Consolidated Financial Statements of

PARTNERS REAL ESTATE INVESTMENT TRUST

For the years ended December 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Partners Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Partners Real Estate Investment Trust, which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of comprehensive income (loss), changes in unitholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Partners Real Estate Investment Trust as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

March 26, 2015
Vancouver, Canada

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PARTNERS REAL ESTATE INVESTMENT TRUST
Table of Contents
For the years ended December 31, 2014 and 2013

	Page
Consolidated Statements of Financial Position	1
Consolidated Statements of Comprehensive Income (Loss)	2
Consolidated Statements of Changes in Unitholders' Equity	3
Consolidated Statements of Cash Flows	4
Notes to the Consolidated Financial Statements	5-28

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

As at	**December 31, 2014**	December 31, 2013
ASSETS		
Non-current assets		
Income producing properties (Note 4)	**$ 531,041,031**	$ 588,391,005
	531,041,031	588,391,005
Current assets		
Other assets (Note 5)	**3,650,743**	4,514,391
Accounts receivable (Note 6)	**5,706,995**	2,722,641
Cash	**2,152,271**	-
	11,510,009	7,237,032
	$ 542,551,040	$ 595,628,037
LIABILITIES		
Non-current liabilities		
Mortgages payable (Note 7)	**$ 251,560,806**	$ 250,046,544
Convertible debentures (Note 8)	**83,533,616**	82,352,601
Credit facilities (Note 9)	-	30,795,803
	335,094,422	363,194,948
Current liabilities		
Mortgages payable (Note 7)	**45,186,479**	34,104,016
Accounts payable and other liabilities	**12,679,748**	11,378,767
Distributions payable	**554,023**	1,094,156
Bank indebtedness	**-**	134,868
	58,420,250	46,711,807
	393,514,672	409,906,755
Exchangeable LP units (Note 10)	**-**	842,625
	393,514,672	410,749,380
UNITHOLDERS' EQUITY	**149,036,368**	184,878,657
	$ 542,551,040	$ 595,628,037

Subsequent Events (Note 24)

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

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

	Year ended December 31,	
	2014	2013
Revenues from income producing properties (Note 11)	**$ 59,821,021**	$ 56,567,180
Property operating expenses	**(10,102,526)**	(8,795,762)
Realty taxes	**(13,325,296)**	(11,950,878)
Property management fees	**(1,052,319)**	(1,055,228)
	35,340,880	34,765,312
Other expenses:		
Financing costs	**21,900,772**	19,413,937
General and administrative expenses	**4,537,367**	3,486,120
Other transaction costs (Note 12)	**8,802,691**	3,345,704
	35,240,830	26,245,761
Income before fair value gains (losses)	**100,050**	8,519,551
Fair value losses (Note 13)	**(27,977,187)**	(4,324,330)
Gains on sale of investment properties (Note 4)	**793,537**	-
Comprehensive income (loss)	**$ (27,083,600)**	$ 4,195,221
EARNINGS (LOSS) PER UNIT (Note 14)		
Basic	**$ (1.03)**	$ 0.16
Diluted	**$ (1.03)**	$ 0.15

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

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

		Year ended December 31,		
		2014		2013
Trust Units (Note 15)				
BALANCE, BEGINNING OF PERIOD	**$**	**194,991,352**	$	168,392,882
Issuance of units for exchangeable LP units, net of costs (Note 10)		**661,301**		906,885
Issuance of units under DRIP, net of costs		**993,453**		1,168,798
Issuance of units under alternate compensation plan (Note 17)		**-**		64,900
Issuance of units under public offering, net of costs		**-**		24,457,887
BALANCE, END OF PERIOD		**196,646,106**		194,991,352
Contributed Surplus				
BALANCE, BEGINNING OF PERIOD		**565,080**		565,080
BALANCE, END OF PERIOD		**565,080**		565,080
Accumulated Other Comprehensive Income (Loss)				
BALANCE, BEGINNING OF PERIOD		**(10,677,775)**		1,106,562
Net income (loss) and comprehensive income (loss)		**(27,083,600)**		4,195,221
Distributions to unitholders (Note 15)		**(10,413,443)**		(15,979,558)
BALANCE, END OF PERIOD		**(48,174,818)**		(10,677,775)
TOTAL UNITHOLDERS' EQUITY	**$**	**149,036,368**	$	184,878,657
DISTRIBUTIONS PER UNIT	**$**	**0.40**	$	0.62

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

PARTNERS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows

audited (Cdn $)

	Year ended December 31, 2014	2013
OPERATING ACTIVITIES		
Comprehensive income (loss)	**$ (27,083,600)**	$ 4,195,221
Adjusted for non-cash items:		
Gains on sale of investment properties (Note 4)	**(793,537)**	-
Fair value losses (Note 13)	**27,977,187**	4,324,330
Employee options costs	**-**	40,000
Alternate compensation plan costs	**-**	64,900
Straight-line rent	**(787,884)**	(1,968,009)
Amortization of tenant incentives and direct leasing costs	**618,482**	502,072
Amortization of deferred financing and mortgage prepayment costs	**2,652,334**	1,861,735
Market interest rate adjustment on mortgages	**(992,787)**	(943,679)
Interest accretion expense	**410,595**	670,129
Interest expense	**19,348,102**	17,825,752
Net change in working capital (Note 16)	**(932,363)**	(1,584,782)
Interest paid	**(19,254,881)**	(17,730,298)
Cash flow provided by operating activities	**1,161,648**	7,257,371
FINANCING ACTIVITIES		
Proceeds from mortgages	**89,250,000**	46,400,000
Financing costs of mortgages	**(1,398,921)**	(511,480)
Repayments of mortgages at maturity	**(47,390,288)**	-
Regular principal repayments on mortgages	**(8,553,222)**	(11,631,761)
Prepayment costs on mortgage refinancing	**(482,528)**	-
Proceeds from debenture issuance	**-**	23,000,000
Cost to issue debentures	**(99,883)**	(1,172,295)
Drawdowns on credit facilities	**7,294,095**	59,000,000
Repayments of credit facilities	**(38,294,095)**	(35,500,000)
Financing fees on credit facilities	**(20,417)**	(479,865)
Proceeds from public offering	**-**	25,900,875
Costs to issue units (Note 15)	**(13,638)**	(1,485,852)
Distributions to unitholders	**(9,943,968)**	(14,783,011)
Cash flow provided by (used by) financing activities	**(9,652,865)**	88,736,611
INVESTING ACTIVITIES		
Dispositions of income producing properties, net of non-cash transactions	**15,630,880**	-
Closing costs on dispositions of income producing properties	**(85,899)**	-
Acquisitions of income producing properties, net of non-cash transactions	**-**	(96,194,658)
Improvements to income producing properties	**(4,330,334)**	(6,652,911)
Expenditures on tenant incentives and direct leasing costs	**(436,291)**	(1,070,725)
Net proceeds from repayment of note receivable	**-**	5,935,814
Cash flow provided by (used in) investing activities	**10,778,356**	(97,982,480)
NET INCREASE (DECREASE) IN CASH DURING THE YEAR	**2,287,139**	(1,988,498)
CASH (BANK INDEBTEDNESS), BEGINNING OF YEAR	**(134,868)**	1,853,630
CASH (BANK INDEBTEDNESS), END OF PERIOD	**$ 2,152,271**	$ (134,868)

Supplemental cash flow information (Note 16)

The accompanying notes are an integral part of these 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 April 8, 2013. 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 are listed on the Toronto Stock Exchange as of 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 consolidated financial statements:

(a) Statement of compliance

These consolidated financial statements have been prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") incorporating interpretations issued by the IFRS Interpretations Committee ("IFRICs").

These consolidated financial statements were approved and authorized for issue by the Board of Trustees on March 26, 2015.

(b) Basis of presentation

The financial statements have been prepared on a going concern basis and have been presented in Canadian dollars. The 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 (as discussed in Note 2(d) and Note 2(g)). The accounting policies set out below have been applied consistently in all material respects. Standards and guidelines not effective for the current accounting period are described in Note 3.

On October 2, 2014 the REIT obtained an Order from the Ontario Superior Court of Justice ("Holyrood Rescission") that rescinded the April 22, 2014 acquisition of certain properties from Holyrood Holdings Inc. ("Holyrood") Accordingly, these financial statements have been prepared as if the transaction had never been executed.

(c) Basis of consolidation

The financial statements include the accounts of the REIT and its subsidiaries. Subsidiaries are entities over which the Trust has control, where the Trust has control when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

(d) Income producing properties

Income producing properties fall within the definition of investment properties under IAS 40 – *Investment Properties* ("IAS 40") and consist of commercial retail properties held to earn rental income and properties that are being constructed, developed, or redeveloped for future use as income producing properties.

Management must assess whether the acquisition of property through the purchase of a corporate vehicle, or directly, should be accounted for as an asset purchase or a business combination. Where the acquisition contains significant assets, liabilities or activities in addition to property and related mortgage debt, particularly where there is an integrated set of activities and assets, capable of being conducted and managed for the purpose of providing a return, lower costs or other economic benefits, the transaction is accounted for as a business combination. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided. Where there are no such items the transaction is treated as an asset acquisition.

Commercial retail properties, developments and redevelopments are measured initially at cost. Cost includes all amounts relating to the acquisition, including transaction costs (except transaction costs related to a business combination), improvement of the properties and market interest rate adjustments on assumed debt. All costs associated with upgrading and extending the economic life of the existing facilities, other than ordinary repairs and maintenance, are capitalized to income producing properties. Costs that are directly attributable to income producing properties under development or redevelopment are capitalized. These costs include direct development costs, realty taxes and other costs directly attributable to the development.

Subsequent to initial recognition, income producing properties are measured at fair value, determined based on valuations performed by third-party appraisers or available market evidence in accordance with IAS 40. Gains or losses arising from changes in the fair value of income producing properties are included in net income in the period in which they arise.

The carrying value of income producing properties includes straight-line rent receivable, tenant incentives and direct leasing costs, since these amounts are incorporated in the appraised values of real estate properties.

Income producing properties are reclassified to assets held for sale when criteria set out in IFRS 5 - *Non-Current Assets Held for Sale and Discontinued Operations* are met.

An income producing property is derecognized upon disposal or when the property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(e) Income Taxes

The Income Tax Act (Canada) (the "Tax Act") levies tax on certain trusts and partnerships that are "specified investment flow-through entities" ("SIFTs") in defined circumstances with an exemption for entities that qualify as "real estate investment trusts". A trust that meets prescribed conditions to qualify as a "real estate investment trust" under the Tax Act is not subject to the tax on SIFTs. The REIT's management has determined that the REIT met all the prescribed conditions to qualify as a "real estate investment trust" and as a mutual fund trust ("MFT") under the Tax Act throughout the year. The REIT intends to continue to operate in a manner so as to qualify as a "real estate investment trust" and as an MFT.

The REIT intends to distribute all of its taxable income to unitholders and to deduct such distributions for income tax purposes. Canadian income tax obligations relating to distributions of the REIT are the obligations of the unitholders. Accordingly, no provision has been made for Canadian income taxes under Part I of the Tax Act.

Charter Realty Holdings Ltd. (the "Company") is the REIT's wholly-owned incorporated subsidiary and is subject to tax on its taxable income. Current tax payable is based on taxable income for the year, as defined by the Tax Act. Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available to apply against the temporary differences that can be utilized.

(f) Revenue recognition

The REIT has retained substantially all of the risks and benefits of ownership of its income producing properties and therefore, accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right to use the leased assets. Generally, this occurs on the lease inception date or, when the REIT is required to make additions to the property in the form of tenant improvements which enhances the value of the property, when substantially complete. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease. A straight-line rent receivable is included in the carrying amount of the income producing property and is recorded for the difference between the rental revenue recorded and the contractual amount received. Deducted from revenues are the amortization of tenant incentives and direct leasing costs.

Rental revenue also includes percentage participating rents and recoveries of operating expenses, including realty taxes. Percentage participating rents are recognized when tenants' specified sales targets have been met. Operating expense recoveries are recognized in the period that recoverable costs are chargeable to tenants.

(g) Financial instruments

Non-derivative financial instruments comprise cash, accounts receivable, mortgages payable, convertible debentures, credit facilities, accounts payable and other liabilities, distributions payable, and bank indebtedness. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss ("FVTPL"), any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

Financial assets at FVTPL - An instrument is classified at FVTPL if it is held for trading or is designated as such upon initial recognition. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized in the statements of profit or loss, with attributable transaction costs being recognized in net income when incurred.

Available-for-sale financial assets - Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories.

Loans and receivables - Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortized cost using the effective interest method, less any impairment losses. The effective interest method is used to spread the total costs of or income from a financial instrument over the life of the instrument. Financial assets included within this category for the REIT are cash and accounts receivable.

Other liabilities – The REIT's financial liabilities, which are measured at amortized cost using the effective interest method, include mortgages payable, convertible debentures, credit facilities, accounts payable and other liabilities, distributions payable, and bank indebtedness.

Financial liabilities at FVTPL - A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the REIT manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the REIT's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability. The REIT's financial liabilities at FVTPL include the embedded derivative feature of the convertible debentures.

(h) Provisions

Provisions are recognized when the REIT has a present obligation (legal or constructive) as a result of a past event, it is probable that the REIT will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(i) Critical judgment in applying accounting policies

i. Income producing properties

The REIT's accounting policy relating to income producing properties is described in Note 2(d) above. In applying this policy, judgment is applied in determining the extent and frequency of utilizing independent, third-party appraisals to measure the fair value of the REIT's investment property. Judgment is also applied in determining whether certain costs are additions to the carrying amount of the property and, for property under development, identifying the point at which practical completion of the property occurs and identifying the directly attributable costs to be included in the carrying value of the development property. In addition, judgment is also applied to assess whether the acquisition of property through the purchase of a corporate vehicle or directly should be accounted for as an asset acquisition or a business combination.

ii. Leases

The REIT's policy for property rental revenue recognition is described in Note 2(f) above. Where the REIT is the lessor, the REIT makes judgments in determining whether certain leases, in particular leases to anchor tenants, are considered operating or finance leases. The REIT has determined that all of its leases are operating leases.

iii. Financial instruments

The REIT's accounting policies relating to financial instruments are described in Note 2(g). The critical judgments inherent in these policies relate to applying the criteria set out in IAS 39 to designate financial instruments into categories and to determine the identification of embedded derivatives in certain hybrid instruments that are subject to fair value measurement.

(j) Key accounting estimates and assumptions

The REIT makes estimates and assumptions that affect carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of earnings for the year. Actual results could materially differ from estimates. The estimates and assumptions that are critical to the determination of the amounts reported in the financial statements relate to the following:

i. Income producing properties

The choice of valuation method to determine the fair value of the REIT's income producing properties and the critical estimates and assumptions underlying the fair value determination of its commercial retail properties are set out in Note 4. Significant estimates used in determining the fair value of the REIT's income producing properties includes capitalization rates and stabilized net operating income (which is influenced by inflation rates, vacancy rates, standard costs). A change to any one of these inputs could significantly alter the fair value of an income producing property.

ii. Financial liabilities at FVTPL

The fair valuation of embedded derivatives employs pricing models. The models require estimates and assumptions to be made with regard to the models' inputs, such as, the underlying asset volatility, risk free rates, employee exit rates and option holder's risk aversion, as applicable. Changes in assumptions about these factors could affect the reported fair value of the financial liability. Fair values are most sensitive to change in asset volatility.

(k) 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.

(l) Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

3. FUTURE ACCOUNTING POLICIES

From time to time, the International Accounting Standards Board ("IASB") issues new accounting standards and revises existing accounting standards. The following standards, not yet effective as at the date of these consolidated financial statements and accordingly not applied to these consolidated financial statements, may have a future impact:

Financial Instruments

IFRS 9 – *Financial Instruments* ("IFRS 9") was issued in July 2014 and contains new requirements for classification and measurement and impairment of financial instruments and introduces a substantially reformed approach to hedge accounting. This standard reflects all phases of the financial instruments project and replaces IAS 39 – *Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The REIT is currently assessing the impact of IFRS 9 and intends to adopt the new standard on the required effective date.

Revenue from Contracts with Customers

IFRS 15 – *Revenue from Contract with Customers* ("IFRS 15") was issued in May 2014 and establishes a new five-step model that applies to revenue arising from contracts with customers. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue allowing greater comparability of revenues across industries. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017, with early adoption permitted. The REIT is currently assessing the impact of IFRS 15 and intends to adopt the new standard on the required effective date.

4. INCOME PRODUCING PROPERTIES

As at	**December 31, 2014**	December 31, 2013
Balance, beginning of year	**$ 588,391,005**	$ 465,727,634
Dispositions of income producing properties at carrying value	**(34,020,564)**	-
Acquisitions of income producing properties	**-**	120,167,628
Improvements to income producing properties	**4,330,334**	6,652,911
Expenditures on tenant incentives and direct leasing costs	**436,291**	1,070,725
Amortization of tenant incentives and direct leasing costs	**(618,482)**	(502,072)
Recognition of straight-line rent	**787,884**	1,968,009
Unrealized fair value losses	**(28,265,437)**	(6,693,830)
Balance, end of period	**$ 531,041,031**	$ 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 year ended December 31, 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.

During 2014, external appraisals were obtained for twenty-three of the REIT's properties with an aggregate fair value of $347.6 million, representing 65.5% 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 unless there is evidence of a significant change in the fair value of the property. The value of the remainder of the REIT's income producing property portfolio is determined internally by the REIT by applying significant new information obtained to adjust previous externally prepared appraisals.

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	**December 31, 2014**	December 31, 2013
Capitalization rates		
Maximum	**8.25%**	8.25%
Minimum	**5.75%**	6.00%
Weighted Average	**6.70%**	6.47%

At December 31, 2014, a 0.50% increase in capitalization rates for income producing properties would decrease fair value by $37.4 million (December 31, 2013 - $42.0 million) and a 0.50% decrease in capitalization rates would increase fair value by $43.4 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 December 31, 2014, income producing properties included $4.3 million (at 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 (2013 – 2014)

On September 26, 2014 the REIT completed a sale of 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 $0.8 million after closing costs of $0.1 million.

Acquisitions of income producing properties (2013 – 2014)

- *Cobblestone Shopping Centre*

On August 19, 2013, the REIT completed the acquisition of Cobblestone Shopping Centre, a three-building 42,980 square foot shopping centre located in Grand Prairie, Alberta. The REIT paid $16.5 million for the property, funded by a combination of assumed and new mortgages totaling $11.3 million and cash on hand drawn from the REIT's Credit Facility. The new and assumed mortgages bear a combined effective rate of interest of 4.03%. In connection with the acquisition, the vendor has also agreed to compensate the REIT for the above-market rate of the assumed mortgage by providing a monthly reimbursement of $9,850 for the remaining term of the assumed mortgage.

- *Repentigny Shopping Centre*

On May 1, 2013, the REIT completed the acquisition of Repentigny Shopping Centre, an existing 49,371 square foot open-air shopping centre and office space located in Repentigny, Québec. The REIT paid $9.7 million for the property, funded by a new five-year $5.7 million mortgage fixed at 3.34% for a five year term and cash on hand drawn from the REIT's Credit Facility.

- *Marcel-Laurin Shopping Centre*

On May 1, 2013, the REIT completed the acquisition of Marcel-Laurin Shopping Centre, an existing 122,063 square foot shopping centre with office space located in Montreal, Québec. The REIT paid approximately $35.9 million for the property, funded by a new ten-year $22.0 million mortgage bearing interest at 3.84% and cash on hand drawn from the REIT's Credit Facility.

- *Mariner Square Shopping Centre*

On April 15, 2013, the REIT completed the acquisition of Mariner Square Shopping Centre, an existing six building 100,245 square foot open-air shopping centre located in Campbell River, British Columbia. The REIT paid $25.9 million for the property, funded by the assumption of a $14.6 million mortgage bearing interest at 5.74% with a remaining term to maturity of five years. The balance of the acquisition cost was paid from cash drawn from the REIT's Credit Facility. An above market interest rate adjustment of $1.1 million has been included in the total cost of this acquisition.

- *Sorel Shopping Centre*

On March 15, 2013, the REIT completed the acquisition of Sorel Shopping Centre, a newly-constructed, 31,776 square foot open-air property, located in the Montreal suburb of Sorel-Tracy, Québec. The REIT paid approximately $9.2 million for the property, funded by a $4.2 million mortgage fixed at 3.70% with the balance paid in cash drawn from the REIT's Credit Facility.

- *Saint Remi Shopping Centre*

On March 15, 2013, the REIT completed the acquisition of Saint Remi Shopping Centre, a newly-constructed, 62,522 square foot open-air retail property located in the Montreal suburb of Saint Remi, Québec. The REIT paid approximately $19.4 million for the property, funded by an $11.6 million mortgage fixed at 3.72%, $5.3 million paid in cash drawn from the REIT's Credit Facility and the remaining balance accrued as an amount payable as at December 31, 2014.

5. OTHER ASSETS

The major components of other assets are as follows:

As at		**December 31, 2014**		December 31, 2013
Prepaid realty taxes and insurance	**$**	**1,214,071**	$	927,715
Restricted cash - amounts held in escrow		**1,673,255**		2,638,377
Deferred acquisition costs		**-**		155,518
Prepaid expenses and other		**763,417**		792,781
	$	**3,650,743**	$	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.

6. ACCOUNTS RECEIVABLE

As at		**December 31, 2014**		December 31, 2013
Rents receivable	**$**	**3,198,686**	$	1,261,870
Unbilled recoveries		**1,579,945**		1,053,414
Other receivables		**1,725,432**		678,009
		6,504,063		2,993,293
Allowance for doubtful accounts		**(797,068)**		(270,652)
	$	**5,706,995**	$	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. During the year ended December 31, 2014 the REIT wrote off receivables totaling $0.3 million (2013 – nil).

7. MORTGAGES PAYABLE

As at	December 31, 2014	December 31, 2013
Mortgage principal	**$ 296,262,514**	$ 282,225,144
Unamortized above market interest rate adjustments	**2,518,208**	3,510,297
Unamortized commitment and other fees	**(2,033,437)**	(1,584,881)
	$ 296,747,285	$ 284,150,560
Non-current	**$ 251,560,806**	$ 250,046,544
Current	**45,186,479**	34,104,016
	$ 296,747,285	$ 284,150,560

Scheduled repayments of secured debt are as follows:

	Principal instalments	Principal maturing	Total
2015	$ 8,711,486	$ 36,223,689	$ 44,935,175
2016	7,715,600	28,373,931	36,089,531
2017	5,853,580	103,586,598	109,440,178
2018	3,339,111	18,439,813	21,778,924
2019	3,140,732	18,590,780	21,731,512
Thereafter	7,697,747	54,589,447	62,287,194
Contractual obligations	$ 36,458,256	$ 259,804,258	$ 296,262,514

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 6.02% per annum (December 31, 2013 – 2.43% and 6.02%) and contractual rates ranging between 2.40% and 6.70% (December 31, 2013 – 2.40% and 6.70%). The REIT's weighted average effective interest rate is 4.43% per annum (December 31, 2013 – 4.34%). The total carrying value of the properties pledged as security is $527.4 million (December 31, 2013 - $522.8 million).

During the year ended December 31, 2014 the following mortgages were obtained:

In April 2014, the REIT accepted a financing commitment for $15.0 million secured as a second mortgage on six of the REIT's single tenant properties. The mortgage had a term of one year with interest only payments at the greater of 10.0% per annum or prime plus 6.0% per annum. The mortgage was repayable on 30 days notice without penalty. During October 2014, the REIT repaid the mortgage in full.

In September 2014, the REIT refinanced the Place Desormeaux property with a $23.0 million first mortgage. The mortgage has a term to maturity of 3 years, a contractual interest rate of prime plus 2.0% and an amortization period of 25 years.

In November 2014, the REIT refinanced the Manning Crossing property with a $15.25 million first mortgage. The mortgage replaced a first and second mortgage previously secured by the property. The new first mortgage has a term to maturity of 10 years, a contractual interest rate of 4.21% and an amortization period of 25 years.

In November 2014, the REIT accepted four new first mortgage financings on four of the five properties previously secured by the REIT's Credit Facility. The refinancing allowed the REIT to replace the $40.0 million Credit Facility which was set to expire in March 2015. The terms of the four new first mortgages are as follows:

- Crossing Bridge property - The REIT accepted an $8.0 million first mortgage financing with a term of 5 years, a contractual interest rate of 3.41% and an amortization period of 25 years.
- King George property - The REIT accepted a $12.25 million first mortgage financing with a term of 5 years, a contractual interest rate of 3.41% and an amortization period of 25 years.
- Centre le Village property - The REIT accepted an $8.5 million first mortgage financing with a term of 3 years, a contractual interest rate of 3.26% and an amortization period of 25 years.
- Centuria Urban Village property - The REIT accepted a $7.25 million first mortgage financing with a term of 10 years, a contractual interest rate of 4.21% and an amortization period of 25 years.

In addition to the above, the REIT accepted a $10.0 million second mortgage against the Crossing Bridge, King George and Centre le Village properties. The second mortgage has a term of 2 years, with interest only payments at the greater of 5.0% per annum or prime plus 2.0% per annum. For undrawn balances, the second mortgage bears a standby fee of 0.25% of the undrawn balance, annually in arrears. The second mortgage can be drawn down in multiples of $100,000, but no less than $500,000 per draw. As of December 31, 2014 the REIT had not made any draws on the $10.0 million second mortgage.

As at December 31, 2014 the REIT was in technical violation of financial covenants on three mortgages secured by properties in Ontario and Quebec. Under the terms of these loans the annual covenant calculations are due for filing in conjunction with filing of the REIT's annual report and the Lender considers whether or not there is a default within 30 days following receipt of the covenant calculation. The loan is not in default until the Lender provides written notice thereof. The REITs mortgages do not contain cross-default provisions that would be triggered by the breach of a financial covenant. The REIT has obtained a covenant default waiver on one of the mortgages for a property in Quebec. For the other two properties, no covenant waiver has been obtained and the REIT has classified these two mortgages as current on the statements of financial position.

As at December 31, 2014 the REIT was also in technical violation of a covenant on its undrawn $10.0 million second mortgage line of credit. The REIT has requested and received from the lender an amendment to the covenant which extends until December 31, 2015 and brings the REIT in compliance as at December 31, 2014.

8. CONVERTIBLE DEBENTURES

As at	**December 31, 2014**	December 31, 2013
8.0% Convertible debenture	**$ 28,572,509**	$ 28,395,933
6.0% Convertible debenture	**34,227,413**	34,118,941
5.5% Convertible debenture	**22,904,587**	22,872,867
Debentures, excluding convertible feature	**85,704,509**	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	**2,827,654**	1,833,524
Issue costs, net	**(2,170,893)**	(3,065,140)
	$ 83,533,616	$ 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 December 31, 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 December 31, 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 December 31, 2014 is nil (December 31, 2013 - nil).

9. CREDIT FACILITIES

As at	**December 31, 2014**	December 31, 2013
Credit facilities	**$ -**	$ 31,000,000
Issue costs	-	238,975
Accumulated amortization of issue costs	-	(34,778)
Issue costs, net	-	204,197
	-	30,795,803
Non-current	**$ -**	$ 30,795,803
Current	-	-
	$ -	$ 30,795,803

The REIT's revolving credit facility (the "Credit Facility) had a formula-based maximum credit limit of $40.0 million, expandable up to $60.0 million with the securitization of additional unencumbered properties, with interest at the bank's prime rate (3.0% as at maturity) plus 1.0% per annum or the Banker's Acceptance stamping fee plus 2.25% per annum.

During the year ended December 31, 2014, the REIT fully repaid its Credit Facility.

10. EXCHANGEABLE LP UNITS

During the year ended December 31, 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.

11. REVENUES FROM INCOME PRODUCING PROPERTIES

Revenues recognized from income producing properties for the year ended December 31, 2014 were $59.8 million (2013 - $56.6 million). 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 year ended December 31, 2014 of $18.8 million (2013 - $17.1 million), 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 December 31, 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	$ 36,278,870	$ 111,073,934	$ 82,078,055

12. OTHER TRANSACTION COSTS

The components of other transaction costs are as follows:

	Year ended December 31, 2014	2013
Asset management contract reimbursement (Note 23)	**$ 1,500,000**	$ -
Internalization cost reimbursements (Note 23)	**432,947**	-
Internalization legal and other fees	**762,086**	814,159
Board transition and other	**349,129**	250,604
Abandoned acquisition costs	**4,247,333**	369,498
Proxy dispute	**923,802**	1,911,443
Strategic-review	**587,394**	-
Total other transaction costs	**$ 8,802,691**	$ 3,345,704

Abandoned acquisition costs in 2014 related to costs incurred by the REIT as a result of acquiring the Holyrood properties and subsequently rescinding the acquisition.

13. FAIR VALUE GAINS (LOSSES)

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

	Year ended December 31, 2014	2013
Unrealized loss on income producing properties	**$ (28,265,437)**	$ (6,693,830)
Financial liabilities designated as FVTPL		
Deferred unit-based compensation	**79,000**	176,000
Convertible debentures	**30,000**	1,730,000
Exchangeable LP units	**179,250**	463,500
Total fair value losses	**$ (27,977,187)**	$ (4,324,330)

14. 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.

	Year ended December 31, 2014	2013
Numerator		
Comprehensive income (loss) - basic	**$ (27,083,600)**	$ 4,195,221
Contribution from dilutive instrument	**-**	(324,389)
Comprehensive income (loss) - diluted	**$ (27,083,600)**	$ 3,870,832
Denominator		
Weighted average units outstanding - basic	**26,206,391**	25,731,319
Dilutive convertible units	**-**	223,333
Weighted average units outstanding - diluted	**26,206,391**	25,954,652

(1) The calculation of diluted per unit amounts for the year ended December 31, 2014 and 2013 exclude convertible units when their inclusion is anti-dilutive.

	2014	2013
Earnings (loss) per unit - basic	**$ (1.03)**	$ 0.16
Earnings (loss) per unit - diluted	**$ (1.03)**	$ 0.15

15. 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 December 31, 2014, the REIT has 406,634 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	**December 31, 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	**209,769**	**1,005,018**	174,711	1,196,547
Exchangeable LP units (Note 10)	**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	**-**	**(13,639)**	-	(1,485,852)
	26,356,069	**$ 196,646,106**	25,988,800	$ 194,991,352

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Year ended December 31, 2014	2013
Supplemental		
Mortgages transferred to vendor on sale of properties (Note 4)	**19,269,120**	-
Net change in working capital		
Net change in accounts receivable	**$ (2,984,354)**	$ (1,279,507)
Net change in other assets	**863,648**	(405,814)
Net change in accounts payable and other liabilities	**1,728,476**	214,820
Net change in distributions payable	**(540,133)**	(114,281)
	$ (932,363)	$ (1,584,782)

17. 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 year ended December 31, 2014 all outstanding options were cancelled.

(b) *Alternate compensation plan ("ACP")*

Under the ACP, Trustees 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 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.

The ACP became effective April 13, 2012. For the year ended December 31, 2014, no units were issued under the ACP.

18. 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.

19. 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.

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 December 31, 2014, the REIT's debt-to-gross book value ratio is 69.9%, (December 31, 2013 – 66.4%), which is calculated as follows:

As at	**December 31, 2014**	December 31, 2013
Debt		
Mortgage principal	**$ 296,262,514**	$ 282,225,144
Debentures, excluding fair value of convertible feature	**85,704,509**	85,387,741
Credit facilities	**-**	31,000,000
	$ 381,967,023	$ 398,612,885
Gross Book Value of Assets		
Book value of income producing properties	**$ 531,041,031**	$ 588,391,005
Book value of all other assets	**11,510,009**	7,237,032
Unamortized deferred financing fees	**4,204,330**	4,854,218
	$ 546,755,370	$ 600,482,255
Debt-to-Gross Book Value	**69.9%**	**66.4%**
Debt-to-Gross Book Value Excluding Debentures	**54.2%**	**52.2%**

[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.

20. 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 4.

(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) *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:

	December 31, 2014			December 31, 2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets measured at fair value:						
Income producing properties	**$ -**	**$ -**	**$ 531,041,031**	$ -	$ -	$ 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	**-**	**-**	**303,966,018**	-	-	286,708,749

The fair value of assets and liabilities is performed on a quarterly basis using the valuation approaches noted above. During the year ended December 31, 2014 there were no transfers between the hierarchy levels.

21. 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 mortgages with floating interest rates. An increase in interest rates would increase the interest cost of these mortgages having an adverse effect on the REIT's comprehensive income and earnings per unit. Based on the outstanding balance of variable debt at December 31, 2014, a 1% increase or decrease in the prime rate would have an impact of $0.2 million on the REIT's annual interest expense (December 31, 2013 – $0.3 million).

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 December 31, 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.

The following table presents an analysis of the age of tenant and other accounts receivable inclusive of amounts for which an allowance has been made.

As at	**December 31, 2014**	December 31, 2013
Tenant rents receivable		
Less than 30 days past billing date	**1,023,389**	556,659
30-60 days past billing date	**417,554**	246,228
61-90 days past billing date	**67,299**	34,976
Greater than 90 days past billing date	**1,690,444**	424,007
	3,198,686	1,261,870
Alllowance for doubtful accounts	**(797,068)**	(270,652)
Other receivables	**1,725,432**	678,009
Unbilled recoveries	**1,579,945**	1,053,414
	5,706,995	2,722,641

The following table presents a summary of the activity related to the REIT's allowance for doubtful accounts.

	December 31, 2014	December 31, 2013
Opening allowance for doubtful accounts	**$ 270,652**	$ 55,377
Additions to allowance for doubtful accounts	**792,079**	215,275
Receivables written-off	**(265,663)**	-
Ending allowance for doubtful accounts	**$ 797,068**	$ 270,652

Refer to Note 6 for further 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 $10.0 million second mortgage line of credit facility (unutilized as at December 31, 2014). 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.

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;
- 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;
- 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.

Except for the periodic impact to cash for the $2.8 million in bi-annual interest payments on the three series of convertible debentures (interest payments are due March 31st and September 30th) - most revenues and expenses are consistent on a month to month basis thereby assisting the management and forecasting of cash flows.

During the year ended December 31, 2014, the REIT incurred $8.8 million in other transactions costs. These costs relate to an internalization process, actions to acquire and rescind the Holyrood transaction, a proxy dispute, the strategic review process, and some board transition and other associated costs. These transaction costs reduced the year ended December 31, 2014's cash from operating activities to a nominal amount which therefore reduced funds available for the ongoing working capital requirements, the capital and leasing expenditures on properties, the principal portion of long term mortgages and for distributions to unitholders. In order to ensure that the REIT continues to have sufficient cash flows to meet its obligations, during the year ended December 31, 2014 the REIT disposed of three properties, re-financed several maturing mortgages and reduced the monthly distribution commencing with the August distribution due for payment on September 15, 2014. These measures provided both a cash injection and reduced ongoing cash outflows, thereby improving the REIT's liquidity position and cash flows.

As at December 31, 2014, the REIT had $2.2 million in cash and $10.0 million of capacity available under a second mortgage line of credit facility, thereby providing $12.2 million in liquidity. Furthermore, subsequent to December 31, 2014 the REIT refinanced three properties that netted $3.9 million in cash. 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:

	2015	2016	2017	2018	2019	Thereafter
Mortgages payable						
Interest	$ 11,734,547	$ 10,585,031	$ 7,121,333	$ 3,649,063	$ 3,167,444	$ 7,136,001
Principal payments	8,711,486	7,715,600	5,853,580	3,339,111	3,140,732	7,697,748
Balances due on maturity	36,223,689	28,373,931	103,586,598	18,439,813	18,590,780	54,589,449
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	-	-
Accounts and distributions payable and other liabilities	13,233,771	-	-	-	-	-
Total	$ 75,538,493	$ 79,334,562	$ 153,879,011	$ 48,744,237	$ 24,898,956	$ 69,423,198

(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 15.8% of the REIT's total annualized base rental revenue.

22. CONTINGENCIES AND COMMITMENTS

(a) Contingent liability

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.

(b) Lease commitments – The REIT as lessee

The REIT as lessee is committed under operating leases to renewal periods or notice periods not longer than four months for each of its office locations in Barrie, Ontario and Victoria, British Columbia. Neither lease represents a significant future commitment to the REIT.

(c) Class action lawsuit

The REIT has been notified that a Statement of Claim dated November 28, 2014 has been issued in the Ontario Superior Court seeking certification of a class action on behalf of persons who held units of the REIT on April 1, 2014 against certain parties, including a former officer and both current and former trustees of the REIT. The REIT itself has not been named as a defendant in the legal proceedings which allege that the conduct of the defendants in connection with the acquisition by the REIT of three properties from Holyrood in April 2014 caused harm to the plaintiffs. The Holyrood transaction was rescinded by the REIT and Holyrood in October 2014. The REIT has certain indemnify obligations to its trustees and officers (current and former) with respect to this claim, subject to exceptions including where it is determined that there has been a failure to act honestly and in good faith. The REIT has insurance which it expects to be applicable in these circumstances. Given that the REIT has not been named in the litigation, the REIT does not believe it will be material to its business and affairs.

23. 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.

Under the terms of the management agreement with McCowan, the REIT incurred the following fees:

	Year ended December 31,	
	2014	2013
Asset management fees	**218,415**	34,353
Property management and accounting fees	**95,342**	-
Internalization cost reimbursements	**432,947**	-
Employee service agreement payments	**42,940**	-
Office cost reimbursements	**67,593**	-
Management agreement termination reimbursement	**1,500,000**	-
	$ 2,357,237	$ 34,353

Under the terms of the prior year management agreement with LAPP, the REIT incurred the following fees:

	Year ended December 31, 2014	2013
Acquisition fees	$ -	$ 575,605
Asset management fees	-	1,688,736
Property management and accounting fees	-	646,249
	$ -	$ 2,910,590

(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 year ended December 31, 2014 the REIT received total reimbursements of $0.2 million.

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 December 31, 2014 are $17,325 (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 December 31, 2014 are nil (December 31, 2013 – $40,038).

(d) *Compensation of key management and Trustees*

The REIT's current independent trustees include: Joseph Feldman, Marc Charlebois, Stephan Dulmage and Dexter John. Jane Domenico, the REIT's Acting Chief Executive Officer and Chief Operating Officer, is also a trustee of the REIT. During the year, the REIT's key management personnel include: Acting Chief Executive Officer and Chief Operating Officer, Jane Domenico, Chief Financial Officer, Derrick West, former Chief Executive Officer, Ron McCowan (February 11, 2014 – May 4, 2014), former Chief Executive Officer, Patrick Miniutti (until February 11, 2014), and former Chief Operating Officer, Peter Morris (until February 11, 2014). The remuneration of the REIT's key management personnel and trustees was as follows:

	Year ended December 31, 2014	2013	Year ended December 31, 2014	2013
	Trustees		Key Management	
Compensation and benefits	531,422	185,165	$ 767,789	$ 1,440,244
Deferred unit-based compensation	-	-	-	40,000
	$ 531,422	$ 185,165	$ 767,789	$ 1,480,244

24. SUBSEQUENT EVENTS

(a) During February 2015, the REIT refinanced three free standing Shoppers Drug Mart properties located in Selkirk, Steinbach, and Winnipeg, Manitoba. The refinancings consist of three first mortgages for an aggregate principal amount of $5.6 million. The first mortgages carry an average weighted interest rate of 2.9% and have an average term to maturity of 5.5 years.