Condensed Consolidated Financial Statements of

PARTNERS REAL ESTATE INVESTMENT TRUST

For the three months ended March 31, 2015 and 2014

PARTNERS REAL ESTATE INVESTMENT TRUST
Table of Contents
For the three months ended March 31, 2015 and 2014

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

As at		March 31, 2015		December 31, 2014
ASSETS				
Non-current assets				
Income producing properties (Note 3)	$	**525,671,252**	$	531,041,031
		525,671,252		531,041,031
Current assets				
Other assets (Note 4)		**4,651,855**		3,650,743
Accounts receivable (Note 5)		**5,687,064**		5,706,995
Cash		**2,108,118**		2,152,271
		12,447,037		11,510,009
	$	**538,118,289**	$	542,551,040
LIABILITIES				
Non-current liabilities				
Mortgages payable (Note 6)	$	**255,148,750**	$	251,560,806
Convertible debentures (Note 7)		**55,644,345**		83,533,616
Credit facility (Note 8)		**1,954,034**		-
		312,747,129		335,094,422
Current liabilities				
Mortgages payable (Note 6)		**43,528,592**		45,186,479
Convertible debentures (Note 7)		**28,202,849**		-
Accounts payable and other liabilities		**9,494,550**		12,679,748
Distributions payable		**556,035**		554,023
		81,782,026		58,420,250
		394,529,155		393,514,672
UNITHOLDERS' EQUITY		**143,589,134**		149,036,368
	$	**538,118,289**	$	542,551,040

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

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

		Three months ended March 31,		
		2015		2014
Revenues from income producing properties (Note 9)	**$**	**14,524,120**	$	15,167,896
Property operating expenses		**(2,406,601)**		(2,270,785)
Realty taxes		**(3,425,926)**		(3,237,404)
Property management fees		**(372,206)**		(265,324)
		8,319,387		9,394,383
Other expenses:				
Financing costs		**5,109,004**		5,131,531
General and administrative expenses		**1,020,454**		933,506
Other transaction costs (Note 10)		**145,922**		2,720,069
		6,275,380		8,785,106
Income before fair value losses		**2,044,007**		609,277
Fair value losses (Note 11)		**(6,140,328)**		(1,921,463)
Comprehensive loss	**$**	**(4,096,321)**	$	(1,312,186)
LOSS PER UNIT (Note 12)				
Basic and diluted	**$**	**(0.16)**	$	(0.05)

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 March 31, 2015	2014
Trust Units (Note 13)		
BALANCE, BEGINNING OF PERIOD	**$ 196,646,106**	$ 194,991,352
Issuance of units for exchangeable LP units, net of costs	**-**	54,200
Issuance of units under DRIP, net of costs	**315,171**	278,121
BALANCE, END OF PERIOD	**196,961,277**	195,323,673
Contributed Surplus		
BALANCE, BEGINNING OF PERIOD	**565,080**	565,080
BALANCE, END OF PERIOD	**565,080**	565,080
Accumulated Other Comprehensive Loss		
BALANCE, BEGINNING OF PERIOD	**(48,174,818)**	(10,677,775)
Net loss and comprehensive loss	**(4,096,321)**	(1,312,186)
Distributions to unitholders (Note 13)	**(1,666,084)**	(3,263,213)
BALANCE, END OF PERIOD	**(53,937,223)**	(15,253,174)
TOTAL UNITHOLDERS' EQUITY	**$ 143,589,134**	$ 180,635,579
DISTRIBUTIONS PER UNIT	**$ 0.06**	$ 0.13

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 March 31,	
	2015	2014
OPERATING ACTIVITIES		
Comprehensive loss	**$ (4,096,321)**	$ (1,312,186)
Adjusted for non-cash items:		
Fair value losses (Note 11)	**6,140,328**	1,921,463
Straight-line rent	**(139,208)**	(256,346)
Amortization of tenant incentives and direct leasing costs	**173,320**	165,111
Amortization of deferred financing and mortgage prepayment costs	**534,592**	408,154
Market interest rate adjustment on mortgages	**(226,209)**	(261,977)
Interest accretion expense	**98,635**	102,010
Interest expense	**4,701,986**	4,883,344
Net change in working capital (Note 14)	**(2,748,447)**	122,637
Interest paid	**(6,139,361)**	(5,917,390)
Cash flow provided by (used by) operating activities	**(1,700,685)**	(145,180)
FINANCING ACTIVITIES		
Proceeds from mortgages	**5,600,000**	-
Financing costs of mortgages	**(105,543)**	-
Repayments of mortgages at maturity	**(1,458,353)**	-
Regular principal repayments on mortgages	**(2,208,551)**	(2,202,762)
Cost to issue debentures	**(17,459)**	(15,450)
Drawdowns on credit facilities	**2,000,000**	5,294,095
Costs to issue units (Note 13)	**(6,133)**	(2,625)
Distributions to unitholders	**(1,342,768)**	(2,982,466)
Cash flow provided by (used by) financing activities	**2,461,193**	90,792
INVESTING ACTIVITIES		
Acquisitions of income producing properties, net of non-cash transactions	**-**	(51,178)
Improvements to income producing properties	**(560,574)**	(185,662)
Expenditures on tenant incentives and direct leasing costs	**(244,087)**	(79,927)
Cash flow provided by (used in) investing activities	**(804,661)**	(316,767)
NET DECREASE IN CASH DURING THE PERIOD	**(44,153)**	(371,155)
CASH (BANK INDEBTEDNESS), BEGINNING OF PERIOD	**2,152,271**	(134,868)
CASH (BANK INDEBTEDNESS), END OF PERIOD	**$ 2,108,118**	$ (506,023)

Supplemental cash flow information (Note 14)

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 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 were originally listed on the Toronto Stock Exchange on 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 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, 2014. 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, 2014.

These condensed consolidated financial statements were approved and authorized for issue by the Board of Trustees (the "Trustees") on May 12, 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.

3. INCOME PRODUCING PROPERTIES

As at		March 31, 2015		December 31, 2014
Balance, beginning of year	**$**	**531,041,031**	$	588,391,005
Dispositions of income producing properties at carrying value		**-**		(34,020,564)
Improvements to income producing properties		**560,574**		4,330,334
Expenditures on tenant incentives and direct leasing costs		**244,087**		436,291
Amortization of tenant incentives and direct leasing costs		**(173,320)**		(618,482)
Recognition of straight-line rent		**139,208**		787,884
Unrealized fair value losses		**(6,140,328)**		(28,265,437)
Balance, end of period	**$**	**525,671,252**	$	531,041,031

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 March 31, 2015 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 March 31, 2015, an external appraisal was obtained for one of the REIT’s properties with an aggregate fair value of $14.3 million, representing 2.7% of the fair value of the income producing property portfolio. 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 as of the end of 2014. 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	March 31, 2015	December 31, 2014
Capitalization rates		
Maximum	**8.25%**	8.25%
Minimum	**5.75%**	5.75%
Weighted Average	**6.72%**	6.70%

At March 31, 2015, a 0.50% increase in capitalization rates for income producing properties would decrease fair value by $37.2 million (December 31, 2014 - $37.4 million) and a 0.50% decrease in capitalization rates would increase fair value by $43.2 million (December 31, 2014 - $43.4 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 March 31, 2015, income producing properties included $4.4 million (at December 31, 2014 - $4.3 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*.

4. OTHER ASSETS

The major components of other assets are as follows:

As at		March 31, 2015		December 31, 2014
Prepaid realty taxes and insurance	**$**	**2,231,824**	$	1,214,071
Restricted cash - amounts held in escrow		**1,673,255**		1,673,255
Prepaid expenses and other		**746,776**		763,417
	$	**4,651,855**	$	3,650,743

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		March 31, 2015		December 31, 2014
Rents receivable	**$**	**2,876,588**	$	3,198,686
Unbilled recoveries		**1,885,983**		1,579,945
Other receivables		**1,716,822**		1,725,432
		6,479,393		6,504,063
Allowance for doubtful accounts		**(792,329)**		(797,068)
	$	**5,687,064**	$	5,706,995

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 19 for the REIT's exposure to credit risk regarding its receivables, and precautions taken to mitigate these risks.

6. MORTGAGES PAYABLE

As at		March 31, 2015		December 31, 2014
Mortgage principal	$	**298,195,610**	$	296,262,514
Unamortized above market interest rate adjustments		**2,291,999**		2,518,208
Unamortized commitment and other fees		**(1,810,267)**		(2,033,437)
	$	**298,677,342**	$	296,747,285
Non-current	$	**255,148,750**	$	251,560,806
Current		**43,528,592**		45,186,479
	$	**298,677,342**	$	296,747,285

Scheduled repayments of secured debt are as follows:

		Principal instalments		Principal maturing		Total
2015 (remaining nine months)	$	6,091,214	$	35,215,655	$	41,306,869
2016		7,775,214		28,373,931		36,149,145
2017		5,908,874		103,586,591		109,495,465
2018		3,389,596		18,439,813		21,829,409
2019		3,185,890		18,590,780		21,776,670
Thereafter		7,535,093		60,102,959		67,638,052
Contractual obligations	$	33,885,881	$	264,309,729	$	298,195,610

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, 2014 – 2.43% and 6.02%) and contractual rates ranging between 2.40% and 6.70% (December 31, 2014 – 2.40% and 6.70%). The REIT's weighted average effective interest rate is 4.40% per annum (December 31, 2014 – 4.43%). The total carrying value of the properties pledged as security is $520.7 million (December 31, 2014 - $527.4 million).

During the three months ended March 31, 2015 the following mortgages were obtained:

In February 2015, the REIT accepted a financing commitment for $3.15 million secured as a first mortgage on a single tenant property located in Manitoba. The mortgage has a term of five years with interest at 2.83% per annum and an amortization period of 15 years. This financing replaced a maturing $1.5 million mortgage with a contractual interest rate of 6.35%.

In February 2015, the REIT accepted extended first mortgages, totaling $2.45 million, on two free standing properties located in Manitoba. The mortgages have an average term of six years with an average rate of interest of 2.95% per annum and amortization periods ranging from 20 to 25 years.

As at March 31, 2015 the REIT was in technical violation of two December 31, 2014 annual financial covenants on mortgages secured by properties in Ontario and Quebec. The REIT's mortgages do not contain cross-default provisions that would be triggered by the breach of a financial covenant. The REIT has classified these two mortgages, totaling $26.9 million, as current on the statements of financial position.

7. CONVERTIBLE DEBENTURES

As at		March 31, 2015		December 31, 2014
8.0% Convertible debenture	**$**	**28,616,653**	$	28,572,509
6.0% Convertible debenture		**34,254,531**		34,227,413
5.5% Convertible debenture		**22,912,517**		22,904,587
Debentures, excluding convertible feature		**85,783,701**		85,704,509
Fair value of convertible features at issuance		**1,460,000**		1,460,000
Accumulated fair value gain on convertible feature		**(1,460,000)**		(1,460,000)
Convertible feature		**-**		-
Issue costs		**(5,016,005)**		(4,998,547)
Accumulated amortization of issue costs		**3,079,498**		2,827,654
Issue costs, net		**(1,936,507)**		(2,170,893)
	$	**83,847,194**	$	83,533,616
Non-current	**$**	**55,644,345**	$	83,533,616
Current		**28,202,849**		-
	$	**83,847,194**	$	83,533,616

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 March 31, 2015 is nil (December 31, 2014 - nil).

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 March 31, 2015 is nil (December 31, 2014 - nil).

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 March 31, 2015 is nil (December 31, 2014 - nil).

8. CREDIT FACILITY

As at		**March 31, 2015**		December 31, 2014
Credit facilities	**$**	**2,000,000**	**$**	**-**
Issue costs		**64,893**		**-**
Accumulated amortization of issue costs		**(18,927)**		**-**
Issue costs, net		**45,966**		**-**
		1,954,034		**-**
Non-current	**$**	**1,954,034**	**$**	**-**
Current		**-**		**-**
	$	**1,954,034**	**$**	**-**

The REIT's credit facility (the "Credit Facility") has a credit limit of $10.0 million, with interest at the greater of 5.0% or prime plus 2.0% per annum. For undrawn balances, the Credit Facility bears a standby fee of 0.25% of the undrawn balance, annually in arrears. The Credit Facility has a term of two years ending in August 2016.

9. REVENUES FROM INCOME PRODUCING PROPERTIES

Revenues recognized from income producing properties for the three months ended March 31, 2015 were $14.5 million (2014 - $15.2 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 three months ended March 31, 2015 of $5.1 million (2014 - $4.8 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 March 31, 2015, 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	$	36,296,999	$	107,879,496	$	78,238,487

10. OTHER TRANSACTION COSTS

The components of other transaction costs are as follows:

	Three months ended March 31, 2015	2014
Asset management contract reimbursement	**$ -**	$ 1,500,000
Internalization cost reimbursements	**-**	432,947
Internalization legal and other fees	**-**	748,857
Board transition and other	**4,059**	34,444
Abandoned acquisition costs	**99,416**	3,821
Strategic-review	**42,447**	-
Total other transaction costs	**$ 145,922**	$ 2,720,069

11. FAIR VALUE LOSSES

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

	Three months ended March 31, 2015	2014
Unrealized loss on income producing properties	**$ (6,140,328)**	$ (1,981,088)
Financial liabilities designated as FVTPL		
Deferred unit-based compensation	**-**	79,000
Convertible debentures	**-**	30,000
Exchangeable LP units	**-**	(49,375)
Total fair value losses	**$ (6,140,328)**	$ (1,921,463)

Included in the unrealized loss on income producing properties is an immaterial adjustment for a $1.2 million loss relating to the prior year's estimate of fair value on a property which was appraised externally.

12. LOSS PER UNIT

The table below presents the net loss 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 March 31, 2015	2014
Numerator		
Comprehensive loss - basic and diluted	**$ (4,096,321)**	$ (1,312,186)
Denominator		
Weighted average units outstanding - basic and diluted	**26,399,382**	26,023,936
Loss per unit - basic and diluted	**$ (0.16)**	$ (0.05)

13. UNITHOLDERS' EQUITY

(a) *Distributions*

For the three months ended March 31, 2015 the REIT made monthly cash distributions to unitholders in an amount of $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 and Optional Unit Purchase Plan*

The REIT has a Distribution Reinvestment Plan ("DRIP") to enable Canadian resident unitholders to acquire additional units of the REIT through the reinvestment of regular monthly distributions on all or any part of their units.

The REIT has an Optional Unit Purchase Plan ("OUPP") to enable Canadian resident unitholders to acquire additional units of the REIT 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 DRIP and OUPP 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 March 31, 2015, the REIT has 319,701 units remaining in its reserve for issuance of units under the DRIP and OUPP. The REIT will increase the unit reserve as required and with approval from the TSX.

(c) *Outstanding units*

As at	**March 31, 2015**			December 31, 2014		
	Units		**Dollars**	Units		Dollars
Units outstanding, beginning of period	**26,356,069**	**$**	**196,646,106**	25,988,800	$	194,991,352
Units issued:						
Distribution reinvestment plan	**86,933**		**321,304**	209,769		1,005,018
Exchangeable LP units	**-**		**-**	157,500		663,375
Unit issue costs	**-**		**(6,133)**	-		(13,639)
	26,443,002	**$**	**196,961,277**	26,356,069	$	196,646,106

14. 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 March 31,		
		2015		2014
Net change in working capital				
Net change in accounts receivable	**$**	**19,931**	$	(881,204)
Net change in other assets		**(1,001,112)**		(928,310)
Net change in accounts payable and other liabilities		**(1,767,266)**		1,932,151
	$	**(2,748,447)**	$	122,637

15. 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).

As at March 31, 2015 there are no options outstanding under the incentive unit option plan.

(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. During the three months ended March 31, 2015, no units were issued under the ACP.

16. 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.

17. CAPITAL MANAGEMENT

The REIT actively manages both its debt and its equity 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, debentures and Credit Facility, divided by the gross book value of its assets.

At March 31, 2015, the REIT's debt-to-gross book value ratio is 71.2%, (December 31, 2014 – 69.9%), which is calculated as follows:

As at		**March 31, 2015**		December 31, 2014
Debt[(1)]				
Mortgage principal	**$**	**298,195,610**	$	296,262,514
Debentures, excluding fair value of convertible feature		**85,783,701**		85,704,509
Credit facilities		**2,000,000**		-
	$	**385,979,311**	$	381,967,023
Gross Book Value of Assets				
Book value of income producing properties	**$**	**525,671,252**	$	531,041,031
Book value of all other assets		**12,447,037**		11,510,009
Unamortized deferred financing fees		**3,792,740**		4,204,330
	$	**541,911,029**	$	546,755,370
Debt-to-Gross Book Value		**71.2%**		69.9%
Debt-to-Gross Book Value Excluding Debentures		**55.4%**		54.2%

(1) Debt refers to secured debt, debentures and the Credit Facility excluding deferred financing costs, the value of the debentures' convertible feature and unamortized above market interest rate adjustments.

18. 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) *Mortgages payable*

The fair value of secured debt is based on discounted future cash flows, using interest rates ranging between 2.59% and 3.46% 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:

	March 31, 2015			December 31, 2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets measured at fair value:						
Income producing properties	**$ -**	**$ -**	**$ 525,671,252**	$ -	$ -	$ 531,041,031
Liabilities for which fair values are disclosed:						
Mortgages payable	**$ -**	**$ -**	**$ 311,069,521**	$ -	$ -	$ 303,966,018

The fair value of assets and liabilities is performed on a quarterly basis using the valuation approaches noted above. During the three months ended March 31, 2015 there were no transfers between the hierarchy levels.

19. 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 March 31, 2015, 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, 2014 – $0.2 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 March 31, 2015 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	**March 31, 2015**	December 31, 2014
Tenant rents receivable		
Less than 30 days past billing date	**887,892**	1,023,389
30-60 days past billing date	**160,372**	417,554
61-90 days past billing date	**128,538**	67,299
Greater than 90 days past billing date	**1,699,786**	1,690,444
	2,876,588	3,198,686
Alllowance for doubtful accounts	**(792,329)**	(797,068)
Other receivables	**1,716,822**	1,725,432
Unbilled recoveries	**1,885,983**	1,579,945
	5,687,064	5,706,995

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

		March 31, 2015		December 31, 2014
Opening allowance for doubtful accounts	**$**	**797,068**	$	270,652
Additions to allowance for doubtful accounts		**17,267**		792,079
Receivables written-off		**(22,006)**		(265,663)
Ending allowance for doubtful accounts	**$**	**792,329**	$	797,068

Refer to Note 5 for further details of accounts receivable.

(d) 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 Credit Facility (drawn for $2.0 million at March 31, 2015). 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.

Within the next 12 months the REITs first series of convertible debentures, with a principal balance of $28.8 million bearing interest at 8.0% per annum, will mature. The REIT will need to obtain debt and/or equity financing to repay these debentures.

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.

As at March 31, 2015, the REIT had $2.1 million in cash and $8.0 million of capacity available under its Credit Facility, thereby providing $10.1 million in liquidity. Despite this liquidity, management will need to complete re-financings of maturing mortgages while also continuing to reduce other transaction costs or the REIT may be required to obtain additional financings or sell 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	$ 9,035,379	$ 10,736,008	$ 7,264,880	$ 4,033,349	$ 3,546,582	$ 7,214,264
Principal payments	6,091,214	7,775,214	5,908,874	3,636,971	3,441,395	7,535,093
Balances due on maturity	35,215,655	28,373,931	95,782,481	18,439,813	25,892,011	60,102,958
Debentures						
Interest	2,817,500	4,485,000	3,335,000	632,500	-	-
Balances due on maturity	-	28,750,000	34,500,000	23,000,000	-	-
Credit Facility						
Interest	75,000	100,000	-	-	-	-
Balances due on maturity	-	2,000,000	-	-	-	-
Accounts and distributions payable and other liabilities	10,050,585	-	-	-	-	-
Total	$ 63,285,333	$ 82,220,153	$ 146,791,235	$ 49,742,633	$ 32,879,988	$ 74,852,315

(d) Concentration risk

The REIT has one major tenant with 16 locations in the REIT's portfolio providing $5.9 million in annualized base rents, or 15.8% of the REIT's total annualized base rental revenue.

20. 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) Uncertified 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 indemnity 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.

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.

(a) Management agreement

Effective December 27, 2013, McCowan and Associates Ltd. ("McCowan") purchased the REIT's external management contract for $1.5 million from LAPP Global Asset Management Corp. 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:

	Three months ended March 31, **2015**	2014
Management agreement termination reimbursement	-	1,500,000
Asset management fees	-	282,272
Property management and accounting fees	-	95,342
Internalization cost reimbursements	-	432,947
	$ -	$ 2,310,561

(b) Related party balances

Amounts owed by the REIT to related parties at March 31, 2015 are $44,007 (December 31, 2014 - $17,325). This amount has been classified in accounts payable and other liabilities, and consists of employee and management reimbursements and trustee payroll. Amounts owed to the REIT from related parties at March 31, 2015 are nil (December 31, 2014 – nil).