Condensed Consolidated Financial Statements of

PARTNERS REAL ESTATE INVESTMENT TRUST

For the three and nine months ended September 30, 2014 and 2013

PARTNERS REAL ESTATE INVESTMENT TRUST
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For the three and nine months ended September 30, 2014 and 2013

PARTNERS REAL ESTATE INVESTMENT TRUST
Condensed Consolidated Statements of Financial Position
unaudited (Cdn $)

As at	September 30, 2014	December 31, 2013
ASSETS		
Non-current assets		
Income producing properties (Note 3)	**$ 532,917,851**	$ 588,391,005
	532,917,851	588,391,005
Current assets		
Other assets (Note 4)	**4,497,024**	4,514,391
Accounts receivable (Note 5)	**7,348,100**	2,722,641
Cash	**14,015,181**	-
	25,860,305	7,237,032
	$ 558,778,156	$ 595,628,037
LIABILITIES		
Non-current liabilities		
Mortgages payable (Note 6)	**$ 244,123,304**	$ 250,046,544
Convertible debentures (Note 7)	**83,211,428**	82,352,601
Credit facilities (Note 8)	-	30,795,803
	327,334,732	363,194,948
Current liabilities		
Mortgages payable (Note 6)	**30,681,275**	34,104,016
Credit facilities (Note 8)	**34,913,503**	-
Accounts payable and other liabilities	**11,791,020**	11,378,767
Distributions payable	**550,202**	1,094,156
Bank indebtedness	**-**	134,868
	77,936,000	46,711,807
	405,270,732	409,906,755
Exchangeable LP units (Note 9)	**-**	842,625
	405,270,732	410,749,380
UNITHOLDERS' EQUITY	**153,507,424**	184,878,657
	$ 558,778,156	$ 595,628,037

Subsequent Events (Note 8, 22)

The accompanying notes are an integral part of these condensed consolidated financial statements.

PARTNERS REAL ESTATE INVESTMENT TRUST
Condensed Consolidated Statements of Comprehensive Income (Loss)
unaudited (Cdn $)

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenues from income producing properties (Note 10)	**$ 14,507,888**	$ 14,533,172	**$ 44,885,569**	$ 41,792,858
Property operating expenses	**(2,398,756)**	(2,385,634)	**(6,921,099)**	(6,324,477)
Realty taxes	**(3,172,164)**	(3,160,677)	**(9,678,104)**	(8,796,687)
Property management fees	**(338,916)**	(262,619)	**(880,094)**	(747,068)
	8,598,052	8,724,242	**27,406,272**	25,924,626
Other expenses:				
Financing costs	**$ 5,694,498**	4,680,561	**16,129,960**	12,905,602
General and administrative expenses	**604,851**	1,039,303	**3,361,979**	2,637,261
Other transaction costs (Note 11)	**935,055**	115,530	**8,620,592**	1,903,164
	7,234,404	5,835,394	**28,112,531**	17,446,027
Income before fair value gains (losses)	**1,363,648**	2,888,848	**(706,259)**	8,478,599
Fair value gains (losses) (Note 12)	**(14,538,979)**	(8,982)	**(24,076,668)**	4,901,503
Gains on sale of investment properties (Note 3)	**711,018**	-	**711,018**	-
Net income (loss) and comprehensive income (loss)	**$ (12,464,313)**	$ 2,879,866	**$ (24,071,909)**	$ 13,380,102
EARNINGS (LOSS) PER UNIT (Note 13)				
Basic	**$ (0.47)**	$ 0.11	**$ (0.92)**	$ 0.52
Diluted	**$ (0.47)**	$ 0.11	**$ (0.92)**	$ 0.50

The accompanying notes are an integral part of these condensed consolidated financial statements.

PARTNERS REAL ESTATE INVESTMENT TRUST
Condensed Consolidated Statements of Changes in Unitholders' Equity
unaudited (Cdn $)

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Trust Units (Note 14)				
BALANCE, BEGINNING OF PERIOD	**$ 196,257,340**	$ 194,092,279	**$ 194,991,352**	$ 168,392,882
Issuance of units for exchangeable LP units, net of costs (Note 9)	**-**	-	**661,300**	655,326
Issuance of units under DRIP, net of costs	**190,102**	345,940	**794,790**	857,547
Issuance of units under alternate compensation plan (Note 16)	**-**	17,000	**-**	39,500
Issuance of units under public offering, net of costs	**-**	(83,033)	**-**	24,426,931
BALANCE, END OF PERIOD	**196,447,442**	194,372,186	**196,447,442**	194,372,186
Contributed Surplus				
BALANCE, BEGINNING OF PERIOD	**565,080**	565,080	**565,080**	565,080
BALANCE, END OF PERIOD	**565,080**	565,080	**565,080**	565,080
Accumulated Other Comprehensive Income (Loss)				
BALANCE, BEGINNING OF PERIOD	**(28,842,006)**	3,343,645	**(10,677,775)**	1,106,690
Net income (loss) and comprehensive income (loss)	**(12,464,313)**	2,879,866	**(24,071,909)**	13,380,102
Distributions to unitholders (Note 14)	**(2,198,779)**	(4,155,066)	**(8,755,414)**	(12,418,347)
BALANCE, END OF PERIOD	**(43,505,098)**	2,068,445	**(43,505,098)**	2,068,445
TOTAL UNITHOLDERS' EQUITY	**$ 153,507,424**	$ 197,005,711	**$ 153,507,424**	$ 197,005,711
DISTRIBUTIONS PER UNIT	**$ 0.08**	$ 0.16	**$ 0.33**	$ 0.48

The accompanying notes are an integral part of these condensed consolidated financial statements.

PARTNERS REAL ESTATE INVESTMENT TRUST
Condensed Consolidated Statements of Cash Flows
unaudited (Cdn $)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
OPERATING ACTIVITIES				
Net income (loss) and comprehensive income (loss)	**$ (12,464,313)**	$ 2,879,866	**$ (24,071,909)**	$ 13,380,102
Adjusted for non-cash items:				
Gains on sale of investment properties (Note 3)	**(711,018)**	-	**(711,018)**	-
Fair value (gains) losses (Note 12)	**14,538,979**	8,982	**24,076,668**	(4,901,503)
Employee options costs	**-**	10,000	**-**	30,000
Alternate compensation plan costs	**-**	17,000	**-**	39,500
Straight-line rent	**(187,938)**	(484,662)	**(685,119)**	(1,634,933)
Amortization of tenant incentives and direct leasing costs	**155,793**	115,595	**515,355**	321,088
Amortization of deferred financing costs	**751,661**	305,949	**1,587,104**	816,777
Market interest rate adjustment on mortgages	**(240,432)**	(262,308)	**(764,198)**	(707,336)
Interest accretion expense	**102,946**	-	**307,429**	-
Net change in working capital (Note 15)	**(3,494,362)**	(2,328,026)	**(4,730,646)**	(7,194,932)
Cash flow used in operating activities	**(1,548,684)**	262,396	**(4,476,334)**	148,763
FINANCING ACTIVITIES				
Proceeds from mortgages	**23,000,000**	11,272,667	**38,000,000**	69,272,965
Financing costs of mortgages	**(228,300)**	6,239	**(731,137)**	(470,795)
Repayments of mortgages at maturity	**(20,679,831)**	-	**(20,679,831)**	-
Regular principal repayments on mortgages	**(2,175,144)**	(2,084,781)	**(6,599,550)**	(9,462,202)
Proceeds from debenture issuance	**-**	-	**-**	23,000,000
Cost to issue debentures	**-**	-	**(99,883)**	(1,150,854)
Drawdowns on credit facilities	**2,000,000**	11,000,000	**7,294,095**	57,000,000
Repayments of credit facilities	**-**	-	**(3,294,095)**	(35,500,000)
Financing fees on credit facilities	**-**	(285,928)	**(20,417)**	(466,277)
Proceeds from public offering	**-**	-	**-**	25,900,875
Costs to issue units (Note 14)	**(3,183)**	(85,707)	**(10,497)**	(1,485,138)
Distributions to unitholders	**(2,005,495)**	(3,806,451)	**(7,952,202)**	(11,553,750)
Cash flow provided by financing activities	**(91,953)**	16,016,039	**5,906,483**	115,084,824
INVESTING ACTIVITIES				
Dispositions of income producing properties, net of non-cash transactions	**15,630,880**	-	**15,630,880**	-
Closing costs on dispositions of income producing properties	**(168,418)**	-	**(168,418)**	-
Acquisitions of income producing properties, net of non-cash transactions	**-**	(16,939,915)	**(133,808)**	(116,564,133)
Improvements to income producing properties	**(1,519,903)**	(1,825,381)	**(2,218,517)**	(5,575,363)
Expenditures on tenant incentives and direct leasing costs	**(33,091)**	(234,049)	**(390,237)**	(746,589)
Net proceeds from repayment of note receivable	**-**	-	**-**	5,935,816
Cash flow used in investing activities	**13,909,468**	(18,999,345)	**12,719,900**	(116,950,269)
NET INCREASE (DECREASE) IN CASH DURING THE PERIOD	**12,268,831**	(2,720,910)	**14,150,049**	(1,716,682)
CASH (BANK INDEBTEDNESS), BEGINNING OF PERIOD	**1,746,350**	2,857,858	**(134,868)**	1,853,630
CASH (BANK INDEBTEDNESS), END OF PERIOD	**$ 14,015,181**	$ 136,948	**$ 14,015,181**	$ 136,948

Supplemental cash flow information (Note 15)

The accompanying notes are an integral part of these condensed consolidated financial statements.

1. ORGANIZATION OF THE TRUST

Partners Real Estate Investment Trust ("Partners REIT" or the "REIT") is an unincorporated, open-ended real estate investment trust and was formed pursuant to a Declaration of Trust dated March 27, 2007 and as amended and restated on May 28, 2014. The address of its registered office and principal place of business is 249 Saunders Road, Unit #3, Barrie, Ontario, L4N 9A3. The principal business activity of Partners REIT is acquiring, developing and operating commercial retail properties. The units of the REIT have been listed on the Toronto Stock Exchange since April 3, 2012 (the "TSX") and trade under the symbol "PAR.UN". Prior to April 3, 2012, the REIT's units were listed on the TSX Venture Exchange under the same symbol.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies that are used in the preparation of these condensed consolidated financial statements:

(a) Statement of compliance

These condensed consolidated financial statements have been prepared to comply with International Accounting Standard 34 *Interim Financial Statements.* Selected explanatory notes are included to explain significant events and transactions that have occurred since December 31, 2013. These condensed consolidated financial statements do not contain all of the information and disclosures required by International Financial Reporting Standards ("IFRS") for annual reporting purposes and should be read in conjunction with the REIT's consolidated financial statements as at and for the year ended December 31, 2013.

These condensed consolidated financial statements were approved and authorized for issue by the Board of Trustees (the "Trustees") on November 11, 2014.

(b) Basis of presentation

The condensed consolidated financial statements have been prepared on a going concern basis and have been presented in Canadian dollars. The condensed consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of income producing properties and certain financial instruments at fair value.

(c) Significant accounting policies

Except as described below, these condensed consolidated financial statements follow the same accounting policies and methods of application as the consolidated financial statements as at and for the year ended December 31, 2013.

(d) Changes in accounting policies

The REIT has applied, for the first time, new accounting policies due to the adoption of new standards and amendments to existing standards. The nature and impact of the new standards and amendments are described below:

i. IFRIC 21. Levies

IFRIC 21 provides an interpretation of the requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for the recognition of liabilities for obligations to pay levies that are within the scope of IFRIC 21. The standard has no impact on the REIT's consolidated financial statements.

3. INCOME PRODUCING PROPERTIES

As at		**September 30, 2014**		December 31, 2013
Balance, beginning of year	**$**	**588,391,005**	$	465,727,634
Dispositions of income producing properties		**(34,900,000)**		-
Gains on sale of investment properties		**711,018**		-
Closing costs on dispositions of income producing properties		**168,418**		-
Acquisitions of income producing properties		**133,810**		120,167,628
Improvements to income producing properties		**2,218,517**		6,652,911
Expenditures on tenant incentives and direct leasing costs		**390,237**		1,070,725
Amortization of tenant incentives and direct leasing costs		**(515,355)**		(502,072)
Recognition of straight-line rent		**685,119**		1,968,009
Unrealized fair value losses		**(24,364,918)**		(6,693,830)
Balance, end of period	**$**	**532,917,851**	$	588,391,005

Income producing properties, which are classified as investment properties under IFRS, are appraised at fair value by management support on a sample basis by qualified external valuation professionals ("Appraisers") in accordance with IAS 40 – *Investment Properties*. The Appraisers are independent valuation firms, not related to the REIT, that employ valuation professionals who are members of the Appraisal Institute of Canada and the Ordre des évaluateurs agréés du Québec, and who have appropriate qualifications and experience in the valuation of properties in the relevant locations.

For the period ended September 30, 2014 the fair value of the REIT's income producing property portfolio was determined either internally by the REIT using the Direct Capitalization methodology or by obtaining external appraisals.

At September 30, 2014, external appraisals were obtained for thirteen of the REIT's properties with an aggregate fair value of $160.2 million, representing 30.1% of the fair value of the income producing property portfolio. At December 31, 2013, external appraisals were obtained for thirteen of the REIT's properties with an aggregate fair value of $185.7 million, representing 31.6% of the fair value of the income producing property portfolio as of that date. Properties acquired within the year are valued at the purchase price plus closing costs. The value of the remainder of the REIT's income producing property portfolio is determined internally by the REIT using new information obtained and the assumptions and valuation techniques used by the Appraisers.

For fiscal 2014 the external valuation of the income producing properties utilized the "Full Narrative" methodology. These reports rely on the Income Approach (Direct Capitalization and Discounted Cash Flows) in determining values while concurrently reviewing values in the context of the Investment Market Activity. Fair values are most sensitive to change in capitalization and discount rates.

The following table outlines the range and weighted average of the capitalization rates applied to the stabilized net operating income in estimating the fair value for the REIT's properties:

As at	**September 30, 2014**	December 31, 2013
Capitalization rates		
Maximum	**8.25%**	8.25%
Minimum	**6.00%**	6.00%
Weighted Average	**6.62%**	6.47%

At September 30, 2014, a 0.50% increase in capitalization rates for income producing properties would decrease fair value by $38.3 million (December 31, 2013 - $42.0 million) and a 0.50% decrease in capitalization rates would increase fair value by $44.6 million (December 31, 2013 - $49.0 million).

The aggregate cost of tenant incentives and direct leasing costs included in income producing properties are recognized as a reduction of rental income over the lease term, on a straight-line basis. As at September 30, 2014, income producing properties included $4.2 million (December 31, 2013 - $4.6 million) of net straight-line rent receivables arising from the recognition of rental revenue on a straight-line basis over the lease term in accordance with IAS 17 – *Leases*.

Dispositions of income producing properties

On September 26, 2014 the REIT completed a sale three single tenant Canadian Tire properties located in Ontario. The selling price of these properties totaled $34.9 million, excluding transaction costs. The selling price was satisfied by a combination of cash and the assumption by the purchaser of three mortgages totaling $19.2 million and bearing interest of 3.40% per annum. The three properties had a total carrying value of $34.0 million at the time of sale resulting in a gain on disposition of $0.7 million after closing costs of $0.2 million.

4. OTHER ASSETS

The major components of other assets are as follows:

As at	September 30, 2014	December 31, 2013
Prepaid realty taxes and insurance	**$ 2,862,564**	$ 927,715
Restricted cash - amounts held in escrow	**843,276**	2,638,377
Deferred acquisition costs	**-**	155,518
Prepaid expenses and other	**791,184**	792,781
	$ 4,497,024	$ 4,514,391

Cash is considered restricted when it is held in escrow and is only available for use for specific purposes. The permitted use of restricted cash is to lease up vacant space and fund certain future capital expenditures for the REIT's income producing property portfolio. Prepaid expenses and other include general trust expenses paid in advance and other deferred amounts.

5. ACCOUNTS RECEIVABLE

As at	September 30, 2014	December 31, 2013
Rents receivable	**$ 4,418,508**	$ 1,261,870
Unbilled recoveries	**1,506,855**	1,053,415
Other receivables	**2,242,054**	678,009
	8,167,417	2,993,293
Allowance for doubtful accounts	**(819,317)**	(270,652)
	$ 7,348,100	$ 2,722,641

The REIT records an allowance for doubtful accounts on tenant rent receivables on a tenant-by-tenant basis, using specific, known facts and circumstances that exist at the time of the analysis. See Note 20 for the REIT's exposure to credit risk regarding its receivables, and precautions taken to mitigate these risks.

6. MORTGAGES PAYABLE

As at		**September 30, 2014**		December 31, 2013
Mortgages payable	**$**	**273,676,643**	$	282,225,144
Unamortized above market interest rate adjustments		**2,746,796**		3,510,297
Unamortized commitment and other fees		**(1,618,860)**		(1,584,881)
	$	**274,804,579**	$	284,150,560
Non-current	**$**	**244,123,304**	$	250,046,544
Current		**30,681,275**		34,104,016
	$	**274,804,579**	$	284,150,560

Scheduled repayments of secured debt are as follows:

		Principal instalments		Principal maturing		Total
2014	$	1,971,968	$	4,218,627	$	6,190,595
2015		7,847,206		47,267,408		55,114,614
2016		6,842,098		28,373,931		35,216,029
2017		4,717,399		102,604,223		107,321,622
2018		2,336,746		18,439,813		20,776,559
Thereafter		6,397,377		42,659,847		49,057,224
Contractual obligations	$	30,112,794	$	243,563,849	$	273,676,643

Mortgages payable are secured by the income producing properties to which they relate with some having recourse to the REIT. The mortgages bear interest at effective rates ranging between 2.43% and 14.05% per annum (December 31, 2013 – 2.43% and 6.02%) and contractual rates ranging between 2.40% and 10.00% (December 31, 2013 – 2.40% and 6.70%). The REIT's weighted average effective interest rate is 4.99% per annum (December 31, 2013 – 4.34%). The total carrying value of the properties pledged as security is $467.0 million (December 31, 2013 - $522.8 million).

During the nine months ended September 30, 2014, the following transactions occurred:

In September 2014, the REIT refinanced its Place Desormeaux property with a $23.0 million new mortgage replacing the maturing mortgage of $20.6 million. The new mortgage is a variable rate loan at prime plus 2%, with a 3 year term and a 25 year amortization period.

In May 2014, the REIT secured a $15.0 million second mortgage on six single tenant Shoppers Drug Mart properties. The mortgage bears interest at the greater of 10% or prime rate plus 6% per annum. The mortgage is repayable without penalty with 30 days notice.

7. CONVERTIBLE DEBENTURES

As at	**September 30, 2014**	December 31, 2013
8.0% Convertible debenture	**$ 28,528,365**	$ 28,395,933
6.0% Convertible debenture	**34,200,295**	34,118,941
5.5% Convertible debenture	**22,896,657**	22,872,867
Debentures, excluding convertible feature	**85,625,317**	85,387,741
Fair value of convertible features at issuance	**1,460,000**	1,460,000
Accumulated fair value gain on convertible feature	**(1,460,000)**	(1,430,000)
Convertible feature	**-**	30,000
Issue costs	**(4,998,547)**	(4,898,664)
Accumulated amortization of issue costs	**2,584,658**	1,833,524
Issue costs, net	**(2,413,889)**	(3,065,140)
	$ 83,211,428	$ 82,352,601

In March, 2011, the REIT issued $28,750,000 of 8.0% convertible unsecured subordinated debentures (the "8.0% convertible debentures") due March 31, 2016. The 8.0% convertible debentures are convertible into REIT units at $8.80 per unit at the holder's option at any time on or after March 31, 2014. On or after March 31, 2014 and prior to March 31, 2015, the 8.0% convertible debentures may be redeemed by the REIT, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the REIT's units during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after March 31, 2015, the 8.0% debentures may be redeemed by the REIT at any time. The fair value of the convertible feature of the 8.0% convertible debentures as at September 30, 2014 is nil (December 31, 2013 - $20,000).

In September, 2012, the REIT issued $34,500,000 of 6.0% convertible unsecured subordinated debentures (the "6.0% convertible debentures") due September 30, 2017. The 6.0% convertible debentures are convertible into REIT units at $10.35 per unit at the holder's option at any time on or after September 30, 2015. On or after September 30, 2015 and prior to September 30, 2016, the 6.0% convertible debentures may be redeemed by the REIT, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the REIT's units during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after September 30, 2016, the 6.0% debentures may be redeemed by the REIT at any time. The fair value of the convertible feature of the 6.0% convertible debentures as at September 30, 2014 is nil (December 31, 2013 - $10,000).

In March, 2013, the REIT issued $23,000,000 of 5.5% convertible unsecured subordinated debentures (the "5.5% convertible debentures") due March 31, 2018. The 5.5% convertible debentures are convertible into REIT units at $10.25 per unit at the holder's option at any time on or after March 31, 2016. On or after March 31, 2016 and prior to March 31, 2017, the 5.5% convertible debentures may be redeemed by the REIT, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the REIT's units during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after March 31, 2017, the 5.5% debentures may be redeemed by the REIT at any time. The fair value of the convertible feature of the 5.5% convertible debentures as at September 30, 2014 is nil (December 31, 2013 – nil).

8. CREDIT FACILITIES

As at		**September 30, 2014**		December 31, 2013
Credit facilities	**$**	**35,000,000**	$	31,000,000
Issue costs		**259,491**		238,975
Accumulated amortization of issue costs		**(172,994)**		(34,778)
Issue costs, net		**86,497**		204,197
		34,913,503		30,795,803
Non-current	**$**	**-**	$	30,795,803
Current		**34,913,503**		-
	$	**34,913,503**	$	30,795,803

The REIT's revolving credit facility (the "Credit Facility) has a formula-based current maximum credit limit of $40.0 million, expandable up to $60 million with the securitization of additional unencumbered properties, and bears interest at the bank's prime rate (3.0% as at September 30, 2014) plus 1.0% per annum or the Banker's Acceptance stamping fee plus 2.25% per annum.

As at September 30, 2014, the Credit Facility was secured by the King George Square, Crossing Bridge Square, Centre Village Shopping Centre, Elgar Place and Centuria Urban Village properties with a formula-based amount available under the facility of $40.0 million (December 31, 2013 - $38.7 million). The Credit Facility matures in March 2015 and is renewable annually thereafter. The carrying value of properties pledged as security is $62.9 million (December 31, 2013 - $62.6 million).

As at September 30, 2014 the REIT was in technical violation of one of its financial covenants on its Credit Facility. Under the terms of the Credit Facility the quarterly covenant calculation is due for filing on a quarterly basis and the lender considers whether or not there is a default. The Credit Facility was fully repaid on November 10, 2014 with proceeds from new mortgages totaling $36.0 million and secured by four of the five properties previously secured by the REIT's Credit Facility.

9. EXCHANGEABLE LP UNITS

During the nine months ended September 30, 2014 157,500 137th Ave exchangeable LP units were converted into units of the REIT, leaving no remaining 137th Ave exchangeable LP units outstanding. The exchangeable units of 137th Avenue LP, a wholly owned subsidiary, were issued to the participating third party vendor in exchange for a property acquired by 137th Avenue LP.

10. REVENUES FROM INCOME PRODUCING PROPERTIES

Revenues recognized from income producing properties for the three and nine months ended September 30, 2014 were $14.4 million and $44.8 million, respectively (three and nine months ended September 30, 2013 - $14.5 million and 41.8 million, respectively). The REIT leases commercial retail properties under operating leases generally with lease terms of between one and fifteen years, with options to extend for successive five year periods. Included in revenues from income producing properties are recoveries from tenants for the three and nine months ended September 30, 2014 of $4.2 million and $13.7 million, respectively (three and nine months ended September 30, 2013 - $4.3 million and 12.8 million, respectively), which represents the recovery of common area maintenance costs, realty taxes, insurance, and other permissible recoverable costs. Deducted from revenues are the amortization of tenant incentives and direct leasing costs.

As at September 30, 2014, the REIT is entitled under its non-cancellable tenant operating leases to the following minimum future receipts:

	Within 12 months	2 to 5 years	Beyond 5 years
Operating lease revenue	$ 35,101,973	$ 103,731,434	$ 81,737,228

11. OTHER TRANSACTION COSTS

The components of other transaction costs are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Asset management contract reimbursement (Note 21)	**$ -**	$ -	**$ 1,500,000**	$ -
Internalization cost reimbursements (Note 21)	**-**	-	**432,947**	-
Internalization legal and other fees	**91,387**	-	**730,412**	-
Board transition	**9,037**	-	**62,806**	-
Abandoned acquisition costs	**686,743**	59,834	**4,308,687**	59,834
Proxy dispute	**76,800**	55,696	**971,152**	1,843,330
Strategic-review	**71,088**		**614,588**	
Total other transaction costs	**$ 935,055**	$ 115,530	**$ 8,620,592**	$ 1,903,164

On October 2, 2014 the REIT and Holyrood obtained an Order from the Ontario Superior Court of Justice that rescinded the April 22, 2014 Acquisition of the Holyrood Properties. Abandoned acquisition costs above are costs incurred by the REIT as a result of acquiring the Holyrood properties and subsequently rescinding the acquisition.

As at September 30, 2014, the REIT has included in its accounts payable balance a total of $0.2 million due to Holyrood Holdings Ltd. This amount was calculated by netting all Holyrood related costs incurred by the REIT, including $0.9 million of break fees that is included in the above abandoned acquisition costs, from total rents collected from the Holyrood properties prior to September 30, 2014.

12. FAIR VALUE GAINS (LOSSES)

The components of unrealized fair value gains (losses) are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Unrealized gain / (loss) on income producing properties	**$ (14,538,979)**	$ (72,186)	**$ (24,364,918)**	$ 4,016,071
Financial liabilities designated as FVTPL				
Deferred unit-based compensation	**-**	8,000	**79,000**	166,000
Convertible debentures	**-**	32,929	**30,000**	505,632
Exchangeable LP units	**-**	22,275	**179,250**	213,800
Total fair value gains (losses)	**$ (14,538,979)**	$ (8,982)	**$ (24,076,668)**	$ 4,901,503

Unrealized losses on income producing properties for the nine months ended September 30, 2014 are the result of managements' obtaining of thirteen externally prepared property appraisals and managements' use of new information obtained and the valuation techniques used by the external Appraisers for evaluating the remainder of the REIT's portfolio. As a result of these new appraisals and managements own internal valuations, the REIT's weighted average cap rate has increased from 6.47% to 6.62% (see Note 3).

13. EARNINGS PER UNIT

The table below presents the net income per unit and weighted average units outstanding calculations. Only dilutive elements have been included in the calculation of diluted per unit amounts.

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Numerator				
Net income (loss) and comprehensive income (loss) - basic	**$ (12,464,313)**	$ 2,879,866	**$ (24,071,909)**	$ 13,380,102
Contribution from dilutive instrument	**-**	4,529	**-**	2,718,991
Net income (loss) and comprehensive income (loss) - diluted	**$ (12,464,313)**	$ 2,884,395	**$ (24,071,909)**	$ 16,099,093
Denominator				
Weighted average units outstanding - basic	**26,288,272**	25,855,628	**26,165,753**	25,662,288
Dilutive convertible units	**-**	38,056	**-**	6,401,795
Weighted average units outstanding - diluted[(1)]	**26,288,272**	25,893,684	**26,165,753**	32,064,083

(1) The calculation of diluted per unit amounts for the three and nin months ended September 30, 2014 and 2013 exclude convertible units when their inclusion is anti-dilutive.

Earnings (loss) per unit - basic	**$ (0.47)**	$ 0.11	**$ (0.92)**	$ 0.52
Earnings (loss) per unit - diluted	**$ (0.47)**	$ 0.11	**$ (0.92)**	$ 0.50

14. UNITHOLDERS' EQUITY

(a) Distributions

For the eight months ended August 31, 2014 the REIT made monthly cash distributions to unitholders in an amount of $0.04167 per unit, representing an annualized distribution of $0.50 per unit. The September 2014 distribution was reduced to $0.02083 per unit, representing an annualized distribution of $0.25 per unit. The amount of the REIT's cash distributions is determined by, or in accordance with, the guidelines established from time to time by the Trustees. The Trustees have discretion in declaring distributions. Pursuant to the REIT's Declaration of Trust, it is the intention of the Trustees to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes under Part I of the Income Tax Act.

(b) Distribution reinvestment plan

The REIT has a Distribution Reinvestment and Optional Unit Purchase Plan ("the Plan") to enable Canadian resident unitholders to acquire additional units of the REIT:

(i) through the reinvestment of regular monthly distributions on all or any part of their units; and

(ii) once enrolled in the Plan, through optional cash payments subject to a minimum of $1,000 per month and a maximum of $12,000 per calendar year.

Units issued in connection with the Plan are issued directly from the treasury of the REIT at a price based on the volume-weighted average of the closing price for the 20 trading days immediately preceding the relevant distribution date. Participants receive "bonus units" in an amount equal in value to 5% of each cash distribution.

At September 30, 2014, the REIT has 456,052 units remaining in its reserve for issuance of units under the Plan. The REIT will increase the unit reserve as required and with approval from the TSX.

(c) Outstanding units

As at	**September 30, 2014**			December 31, 2013		
	Units		**Dollars**	Units		Dollars
Units outstanding, beginning of period	**25,988,800**	**$**	**194,991,352**	22,310,533	$	168,392,882
Units issued:						
Distribution reinvestment plan	**160,351**		**803,212**	174,711		1,196,547
Exchangeable LP units (Note 9)	**157,500**		**663,375**	130,000		922,000
Alternate compenation plan	**-**		**-**	9,806		64,900
Public offerings	**-**		**-**	3,363,750		25,900,875
Unit issue costs	**-**		**(10,497)**	-		(1,485,852)
	26,306,651	**$**	**196,447,442**	25,988,800	$	194,991,352

15. SUPPLEMENTAL CASH FLOW INFORMATION

The following table outlines supplemental cash flow information and the net change in the REIT's working capital:

	Three months ended September 30,				**Nine months ended September 30,**			
		2014		2013		**2014**		2013
Supplemental								
Mortgages transferred to vendor on sale of properties (Note 3)		**19,269,120**		-		**19,269,120**		-
Interest paid		**6,490,211**		6,114,692	**$**	**15,010,076**	$	14,045,721
Net change in working capital								
Net change in accounts receivable	**$**	**(1,310,142)**	$	(192,558)	**$**	**(4,625,459)**	$	(2,069,941)
Net change in other assets		**1,694,179**		388,738		**17,367**		(2,838,726)
Net change in accounts payable and other liabilities		**(3,281,072)**		(2,527,514)		**421,400**		(2,474,827)
Net change in distributions payable		**(597,327)**		3,308		**(543,954)**		188,562
	$	**(3,494,362)**	$	(2,328,026)	**$**	**(4,730,646)**	$	(7,194,932)

16. UNIT-BASED COMPENSATION PLANS

(a) *Incentive unit option plan*

The REIT's incentive unit option plan provides that the maximum number of units which may be reserved and set aside for issue under the incentive unit option plan shall not exceed 10% of the issued and outstanding units at the time that the options were granted (on a non-diluted basis).

During the period ended September 30, 2014 all outstanding options were cancelled.

(b) Alternate compensation plan ("ACP")

Under the ACP, Trustees will have the option to have their fees ("Trustees Fees") paid in units of the REIT. The number of units will be equivalent to the cash value of the Trustees Fees elected by the Trustee to be paid in units. The maximum number of units reserved for issuance under the ACP is 1% of the issued and outstanding units and the maximum number of units reserved under the ACP and all unit-based compensation plans of the REIT shall not exceed 10% of the REIT's issued and outstanding units at any given time.

The issue price of the units under the ACP is the closing price of the units on the market on the last trading date preceding the date of issuance to the Trustees. If there is no trading on that date, the issue price is the closing price on the next previous day on which trading took place preceding the date of issuance to the Trustees or such other amount as determined by the Board and permitted by the TSX upon which the units are from time to time listed for trading and any other applicable regulatory authority.

The ACP became effective April 13, 2012. For the period ended September 30, 2014, there were no units issued under the ACP.

17. INCOME TAXES

One of the REIT's corporate entities, Charter Realty Holdings Ltd. does not have current taxes payable because it has a sufficient non-capital loss carry-forward balance from previous years to apply against any taxable income in the current year. All of the other corporate entities that consolidate into the REIT are nominee corporations and do not have any taxable income and therefore do not have any current income tax payable. The REIT also has a partnership contained within the structure, 137th Ave LP. For Canadian tax purposes, this entity is a flow-through entity and any income or loss of the partnership is allocated to its partners (in this case, the REIT and 137th Avenue GP Inc., a wholly-owned incorporated subsidiary of the REIT. The REIT expects to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. Accordingly, no provision for Canadian income tax payable has been made.

18. CAPITAL MANAGEMENT

The REIT actively manages both its debt capital[(1)] and its equity capital with the objectives of ensuring that the REIT can continue to grow and operate its business.

The real estate industry is capital intensive by nature. As a result, debt capital is a very important aspect in managing the business. In addition, financial leverage is used to enhance returns from purchased real estate. Part of the REIT's objectives in securing mortgages for its properties and managing its long-term debt is to stagger the maturities in order to mitigate short-term volatilities in the debt markets. As well, given the importance of debt capital to real estate entities, the REIT monitors its debt-to-gross book value ratio; a ratio that has become a common industry metric reviewed by analysts, unitholders and others within the industry. The REIT does not have a specific debt-to-gross book value threshold imposed on it in its Declaration of Trust; however the REIT's bank credit facility imposes a restriction on the REIT's debt-to-gross book value ratio, at a maximum of 75%.

The debt-to-gross book value ratio is measured as the REIT's total debt, including mortgages payable, corporate secured debt, debentures and bank credit facility, divided by the gross book value of its assets.

At September 30, 2014, the REIT is in compliance with its debt-to-gross book value ratio at 66.8% (December 31, 2013 – 66.7%), which is calculated as follows:

As at		September 30, 2014		December 31, 2013
Debt				
Mortgage principal	**$**	**273,676,643**	$	282,225,144
Debentures, excluding fair value of convertible feature		**85,625,317**		85,387,741
Credit facilities		**35,000,000**		31,000,000
	$	**394,301,960**	$	398,612,885
Gross Book Value of Assets				
Original cost of income producing properties [2]	**$**	**560,614,443**	$	585,677,396
Book value of all other assets		**25,860,305**		7,237,032
Deferred financing fees		**4,119,246**		4,854,218
	$	**590,593,994**	$	597,768,646
Debt-to-Gross Book Value		**66.8%**		66.7%
Debt-to-Gross Book Value Excluding Debentures		**52.3%**		52.4%

[1] Debt capital refers to secured debt, debenture and bank credit facility excluding deferred financing costs, the value of the debentures' convertible feature, fair value of embedded derivatives, and unamortized above market interest rate adjustments.

[2] Original cost of income producing properties represents the historical costs incurred to acquire the REIT's properties.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of the REIT's assets and liabilities were determined as follows:

(a) Income producing properties

The significant assumptions used to determine the fair value of investment properties are disclosed in Note 3.

(b) Current assets and liabilities

The carrying amounts for cash, accounts receivable, other assets, bank indebtedness, accounts payable and other liabilities, credit facilities and distributions payable approximate their fair values due to the short-term nature of these items.

(c) Exchangeable LP units

Exchangeable LP units are valued with reference to the closing price of REIT units.

(d) Mortgages payable

The fair value of secured debt is based on discounted future cash flows, using interest rates ranging between 3.22% and 4.35% that reflect current market conditions for instruments of similar term and risk.

Assets and liabilities measured at fair value in the statements of financial position are classified based on a three-level hierarchy that reflects the significance of the inputs used when determining the fair value as follows:

- Level 1 - determined by reference to quoted prices in active markets for identical assets and liabilities;
- Level 2 - determined by using inputs other than the quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - determined using inputs that are not based on observable market data.

The following table classifies assets and liabilities measured at fair value according to the three level hierarchy:

	September 30, 2014			December 31, 2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets measured at fair value:						
Income producing properties	**$ -**	**$ -**	**$ 532,917,851**	$ -	$ -	$ 588,391,005
Liabilities measured at fair value:						
Embedded derivatives	**$ -**	**$ -**	**$ -**	$ -	$ 30,000	$ -
Deferred unit based compensation	**-**	**-**	**-**	-	79,000	-
Exchangeable LP units	**-**	**-**	**-**	842,625	-	-
Liabilities for which fair values are disclosed:						
Mortgages payable	**-**	**-**	**280,704,084**	-	-	286,708,749

The fair value of assets and liabilities is performed on a quarterly basis using the valuation approaches noted above. During the period ended September 30, 2014 there were no transfers between the hierarchy levels.

20. RISK MANAGEMENT

In the normal course of business, the REIT is exposed to a number of risks that can materially affect its operating performance.

(a) *Interest rate risk*

The REIT is exposed to interest rate risk when funds are drawn under the Credit Facility which has a floating rate of interest. An increase in interest rates would increase the interest cost of the Credit Facility having an adverse effect on the REIT’s comprehensive income and earnings per unit. Based on the outstanding balance of the Credit Facility and a variable mortgage at September 30, 2014, a 1% increase or decrease in the prime rate would have an impact of $580,000 on the REIT’s annual interest expense (December 31, 2013 – $310,000).

The REIT structures its fixed rate financing so as to stagger the maturities of its mortgages, thereby minimizing exposure to future interest rate fluctuations.

(b) *Credit risk*

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT attempts to mitigate this risk by conducting credit assessments on new lessees, by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The maximum credit risk exposure at September 30, 2014 relates to the carrying value of the accounts receivable balance without taking into account any collateral held or other credit enhancements. Collateral held on certain leases are letters of credit or security deposits from the tenants. Refer to Note 5 for details of accounts receivable.

(c) *Liquidity risk*

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to fund future growth, refinance debts as they mature or meet the REIT's payment obligations as they arise. Furthermore, liquidity risk also arises from the REIT not being able to obtain financing or refinancing on favourable terms.

The REIT's main liquidity requirements arise from ongoing working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures on existing properties, property acquisitions and distributions to unitholders. All of the aforementioned liquidity requirements, except for debt repayment obligations at maturity and property acquisitions, are generally funded from cash flows from operations or from drawing on the Credit Facility. Debt repayment obligations are generally funded from refinancing the related debt and property acquisitions are generally funded from equity raises as well as obtaining debt financing on the related property. Between capital raises, the REIT may use its Credit Facility to fund the equity portion of property acquisitions.

The REIT's financial condition and results of operations would be adversely affected if it were unable to obtain financing/refinancing, cost-effective financing/refinancing, or if it were unable to meet its other liquidity requirements from ongoing operating cash flows. The REIT attempts to mitigate its liquidity risk by:

- staggering the maturities of its debt; and,
- not entering into property acquisitions unless it has secured or knows that it can secure the appropriate capital (debt and equity) to fund the particular acquisitions; and,
- planning capital spending around the availability of cash from operations or debt/equity funding; and
- reviewing current liquidity position and forecasted cash flow in advance of approving the monthly distributions.

The REIT did not generate positive cash flows from operating activities, during the three and nine months ended September 30, 2014. The REIT has incurred other transactions costs of $1.0 million and $8.7 million for the periods, respectively. These transaction costs relate to an internalization process, actions to acquire and rescind the Holyrood transaction, a proxy dispute, and the strategic review. These transaction costs reduce cash otherwise available from operations and reduce funds available for the ongoing working capital requirements, the capital and leasing expenditures on existing properties and for distributions to unitholders. In addition, there are bi-annual interest payments of $2.8 million on the outstanding convertible debentures that result in periodic cash outflows (interest payments are due March 31st and September 30th).

As at September 30, 2014, the REIT has $14.0 million in cash and $5.0 million of capacity available under its $40.0 million revolving credit facility, thereby providing $19.0 million in liquidity. Subsequent to the end of the quarter, the REIT repaid, without penalty a $15.0 million second mortgage thereby reducing its liquidity position. In order to ensure that the REIT continues to have sufficient cash flows to meet its obligations, during the three months ended September 30, 2014 the REIT disposed of three properties, re-financed a maturing mortgage and reduced the monthly distribution commencing with the August distribution due for payment on September 15, 2014. These measures have both provided a cash injection and reduced ongoing cash outflows, thereby improving the REIT's liquidity position and cash flows. Despite these measures, management will need to complete other re-financings of maturing mortgages while also reducing other transactions costs or the REIT may be required to obtain further financings or the sale of other properties.

The following table shows the contractual cash flows (including principal and interest) on all of the REIT's non-derivative financial liabilities:

	2014	2015	2016	2017	2018	Thereafter
Mortgages payable						
Interest	$ 3,657,342	$ 12,800,779	$ 9,766,986	$ 6,064,185	$ 2,299,005	$ 5,455,569
Principal payments	1,971,968	7,847,206	6,842,098	4,717,399	2,336,746	6,397,377
Balances due on maturity	4,218,627	47,267,408	28,373,931	102,604,223	18,439,813	42,659,847
Debentures						
Interest	-	5,635,000	3,910,000	2,817,500	316,250	-
Balances due on maturity	-	-	28,750,000	34,500,000	23,000,000	-
Credit facilties						
Interest	350,563	-	-	-		-
Balances due on maturity	-	33,000,000	-	-		-
Accounts and distributions payable and other liabilities	12,341,222	-	-	-	-	-
Total	$ 22,539,722	$ 106,550,393	$ 77,643,015	$ 150,703,307	$ 46,391,814	$ 54,512,793

(d) *Concentration risk*

The REIT has one major tenant with 16 locations in the REIT's portfolio providing $5.8 million in annualized base rents, or 15.6% of the REIT's total annualized base rental revenue.

(e) *Contingent liability risk*

As a condition of closing the Holyrood Rescission, the REIT has provided a $35.0 million loan guarantee to the lender of a loan to Holyrood Holdings Ltd. Should the lender make a demand on the REIT as a guarantor, the REIT may at its sole discretion purchase the lender's interest in the loan thus granting the REIT a first charge over Hamilton City Centre. If there is a demand on the REIT as a guarantor it is not expected that a loss would be incurred as there is adequate security to cover the $35.0 million guarantee. The REIT currently has a registered second mortgage on the property.

21. RELATED PARTY TRANSACTIONS

IAS 24 – Related Party Disclosures requires entities to disclose in their financial statements information about transactions with related parties. Generally, two parties are related to each other if one party controls, or significantly influences the other party. Balances and transactions between the REIT and its subsidiaries, which are related parties of the REIT, have been eliminated on consolidation and are not disclosed in this note.

Transactions between the REIT and related parties 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.

The REIT previously entered into related party transactions with IGW Public LP ("IGW Public"), and its subsidiary, LAPP Global Asset Management Corp. ("LAPP"), which were the REIT's major unitholder and asset manager, respectively. Effective November 28, 2013, IGW Public disposed of its holdings of REIT units to McCowan and Associates ("McCowan") and effective December 25, 2013, McCowan purchased LAPP's interest in the management agreement with the REIT as noted below.

(a) Management agreement

Effective December 27, 2013, McCowan purchased the REIT's management contract for $1.5 million from LAPP. Under the management contract, McCowan was responsible to arrange for the provision of all necessary management services to the REIT by competent employees, including, as needed, by seconding employees of the former asset manager. On February 15, 2014, upon approval of the internalization plan by the Trustees, McCowan terminated the management agreement and received reimbursement by the REIT of the $1.5 million purchase price plus management fees outstanding. Upon internalization of management, Ron McCowan (shareholder of McCowan) became interim CEO of the REIT.

Pursuant to the management agreement between the REIT and McCowan, McCowan provided the REIT with strategic, advisory, asset management and administrative services in exchange for an annual management fee equal to 0.30% of the "adjusted book value" of the REIT's assets, paid quarterly in arrears, and an acquisition fee equal to 0.50% of the "property cost" for any acquired real property. "Adjusted book value" equals the original property cost of the income producing properties, plus the book value of all other assets, and plus the add-back of accumulated amortization of deferred costs. In accordance with the terms of the management agreement, McCowan was also reimbursed for costs incurred which were in excess of the management fees earned.

Prior to internalization of management on February 15, 2014, the REIT incurred the following fees:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Acquisition fees	**$ -**	$ 82,425	**$ -**	$ 575,605
Asset management fees	**-**	439,773	**282,272**	1,229,628
Property management and accounting fees	**-**	180,392	**95,342**	479,290
Construction management fees	**-**	-	**-**	37,023
Internalization cost reimbursements	**-**	-	**432,947**	-
	$ -	$ 702,590	**$ 810,561**	$ 2,321,546

(b) Employee services agreement

On February 14, 2014 the REIT entered into an employee services agreement with McCowan which permitted certain employees of the REIT to provide specified property, facility management, administrative and support services to McCowan. The initial term of the agreement was for one year with an option for renewal for a further one year term. The agreement required that McCowan reimburse the REIT a formula based amount using the square footage of McCowan owned properties that are receiving the services of REIT employees. During the nine months ended September 30, 2014 the REIT received total reimbursements of $0.2 million.

The REIT understands that McCowan shared a portion of its costs for some of these employees under a separate arrangement, whereby from time to time some of these employees provide services on properties owned or controlled by Ms. Laura Philp.

On May 5, 2014 the REIT and McCowan amended the terms of the employee services agreement to reflect the fact that the majority of the employees that were previously subject to such agreement were providing services separately to either McCowan or the REIT and were therefore employees of the applicable entity. A total of 17 employees resigned on this date. On July 1, 2014 the REIT and McCowan mutually agreed to terminate the employee services agreement effective August 31, 2014.

(c) Related party balances

Amounts owed by the REIT to related parties at September 30, 2014 are $52,800 (December 31, 2013 - $15,919). This amount has been classified in accounts payable and other liabilities, and consists of accrued directors' fees. Amounts owed to the REIT from related parties at September 30, 2014 are nil (December 31, 2013 – $40,038).

22. SUBSEQUENT EVENTS

Subsequent to September 30, 2014 the following transactions and or announcements have occurred:

- On October 2, 2014 the REIT and Holyrood obtained an Order from the Ontario Superior Court of Justice that rescinded the April 22, 2014 Acquisition of the Holyrood Properties (three Ontario retail centres, announced as acquired on April 23, 2014).

- On October 9, 2014, the REIT repaid a second mortgage in the amount of $15.0 million which was secured by certain properties of the REIT located in Manitoba and Quebec. The loan was repayable without penalty on short notice and had a term of one year, with interest payable at the greater of 10% per annum or prime rate of interest, plus 6% per annum.

- On November 10, 2014 the REIT completed the refinancing of five first mortgages totaling $51.25 million and bearing a weighted average contractual rate of 3.74%. This refinancing replaced the REIT's Credit Facility (Note 8) and a first and second mortgage on one of the REIT's properties in Edmonton, Alberta which had a combined $11.7 million balance outstanding and a weighted average contractual interest rate of 4.95% at the time of repayment. The refinancing also includes a $10.0 million line of credit that has been secured by second mortgages on three of the refinanced properties and will bear interest at a rate of prime plus 2.0% with a term of two years.