Centre</b> <b>Acquired May 31, 2006</b>	<b>Alberta Retail</b> <b>128,016 sq. ft.</b>
Sunridge Spectrum Shopping Centre is a class A retail complex located directly across from the Sunridge Shopping Centre. Sunridge Spectrum Shopping Centre is anchored by a Cineplex Odeon Theatre on a long-term lease. Other high-profile tenants include Chapters Inc., Starbucks, the Bank of Montreal and ATB Financial. Sunridge Spectrum was 99% leased at acquisition.	
<b>McCall Lake Industrial</b> <b>Acquired June 30, 2006</b>	<b>Alberta Industrial</b> <b>91,000 sq. ft.</b>
McCall Lake Industrial is a two-storey two-building light-industrial/commercial complex comprised of approximately 91,000 square feet of leasable space. It is located in close proximity to Deerfoot Trail and the 32 <sup>nd</sup> Avenue commercial corridor. The McCall Lake Industrial buildings accommodate both office and warehouse space and are 100% occupied by a combination of local and national tenants.	

### Other Significant Activities

<b>TSX Listing</b>
Effective April 17, 2006, Westfield's units (WFD.UN) commenced trading on the TSX. In conjunction with that move, Westfield's Series A and B Debentures were also listed and commenced trading as WFD.DB.A and WFD.DB.B
<b>Public Offering of Debentures</b>
On April 13, 2006, Westfield announced it had entered into a bought-deal arrangement with a syndicate of underwriters for the sale of 6.25% 7-year Series C debentures, with funds to be used for additional acquisitions and for working capital purposes. The offering closed on May 4, 2006, for aggregate gross proceeds of \$30 million. The debentures were subsequently listed on the TSX and commenced trading as WFD.DB.C.
<b>Appointment of Independent Trustee</b>
Effective June 9, 2006, Westfield appointed Mr. Del Crewson to the Board of Trustees. Mr. Crewson is a former senior partner and Vice-Chair of Deloitte and Touche LLP and is a Fellow of the Manitoba Institute of Chartered Accountants. With the appointment of Mr. Crewson, six of Westfield's eight trustees are independent of management.
<b>Distribution Reinvestment Plan</b>
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. More information on the DRIP can be found on the REIT's website at <a href="http://www.westfieldreit.ca">www.westfieldreit.ca</a> .
<b>Unconditional Purchase Agreements</b>
In addition to the two acquisitions closed in the second quarter, Westfield also removed the conditions with respect to three additional Calgary properties: Horizon Heights (retail shopping centre), Heritage Square (Class "A" suburban office) and the Franklin Showcase Warehouse (industrial).
<b>Sale of Keystone Village Shopping Centre</b>
Keystone Village Shopping Centre is a small retail mall located in Brandon, Manitoba. The property was acquired in December of 2005 as part of a larger portfolio and sold June 15, 2006.

### Distributions

<b>April 28, 2006 Distribution Record Date</b>
Payable May 15, 2006 - \$0.0875 per Unit
<b>May 31, 2006 Distribution Record Date</b>
Payable June 15, 2006 - \$0.0875 per Unit
<b>June 30, 2006 Distribution Record Date</b>
Payable July 15, 2006 - \$0.0875 per Unit

## SUMMARIZED FINANCIAL PERFORMANCE

### Selected Financial Information

<b>\$ Thousands, except unit and per unit amounts</b>	<b>Three month period ending June 30</b>		<b>Six month period ending June 30</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Revenues	\$ 11,932	\$ 854	\$ 21,289	\$ 1,368
Property NOI	\$ 8,020	\$ 645	\$ 13,739	\$ 1,027
Loss for the period	\$ (3,110)	\$ (104)	\$ (4,619)	\$ (175)
Loss per unit (basic and diluted)	\$ (0.262)	\$ (0.082)	\$ (0.444)	\$ (0.145)
Distributable income ("DI")	\$ 3,170	\$ 376	\$ 5,732	\$ 536
DI per unit (basic)	\$ 0.268	\$ 0.296	\$ 0.552	\$ 0.445
DI per unit (diluted)	\$ 0.252	\$ 0.296	\$ 0.491	\$ 0.444
Distributions	\$ 3,112	\$ 194	\$ 5,539	\$ 365
Distributions per unit	\$ 0.262	\$ 0.149	\$ 0.524	\$ 0.299
Funds from operations ("FFO")	\$ 2,722	\$ 373	\$ 4,971	\$ 533
FFO per unit (basic)	\$ 0.230	\$ 0.294	\$ 0.478	\$ 0.442
FFO per unit (diluted)	\$ 0.228	\$ 0.294	\$ 0.444	\$ 0.441
DI per unit (basic and adjusted) <sup>(1)</sup>	\$ 0.298	\$ 0.156	\$ 0.587	\$ 0.297
FFO per unit (basic and adjusted) <sup>(1)</sup>	\$ 0.261	\$ 0.154	\$ 0.514	\$ 0.294
Weighted average units:				
Basic	11,850,099	1,269,728	10,392,545	1,205,710
Diluted (for DI)	15,003,921	1,270,131	14,349,156	1,207,995
Diluted (for FFO)	12,074,314	1,270,131	12,208,254	1,207,995

<sup>(1)</sup> Added back to 2006 DI and FFO is \$366 of costs attributable to an unsuccessful bid on a portfolio of assets. Deducted from 2005 DI and FFO is \$178 of revenue recorded on the write-off of above-market lease value on an early lease termination.

Q2-06 results indicate substantial growth in revenues and Property NOI, increasing \$11,078 and \$7,375 respectively compared to Q2-05 results. On a year-to-date basis, revenues and Property NOI increased \$19,921 and \$12,712 respectively over last year's June 30 results. These significant increases are primarily due to the acquisition of properties since June 30 of 2005. At June 30, 2005, Westfield owned three income-producing properties. At June 30, 2006, Westfield's portfolio consists of 31 income-producing properties.

DI and FFO in the current quarter have also increased significantly over the comparative period of 2005 (\$2,794 and \$2,349 respectively). On a year to date basis, DI has increased by \$5,196 and FFO by \$4,438.

Losses for both the three and six month periods ended June 30, 2006 have increased over the comparable periods in 2005, primarily as a result of the increase in non-cash amortization expense related to properties acquired in 2005 and 2006 which offset the increase in revenues, net of property operating expenses, interest and corporate expenses.

The Q2-06 loss per unit is more than the loss per unit in Q2-05 as a result of increased corporate costs and the interest incurred on \$30,000 debentures issued May 4, 2006 and invested in income-producing properties subsequent to June 30, 2006. Q2-05 per unit results were significantly impacted by a non-cash revenue item related to the early termination of a lease. As per note 1 to the above table, the “basic and adjusted” per unit DI and FFO amounts presented have eliminated two items in order to provide what management of Westfield believes is a more accurate comparison. On the adjusted basis, DI and FFO on a current and year-to-date basis indicate strong growth over the prior years’ results.

## ANALYSIS OF FINANCIAL RESULTS

<b>\$ Thousands, except unit and per unit amounts</b>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Revenue	\$ 11,932	\$ 854	\$ 21,289	\$ 1,368
Property operating expenses	3,912	209	7,550	341
Property NOI	8,020	645	13,739	1,027
Interest	3,986	212	6,892	380
Operating income	\$ 4,034	\$ 433	\$ 6,847	\$ 647
Expenses:				
Corporate	1,125	59	1,555	110
Amortization	5,906	478	10,739	712
	\$ 7,031	\$ 537	\$ 12,294	\$ 822
Loss before gain on disposal of income-producing property	(2,997)	(104)	(5,447)	(175)
Gain (loss) on disposal of income-producing property	(113)	-	828	-
Loss for the period	\$ (3,110)	\$ (104)	\$ (4,619)	\$ (175)
Loss per unit (basic and diluted)	\$ (0.262)	\$ (0.082)	\$ (0.444)	\$ (0.145)
Weighted average units:				
Basic and diluted	11,850,099	1,269,728	10,392,545	1,205,710

### Revenues and Property NOI:

Westfield’s revenues and Property NOI indicate significant growth over the previous year’s results due to the impact of acquisitions made since June 30, 2005. Q2-06 revenues included \$415 of interest earned on short-term investments (\$558 YTD) and a one-time lease termination fee of \$162 paid by a tenant (\$162 YTD). In the previous year, Q2 revenues included \$7 of interest earned on short-term investments (\$14 YTD) and no lease termination fees. Q2-05 did include a one-time non-cash revenue item of \$178, a significant amount in that period. Primarily as a result of significant acquisitions activity, Property NOI has increased by \$12,712 to \$13,739 for the six month period ending June 30, 2006.

In accordance with GAAP, Westfield accounts for rent step-ups by straight-lining the incremental increases over the entire non-cancelable lease term. The straight-line rent adjustment for the Q2-06 was \$220 (\$385 - YTD) compared with nil in 2005. On the acquisition of properties, Westfield records intangible assets and liabilities resulting from above and below-market rent leases. These intangible assets and liabilities are amortized to revenue over the term of the related lease. The adjustment to market rents for the Q2-06 was \$605 (\$1,081 - YTD) compared to \$208 in Q2-05 (\$228 – 2005 YTD).

Westfield's Q2 same Property NOI has increased 12.1% for the three properties held at June 30, 2005 (16.0% on a year-to-date basis) as set out below:

\$ Thousands	Three month period ending June 30		Six month period ending June 30	
	2006	2005	2006	2005
Revenue <sup>(1)</sup>	\$ 716	\$ 672	\$ 1,397	\$ 1,181
Property operating expenses	197	209	423	341
<b>Property NOI</b>	<b>\$ 519</b>	<b>\$ 463</b>	<b>\$ 974</b>	<b>\$ 840</b>

<sup>1</sup> Q2-2005 excludes \$178 of revenue recorded from the write off of unamortized below market lease value on early termination of a lease in Capital City Centre

### Interest:

The current period's interest on long-term debt is attributable to mortgages and other secured loans against the income-producing properties as well as debentures outstanding. The REIT's weighted average interest rate on mortgage and other debt secured by properties at June 30, 2006 is 5.48% compared to 5.83% for the comparable period of 2005.

At time of issue, the convertible debentures are allocated between their equity and liability components in accordance with GAAP (see Note 7 of the annual consolidated financial statements for further details). Westfield recorded interest expense on the carrying value of debentures at a rate of 13% on the Interim Financing, Series A and Series B debentures and at 11.75% on the Series C debentures. Management believes these rates are comparable to similar debt issues, given the risk, size, rates and terms of the debentures at the time of their issue. The difference between the interest paid and interest incurred is treated as an addition (accretion) to the carrying value of the debentures. Westfield recorded interest expense of \$1,132 on the carrying value of debentures outstanding in the second quarter of 2006 (\$1,832 – YTD); the accretion entry was \$326 (\$523 – YTD). Included in these amounts is \$418 of interest expense (including \$120 of accretion) related to the carrying value of the Series C debentures issued May 4, 2006 but not substantially invested in properties until July 2006.

For the comparable quarter of 2005, \$7 (\$17 - YTD) and the accretion entry was nil (\$3 – YTD).

### Corporate Expenses:

Westfield's corporate expenses have increased over the previous year on a quarterly and year to date basis.

\$ Thousands	Three month period ending June 30		Six month period ending June 30	
	2006	2005	2006	2005
Accounting, legal, consulting	\$ 112	\$ 14	\$ 232	\$ 37
Advisory fees	207	19	369	32
Public company costs	265	9	300	14
Annual report and AGM	61	-	61	-
Unit based compensation	40	-	80	-
Other general and administrative	74	17	147	27
Costs related to bid on property portfolio	366	-	366	-
<b>Total corporate expenses</b>	<b>\$ 1,125</b>	<b>\$ 59</b>	<b>\$ 1,555</b>	<b>\$ 110</b>



Accounting, legal and consulting fees paid have increased significantly due to the higher level of activity and complexity of Westfield's operations. Advisory fees are paid as a percentage of the gross book value of income producing properties and the increase from \$32 to \$369 on a year-to-date basis reflects the growth from acquisitions since June 30, 2005. Public company costs include fees paid to transfer agents and securities commissions as well as trustees fees. On a year-to-date basis, these costs have increased by \$286 to \$300, as the REIT has more units and debentures outstanding, a higher market capitalization and larger board of trustees. The Q2-06 increase in the period included \$160 of fees paid to list Westfield's units on the TSX. Costs specifically related to the preparation and dissemination of the 2005 annual report and AGM totaled \$61. Unit based compensation is a non-cash entry made quarterly to reflect the market value of options issued under the Option Plan. Other general and administrative expenses (travel, conference costs, web site maintenance, bank charges, insurance and promotions) have increased as the volume of activity and size of the portfolio has grown.

In Q2-06 Westfield incurred a material corporate expense which management categorizes as atypical. Approximately \$366 of legal, accounting, due diligence and other consulting costs were incurred related to the preparation and submission of an unsuccessful bid on a large portfolio of western Canadian commercial property.

### Amortization:

Amortization expense includes amortization of the income-producing properties and intangible assets plus office equipment and other assets such as deferred financing costs. Westfield follows the EIC Abstract 140 in accounting for acquisitions of income-producing properties, which requires that a portion of the purchase price be allocated to intangible assets, such as the value of in-place operating leases and customer relationship values. All assets are amortized on a straight-line basis over their useful lives, or the term of the underlying agreements, as applicable. Amortization of income-producing property was \$2,211 in Q2-06 (\$4,017 – YTD) compared to \$153 in Q2-05 (\$274 – 2005 YTD). In Q2-06 Westfield recorded \$3,470 for the amortization of in-place leases (\$6,341 – YTD) compared to \$310 in Q2-05 (\$416 – 2005 YTD).

### Comparison to Forecast:

<b>\$ Thousands, except unit and per unit amounts</b>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2006</b>	<b>2006 - Forecast</b>	<b>2006</b>	<b>2006 Forecast</b>
Revenue	\$ 11,932	\$ 11,080	\$ 21,289	\$ 20,317
Property operating expenses	3,912	3,909	7,550	7,319
Property NOI	8,020	7,171	13,739	12,998
Interest	3,986	3,409	6,892	6,326
Operating income	\$ 4,034	\$ 3,762	\$ 6,847	\$ 6,672
Expenses:				
Corporate	1,125	323	1,555	615
Amortization	5,906	5,414	10,739	10,045
	\$ 7,031	\$ 5,737	\$ 12,294	\$ 10,660
Loss before gain or loss on disposal of income-producing property	(2,997)	(1,975)	(5,447)	(3,988)
Gain (loss) on disposal of income-producing property	(113)	-	828	943
Loss for the period	\$ (3,110)	\$ (1,975)	\$ (4,619)	\$ (3,045)
Loss per unit (basic and diluted)	\$ (0.262)	\$ (0.171)	\$ (0.444)	\$ (0.264)
Weighted average units:				
Basic and diluted	11,850,099	11,531,825	10,392,545	11,531,825

Westfield's Property NOI has surpassed forecast expectations by \$849 in Q2-06 (\$741 – YTD). A reconciliation of the Property NOI from forecast to actual follows:

Forecast Property NOI	\$	12,998	
Delay in forecasted acquisition		(82)	Increases in same Property NOI and from newly acquired properties were more than offset by higher interest, corporate and amortization costs, as well as a \$113 loss recorded on the disposition of the Keystone Mall property, which was not contemplated in the forecast.
Interest revenue not included		466	
Property NOI attributable to new acquisitions		242	
Same property NOI growth over the forecast		115	
Actual Property NOI	\$	13,739	

Year-to-date interest expense exceeded the forecast by \$566. The most significant contributing factor was the additional \$418 of interest attributed to the \$30,000 Series C debentures issued in May 2006, which was not contemplated in the forecast. \$366 of the increase in corporate expenses over the forecast relates to the unsuccessful bid proposal. Accounting, legal and consulting, public company costs and other general and administrative expenses exceeded forecast expectations by \$574, with the most significant variance from the forecast in public company costs (fees paid to transfer agents and securities commissions as well as trustees' fees and investor communications costs). Advisory fees and unit based compensation costs were in-line with the forecast. Non-cash amortization costs at June 30, 2006 are \$694 higher than forecast. The increase was largely due to \$499 of write offs of in-place lease value related to early terminations, as well as an additional \$91 related to properties acquired subsequent to the forecast.

#### Reconciliation of GAAP Loss and Cash Flow from Operations to Distributable Income ("DI"):

Q2-06 DI has increased \$2,794 over Q2-05 (\$5,196 – YTD). On a year-to-date basis, basic DI per unit has increased by \$0.107 (\$0.047 on a fully diluted basis).

\$ Thousands, except unit and per unit amounts	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
<b>Loss for the period</b>	\$ (3,110)	\$ (104)	\$ (4,619)	\$ (175)
Add:				
Amortization (excluding amortized leasing costs)	5,686	477	10,369	708
Amortized financing costs on convertible debentures	115	3	207	-
Accretion to carrying value of debt	326	-	523	3
Unit compensation	40	-	80	-
Loss (Gain) on disposition	113	-	(828)	-
<b>Distributable Income (DI)</b>	<b>\$ 3,170</b>	<b>\$ 376</b>	<b>\$ 5,732</b>	<b>\$ 536</b>
DI per Unit				
Basic and adjusted <sup>(1)</sup>	\$ 0.298	\$ 0.156	\$ 0.587	\$ 0.297
Basic	\$ 0.268	\$ 0.296	\$ 0.552	\$ 0.445
Diluted	\$ 0.252	\$ 0.296	\$ 0.491	\$ 0.444
Weighted average units:				
Basic	11,850,099	1,269,728	10,392,545	1,205,710
Diluted	15,003,921	1,270,131	14,349,156	1,207,995

<sup>(1)</sup> Added back to 2006 DI is \$366 of costs attributable to an unsuccessful bid on a portfolio of assets. Deducted from 2005 DI is \$178 of revenue recorded on the write-off of above-market lease value on an early lease termination.

**Westfield Real Estate Investment Trust – Q2 – 2006 MD&A**  
All amounts are in thousands, unless otherwise stated

Growth in DI has been primarily driven by acquisitions subsequent to June 30, 2005. Quarter over quarter comparability has been further hampered by two significant transactions in Q2 of this year and last year. Basic and adjusted DI presented above eliminates the impact of those transactions to improve comparability.

Following is an alternate reconciliation of DI. It begins at Westfield's cash flow from operations as prepared in accordance with GAAP.

<b>\$ Thousands, except unit and per unit amounts</b>	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Cash flow from operations</b>	\$ 3,377	\$ (22)	\$ 2,397	\$ 277
Deduct amortization of:				
Office equipment	(1)	-	(2)	-
Above-market rent	(56)	(3)	(110)	(5)
Below-market rent	661	211	1,191	233
Tenant inducements and leasing costs	(33)	-	(49)	-
Above-market mortgage	15	-	24	-
Deferred financing costs, non-debenture	(70)	(29)	(112)	(35)
Add: Straight-line rent adjustment	220	-	385	
Deduct change in:				
Rent and other receivables	(387)	44	131	36
Cash held in trust	(3,121)	-	10	-
Prepaid expenses	2,447	119	2,548	121
Accounts payable and other liabilities	220	56	(431)	(84)
Security deposits and prepaid rent	(102)	-	(250)	(7)
<b>Distributable Income (DI)</b>	<b>\$ 3,170</b>	<b>\$ 376</b>	<b>\$ 5,732</b>	<b>\$ 536</b>
DI per Unit				
Basic and adjusted <sup>(1)</sup>	\$ 0.298	\$ 0.156	\$ 0.587	\$ 0.297
Basic	\$ 0.268	\$ 0.296	\$ 0.552	\$ 0.445
Diluted	\$ 0.252	\$ 0.296	\$ 0.491	\$ 0.444
Weighted average units:				
Basic	11,850,099	1,269,728	10,392,545	1,205,710
Diluted	15,003,921	1,270,131	14,349,156	1,207,995

<sup>(1)</sup> Added back to 2006 DI is \$366 of costs attributable to an unsuccessful bid on a portfolio of assets. Deducted from 2005 DI is \$178 of revenue recorded on the write-off of above-market lease value on an early lease termination.

**Reconciliation of GAAP Loss to Funds from Operations ("FFO"):**

Q2-06 FFO has increased \$2,349 over Q2-05 (\$4,438 – YTD). On a year-to-date basis, basic FFO per unit has increased by \$0.036 (\$0.003 on a fully diluted basis).

**Westfield Real Estate Investment Trust – Q2 – 2006 MD&A**  
All amounts are in thousands, unless otherwise stated

\$ Thousands, except unit and per unit amounts	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
<b>Loss for the period</b>	\$ (3,110)	\$ (104)	\$ (4,619)	\$ (175)
Add back amortization on:				
Income producing property	2,211	153	4,017	274
Acquired in-place leases	3,470	310	6,341	416
Customer relationships	5	14	11	18
Tenant improvements and leasing costs	33	-	49	-
Loss (Gain) on disposition	113	-	(828)	-
<b>FFO for the period</b>	<b>\$ 2,722</b>	<b>\$ 373</b>	<b>\$ 4,971</b>	<b>\$ 533</b>
FFO per Unit				
Basic and adjusted <sup>(1)</sup>	\$ 0.261	\$ 0.154	\$ 0.514	\$ 0.294
Basic	\$ 0.230	\$ 0.294	\$ 0.478	\$ 0.442
Diluted	\$ 0.228	\$ 0.294	\$ 0.444	\$ 0.441
Weighted average units:				
Basic	11,850,099	1,269,728	10,392,545	1,205,710
Diluted	12,074,314	1,270,131	12,208,254	1,207,995

<sup>(1)</sup> Added back to 2006 FFO is \$366 of costs attributable to an unsuccessful bid on a portfolio of assets. Deducted from 2005 FFO is \$178 of revenue recorded on the write-off of above-market lease value on an early lease termination.

FFO growth has primarily been driven by acquisitions since June 30, 2005. Quarter over quarter comparability has been further hampered by two significant transactions in Q2 of this year and last year. Basic and adjusted FFO presented above eliminates the impact of those transactions to improve comparability.

The current period's FFO was also significantly impacted by the interest incurred on \$30,000 of Series C debentures issued May 4, 2006 but not substantially invested in income-producing properties until July 2006. Management anticipates that the substantial investment of the debentures in July 2006 as well as the full impact of acquisitions late in Q2 will increase FFO in Q3.

**Comparison of Actual v. Forecast DI and FFO:**

In its short form prospectus dated February 27, 2006, the REIT forecast a second quarter DI of \$3,626 and a second quarter FFO of \$3,304. Although actual same Property NOI was higher than the forecast, unanticipated costs related to the unsuccessful bid, higher public company and other general and administrative costs, interest expenses related to the Series C debenture issue and additional amortization expenses have resulted in actual results being lower than the forecast. Management does not believe that Q2-06 is indicative of future performance; management anticipates that Q3-06 will be closer to forecast expectations.

**Summarized Quarterly Information:**

<i>In Thousands, except unit and per unit amounts</i>	Q2-06	Q1-06	Q4-05	Q3-05	Q2-05	Q1-05	Q4-04	Q3-04
Revenue	\$ 11,932	\$ 9,357	\$ 6,547	\$ 1,728	\$ 854	\$ 515	\$ 242	\$ 237
Property operating expenses	3,912	3,617	2,728	355	209	132	62	42
Property NOI	8,020	5,740	3,819	1,373	645	383	180	195
Interest	3,986	2,906	2,150	634	212	169	102	105
Operating income	4,034	2,834	1,669	739	433	214	78	90
Expenses								
Corporate	1,125	451	584	219	59	51	38	6
Amortization	5,906	4,833	3,284	665	478	234	84	99
	7,031	5,284	3,868	884	537	285	122	105
Loss before gain or loss on disposal of income-producing property and income taxes	(2,997)	(2,450)	(2,199)	(145)	(104)	(71)	(44)	(15)
Gain (loss) on disposal of income-producing property	(113)	941	-	-	-	-	-	-
Loss before income taxes	(3,110)	(1,509)	(2,199)	(145)	(104)	(71)	(44)	(15)
Income taxes (recovery)	-	-	-	-	-	-	29	(4)
<b>Loss for the period</b>	<b>(3,110)</b>	<b>(1,509)</b>	<b>(2,199)</b>	<b>(145)</b>	<b>(104)</b>	<b>(71)</b>	<b>(73)</b>	<b>(11)</b>
Loss per unit								
Basic and fully diluted	\$ (0.262)	\$ (0.169)	\$ (0.314)	\$ (0.035)	\$ (0.082)	\$ (0.062)	\$ (0.133)	\$ (0.022)

The quarterly review indicates steady growth in Westfield's Property NOI and operating income. Accounting losses have also increased steadily, primarily due to increasing non-cash amortization of the income-producing properties and their related intangible assets.

A quarter over quarter comparison of DI indicates the same trend. On a per unit basis, the quarterly review indicates a higher than anticipated per unit DI in Q2-05 and lower than anticipated per unit DI in Q2-06, as previously discussed.

<i>In Thousands, except unit and per unit amounts</i>	Q2-06	Q1-06	Q4-05	Q3-05	Q2-05	Q1-05	Q4-04	Q3-04
Loss for the period	\$ (3,110)	\$ (1,509)	\$ (2,199)	\$ (145)	\$ (104)	\$ (71)	\$ (73)	\$ (11)
Add:								
Amortization income-producing properties	5,686	4,683	3,193	626	477	231	82	96
Amortized financing costs on convertible debentures	115	92	66	37	3	-	2	2
Accretion to carrying value of debt	326	197	162	73	-	3	5	7
Unit compensation	40	40	157	-	-	-	30	-
Loss (Gain) on disposition	113	(941)	-	-	-	-	-	-
<b>Distributable income</b>	<b>\$ 3,170</b>	<b>\$ 2,562</b>	<b>\$ 1,378</b>	<b>\$ 591</b>	<b>\$ 376</b>	<b>\$ 164</b>	<b>\$ 46</b>	<b>\$ 94</b>
DI per Unit								
Basic	\$ 0.268	\$ 0.287	\$ 0.197	\$ 0.143	\$ 0.296	\$ 0.144	\$ 0.084	\$ 0.194
Diluted	\$ 0.252	\$ 0.266	\$ 0.196	\$ 0.142	\$ 0.296	\$ 0.144	\$ 0.084	\$ 0.194
Weighted average units:								
Basic	11,850,099	8,918,795	6,993,641	4,122,383	1,269,728	1,140,980	549,278	485,608
Diluted	15,003,921	11,502,700	7,030,560	4,152,154	1,270,131	1,142,227	549,278	485,608

## ANALYSIS OF FINANCIAL POSITION

<i>In Thousands</i>	At June 30,		At December 31,		
	2006		2005		Increase
<b>Assets</b>					
Income-producing properties	\$	301,116	\$	209,658	\$ 91,458
Other assets, including intangibles		67,258		52,225	15,033
Deposits on income-producing properties		1,788		425	1,363
Cash		40,286		10,960	29,326
	\$	410,448	\$	273,268	\$ 137,180
<b>Liabilities</b>					
Long-term debt	\$	276,009	\$	190,834	\$ 85,175
Other liabilities		16,960		13,074	3,886
	\$	292,969	\$	203,908	\$ 89,061
Unitholders' equity	\$	117,479	\$	69,360	\$ 48,119

Westfield's total assets have increased 50.2% since December 31, 2005, reflecting the acquisition of \$115,330 of additional income producing properties (\$43,616 in Q2). Liabilities and equity have increased as a result of the \$30,000 issue of Series C debentures in May 2006 and the public offering of units in March 2006. As a result of these transactions, liabilities have increased 43.7% and unitholders' equity increased 69.4%.

Westfield had \$40,286 of cash and cash equivalents on hand at June 30, 2006. A substantial portion of these funds have since been used to fund the cash portion of acquisitions that closed in July 2006.

### **2006 Acquisition Activity**

Two properties were acquired in the second quarter of 2006: Sunridge Spectrum Shopping Centre and McCall Lake Industrial. The impact on the financial position of the REIT of these acquisitions is summarized below.

<b>\$ Thousands</b>	Three month period ending		Six month period ending	
	June 30		June 30	
	2006	2005	2006	2005
Cash consideration	\$ 20,283	\$ -	\$ 46,097	\$ 2,955
New or assumed mortgages including above-market mortgage	23,333	-	69,233	7,760
Net Assets Acquired	\$ 43,616	\$ -	\$ 115,330	\$ 10,715
Allocated to income-producing properties	\$ 40,998	\$ -	\$ 101,662	\$ 9,267
Allocated to other assets	4,945	-	18,174	2,074
Allocated to intangible liabilities	(2,327)	-	(4,506)	(626)
Net Assets Acquired	\$ 43,616	\$ -	\$ 115,330	\$ 10,715

There were no acquisitions in the comparable quarter of 2005.

## 2006 Financing Activity

Westfield finances growth and operations through mortgages and loans on its properties and through the issue of debentures and trust units.

Substantially all of Westfield's income-producing properties are pledged as security under mortgages and other loans. In Q2-06, Westfield assumed an existing \$17,500 mortgage bearing interest at 7.24% per annum in conjunction with the acquisition of Sunridge Spectrum and obtained a new \$5,300 mortgage bearing interest at 5.6% per annum to partially finance the acquisition of McCall Lake Industrial.

On May 4, 2006, Westfield closed an offering of \$30,000 Series C debentures on a bought deal basis, through a syndicate of underwriters led by Canaccord Capital Corporation and including CIBC World Markets Inc., National Bank Financial Inc., Scotia Capital Inc., Bieber Securities Inc. and Westwind Partners Inc. The Series C debentures are convertible, redeemable and unsecured, and pay interest semi-annually at a coupon of 6.25% per annum. The Series C debentures were issued with the proceeds intended to be used for future acquisitions and for working capital purposes.

### Contractual Obligations:

Long-term liabilities	Total	Payments due in period			After 5 years
		Less than 1 year	1 - 3 years	4 - 5 years	
Mortgages and other loans secured by properties	\$ 230,461	\$ 23,534	\$ 18,193	\$ 35,868	\$ 152,866
Convertible debentures <sup>(1)</sup>	56,737	875	-	25,862	30,000
<b>Total</b>	<b>\$ 287,198</b>	<b>\$ 24,409</b>	<b>\$ 18,193</b>	<b>\$ 61,730</b>	<b>\$ 182,866</b>

<sup>1</sup> It is assumed that none of the debentures convert and are paid out in cash on maturity

Although the above schedule assumes that all liabilities under convertible debentures are to be repaid in cash on maturity, the holder of the \$875 interim financing debenture elected to convert into units on maturity (which was August 3, 2006).

In fiscal 2005, Sears Centre was acquired on an agreement for sale basis. Accordingly, title to the property is held in escrow pending payout of the related vendor loan. The vendor loan on Sears Centre may be repaid any time up to, but must be concluded by, December 15, 2006.

A summary of Westfield's debentures outstanding as at June 30, 2006, are as follows:

\$ Thousands	Issued	Maturity	Face Rate	Carrying Value	Face Value
Series A	4-Aug-05	4-Aug-10	7.75%	\$ 12,557	\$ 15,000
7.25% 1-Yr Convertible	3-Aug-05	3-Aug-06	7.25%	871	875
Series B	9-Nov-05	9-Nov-10	7.50%	8,920	10,862
Series C	4-May-06	31-May-13	6.25%	22,530	30,000
<b>Total</b>				<b>\$ 44,878</b>	<b>\$ 56,737</b>

At June 30, 2006, Westfield debt to gross book value ratios are as follows:

**Westfield Real Estate Investment Trust – Q2 – 2006 MD&A**  
All amounts are in thousands, unless otherwise stated

<b>\$ Thousands</b>		<b>At June 30, 2006</b>		<b>At December 31, 2005</b>
<b>Gross book value (GBV) of properties</b>	<b>\$</b>	<b>361,290</b>	<b>\$</b>	<b>254,071</b>
Mortgages and other loans secured by properties <sup>(1)</sup>	\$	231,131	\$	168,889
<b>Mortgages to GBV</b>		<b>64.0%</b>		<b>66.5%</b>
Carrying value of convertible debentures	\$	44,878	\$	21,945
Total long-term debt	\$	276,009	\$	190,834
<b>Total Debt to GBV</b>		<b>76.4%</b>		<b>75.1%</b>

<sup>1</sup> Includes \$670 mark-to-market on above-market mortgages

**Unitholders' equity:**

In Q2-06, Westfield issued 36,000 units pursuant to the exercise of \$6.00 Options, for gross proceeds of \$216. At June 30, 2006, Westfield had 312,393 options outstanding (99,098 exercisable) at a weighted average exercise price of \$10.779.

The weighted average number of units outstanding for Q2-06 was 11,850,099 (10,392,545 – YTD). The weighted average number of units outstanding for Q2-05 was 1,269,728 (1,205,710 – YTD).

## CASH FLOWS AND FUNDS FROM OPERATIONS (FFO)

The below table presents the reconciliation of Westfield's FFO to GAAP income (loss) on quarterly basis.

<i>In Thousands, except unit and per unit amounts</i>	<b>Q2-06</b>	<b>Q1-06</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q4-04</b>	<b>Q3-04</b>
Loss for the period	\$ (3,110)	\$ (1,509)	\$ (2,199)	\$ (145)	\$ (104)	\$ (71)	\$ (73)	\$ (11)
Add:								
Amortization income-producing properties	5,686	4,683	3,193	626	477	231	82	96
Amortized financing costs on convertible debentures	115	92	66	37	3	-	2	2
Accretion to carrying value of debt	326	197	162	73	-	3	5	7
Unit compensation	40	40	157	-	-	-	30	-
Loss (Gain) on disposition	113	(941)	-	-	-	-	-	-
<b>Distributable income</b>	<b>\$ 3,170</b>	<b>\$ 2,562</b>	<b>\$ 1,378</b>	<b>\$ 591</b>	<b>\$ 376</b>	<b>\$ 164</b>	<b>\$ 46</b>	<b>\$ 94</b>
DI per Unit								
Basic	\$ 0.268	\$ 0.287	\$ 0.197	\$ 0.143	\$ 0.296	\$ 0.144	\$ 0.084	\$ 0.194
Diluted	\$ 0.252	\$ 0.266	\$ 0.196	\$ 0.142	\$ 0.296	\$ 0.144	\$ 0.084	\$ 0.194
Weighted average units:								
Basic	11,850,099	8,918,795	6,993,641	4,122,383	1,269,728	1,140,980	549,278	485,608
Diluted	15,003,921	11,502,700	7,030,560	4,152,154	1,270,131	1,142,227	549,278	485,608

Westfield has achieved steadily increasing FFO results over the past eight quarters. On a per unit basis, the quarterly review indicates a higher than anticipated per unit FFO in Q2-05 and lower than anticipated per unit FFO in Q2-06, as previously discussed.

Revenues from properties acquired at the end of the current quarter are not included in the June 30, 2006 results. Management believes these acquisitions will positively impact future performance.



Distributions to unitholders stayed constant during the first two quarters of 2006 at \$0.0875 per unit per month (or \$0.2625 per quarter). In the previous year, Westfield distributed \$0.0495 per unit per month (or \$.1485 per quarter). Management anticipates that FFO will further increase in Q3 reflecting the impact of Q2 and Q3 acquisitions.

In Q2-06, cash flow from Westfield's operating activities was \$3,377, compared to a net outflow of \$22 in Q2-05. For the six months ended June 30, cash flow from operating activities is \$2,397 compared with \$277 in 2005. Investing activities in Q2-06 utilized \$20,470 of cash while financing activities generated \$24,583. The overall cash increase for the current quarter was \$7,490 (\$29,316 – YTD) compared with \$416 in 2005 (-\$1,889 – 2005 YTD).

Westfield expects to meet all of its on-going obligations and capital commitments with respect to owned properties through funds generated from operations, from the proceeds of mortgage refinancing, and from future unit or debenture offerings.

## OPERATIONAL RESULTS

Operational results are significantly impacted by the mix of properties by assets class, the location of the properties and strength of those respective regional economies, the mix of tenants in place as well as leasing and renewal activity.

### **Segmented Property NOI (by Asset Class)**

Information on the REIT's operating performance by asset class and province follows:

#### **Three month period ending June 30**

\$ Thousands	2006		2005	
	Retail	Office/ Industrial	Retail	Office/ Industrial
Revenue	\$ 6,244	\$ 5,277	\$ 847	\$ -
Property operating expenses	1,562	2,350	209	-
Property NOI	\$ 4,682	\$ 2,927	\$ 638	\$ -
Share of Property NOI	61.5%	38.5%	100.0%	0.0%

#### **Six month period ending June 30**

\$ Thousands	2006		2005	
	Retail	Office/ Industrial	Retail	Office/ Industrial
Revenue	\$ 10,537	\$ 10,183	\$ 1,356	\$ -
Property operating expenses	2,799	4,751	341	-
Property NOI	\$ 7,738	\$ 5,432	\$ 1,015	\$ -
Share of Property NOI	58.8%	41.2%	100.0%	0.0%

All three of Westfield's properties at June 30, 2005 were retail. Acquisitions activity since that time has diversified the portfolio such that at June 30, 2006, 19 of the 31 properties are retail, 11 are office and one is industrial. The sole industrial property was acquired on June 30, 2006. The revenues and expenses for that property are immaterial in the current quarter and office and industrial have been presented as one segment. The Property NOI from that acquisition will start to be realized in Q3-06.

### Property NOI (by Province)

Three month period  
ending June 30

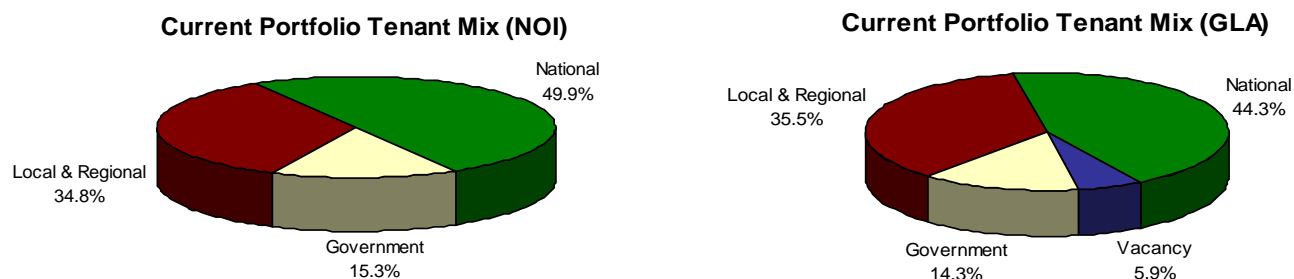
\$ Thousands	2006				2005			
	Manitoba	Saskatche- wan	Alberta	B.C.	Manitoba	Saskatche- wan	Alberta	B.C.
Revenue	\$ 2,355	\$ 2,690	\$ 6,243	\$ 233	\$ -	\$ 620	\$ 227	\$ -
Property operating expenses	977	789	2,085	61	-	167	42	-
Property NOI	\$ 1,378	\$ 1,901	\$ 4,158	\$ 172	\$ -	\$ 453	\$ 185	\$ -
Share of Property NOI	18.1%	25.0%	54.6%	2.3%	0.0%	71.0%	29.0%	0.0%

Six month period  
ending June 30

\$ Thousands	2006				2005			
	Manitoba	Saskatche- wan	Alberta	B.C.	Manitoba	Saskatche- wan	Alberta	B.C.
Revenue	\$ 4,265	\$ 4,868	\$ 11,117	\$ 470	\$ -	\$ 891	\$ 465	\$ -
Property operating expenses	2,013	1,507	3,905	125	-	251	90	-
Property NOI	\$ 2,252	\$ 3,361	\$ 7,212	\$ 345	\$ -	\$ 640	\$ 375	\$ -
Share of Property NOI	17.1%	25.5%	54.8%	2.6%	0.0%	63.1%	36.9%	0.0%

### Occupancy and Tenant Mix

Westfield's current portfolio has a strong tenant profile, with approximately 65.2% of Property NOI derived from government or national tenancies (increased from 64% at March 31, 2006).



Approximately 58.6% of gross leasable area ("GLA") is occupied by either municipal, provincial or federal government tenants or high profile national corporations or retailers (unchanged from March 31, 2006).

Westfield's ten top tenants (excluding government agencies) contribute approximately 25% to the REIT's overall Property NOI. The list is largely comprised of high-credit rated national retailers or businesses and no single tenant contributes more than 6% to the overall NOI. Management believes this speaks well for the strength and stability of Westfield's prospective cash flows. Another 15% of overall Property NOI is contributed by government agencies. Overall, 37.5% of the REIT's office portfolio is occupied by government tenants; 69.2% of the REIT's retail portfolio is occupied by national tenants.

**Westfield Real Estate Investment Trust – Q2 – 2006 MD&A**  
All amounts are in thousands, unless otherwise stated

Top Ten Tenants by GLA		Top Ten Tenants by NOI	
	Share		Share
Sears Canada	4.3%	Shoppers Drug Mart	5.1%
Shoppers Drug Mart	2.9%	Cinexplex Odeon	4.8%
Cinexplex Odeon	2.7%	Komex International	2.7%
Komex International	2.1%	Sears Canada	2.7%
Columbia College	1.8%	Home Outfitters	2.0%
Home Outfitters	1.6%	Bank of Montreal	1.8%
Hycal Energy Labs	1.5%	London Drugs	1.7%
Sobey's/IGA	1.5%	Future Shop	1.7%
Future Shop	1.5%	Columbia College	1.6%
The Brick	1.3%	The Brick	1.2%
<b>Total of Top Ten by GLA</b>	<b>21.4%</b>	<b>Total of Top Ten by NOI</b>	<b>25.2%</b>

Government Entities by GLA		Government Entities by NOI	
	Share		Share
Federal Government	5.2%	Federal Government	5.3%
Provincial Government	2.9%	Provincial Government	5.3%
Civic or Municipal Gov't	6.2%	Civic or Municipal Gov't	4.4%
<b>Total Government by GLA</b>	<b>14.3%</b>	<b>Total Government by NOI</b>	<b>15.0%</b>

Overall occupancy in the portfolio at June 30, 2006 was 94.1% compared with 93.4% at December 31, 2005. Upcoming lease expiries are as follows:

Year of Expiry	Square Feet	% of Portfolio Leasable Area	% of Expiries in Alberta
2006	190,858	7.9%	19.0%
2007	127,644	5.3%	66.0%
2008	318,510	13.1%	69.2%
2009	316,900	13.1%	62.5%
2010	388,755	16.0%	65.1%
2011 & later	941,729	38.8%	63.6%

As a result of strong leasing and renewal activity in Q2-06 and recent acquisitions, lease maturities in 2006 and 2007, as a percentage of portfolio leasable area, have declined to 7.9% and 5.3% respectively, while maturities in 2011 and beyond have increased from 33.7% to 38.8%. Beginning in 2007, a significant proportion of the leases coming up for renewal are in the Alberta properties. Management believes there is substantial upside to be realized from the below-market leases coming up for renewal in Alberta, particularly in the strong Alberta office market.

### **Leasing and Capital Expenditures**

Leasing and capital expenditures for Westfield are as follows:

\$ Thousands	Three month period ending		Six month period ending	
	June 30		June 30	
	2006	2005	2006	2005
Tenant inducements	\$ 152	-	\$ 241	-
Leasing commissions	149	-	247	-
Capital expenditures	44	-	96	-
<b>Total</b>	<b>\$ 345</b>	<b>\$ -</b>	<b>\$ 584</b>	<b>\$ -</b>

Tenant inducements and leasing commissions were incurred in connection with the leasing of vacant space or the renewal or replacement of tenants where lease terms expired. Tenant inducements may include allowances paid to the tenants or costs to the REIT to ready the space for the tenant. Leasing commissions are paid with respect to new and renewed leases.

Capital expenditures were incurred in substantive building improvements not related to a specific lease or tenancy. Westfield anticipates these expenditures will result in enhanced long-term revenues for the building.

## 2006 OUTLOOK

Westfield will continue to focus on growth through acquisition of quality income-producing retail, office and industrial properties in western Canada, particularly in Alberta, as well as development. Westfield will focus aggressively on increasing same Property NOI through effective property and leasing management, particularly in Alberta, as an important source of internal growth for Unitholders.

### **Subsequent Events**

On July 13, 2006, Westfield acquired Heritage Square, a 5-storey class “A” suburban office complex in south Calgary. Heritage Square was acquired for \$61,300 and the purchase price was satisfied with a combination of cash, a 3-year \$5,000 (interest only) vendor loan bearing interest at 6% per annum and from mortgage financing. In conjunction with the acquisition, the vendor defeased the existing above-market rate mortgage at a cost to Westfield of approximately \$4,000. Westfield subsequently obtained a new \$39,650 10-year mortgage on the property at a lower rate of 5.52% per annum.

On July 14, 2006, Westfield acquired the Franklin Showcase Warehouse, a two-building 69,000 square foot industrial complex in Calgary. Franklin Showcase Warehouse was acquired for \$7,790 and the purchase price was satisfied with cash and from the proceeds of a mortgage financing package aggregating \$5,100 bearing interest at a blended rate of 5.38% per annum.

On July 17, 2006, Westfield acquired Horizon Heights, 73,514 square foot 100% occupied retail development in north-east Calgary. Horizon Heights was acquired for \$18,000 and the purchase price was satisfied with a combination of cash and the assumption of an existing \$9,700 mortgage bearing interest at 5.76% per annum.

Several treasury transactions occurred since June 30, 2006. On July 19, 2006, 16,000 of the outstanding directors and officers options were exercised at a price of \$6.00 per unit. On July 19, 1,066 units were issued to trustees of the REIT as partial payment for trustees fees. The units were issued at fair market value. On August 3, 2006, the \$875 interim financing debenture matured. The holder exercised its conversion option and Westfield issued 145,833 units at the exercise price of \$6.00. On August 9, 2006, 5,000 of the \$11.25 directors and officers options were exercised. The resulting balance of units outstanding is as follows:

Units outstanding June 30, 2006	11,857,808
Options exercised	21,000
Units issued	1,066
Units issued	<u>145,833</u>
Units outstanding at August 10, 2006	<u>12,025,707</u>

As a result of the exercise of options, at the date of this MD&A there are 12,000 of the \$6.00 options outstanding and 279,393 of the \$11.25 options outstanding.

## RISKS AND UNCERTAINTIES

All real property investments are subject to elements of risk. General economic conditions, local real estate markets, supply and demand for leased premises, competition from other available premises and various other factors affect such investments.

The primary risk facing Westfield relates to rents receivable from tenants. Subsequent to December 31, 2004, the acquisition of additional properties reduces the proportionate credit exposure of any one tenant.

Westfield is subject to other risk factors, including: public market risks, tax related risks, debt financing, general uninsured losses, interest rate fluctuations, environmental factors, land leases, unitholder liability, changes in legislation, potential conflicts of interest and reliance on key personnel. For a more complete discussion of general and specific risks please see our Annual Information Form, dated April 19, 2006, filed on SEDAR.

## CRITICAL ACCOUNTING ESTIMATES

Westfield's critical accounting estimates remain unchanged from those set out in the REIT's 2005 Annual Report.

## CHANGES IN ACCOUNTING POLICIES

The Canadian Institute of Chartered Accountants issued accounting pronouncements which impact the accounting policies of the REIT. The impact of the accounting changes on the REIT are as disclosed in Westfield's 2005 Annual Report.

## RELATED PARTY TRANSACTIONS

	Three months ended		Six months ended	
	June 30		June 30	
	2006	2005	2006	2005
Legal fees	\$ 426	\$ 35	\$ 609	\$ 84
Advisory fees	201	26	361	26
Acquisition fees	213	12	568	20
Property management fees	404	-	730	-
Leasing commissions	149	-	248	-
Consultation fees	34	-	34	-
Renovation fees	33	-	85	-
Interest expense	28	-	62	-

Westfield incurs legal fees (for prospectus offerings, property acquisitions and general business matters) with a law firm associated with a Trustee of Westfield.

Westfield incurs advisory fees and acquisition fees under the asset management agreement with Marwest Management Canada Ltd, a company owned and controlled by certain trustees and officers of the REIT.

Westfield incurs property management fees, leasing commission fees, and renovation fees under the property management agreement with Marwest Management Canada Ltd.

Westfield incurs consulting fees with an engineering firm associated with a trustee of the REIT.

The \$875 interim financing debenture, which matured on August 3, 2006, was held by a corporation under the control of certain trustees of Westfield. Up to the date of conversion, Westfield incurred interest expense under the terms of the debentures, which was paid to the holder on the maturity date. At maturity, the debenture converted in full at the holders option and Westfield issued 145,833 units from treasury.

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.