CHARTER
REAL ESTATE INVESTMENT TRUST

2008 Annual Report

For the year ended December 31, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008

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OVERVIEW

On May 10, 2007, Charter Realty Holdings Ltd. (the “Company”) completed its conversion to a trust structure under a Plan of Arrangement (the “Arrangement”). The Arrangement resulted in shareholders of the Company transferring their shares to Charter Real Estate Investment Trust (“Charter” or the “REIT”), in consideration for units of the REIT. Each 10 issued shares of the Company were transferred to the REIT in exchange for 1 unit of the REIT. Pursuant to the Arrangement, the Company is a wholly-owned subsidiary of the REIT.

The conversion of the Company into the REIT has been accounted for on a continuity of interest basis. Accordingly, any comparative figures and note disclosures within the financial statements are presented as if the Company had converted to a trust structure from the inception of the Company’s formation.

The REIT is focused on acquiring a portfolio of retail and mixed-use retail community and neighbourhood centres, generally in the mid-market deal size range of $10 to $40 million, comprised of stable cash flow and value-add properties from both primary and secondary markets throughout Canada. Charter’s principal goal is to generate a reliable and growing yield for its investors. The REIT currently owns ten retail properties located in Ontario and Quebec.

Charter’s units are traded on the TSX Venture Exchange (the “TSXV”) under the symbol CRH.UN.

Charter’s major unitholder is C.A. Bancorp Inc., which currently owns approximately 33% of the outstanding units of Charter.

ADVISORY

This *Management’s Discussion and Analysis* (“MD&A”) presents an analysis of the financial condition of Charter for the three and twelve months ended December 31, 2008. The MD&A should be read in conjunction with the audited consolidated financial statements and the accompanying notes of the REIT for the years ended December 31, 2008 and 2007. Historical results, including trends which might appear, should not be taken as indicative of future operations or results.

Additional information relating to the REIT, including the REIT’s or the Company’s (as applicable) interim and annual financial statements and MD&As can be found on SEDAR at www.sedar.com.

This MD&A and other public announcements by the REIT may contain information that to the extent that they are not historical fact, may constitute “forward-looking information” within the meaning of applicable securities legislation. Forward-looking information involves significant known and unknown risks, uncertainties and assumptions. Important assumptions relating to the forward-looking information contained in this MD&A include expansion, capital expenditures, competitive conditions, gross economic conditions and current levels of distributions. Forward-looking information includes information concerning the REIT’s future financial performance, business strategy, plans, goals, and objectives. Forward-looking information generally can be identified by the use of forward-looking terminology such as “may”, “would”, “could”, “will”, “likely”, “expect”, “anticipate”, “believe”, “intend”, “plan”, “forecast”, “project”, “estimate”, “outlook”, “aim” and other similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

These statements involve known and unknown risks, uncertainties and other factors that could cause actual results or events to differ materially from those anticipated in such forward-looking statements, and accordingly, no undue reliance should be placed on any such forward-looking statements. Those risks and uncertainties include, among other things: the ability of the REIT to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits; risks associated with real property ownership, including occupancy rates; competitive conditions in the business in which the REIT participates; the outcome of pending legal proceedings, if any exist; general economic conditions and normal business uncertainty; interest rate fluctuations and other changes in borrowing and borrowing costs; environmental matters; reliance on external sources of capital; and changes to the laws, rules, and regulations applicable to the REIT or the markets in which the REIT operates. Additional information about these risks and uncertainties and any corresponding plan to mitigate these risks, where possible, is contained in the REIT's filings with securities regulators, including the REIT's Annual Information Form dated February 22, 2008 which is available on www.sedar.com.

Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with this forward-looking information. The REIT intends the forward-looking information to speak only as of the first time made and does not undertake to update or revise it whether as a result of new information, future events or otherwise, except as required by law.

This MD&A is dated February 26, 2009 and presents material information up to this date, unless otherwise noted.

HIGHLIGHTS

For the fourth quarter and twelve months of 2008 Charter:

- acquired four properties; during the third quarter acquired a portfolio of three Canadian Tire properties in Brockville, Strathroy and Wasaga Beach, Ontario for an aggregate purchase price of $27,250,000 which total 192,295 square feet of rentable area; and during the first quarter acquired Place Val Est in Sudbury, a 110,313 square foot grocery-anchored retail strip centre for an aggregate purchase price of $14,720,000, bringing total assets acquired to approximately $139,000,000 since January 1, 2007;
- in conjunction with the Canadian Tire portfolio acquisition, raised $10,000,000 by way of corporate secured debt;
- as a prudent action given current difficult market conditions, reduced annual distributions to $0.16 per unit from $0.3104 per unit in order to provide unitholders with a more stable distribution yield going forward, while at the same time putting Charter in a stronger financial position that should enable it to pursue its business plans in the future, subject to market conditions; the new distribution level of $0.16 per unit annually represents a payout ratio of approximately 76% based on the REIT's FFO(1) of $0.21 per unit for the year ended December 31, 2008;
- has a balance sheet that remains strong, with a debt-to-gross book value ratio of 63.5%;
- instituted a normal course issuer bid as a result of the fact that the REIT's units are trading in a price range which does not adequately reflect the value of its units;
- established a Distribution Reinvestment and Optional Unit Purchase Plan, which currently has approximately 28% participation by existing unitholders, saving Charter significant cash in terms of its monthly distributions;
- had an average occupancy rate for the portfolio of 95.9% - slightly lower than at the end of the third quarter of 96.0%;
- recorded NOI(1) from its properties of $3,002,190 for the quarter ended December 31, 2008, representing a 25% increase from the quarter ended September 30, 2008 of $2,405,877 and a 77% increase from the quarter ended December 31, 2007 of $1,693,610;
- recorded same-property NOI(1) for the quarter ended December 31, 2008 of $3,002,190, a 7% increase from the $2,793,672 recorded for the quarter ended September 30, 2008;
- recorded a 13% increase in same-property NOI(1) for the quarter ended December 31, 2008 compared to the quarter ended December 31, 2007;
- recorded a 3% increase in same-property NOI(1) for the year ended December 31, 2008 compared to the year ended December 31, 2007;
- had a net loss of $261,351 or $0.01 per unit basic and diluted for the quarter ended December 31, 2008 (for the quarter ended September 30, 2008 – net loss of $340,859 or $0.02 per unit basic and diluted and for the quarter ended December 31, 2007 – net loss of $290,031 or $0.02 per unit basic and diluted);
- recorded FFO(1) of $1,135,227 or $0.06 per unit basic and diluted for the quarter ended December 31, 2008, an increase of 20% from the quarter ended September 30, 2008 of $948,769 or $0.05 per unit basic and diluted and an increase of 68% from the quarter ended December 31, 2007 of $676,304 or $0.04 per unit basic and diluted; and

- recorded FFO[1] of $3,776,197 or $0.21 per unit basic and diluted for the year ended December 31, 2008, compared to an FFO[1] loss of $(913,588) or $(0.11) per unit basic and diluted for the year ended December 31, 2007.

The following is a summary chart of selected financial information:

	Q4 2008	Q4 2007	Q3 2008
NOI[1]	**$ 3,002,190**	$ 1,693,610	$ 2,405,877
FFO[1]	**$ 1,135,227**	$ 676,304	$ 948,769
FFO per unit - diluted[1]	**$ 0.06**	$ 0.04	$ 0.05
Net loss	**$ 261,351**	$ 290,031	$ 340,859
Net loss per unit - diluted	**$ 0.01**	$ 0.02	$ 0.02
Distributions	**$ 726,470**	$ 1,366,085	$ 1,177,648
Distributions per unit[2]	**$ 0.040**	$ 0.078	$ 0.065
Cash distributions	**$ 519,600**	$ 1,366,085	$ 1,015,667
Cash distributions per unit	**$ 0.029**	$ 0.078	$ 0.057
Gross book value of real estate[3]	**$ 141,187,553**	$ 97,309,050	$141,165,558
Secured debt and credit facilities	**$ 92,345,108**	$ 47,816,387	$ 92,487,955
Debt-to-gross book value	**63.5%**	47.1%	63.5%

	Year ended December 31, 2008	2007	
NOI[1]	**$ 9,705,210**	$ 3,828,525	
FFO[1]	**$ 3,776,197**	$ (913,588)	
FFO per unit - diluted[1]	**$ 0.21**	$ (0.11)	
Net loss	**$ 1,301,427**	$ 3,042,085	
Net loss per unit - diluted	**$ 0.07**	$ 0.38	
Distributions	**$ 4,663,275**	$ 2,241,343	(4)
Distributions per unit[2]	**$ 0.260**	$ 0.129	(4)
Cash distributions	**$ 3,842,402**	$ 1,785,981	(4)
Cash distributions per unit	**$ 0.216**	$ 0.129	(4)
Gross book value of real estate[3]	**$141,187,553**	$ 97,309,050	
Secured debt and credit facilities	**$ 92,345,108**	$ 47,816,387	
Debt-to-gross book value	**63.5%**	47.1%	

(1) NOI and FFO are non-GAAP financial measures widely used in the real estate industry. See "Financial Review" section for further details and advisories.
(2) Excluding the 3% bonus units given to participants in the Distribution Reinvestment and Optional Unit Purchase Plan.
(3) Includes income producing properties, intangible assets and intangible liabilities.
(4) Distributions commenced in August 2007, therefore the distributions and distributions per unit represent 5 months' worth in 2007 and the cash distributions and cash distributions per unit represent 4 months' worth in 2007.

CHARTER'S BUSINESS

Charter is focused on acquiring retail and mixed-use retail community and neighbourhood centres in the mid-market deal size range of $10 to $40 million from both primary and secondary markets throughout Canada. Management is of the view that retail centres are attractive investments because they offer stable cash flow where the majority of rents are derived from national and regional retailers with multi-year leases, as is the case with Charter's portfolio. These centres typically provide growth opportunities through the lease-up of vacant space, the upward trend in rental rates through contractual escalations and through management's active re-merchandising and re-development of the properties. The REIT will look to create a base of retail assets that provide both a reliable, stable cash flow and an opportunity for yield growth through re-leasing, re-development and/or development of assets.

Management believes that it can obtain high quality, stable retail properties with the potential for value-add opportunities by focusing on both enclosed and open-air community and neighbourhood shopping centres in primary and secondary markets. Management also believes that Charter has a differentiated position within the broader retail REIT universe by focusing on these community and neighbourhood shopping centres because there are only a small number of key public players focusing on these types of centres, and even fewer focusing on these types of centres in secondary markets. These centres would typically be between 100,000 and 500,000 square feet and anchored by department stores, discount retailers and/or supermarkets. Charter intends to maximize the value of its centres by executing the appropriate re-merchandising and re-development strategy wherever possible. Charter's goal is to own "institutional-grade" properties or properties with the potential to become "institutional-grade" through this re-merchandising and re-development.

By focusing on secondary markets, management believes that there are opportunities to obtain well-tenanted centres with strong national and regional retailers at attractive capitalization rates. Charter is building a portfolio of high quality secondary market real estate assets as well as high-yielding, opportunistic primary market real estate assets, allowing the REIT to generate higher returns at lower risk than if the REIT was to focus exclusively in primary markets.

The cost of the centres that Charter focuses on are generally in the $10 to $40 million range, which allows the REIT to differentiate itself from small public and private real estate investors, who management believes, generally look for smaller investments, while acquiring properties that are small enough to minimize competition from large real estate investment trusts, corporations and institutions. The REIT will also look at larger acquisitions that do not fall into the investment parameters of larger entities but still provide good investment opportunities.

REAL ESTATE PORTFOLIO AND ACQUISITIONS

Canadian Tire Acquisition

On September 5, 2008, the REIT completed the acquisition of a portfolio of three properties leased on a triple-net basis for a 15-year term to Canadian Tire (the vendor). The properties are located in Brockville, Strathroy and Wasaga Beach, Ontario and were acquired for an aggregate purchase price of $27,250,000 before closing costs.

The properties, which total 192,295 square feet of rentable area, are all strategically located in their respective communities and feature Canadian Tire's successful new retail format. Rents will grow consistently through contractual rent escalations over the 15-year lease term.

The REIT obtained a first mortgage loan in the amount of $19,050,000, secured and cross-collateralized by the properties. The mortgage is for a five-year term and bears interest at 5.65%. The remainder of the acquisition was funded by two corporate secured debt facilities totaling $10,000,000 at an 8.75% interest rate.

Place Val Est Acquisition

On January 31, 2008, the REIT completed the acquisition of Place Val Est, a grocery-anchored retail strip centre located in Sudbury, Ontario, for an aggregate purchase price before closing costs of $14,720,000.

The property is a 110,313 square foot strip centre located in the north section of Sudbury (Valley East). It has the dominant grocery store in that area. The property was originally developed in 1983 and has seen many additions to it over the last 20 years. The estimated going-in yield for the acquisition on an unlevered basis was approximately 8.06% before closing costs [(1)].

It should be noted that SAAN Stores Ltd. was a tenant in the centre, occupying approximately 23,000 square feet. SAAN entered into *Companies' Creditors Arrangement Act* (CCAA) protection in late 2007 just prior to the REIT acquiring the property. In connection therewith, the REIT received a rental guarantee from the vendor if the lease was altered or terminated through the CCAA proceedings. During the third quarter of 2008, SAAN officially gave the REIT notice of termination of its lease. As such, the REIT continues to receive rent on this space through the rental guarantee which will expire at the end of July 2009.

Redcliff Realty Management Inc. provides property management services for Place Val Est. There is a property management fee of 3% of gross revenues, leasing fees ranging from $0.45 to $3.25 per square foot and other customary property management fees on market terms. The property management agreement is terminable by either party on 90 days' notice.

On acquisition, the REIT assumed an existing first mortgage loan in the amount of $8,099,224. The loan matures in 2015 and bears interest at a rate of 5.166% per annum. The remainder of the acquisition was financed by the REIT's operating and acquisition facility.

Notes:

(1) Based on in-place leases at the time of acquisition.

Real Estate Portfolio

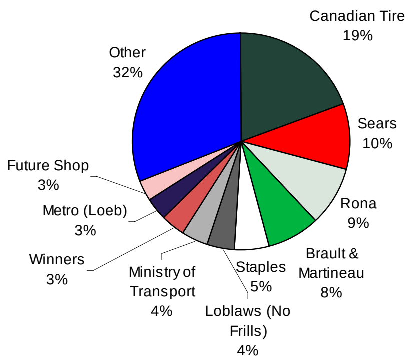
The REIT currently owns ten retail and mixed-use retail properties in Ontario and Quebec as follows:

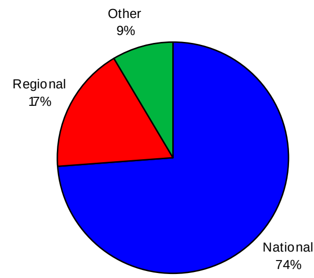
Property and location	Property type	Date built /redeveloped	Anchor tenants	Gross Leaseable Area (sq.ft.) Retail[1]	Gross Leaseable Area (sq.ft.) Storage space	Occupancy[2] [3]	% of annualized base rental revenue[3]	Weighted average rent[3]
Ontario:								
Cornwall Square Cornwall, Ontario	Enclosed Mall	1979/1989	Sears Loblaws (No Frills)	250,100	1,258	98.7%	28.4%	$12.04
Place Val Est Sudbury, Ontario	Grocery-anchored Strip Centre	1983/1987, 1990, 1998	Metro (Loeb)	110,313	-	76.4%	10.5%	$12.96
Canadian Tire Property Brockville, Ontario	Free Standing	1995/2006	Canadian Tire	70,380	-	100%	7.4%	$11.00
Canadian Tire Property Strathroy, Ontario	Free Standing	2005	Canadian Tire	67,834	-	100%	7.1%	$11.00
Canadian Tire Property Wasaga Beach, Ontario	Free Standing	2007	Canadian Tire	54,081	-	100%	5.7%	$11.00
Rona Property Exeter, Ontario	Free Standing	1996/2000	Rona	42,780	-	100%	1.3%	$3.21
Rona Property Seaforth, Ontario	Free Standing	1962/2000	Rona	19,622	-	100%	0.4%	$2.24
Rona Property Zurich, Ontario	Free Standing	1961/2000	Rona	24,400	-	100%	0.3%	$1.35
Quebec:								
Méga Centre Montreal, Quebec	Community Power Centre	1973/1993, 1999, 2000, 2004	Brault & Martineau Staples Future Shop	277,477	36,081	95.3%	27.0%	$10.65
Châteauguay Montreal, Quebec	Mixed-use Strip Centre	1970/1994	Staples	115,758	-	100%	11.9%	$10.71
Total				**1,032,745**	**37,339**	**95.9%** [4]	**100%**	**$10.55** [4]

Notes:

(1) Includes office space in mixed-use retail properties.
(2) Excluding storage space.
(3) Calculated at December 31, 2008 and include any new/renewal leasing done by December 31, 2008.
(4) Represents weighted average for the portfolio.

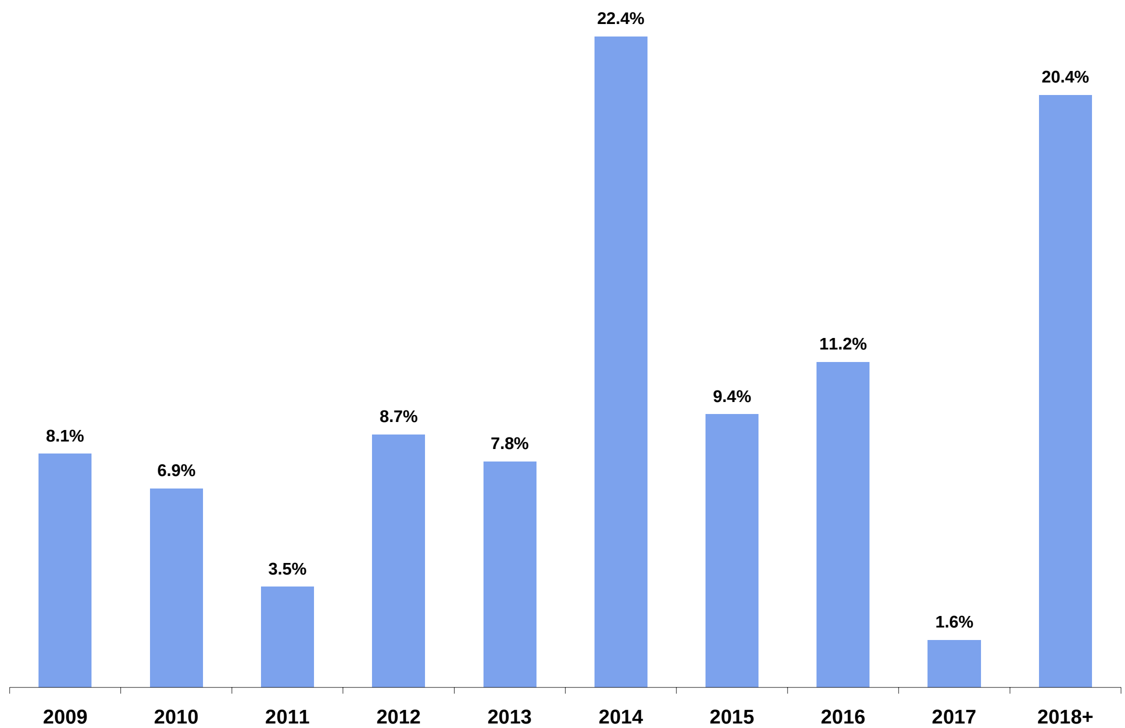
The REIT has a strong mix of national and regional tenants. The tenant mix for the properties at December 31, 2008 is as follows:





Note: Based on total leased sq. ft. excluding storage

The weighted average term to maturity of existing leases is approximately 7 years. The chart below shows the lease expiration schedule of the properties as a percentage of leased square feet for 2009 and beyond:



Note: Based on total leased sq. ft. excluding storage

Leasing Activity and Occupancy

For 2008, the portfolio had lease expiries of 37,996 square feet at an average base rent of $16.69 per square foot. Of these, new or renewal leases of 40,289 square feet were entered into at an average base rent of $17.03 per square foot. The average occupancy rate for the portfolio decreased slightly to 95.9%, compared to September 30, 2008 at 96.0%.

At our Méga Centre mall in Montreal, a tenant who occupies approximately 34,000 square feet, vacated the premises in August. The lease expires at the end of September 2009 and the tenant is obligated to pay rent until the end of its term. Management did not expect the tenant to renew the lease at expiry and continues to actively seek a replacement tenant for the space.

As previously mentioned, during the third quarter at Place Val Est in Sudbury, SAAN Stores Ltd., which had entered into *Companies' Creditors Arrangement Act* (CCAA) protection, officially gave the REIT notice of termination of its lease. SAAN occupied approximately 23,000 square feet in the shopping centre. As part of the purchase of the property from the vendor, the REIT had obtained a rental guarantee from the vendor if the lease was altered or terminated through the CCAA proceedings. As such, the REIT continues to receive rent on this space through the rental guarantee. Approximately 5 months remain on this guarantee from the date of this MD&A. Management is actively looking to re-lease this space.

OTHER 2008 EVENTS

Distribution Reduction

In September 2008, the REIT announced that it would be reducing its annual distributions to $0.16 per unit from $0.3104 per unit. The change was effective for the September 2008 distribution which was paid out on October 15, 2008. This decision was deemed necessary given existing market conditions. The REIT believes that the distribution reduction will give the REIT unitholders a more stable distribution yield on a go-forward basis by establishing the payout ratio at a more sustainable percentage of FFO and allowing for retention of capital that can be redeployed in the business. The reduction puts the REIT in a stronger financial position that should enable it to pursue its business plans and future growth, subject to market conditions.

Normal Course Issuer Bid

In August 2008, the REIT announced that it commenced a normal course issuer bid ("NCIB"), which would allow it to purchase up to 894,262 units for cancellation through the TSXV. The NCIB terminates on August 19, 2009. Any purchases under the NCIB are made at the prevailing market price at the time of such purchases in accordance with the requirements of the TSXV.

The REIT implemented this NCIB because it believes that the units have been trading in a price range which does not adequately reflect the value of its units in relation to the business of the REIT and its future prospects. As a result, depending on future price movements and other factors, the REIT believes that its outstanding units may represent an attractive investment for itself. Furthermore, the purchases are expected to benefit all persons who continue to hold units by increasing their equity interest in the REIT.

The REIT cannot purchase more than 357,704 units in any 30 day period.

To the date of this MD&A, 275,900 units have been repurchased at an average price of $1.04 per unit.

Distribution Reinvestment Plan (DRIP)

In January 2008, the REIT established a Distribution Reinvestment and Optional Unit Purchase Plan ('the DRIP") to enable Canadian resident unitholders to acquire additional units of the REIT:

1. through the reinvestment of regular monthly distributions on all or any part of their units; and
2. once enrolled in the DRIP, through optional cash payments subject to a minimum of $1,000 per month and a maximum of $12,000 per calendar year.

DRIP units will be 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 will receive "bonus units" in an amount equal in value to 3% of each cash distribution.

The REIT has reserved for issuance with the TSXV 2,000,000 additional units (increased from 500,000 in February 2009) to accommodate the issuance of units under the DRIP. Currently, holders of approximately 28% of the total issued and outstanding units have enrolled in the DRIP.

FINANCIAL REVIEW

Financial Results

The following is a summary of selected financial information.

	Three months ended December 31, 2008	Three months ended December 31, 2007	Three months ended September 30, 2008
Revenues from income producing properties	**$4,591,023**	$2,990,496	$3,921,684
Interest income	**$ 17,856**	$ 22,966	$ 16,523
Operating costs from income producing properties	**$1,588,833**	$1,296,886	$1,515,807
Interest expense	**$1,345,138**	$ 566,304	$ 1,011,353
General and administrative expenses	**$ 340,835**	$ 246,030	$ 330,599
Depreciation and amortization	**$1,576,354**	$1,126,841	$1,378,836
Incentive unit option compensation	**$ 19,070**	$ 57,958	$ 42,471
Corporate transaction costs and other	**$ -**	$ 9,474	$ -
Net loss	**$ 261,351**	$ 290,031	$ 340,859
Net loss per unit-basic & diluted	**$ 0.01**	$ 0.02	$ 0.02

	Year ended December 31, 2008	Year ended December 31, 2007
Revenues from income producing properties	**$15,822,563**	$6,218,855
Interest income	**$ 64,515**	$ 57,365
Operating costs from income producing properties	**$ 6,117,353**	$2,390,330
Interest expense	**$ 4,038,269**	$1,893,628
General and administrative expenses	**$ 1,246,958**	$1,088,565
Depreciation and amortization	**$ 5,619,478**	$2,466,106
Incentive unit option compensation	**$ 166,447**	$ 251,402
Corporate transaction costs and other	**$ -**	$ 1,228,274
Net loss	**$ 1,301,427**	$ 3,042,085
Net loss per unit-basic & diluted	**$ 0.07**	$ 0.38

The net loss improved in the fourth quarter of 2008 compared to the third quarter of 2008 predominantly due to the full quarter impact of the operating results from the Canadian Tire portfolio, net of financing expense, which was acquired during the latter part of the third quarter.

The fourth quarter 2008 net loss improved marginally compared to the fourth quarter of 2007 mainly as a result of the property acquisitions which occurred during 2008, partly offset by an increase in general and administrative expenses in the fourth quarter of 2008.

For the year ended December 31, 2008 the net loss was $1,301,427 or $0.07 per unit basic and diluted compared to a net loss of $3,042,085 or $0.38 per unit basic and diluted for the year ended December 31, 2007. The improvement in the net loss was mainly due to operating income being derived from the property acquisitions completed in 2008, the full year operating impact of the 2007 property acquisitions completed and $1,228,274 of corporate transaction costs incurred during 2007.

For a discussion of revenues from income producing properties and operating costs from income producing properties, see below under the heading "Net Operating Income".

Interest expense for the fourth quarter of 2008 was $1,345,138 compared to $566,304 for the fourth quarter of 2007 and $1,011,353 for the third quarter of 2008. The increase in interest expense between the fourth quarter of 2008 and the fourth quarter of 2007 is mainly a result of financings obtained for all the acquisitions completed since then. The increase between the fourth quarter of 2008 and the third quarter of 2008 is due to the full quarter impact of mortgage and corporate financing obtained in connection with the acquisition of the Canadian Tire properties which occurred during the latter part of the third quarter of 2008.

Interest expense was $4,038,269 for the year ended December 31, 2008 compared to $1,893,628 for the year ended December 31, 2007. The increase was mainly as a result of financings obtained on the property acquisitions completed in the past twelve months as well as the full year impact of financings obtained on the 2007 property acquisitions.

Interest expense for the year ended December 31, 2008 includes amortization of financing fees on secured debt of $54,968, of which $29,463 was recorded in the fourth quarter ($11,832 for the year ended December 31, 2007 and $4,490 for the three months ended December 31, 2007).

General and administrative expenses increased marginally by $10,236 for the quarter ended December 31, 2008 compared to the quarter ended September 30, 2008. General and administrative expenses increased by $94,805 for the quarter ended December 31, 2008 compared to the quarter ended December 31, 2007, predominantly due to higher legal and consulting fees.

For the year ended December 31, 2008, general and administrative expenses were $1,246,958 compared to $1,088,565 for the year ended December 31, 2007. The increase is mainly a result of increased asset management fees relating to all of the acquisitions which occurred during the last twelve months and increased legal and consulting fees incurred during 2008. General and administrative expenses for the year ended December 31, 2008 consist of legal and consulting fees of $203,725, audit and tax compliance fees of $254,480, trustee fees of $122,963, asset management fees of $396,029, corporate filing, shareholder reports, news releases and transfer fees of $142,132 and other expenses of $127,629.

Depreciation and amortization for the quarter ended December 31, 2008 increased by $197,518 compared to the quarter ended September 30, 2008. The increase was mainly due to the full quarter impact of the acquisition of the Canadian Tire properties which occurred in the latter part of the third quarter. Depreciation and amortization increased by $449,513 for the quarter ended December 31, 2008 compared to the quarter ended December 31, 2007. The increase was mainly due to depreciation and amortization being taken on the 2008 property acquisitions.

Depreciation and amortization increased by $3,153,372 for the year ended December 31, 2008 compared to the year ended December 31, 2007. The increase was mainly due to the full year impact of depreciation and amortization on the 2007 property acquisitions, as well as depreciation and amortization being taken on the 2008 property acquisitions.

Net Operating Income

Net operating income ("NOI") is defined as revenues from income producing properties less operating costs from income producing properties. NOI is a non-GAAP ("GAAP" refers to Canadian generally accepted accounting principals) financial measure widely used in the real estate industry. Management considers NOI a meaningful additional measure of the results of the property portfolio and is useful in analyzing the operating performance of the property portfolio.

NOI should not be construed as an alternative to net earnings or cash flow from operating activities determined in accordance with GAAP. Management's method of calculating NOI may differ from other issuers' methods of calculating NOI and accordingly, may not be comparable to NOI reported by other issuers.

Net Operating Income – All Properties

	Three months ended December 31, 2008	**Three months ended December 31, 2007**	**Favourable/ (unfavourable) variance**
Revenues from income producing properties	**$ 4,591,023**	$ 2,990,496	**$ 1,600,527**
Operating costs from income producing properties	**1,588,833**	1,296,886	**(291,947)**
Net operating income	**$ 3,002,190**	$ 1,693,610	**$ 1,308,580**

	Year ended December 31, 2008	**Year ended December 31, 2007**	**Favourable/ (unfavourable) variance**
Revenues from income producing properties	**$ 15,822,563**	$ 6,218,855	**$ 9,603,708**
Operating costs from income producing properties	**6,117,353**	2,390,330	**(3,727,023)**
Net operating income	**$ 9,705,210**	$ 3,828,525	**$ 5,876,685**

The increase in NOI for the quarter ended December 31, 2008 compared to the same period in 2007 is primarily due to approximately $43 million of property acquisitions completed since December 31, 2007 as well as a one-time adjustment to tenant recoveries of approximately

$110,000 made at Cornwall Square relating to deferred repair and maintenance expenditures recoverable from tenants.

The increase in NOI for the year ended December 31, 2008 compared to the year ended December 31, 2007 is primarily due to: approximately $43 million of property acquisitions completed since December 31, 2007; the full year impact of the 2007 property acquisitions; and one-time adjustments to tenant recoveries made at Cornwall Square of approximately $197,000 relating to deferred repair and maintenance expenditures recoverable from tenants.

It should be noted that 4,871 square feet in the Place Val Est property is subject to a ‘head lease’ with the vendor for a 2 year term. NOI from the head lease is not included in the statement of operations but rather reduced the purchase price of that property.

	Three months ended December 31, 2008	**Three months ended September 30, 2008**	**Favourable/ (unfavourable) variance**
Revenues from income producing properties	**$ 4,591,023**	$ 3,921,684	**$ 669,339**
Operating costs from income producing properties	**1,588,833**	1,515,807	**(73,026)**
Net operating income	**$ 3,002,190**	$ 2,405,877	**$ 596,313**

The increase in NOI for the quarter ended December 31, 2008 compared to the quarter ended September 30, 2008 is primarily due to the full quarter impact from the Canadian Tire properties acquired during the latter part of the third quarter of 2008, amounting to approximately $429,000, as well as the one-time adjustment to tenant recoveries at Cornwall Square of approximately $110,000 recorded in the fourth quarter of 2008.

Net Operating Income – Same Properties

The same-property NOI included in the following table, includes the operating results for the properties that were owned throughout the current and comparative periods. Any properties that were acquired during the comparative period have been “grossed-up” for a full period.

In the following two tables, same-property NOI reflects the Rona properties, Méga Centre, Cornwall Square and Châteauguay.

	Three months ended December 31, 2008	Three months ended December 31, 2007 (1)	Favourable/ (unfavourable) variance
Revenues from income producing properties	$ 3,464,424	$ 3,297,846	$ 166,578
Operating costs from income producing properties	1,325,250	1,405,146	79,896
Net operating income	$ 2,139,174	$ 1,892,700	$ 246,474

	Year ended December 31, 2008	Year ended December 31, 2007 (1)	Favourable/ (unfavourable) variance
Revenues from income producing properties	$ 13,218,564	$ 13,023,062	$ 195,502
Operating costs from income producing properties	5,295,368	5,300,824	5,456
Net operating income	$ 7,923,196	$ 7,722,238	$ 200,958

(1) These do not represent actual results. The results for properties acquired during this period have been "grossed-up" for a full period.

The increase in same-property NOI for the three months ended December 31, 2008 compared to the three months ended December 31, 2007 was primarily due to the one-time increase of approximately $110,000 in tenant recoveries recorded at Cornwall Square as well as an increase in NOI from the Méga Centre of approximately $80,000. The increase in NOI from the Méga Centre is due to a temporary tenant occupying one of the vacant units in the fourth quarter of 2008, as well as a positive change in bad debt expense.

The increase in same-property NOI for the year ended December 31, 2008 compared to the year ended December 31, 2007 was primarily due to the one-time increase of approximately $197,000 in tenant recoveries recorded at Cornwall Square.

In the following table, same-property NOI reflects all ten of the REIT's properties.

	Three months ended December 31, 2008	Three months ended September 30, 2008 (1)	Favourable/ (unfavourable) variance
Revenues from income producing properties	$ 4,591,023	$ 4,309,479	$ 281,544
Operating costs from income producing properties	1,588,833	1,515,807	(73,026)
Net operating income	$ 3,002,190	$ 2,793,672	$ 208,518

(1) These do not represent actual results. The results for properties acquired during this period have been "grossed-up" for a full period.

NOI on a same-property basis, has increased by $208,518, predominantly due to an increase in NOI recorded in the fourth quarter of 2008 by Cornwall Square for increased percentage rent, cart revenue and the one-time increase in tenant recoveries mentioned previously.

Funds From Operations

Funds from operations ("FFO") is a non-GAAP financial measure of operating performance widely used by the real estate industry. Charter calculates FFO in accordance with the recommendations of the Real Property Association of Canada ("RealPac"). The definition is meant to standardize the calculation and disclosure of FFO across real estate entities in Canada, and is modeled on the definition adopted by the National Association of Real Estate Investment Trusts ("NAREIT") in the United States.

Management considers FFO a meaningful additional measure of operating performance for financial analysts, investors and unitholders, as it primarily rejects the assumption that the value of real estate investments diminishes predictably over time and it adjusts for items included in GAAP net income that may not necessarily be the best determinants of operating performance.

FFO should not be construed as an alternative to net earnings or cash flow from operating activities determined in accordance with GAAP. Management's method of calculating FFO may differ from other issuers' methods of calculating FFO and accordingly, may not be comparable to FFO reported by other issuers.

A reconciliation of GAAP net income to FFO is as follows:

	Three months ended December 31, 2008	Three months ended December 31, 2007	Three months ended September 30, 2008
Net (loss) for the period	**$ (261,351)**	$ (290,031)	$ (340,859)
Add depreciation & amortization of:			
Income producing properties	**904,075**	600,425	811,571
Deferred costs	**11,836**	7,211	10,880
Intangible assets	**480,667**	358,699	467,177
FFO	**$ 1,135,227**	$ 676,304	$ 948,769
Weighted average units			
Basic	**18,010,444**	17,601,912	17,919,616
Diluted	**18,010,444**	17,648,776	17,919,616
FFO per unit			
Basic	**$ 0.06**	$ 0.04	$ 0.05
Diluted	**$ 0.06**	$ 0.04	$ 0.05

FFO increased significantly during the three months ended December 31, 2008, compared to the same period in 2007 as a result of the significant acquisitions made over that time, partly offset by an increase in general and administrative expenses in the fourth quarter of 2008.

FFO for the quarter ended December 31, 2008 increased by $186,458 compared to the quarter ended September 30, 2008. The increase is predominantly due to the full quarter impact from the Canadian Tire properties (net of financing costs) in the amount of approximately $75,000 since these properties were acquired during the latter part of the third quarter of 2008, as well as the one-time increase in tenant recoveries recorded in the fourth quarter of 2008 by Cornwall Square in the amount of $110,000.

	Year ended December 31, 2008	**Year ended December 31, 2007**
Net (loss) for the period	**$ (1,301,427)**	$ (3,042,085)
Add depreciation & amortization of:		
Income producing properties	**3,192,250**	1,299,638
Deferred costs	**42,627**	7,973
Intangible assets	**1,842,747**	820,886
FFO	**$ 3,776,197**	$(913,588)
Weighted average units		
Basic	**17,821,282**	8,035,413
Diluted	**17,821,282**	8,035,413
FFO per unit		
Basic	**$ 0.21**	$ (0.11)
Diluted	**$ 0.21**	$ (0.11)

FFO increased by $4,689,785 during the year ended December 31, 2008, compared to the same period in the prior year, as a result of the significant acquisitions made over that time period as well as non-recurring corporate transaction costs of $1,228,274 incurred during 2007.

Balance Sheet Analysis and Liquidity and Capital Resources

	As at December 31, 2008	**As at December 31, 2007**
Income producing properties	**$ 122,556,262**	$ 85,718,514
Intangible assets	**11,952,241**	9,935,606
Deferred costs	**627,274**	759,250
Cash	**1,404,271**	1,423,523
Restricted cash	**422,830**	481,475
Other assets	**1,295,679**	1,258,065
Total assets	**$ 138,258,557**	$ 99,576,433
Secured debt	**$ 72,645,108**	$ 36,316,387
Credit facilities	**19,700,000**	11,500,000
Other liabilities	**2,012,193**	2,862,230
Total liabilities	**94,357,301**	50,678,617
Unitholders' equity	**43,901,256**	48,897,816
Total liabilities and unitholders' equity	**$ 138,258,557**	$ 99,576,433

The REIT allocates the purchase price of properties acquired largely to income producing properties (land, building and tenant improvements) and intangible assets (which represent above-market leases, lease origination costs and tenant relationship values that are acquired in a property purchase). At December 31, 2008, the REIT had income producing properties and intangible assets of $134,508,503, a $38,854,383 increase from December 31, 2007, reflecting the acquisition of Place Val Est which occurred during the first quarter and the acquisition of the Canadian Tire properties which occurred during the third quarter.

Deferred costs of $627,274 represent leasing costs, tenant improvements and deferred recoverable expenditures mainly incurred on Cornwall Square net of amortization, as well as deferred financing costs on the acquisition facility and the bridge facility, also net of amortization.

Restricted cash represents the remaining balance of the reserve fund the REIT was required to set up with its first mortgage lender on Méga Centre in order to fund capital expenditures at the centre. For the year ended December 31, 2008, $72,539 was released and reimbursed back to the REIT as a result of the REIT completing some of the required capital expenditures. It is expected that the remaining balance of the reserve fund will be released and reimbursed back to the REIT in 2009.

Other assets of $1,295,679 at December 31, 2008 include accounts receivable of $847,632 and prepaid expenses of $448,047 (which primarily consist of prepaid property taxes, prepaid insurance and prepaid interest on Bankers' Acceptances entered into under the operating and acquisition facility). Within accounts receivable, $327,791 relates to accumulated rental revenue recognized on a straight-line basis and approximately $185,000 of insurance proceeds due for an insurance claim filed for the Méga Centre property relating to damages done by the greater than normal snowfall which occurred during the earlier part of 2008 and damages caused by a contractor while completing the roof replacement expenditures.

For a discussion about the REIT's secured debt and credit facilities, see below under the heading "Mortgage and Other Financing".

Unitholders' equity was impacted by the net loss recorded and the $4,663,275 in distributions to unitholders recorded during the year ended 2008. The REIT commenced monthly cash distributions to unitholders in August 2007 in an amount of $0.02587 per unit or the equivalent of $0.3104 per unit per annum. In September 2008, the REIT reduced the monthly cash distribution to $0.01333 per unit, representing an annualized distribution of $0.16 per unit. The reduction was effective for the September 2008 distribution. The REIT's trustees have discretion in declaring distributions and review those distributions on a regular basis.

For further discussion about the REIT's distributions, see below under the heading "Cash Flow". The REIT issues equity when it is appropriate and when it believes that it can deploy that capital accretively. The REIT generally uses its operating and acquisition facility to fund the equity portion of acquisitions between capital raises.

Mortgages and Other Financing

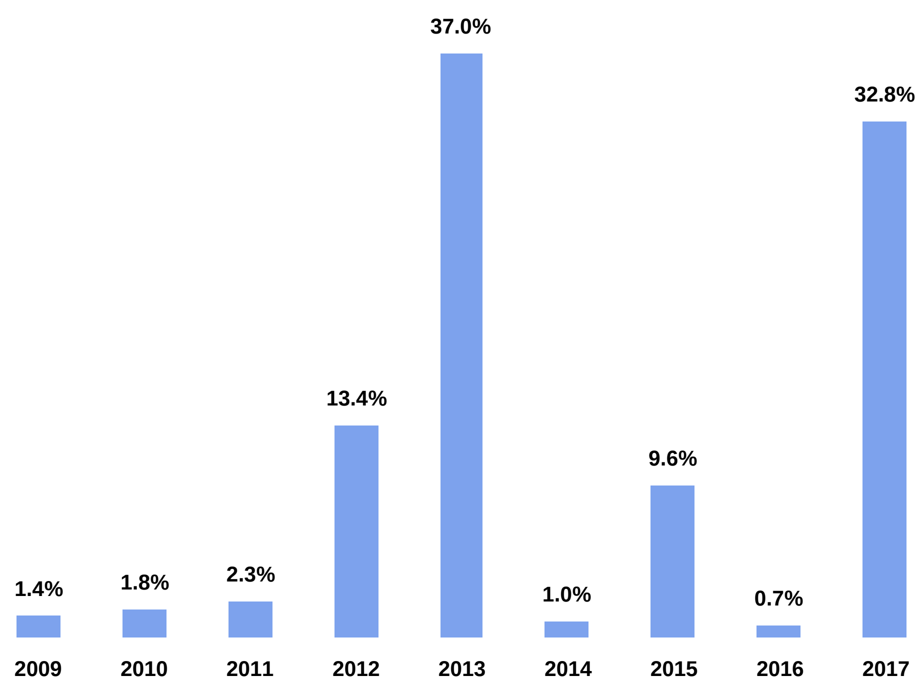
Secured Debt

The REIT's current average term to maturity on its secured debt (including mortgages payable and corporate secured debt both discussed below in more detail) is approximately 6 years, and the weighted average contractual interest rate is 5.87%.

Future principal repayments on the secured debt (including mortgages payable and corporate secured debt) are as follows:

Year	Principal instalment payments	Balance maturing	Total	Contractual interest rate on debt maturing
2009	**$ 1,008,719**	**$ -**	**$ 1,008,719**	
2010	**1,298,790**	**-**	**1,298,790**	
2011	**1,697,518**	**-**	**1,697,518**	
2012	**1,805,741**	**8,014,133**	**9,819,874**	**5.39%**
2013	**1,479,292**	**25,627,933**	**27,107,225**	**6.69%**
Thereafter	**2,244,032**	**30,085,651**	**32,329,683**	**5.29%**
Total	**$ 9,534,092**	**$63,727,717**	**$73,261,809**	

The following is a debt maturity table starting with 2009:



Mortgages Payable

The REIT's objective in securing mortgages for its properties and managing its long-term debt is to stagger the maturities in order to mitigate against short-term volatilities in the debt markets. The REIT has conventional first mortgages on all of its properties except for the Rona properties and Cornwall Square. The Rona properties are being used as security for the $8,600,000 corporate secured debt obtained in conjunction with the acquisition of the Canadian Tire properties (see below under "Corporate Secured Debt"). Cornwall Square is being used as security for the operating and acquisition facility discussed in more detail under "Acquisition Facility" below.

On the acquisition of Place Val Est, the REIT assumed a first mortgage loan in the amount of $8,099,224, secured by the property. The loan matures in 2015 and bears interest at a rate of 5.166% per annum. The loan was originally obtained by the vendor in 2005 and amortized over a 25-year period. The amortization period for the loan from the date of acquisition (January 31, 2008) is 273 months or 22.75 years.

On the acquisition of the Canadian Tire properties, the REIT obtained a first mortgage loan in the amount of $19,050,000, secured and cross-collateralized by the properties. The mortgage is for a five-year term and amortizes over a 25-year period. The mortgage bears interest at 5.65% per annum.

Under the terms of the Méga Centre mortgage, $525,000 was required to be set up as a reserve fund in order to fund capital expenditures at the centre. At December 31, 2008, $422,830 remains outstanding in restricted cash and represents the remaining balance of the reserve fund. During the year, $72,539 was released and reimbursed back to the REIT as a result of the REIT completing some of the required capital expenditures. It is expected that the remaining balance of the reserve fund will be released and reimbursed back to the REIT in 2009.

Corporate Secured Debt

Concurrent with the closing of the Canadian Tire properties, the REIT obtained corporate financing in the total amount of $10,000,000, made up of two facilities (the "Facilities"). The Facilities were primarily used to finance the equity portion of the Canadian Tire properties, as well as for working capital purposes.

The first facility is an $8,600,000 five-year facility that bears interest at 8.75% per annum on an interest-only basis. The facility can be prepaid without penalty at any time and is secured by (a) a first charge on the REIT's three Rona properties located in Exeter, Seaforth and Zurich, Ontario; (b) second charges on the Méga Centre property, the Châteauguay property and the Canadian Tire properties; and (c) a general security agreement relating to the above properties.

The second facility is a $1,400,000 five-year facility that bears interest at 8.75% per annum on an interest-only basis for the first two years and is then self-amortizing over the final three years. The facility can be prepaid without penalty at any time and is secured by a second charge on the Cornwall Square shopping centre.

The Facilities require that the REIT maintain an overall debt-to-gross book value ratio of no more than 75%.

Bridge Financing

The REIT currently has one bridge credit facility (the "Bridge Facility") with C.A. Bancorp Inc. for $14,000,000. The C.A. Bancorp Inc. facility (the "C.A. Bancorp Facility") bears interest at an annual rate of 12% and expires April 1, 2009. Any principal amount drawn on the C.A. Bancorp Facility is repayable at any time without penalty. The C.A. Bancorp Facility has been secured by a general security agreement with the REIT, which is subordinate to the security held by other lenders. The C.A. Bancorp Facility can be used to fund future acquisitions subject to lender approval of the particular acquisition and other restrictions. As at December 31, 2008, there were no amounts drawn against the C.A. Bancorp Facility.

Previously, the REIT had another $10,000,000 bridge credit facility with KingSett Capital. That facility expired April 1, 2008 and the REIT decided not to renew it.

Acquisition Facility

In connection with the acquisition of Cornwall Square on August 9, 2007, the REIT obtained a 364 day revolving operating and acquisition facility in the amount of $32,250,000 (the "Acquisition Facility"). The Acquisition Facility is secured by Cornwall Square. The Acquisition Facility may be used to fund the equity portion of future acquisitions (without lender approval of the particular acquisition) and for general working capital purposes. The Acquisition Facility was renewed by the lender in August 2008 in the amount of $31,275,000 for another 364 days. Pursuant to the terms of the Acquisition Facility, from time to time, the amount permitted to be drawn under the Acquisition Facility may be adjusted based on certain financial tests. As of the date of this MD&A, the permitted draw down is $31,275,000. Under the renewed terms, any amounts drawn in excess of $29,190,000 must be repaid within 120 days. Prior to the renewal, amounts drawn down under the Acquisition Facility bore interest at a rate equal to the Bank's prime rate plus 0.75% per annum and Banker's Acceptances bore interest at a rate equal to the Bank's Acceptance stamping fee plus 1.75% per annum. Under the renewed terms, amounts drawn down bear interest at a rate equal to the Bank's prime rate plus 1% per annum and Banker's Acceptances bear interest at a rate equal to the Bank's Acceptance stamping fee plus 2% per annum. However, once the REIT's drawdowns exceed $29,190,000, interest will be at a rate equal to the Bank's prime rate plus 1.50% per annum or the Bank's Acceptance stamping fee plus 2.50% per annum. The Acquisition Facility contains financial covenants with respect to maintaining agreed upon debt-to-gross book value ratios (being a maximum of 75%) and other tests customary for this type of facility. The terms (including, but not limited to, the maximum amount of the facility and the interest rate on the facility) are reviewed each renewal period by the lender and therefore there can be no assurances that the Acquisition Facility will be renewed or on the same terms as currently exist. It must be noted however, that discussions have already occurred with the lender regarding the renewal of the Acquisition Facility.

During the year ended December 31, 2008, $10,000,000 was drawn down under the Acquisition Facility to fund property acquisitions and for general working capital purposes and $1,800,000 was repaid, for a total balance outstanding under the Acquisition Facility of $19,700,000 at December 31, 2008.

Financing Costs

The unamortized balance of financing costs of $616,701 at December 31, 2008 relating to secured debt (including mortgages payable and corporate secured debt), has been netted against the secured debt caption on the balance sheet. The unamortized balance of financing costs of $90,798 at December 31, 2008 relating to the Acquisition Facility and the Bridge Facility, has been capitalized to deferred costs on the balance sheet.

These financing costs represent commitment fees, standby fees and other fees paid in connection with securing these loans and facilities.

Debt-to-Gross Book Value

Real estate is a capital intensive industry. As a result, debt capital[1] is a very important aspect to managing the business. In addition, financial leverage is used to enhance returns from purchased real estate. 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-gross book value threshold imposed on it in its Declaration of Trust, however the REIT's Acquisition Facility and corporate secured debt actually impose a restriction on the REIT's debt-to-gross book value ratio, being a maximum of 75%. At December 31, 2008, the REIT has a debt-to-gross book value ratio of 63.5%, calculated as follows:

	As at December 31, 2008	As at December 31, 2007
Debt:		
Gross value of secured debt[2]	**$ 73,261,809**	$ 36,525,000
Amounts drawn on available credit facilities	**19,700,000**	11,500,000
	$ 92,961,809	$ 48,025,000
Gross Book Value of Assets:		
Total assets	**$ 138,258,557**	$ 99,576,433
Accumulated depreciation and amortization	**8,085,584**	2,466,106
	$ 146,344,141	$ 102,042,539
Debt-to-Gross Book Value	**63.5%**	47.1%

(1) debt capital refers to secured debt and credit facilities.
(2) represents actual balance of mortgages and corporate secured debt without netting the unamortized balance of the financing fees.

Cash Flow

Previously the REIT was paying distributions in excess of operating cash flow and FFO and has funded the excess using its Acquisition Facility. However, as a result of the distribution reduction implemented in September 2008, management believes that operating cash flow and FFO will continue to cover distributions.

To the extent operating cash flow is insufficient, the REIT may also use its Acquisition Facility to fund capital expenditures and leasing costs required on the properties as well as principal repayments on the secured debt.

The following table summarizes the net cash provided by or (used in) the REIT's activities:

	Three months ended December 31, 2008	Three months ended December 31, 2007	Three months ended September 30, 2008
Net cash provided by operating activities	**$ 1,696,139**	$ 442,479	$ 1,017,504
Net cash provided by (used in) financing activities	**$ (1,012,268)**	$ 13,860,976	$ 27,198,456
Net cash (used in) investing activities	**$ (481,315)**	$(14,574,265)	$ (28,387,934)

The increase in cash provided by operating activities for the three months ended December 31, 2008 compared to the same period in 2007, is predominantly due to an increase in the change in non-cash working capital of approximately $977,000 which mainly pertained to the payment of corporate transaction costs during the quarter ended December 31, 2007 and due to the increase in FFO of $458,923 in the fourth quarter of 2008 as a result of the property acquisitions which have taken place during 2008.

Cash provided by operating activities increased by $678,635 for the three months ended December 31, 2008 compared to the three months ended September 30, 2008. The increase was predominantly due to: an increase in the change in non-cash working capital of approximately $521,000 due to the decrease in prepaid expenses and deposits and costs on properties under option, partially offset by an increase in accounts receivable which occurred during the fourth quarter of 2008; and the full quarter impact from the Canadian Tire properties (net of financing costs) acquired during the latter part of the third quarter of 2008.

For the three months ended December 31, 2008, cash used in financing activities mainly relates to $519,600 in cash distributions paid to unitholders, $168,176 on the buyback of REIT units under the normal course issuer bid and financing fees of $162,699 paid for the secured corporate financing obtained on the Canadian Tire properties. Cash generated from financing activities decreased by $14,873,244 during the current quarter compared to the quarter ended December 31, 2007 due to $8,964,333 of net mortgage proceeds and $7,500,000 drawdowns on the Acquisition Facility obtained in November 2007 for the acquisition of Châteauguay. These items were partially offset by a decrease in cash distributions of $846,485 paid to unitholders (due to the reduction in the annual distribution which took place in September 2008 and the DRIP which was established in January 2008) and a net decrease in cash costs of $1,045,947 paid in the fourth quarter of 2007 mainly pertaining to the REIT's public offering which occurred during the third quarter of 2007.

Cash generated from financing activities decreased by $28,210,724 during the current quarter compared to the quarter ended September 30, 2008, predominantly due to the mortgage financing and secured corporate financing obtained in the third quarter on the Canadian Tire properties of

$19,050,000 and $10,000,000, respectively. This was partially offset by a decrease in cash distributions of $496,067 paid to unitholders and a net repayment of credit facilities of $300,000 in the third quarter of 2008.

Cash used in investing activities for the three months ended December 31, 2008 decreased by $14,092,950 compared to the three months ended December 31, 2007 and is predominantly due to the Châteauguay acquisition which occurred during the fourth quarter of 2007.

Cash used in investing activities for the three months ended December 31, 2008 decreased by $27,906,619 compared to the three months ended September 30, 2008, predominantly due to the Canadian Tire properties acquired during the third quarter of 2008.

	Year ended December 31, 2008	2007
Net cash provided by (used in) operating activities	**$ 4,123,815**	$ (478,039)
Net cash provided by financing activities	**$ 32,117,351**	$ 98,586,900
Net cash (used in) investing activities	**$ (36,260,418)**	$ (97,490,465)

The increase in cash provided by operating activities for the year ended December 31, 2008 compared to the same period in 2007, is predominantly due to the cash impact relating to the property acquisitions which have taken place during 2008, the full year cash impact of the 2007 property acquisitions, as well as the decrease in corporate transaction costs when compared to those recorded in 2007.

The $66,469,549 decrease in cash generated from financing activities during the year ended December 31, 2008 compared to the year ended December 31, 2007 is due to the following: proceeds net of issuance costs of $53,164,552 received on the public offering and private placements which occurred during 2007; the net decrease of $7,744,325 on proceeds obtained on secured debt; a net decrease in credit facility drawdowns of $3,300,000 during 2008; and additional distributions of $2,056,421 paid to unitholders during 2008 (mainly due to the fact that distributions commenced in August 2007).

The $61,230,047 decrease in cash used in investing activities during the year ended December 31, 2008 compared to the year ended December 31, 2007 is due to a higher dollar value of acquisitions which occurred during 2007.

Capital Expenditures

Capital expenditure requirements at the Méga Centre over the next five years consist of roof replacement and parking lot maintenance. During the year ended December 31, 2008, approximately $800,000 of roof replacement expenditures were incurred. Management believes that there will be no other significant costs to be incurred on the roof over the next five years. As a result of these expenditures, and as per the terms of the first mortgage loan on the Méga Centre, the REIT will be applying to have the balance of the restricted cash released by the lender. Management believes that over the next five years, the Méga Centre will require capital expenditures of between $150,000 and $250,000 for parking lot maintenance. As well, the REIT may choose to undertake certain cosmetic renovations that would cost approximately $500,000. The extent of these renovations will depend on leasing activity in the centre.

Over the past four years there has been ongoing parking deck maintenance at Cornwall Square. Capital expenditures for this maintenance have been approximately $150,000 per year. The REIT expects to continue parking deck maintenance and to spend approximately $150,000 per year, which amount will be recoverable from the tenants. Additionally, between 1996 and 2001 extensive roof repairs were completed. Capital expenditures during this period amounted to an aggregate of approximately $800,000. Accordingly, the REIT does not expect to make significant non-recoverable capital expenditures on the property in the next five years.

With respect to the Châteauguay property, in conjunction with the finalization of new anticipated leasing activity, management believes that over the next five years, approximately $100,000 to $200,000 will be required for renovations to enhance the appearance of the centre.

On Place Val Est management expects to spend between $375,000 and $550,000 in capital expenditures over the next five years. These expenditures are primarily for roof and HVAC replacement, as well as parking lot maintenance and sidewalk renovations. Management believes that approximately 50% of these amounts will be recoverable from tenants.

Related Party Transactions

Pursuant to the REIT's management agreement with C.A. Realty Management Inc. (the "Manager") (a wholly-owned subsidiary of C.A. Bancorp Inc.), management fees of $109,758 for the quarter ended December 31, 2008 were payable to the Manager ($396,029 for the year ended December 31, 2008).

Quarterly Performance

The following is a summary of the interim results for each of the last eight quarterly periods.

	Q1-2007	Q2-2007	Q3-2007	Q4-2007	Q1-2008	Q2-2008	Q3-2008	Q4-2008
Total revenues	$ 61,206	$1,153,438	$2,048,114	$3,013,462	$3,625,773	$3,714,219	$3,938,207	$4,608,879
Expenses	$646,039	$2,298,845	$3,069,928	$3,303,493	$4,094,750	$3,944,459	$4,279,066	$4,870,230
Net loss	$584,833	$1,145,407	$1,021,814	$ 290,031	$468,977	$230,240	$340,859	$261,351
Net loss per unit – basic & diluted	$ 0.48	$ 0.52	$ 0.09	$ 0.02	$0.03	$0.01	$0.02	$0.01

Changes in Accounting Policies

Effective January 1, 2008, the REIT adopted several new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"), including: capital disclosures (CICA Section 1535); financial instruments – disclosures (CICA Section 3862); and financial instruments - presentation (CICA Section 3863). The new standards are described in more detail in Note 3 to the consolidated financial statements for the year ended December 31, 2008. The impact of these standards has increased certain disclosures within the financial statements.

With respect to future changes in accounting pronouncements, management monitors the CICA recently issued accounting pronouncements to assess the applicability and impact, if any, of those pronouncements on the REIT's consolidated financial statements and note disclosures.

Goodwill and Intangible Assets

The CICA released Section 3064, Goodwill and Intangible Assets, a new accounting standard that is effective for the REIT's fiscal year commencing January 1, 2009.

Section 3064 replaces the existing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset.

The impact of this change on the REIT's financial statements is that certain expenditures incurred on income producing properties that are recoverable from tenants and that have been capitalized as deferred costs will no longer meet the definition of an asset and will need to be derecognized. Deferred recoverable expenditures which represent betterments or replacement of capital items will be reclassified as building improvements and included in income producing properties. These adjustments will be adopted on a retrospective basis and reflected on January 1, 2009 with the restatement of certain financial statement comparative amounts.

As at December 31, 2008, the net book value of deferred recoverable expenditures included in deferred costs which no longer meet the definition of an asset, amounts to $115,168, of which $106,698 will be restated as operating costs for the year ended December 31, 2008 and the balance will be restated to opening deficit on January 1, 2008.

At December 31, 2008, the net book value of deferred recoverable expenditures included in deferred costs which represent betterments and will be reclassified as building improvements and included in income producing properties amount to $110,443.

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") confirmed that the adoption of IFRS would be effective for interim and annual periods beginning on or after January 1, 2011 for Canadian publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for these enterprises. Comparative IFRS information for the previous fiscal year will also have to be provided.

Management has an implementation strategy and is currently in the process of evaluating the potential impact of IFRS on the REIT's financial statements. The implementation strategy has been communicated to the REIT's trustees and the REIT is currently on track with respect to relevant timelines. Management believes that it has enough internal resources to deal with the conversion. At the current time, it is anticipated that no significant system changes will be required, although appropriate training will need to be undertaken with the REIT's property managers to ensure that they understand the IFRS changes relevant to the REIT. Any relevant system changes and training is slated to occur in 2009 and 2010. The REIT's trustees will be making certain preliminary decisions regarding accounting policy choices under IFRS within the next three to six months. The process of evaluating the potential impact of IFRS on the REIT's financial statements will be an on-going process as new standards and recommendations are issued by the International Accounting Standards Board and the AcSB. The REIT's financial statements as currently disclosed under GAAP may be significantly different when presented in accordance with IFRS. As well, certain key agreements that the REIT has in place, such as its Acquisition Facility, may need to be revised in order to deal with the changes to the REIT's financial statements that will occur. Any such changes are proposed to occur by the end of 2009.

Critical Accounting Estimates

The preparation of financial statements requires the REIT to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The REIT's significant accounting policies are described in Note 2 to the consolidated financial statements for the year ended December 31, 2008. Management believes that the policies which are most subject to estimation and management's judgment relate to the following:

Property Acquisitions

In accordance with the CICA Handbook, management is required to allocate the purchase price to all identifiable tangible and intangible assets and liabilities, which may include land, buildings, tenant improvements, above and below market in-place leases, lease origination costs and tenant relationship values. Management uses estimates and judgments with respect to such items as market rates and discount rates to derive the fair values of these various components. Future depreciation and amortization is impacted by the derived allocations, due to the varying rates of amortization for these different assets.

Impairment of Income Producing Properties

Management must evaluate the recoverability of the net carrying amount of income producing properties. An impairment in the value of income producing properties is recognized when the carrying value exceeds the total undiscounted future cash flows expected from the use and eventual disposal of the asset. In making this evaluation, estimates are made regarding the future cash flows of the property, which involve assumptions on future occupancy, rental rates and residual value.

Depreciation and Amortization

Depreciation and amortization requires estimates of useful lives of the underlying assets.

Incentive Unit Options

Incentive unit compensation expense represents the amortization of the fair value of options granted. The derivation of the fair value of options granted uses the Black-Scholes option pricing model and requires assumptions regarding the REIT's underlying units, such as expected volatility, the risk-free rate of return and dividend yield.

Fair Value Disclosures

Management is required to disclose the fair value of financial instruments in the financial statements. In determining the fair value of financial instruments, management must make estimates and assumptions with respect to current market interest rates and terms to maturity.

CORPORATE STRATEGY AND OUTLOOK

Since mid-September 2008, global market conditions have significantly deteriorated. Stock markets have plummeted as investors have lost confidence in the public markets for several reasons, including: the continuing financial liquidity crisis; risky lending and derivatives practices that have led to large-scale bankruptcies and large government bailouts worldwide; and recessionary pressures impacting many economies. In terms of Charter, we have been affected like many other REITs in Canada in that: our unit price has traded at all-time lows; equity markets have all but dried up for many real estate entities, making it difficult to raise equity capital; and financing for acquired real estate continues to be difficult to obtain.

The REIT continues to seek additional property acquisitions; however, no assurances can be given that any acquisitions will come to fruition. The REIT also understands the importance of having cash through its Acquisition Facility available to it given the current economic circumstances and as a result, there may be fewer acquisitions that the REIT will enter into than it has previously. The REIT also remains cognizant of the state of the debt markets when considering future acquisitions, as debt has become harder to obtain by many real estate entities as a result of global liquidity and other issues. When available, lenders have imposed stricter lending criteria, have reduced their loan-to-value ratios on individual loans and have increased their credit spreads from historically low levels at the beginning of 2007.

Previously the REIT was paying distributions in excess of operating cash flow and FFO and has funded the excess using its Acquisition Facility; however, as a result of the distribution reduction implemented in September 2008, management believes that operating cash flow and FFO will continue to cover distributions. The new distribution level of $0.16 per unit annually represents a payout ratio of approximately 76% based on the REIT's FFO of $0.21 per unit for the year ended December 31, 2008. To the extent operating cash flow is insufficient, the REIT uses its Acquisition Facility to fund capital expenditures and leasing costs required on the properties as well as principal repayments on the secured debt.

In terms of the REIT's existing properties, Charter works very closely with its property managers to ensure that the properties are maintained and leased appropriately and in accordance with management's long-term visions for those properties. Lease expiries and new leasing/renewals to the date of this MD&A for 2009 are as follows:

	Q1	Q2	Q3	Q4	Total	
Lease expiries	6,006	19,283	40,346	14,174	79,809	
Base rent per square foot	$19.83	$10.97	$9.72	$22.31	$13.02	(1)
New leasing/renewals	1,800	-	3,500	820	6,120	
Base rent per square foot	$13.50	N/A	$22.00	$54.98	$23.92	(1)

(1) weighted average

There are three large tenancies expiring in 2009 that the REIT is currently looking to re-lease – one in the Méga Centre, one in Place Val Est and one in Châteauguay. As previously mentioned, at Méga Centre a tenant who occupies approximately 34,000 square feet vacated the premises in August. Their lease expires at the end of September 2009 and the tenant is obligated and continues to pay rent until the end of its lease term. Management did not expect the tenant to renew the lease at expiry and continues to actively seek a replacement tenant for the space. Also at Place Val Est the SAAN space will need to be backfilled. They occupied approximately 23,000 square feet in the shopping centre. The rental guarantee from the vendor is in place until the end of July 2009 and as such the REIT will continue to receive rent on the SAAN space until then. In terms of Châteauguay, a 15,000 square foot lease expires at the end of May 2009. The tenant has indicated that they do not want to renew. Management is currently working on a lease deal to replace this tenant. As well at Châteauguay, a second floor government tenant that leases approximately 11,000 square feet has renewed their lease from 2010 to 2011. In terms of Cornwall Square, approximately 21,000 square feet is coming due in 2009. All are in-line small tenants and approximately 4,300 square feet have already renewed.

With respect to tax treatment, the distributions made during 2008 are tax deferred and will therefore not be included in the income of a unitholder for tax purposes but will reduce the adjusted cost base of that unitholder's units. Also, as currently structured, management believes that the REIT qualifies as a "real estate investment trust" under the recently passed SIFT tax legislation. Under the SIFT legislation, certain distributions to investors from certain publicly listed or traded trusts and partnerships (or "SIFTs") other than real estate investment trusts, will be subject to tax at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations and will be taxed in the hands of unitholders as though they were a dividend from a taxable Canadian corporation. The result is that SIFTs (other than real estate investment trusts) will be taxed in a similar manner to corporations and their investors will be taxed in a manner similar to investors in a corporation. The SIFT legislation applied commencing in the 2007 taxation year. The SIFT legislation does not apply to certain trusts that qualify as real estate investment trusts. Should it be found that the REIT fails to qualify as a real estate investment trust or the REIT undertakes subsequent activities that cause it to fail to qualify as a real estate investment trust, the SIFT legislation would allow the failure to be cured within the taxation year so that the REIT could qualify as a real estate investment trust for the next taxation year.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

Management maintains appropriate information systems, procedures and controls to ensure that information that is publicly disclosed is complete, reliable and timely. This includes establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management believes that the REIT's disclosure controls and procedures and internal controls over financial reporting as at December 31, 2008 were appropriately designed, however management is not required to certify the design and evaluation of the REIT's disclosure controls and procedures or internal controls over financial reporting and have not completed such an evaluation. As well, inherent limitations on the ability of management to design and implement on a cost-effective basis, disclosure controls and procedures or internal controls over financial reporting for the REIT, may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

There has been no change in internal controls over financial reporting in the fourth quarter of 2008 that has materially affected, or is reasonably likely to materially affect the REIT's internal controls over financial reporting. In acquiring many of its properties, the REIT has engaged the services of third-party property managers whose internal controls form part of the REIT's system of internal controls. The REIT has documented and continues to review those internal controls, reports and other documentation provided by the property managers as part of its internal control activities.

Consolidated Financial Statements of

CHARTER REAL ESTATE INVESTMENT TRUST

December 31, 2008

Deloitte.

Auditors' Report

To the Trustees of Charter Real Estate Investment Trust

We have audited the consolidated balance sheets of Charter Real Estate Investment Trust (the "REIT") as at December 31, 2008 and 2007 and the consolidated statements of operations and comprehensive loss, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the REIT's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the REIT as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Ontario
February 19, 2009

CHARTER REAL ESTATE INVESTMENT TRUST
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For the years ended December 31, 2008 and 2007

CHARTER REAL ESTATE INVESTMENT TRUST
Consolidated Balance Sheets

	As at **December 31, 2008**	As at December 31, 2007
ASSETS		
Cash	$ **1,404,271**	$ 1,423,523
Restricted cash (Notes 4 and 10 (a))	**422,830**	481,475
Accounts receivable (Note 5)	**847,632**	223,927
Income producing properties (Note 6)	**122,556,262**	85,718,514
Intangible assets (Note 7)	**11,952,241**	9,935,606
Deferred costs (Note 8)	**627,274**	759,250
Other assets (Note 9)	**448,047**	1,034,138
	$ **138,258,557**	$ 99,576,433
LIABILITIES		
Secured debt (Note 10)	$ **72,645,108**	$ 36,316,387
Credit facilities (Notes 11 and 19)	**19,700,000**	11,500,000
Accounts payable and other liabilities	**1,659,379**	2,424,214
Intangible liabilities (Note 7)	**352,814**	438,016
	94,357,301	50,678,617
UNITHOLDERS' EQUITY	**43,901,256**	48,897,816
	$ **138,258,557**	$ 99,576,433

APPROVED ON BEHALF OF THE BOARD OF TRUSTEES

"John F. Driscoll"
…………………………………… Trustee

"Janet Graham"
…………………………………… Trustee

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

CHARTER REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Operations and Comprehensive Loss

	Years ended December 31, 2008	2007
REVENUE		
Revenues from income producing properties	**$ 15,822,563**	$ 6,218,855
Interest income	**64,515**	57,365
	15,887,078	6,276,220
EXPENSES		
Operating costs from income producing properties	**6,117,353**	2,390,330
Interest expense on long-term secured debt and credit facilities	**2,999,006**	1,371,337
Interest expense on short-term secured debt and credit facilities	**1,039,263**	522,291
General and administrative expenses	**1,246,958**	1,088,565
Depreciation and amortization of income producing properties	**3,192,250**	1,299,638
Amortization of deferred costs	**584,481**	345,582
Amortization of intangible assets	**1,842,747**	820,886
Incentive unit option compensation	**166,447**	251,402
Corporate transaction costs and other (Note 15)	**-**	1,228,274
	17,188,505	9,318,305
NET LOSS AND COMPREHENSIVE LOSS	**$ (1,301,427)**	$ (3,042,085)
LOSS PER UNIT (Note 14)		
Basic	**$ (0.07)**	$ (0.38)
Diluted	**$ (0.07)**	$ (0.38)

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

CHARTER REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Unitholders' Equity

	Years ended December 31, 2008	2007
Trust Units (Note 12)		
BALANCE, BEGINNING OF YEAR	**$ 54,069,575**	$ 902,869
Issuance of units, net of costs	**(15,321)**	53,130,706
Issuance of units under distribution reinvestment plan, net of costs	**1,020,614**	-
Units cancelled under normal course issuer bid, net of costs	**(530,767)**	-
Proceeds from exercise of options	**-**	30,000
Value associated with exercise of options	**-**	6,000
BALANCE, END OF YEAR	**54,544,101**	54,069,575
Contributed Surplus		
BALANCE, BEGINNING OF YEAR	**275,432**	30,030
Incentive unit option compensation	**166,447**	251,402
Value associated with units cancelled under normal course issuer bid	**327,169**	-
Value associated with exercise of options	**-**	(6,000)
BALANCE, END OF YEAR	**769,048**	275,432
Deficit and Accumulated Other Comprehensive Loss		
BALANCE, BEGINNING OF YEAR	**(5,447,191)**	(163,763)
Net loss	**(1,301,427)**	(3,042,085)
Distributions to unitholders	**(4,663,275)**	(2,241,343)
BALANCE, END OF YEAR	**(11,411,893)**	(5,447,191)
TOTAL UNITHOLDERS' EQUITY	**$ 43,901,256**	$ 48,897,816
Units issued and outstanding (Note 12)	**18,023,485**	17,601,912

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

CHARTER REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Cash Flows

	Years ended December 31, 2008	2007
OPERATING ACTIVITIES		
Net loss	**$ (1,301,427)**	$ (3,042,085)
Adjusted for non-cash items:		
Depreciation and amortization	**5,619,478**	2,466,106
Amortization of below-market rate leases	**(96,079)**	(27,578)
Non cash portion of interest expense	**54,968**	11,832
Incentive unit option compensation	**166,447**	251,402
Leasing costs	**(81,852)**	(1,013)
Deferred recoverable expenditures	**(173,097)**	(149,558)
Net change in non-cash working capital	**(64,623)**	12,855
Net cash provided by (used in) operating activities	**4,123,815**	(478,039)
FINANCING ACTIVITIES		
Proceeds net of financing costs from new secured debt	**28,573,587**	36,317,912
Principal repayments on secured debt	**(412,415)**	-
Drawdowns on credit facilities (Note 11)	**10,000,000**	26,000,000
Repayments of credit facilities (Note 11)	**(1,800,000)**	(14,500,000)
Standby fees on credit facilities	**(133,285)**	(639,583)
Cancellation of units under normal course issuer bid	**(197,126)**	-
Proceeds from issuance of units (Note 12)	**-**	56,874,446
Proceeds from exercise of unit options (Note 12)	**-**	30,000
Cost of issuance and cancellation of units	**(71,008)**	(3,709,894)
Distributions to unitholders	**(3,842,402)**	(1,785,981)
Net cash provided by financing activities	**32,117,351**	98,586,900
INVESTING ACTIVITIES		
Income producing properties acquired (Note 6)	**(35,245,798)**	(96,918,339)
Additions to building and building improvements	**(834,730)**	(50,586)
Additions to tenant improvements	**(238,535)**	(40,065)
Net change in restricted cash (Notes 4 and 10 (a))	**58,645**	(481,475)
Net cash used in investing activities	**(36,260,418)**	(97,490,465)
NET (DECREASE) INCREASE IN CASH DURING THE YEAR	**(19,252)**	618,396
CASH, BEGINNING OF YEAR	**1,423,523**	805,127
CASH, END OF YEAR	**$ 1,404,271**	$ 1,423,523

	2008	2007
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	**$ -**	$ -
Interest paid	**$ 3,935,654**	$ 1,630,928

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

1. ORGANIZATION

Charter Real Estate Investment Trust ("Charter" 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.

On May 10, 2007, under a Plan of Arrangement (the "Arrangement"), Charter Realty Holdings Ltd. (the "Company") completed its conversion to a trust structure. The Arrangement resulted in the shareholders of the Company transferring their shares to the REIT, in consideration for units of the REIT. Each 10 issued shares of the Company were transferred to the REIT in exchange for 1 unit of the REIT. Pursuant to the Arrangement, the Company is a wholly-owned subsidiary of the REIT.

The conversion of the Company to the REIT was accounted for on a continuity of interest basis. Accordingly, the comparative figures and note disclosures are presented as if the Company had converted to a trust structure from the inception of the Company's formation.

The consolidated financial statements reflect the accounts of the REIT and the Company.

The units of the REIT trade under the symbol "CRH.UN".

The REIT's major unitholder is C.A. Bancorp Inc., which currently owns 33% of the outstanding units of the REIT.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of significant accounting policies that are used in the preparation of these financial statements.

(a) Revenue recognition

The REIT uses the straight-line method of recognizing rental revenue, whereby the total amount of rental revenue to be received from leases is accounted for on a straight-line basis over the terms of the respective leases. Accordingly, an accrued rent receivable/payable is recorded from the tenants for the current difference between the straight-line rent recorded as rental revenue and the rent that is contractually due from the tenants.

Revenues from rental properties also include percentage rent, realty tax and operating cost recoveries, and other incidental income which are recognized on an accrual basis.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Purchase price allocation

The REIT allocates the purchase price for acquired income producing properties as follows:

a. Land

Land is recorded at its estimated fair value. Land is included in income producing properties.

b. Buildings

Buildings are recorded at depreciated replacement cost based on estimates of prevailing construction costs for buildings of a similar class and age. Buildings are included in income producing properties.

c. Tenant improvements

Tenant improvements are recorded at depreciated replacement cost based on estimates of prevailing construction costs, taking into account the condition of tenants' premises. Tenant improvements are included in income producing properties.

d. Above and below market in-place leases

Values ascribed to above and below market in-place leases are determined based on the present value of the difference between the rents payable under the terms of the in-place leases and estimated market rents. Above and below market in-place leases are included in intangible assets or intangible liabilities, as applicable.

e. Lease origination costs

Lease origination costs are determined based on estimates of the costs that would be required for the existing leases to be put in place under the same terms and conditions. These costs include leasing commissions, foregone rent and operating cost recoveries during an estimated lease-up period. Lease origination costs are included in intangible assets.

f. Tenant relationship values

Tenant relationship values are determined based on the net costs avoided if the tenants were to renew their leases at the end of the existing term, adjusted for the estimated probability that the tenants will renew. Tenant relationship values are included in intangible assets.

(c) Income producing properties

Income producing properties include land, buildings, building improvements and tenant improvements acquired in an income producing property acquisition, which are carried at cost less accumulated depreciation and amortization.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Intangible assets and liabilities

Intangible assets and liabilities include the value of above and below market in-place leases, lease origination costs and the value of tenant relationships. Intangible assets and liabilities are carried at cost less accumulated amortization.

(e) Deferred costs

Deferred costs include tenant improvements not acquired in income producing property acquisitions, tenant inducements and leasing costs incurred through leasing activities, expenditures incurred on income producing properties that are recoverable from tenants and financing costs incurred in connection with credit facilities.

Deferred costs are carried at cost less accumulated amortization.

(f) Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may be impaired. If it is determined that the carrying value exceeds the total undiscounted future cash flows expected from the use and eventual disposal of the asset, the asset is written down to its fair value. Assets reviewed for impairment under this policy include income producing properties, intangible assets and certain deferred costs.

(g) Depreciation and amortization

Depreciation on buildings and improvements is provided using the straight-line method over their estimated useful lives of up to 40 years.

Tenant improvements acquired in an income producing property acquisition and tenant improvements included in deferred costs are amortized on a straight-line basis over the useful life of the associated asset, which generally approximates the terms of the associated leases.

Leasing costs included in deferred costs are amortized on a straight-line basis over the terms of the associated leases.

Tenant inducements included in deferred costs are amortized on a straight-line basis to revenues over the terms of the associated leases.

Recoverable expenditures are amortized on a straight-line basis over terms appropriate to the expenditure.

Above and below market in-place leases are amortized to revenues on a straight-line basis over the remaining terms of the associated leases.

Lease origination costs are amortized over the remaining terms of the associated leases.

Tenant relationship values are amortized over the expected term of the relationship.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financing fees incurred in connection with credit facilities are amortized on a straight-line basis over the term of the related debt.

(h) Financing fees

Commitment fees and other fees incurred in connection with secured debt are netted in the balance sheet against the secured debt to which they relate. These costs are amortized into interest expense using the effective interest method over the term of the debt.

Standby fees and certain other costs related to credit facilities are classified as deferred costs and are amortized on a straight-line basis over the term of the related credit facility and the amortization is included in amortization of deferred costs.

(i) Incentive unit options

The REIT has an incentive unit option plan. The REIT follows the fair value method of accounting for the expense associated with the plan, whereby an estimate of the fair value of the unit options granted is measured and recorded as an expense over the vesting period or at the date of grant if options vest immediately, with the related offset recorded as contributed surplus. The effect of actual forfeitures of previously granted options is recognized as they occur. Any consideration paid to the REIT with respect to the exercise of unit options is credited to units. For the purpose of accounting for incentive unit options, trustees and officers of the REIT and consultants that provide employee-related services to the REIT are considered employees and other parties are considered non-employees.

(j) Income taxes

The REIT is an unincorporated open-ended investment trust and is taxed as a “Mutual Fund Trust” for income tax purposes. Pursuant to the terms of the Declaration of Trust, the REIT makes distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes.

The Company is the REIT’s wholly-owned incorporated subsidiary and is subject to tax on its taxable income. Income taxes are accounted for using the liability method, whereby future income tax assets and liabilities are determined based on differences between the carrying amount of the balance sheet items and their corresponding tax values. Future income taxes are computed using substantively enacted corporate income tax rates for the years in which tax and accounting basis differences are expected to reverse.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments – recognition and measurement

All financial assets are classified as one of the following: held-to-maturity; loans and receivables; held-for-trading; or available-for-sale. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. In accordance with Canadian generally accepted accounting principles, the REIT may designate any financial instrument as held-for-trading upon initial recognition.

The REIT designates its cash and restricted cash as held-for-trading; accounts receivable as loans and receivables; and secured debt, credit facilities and accounts payable and other liabilities as other financial liabilities.

(l) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates are required in the allocation of the purchase price of income producing properties acquired, determining future cash flows when assessing assets for impairment, determining the useful lives of assets for amortization purposes, determining the fair value of options granted and determining fair values of financial instruments.

(m) Future accounting changes

Effective January 1, 2009 the REIT will adopt Section 3064, Goodwill and Intangible Assets which replaces the existing Section 3062, Goodwill and Intangible Assets and Section 3450, Research and Development Costs, respectively. Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset.

The impact of this change on the REIT's financial statements is that certain expenditures incurred on income producing properties that are recoverable from tenants and that have been capitalized as deferred costs will no longer meet the definition of an asset and will need to be derecognized. Deferred recoverable expenditures which represent betterments or replacement of capital items will be reclassified as building improvements and included in income producing properties. These adjustments will be adopted on a retrospective basis and reflected on January 1, 2009 with the restatement of certain financial statement comparative amounts.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

At December 31, 2008, the net book value of deferred recoverable expenditures included in deferred costs which no longer meet the definition of an asset, amounts to $115,168, of which $106,698 will be restated as operating costs for the year ended December 31, 2008 and the balance will be restated to opening deficit on January 1, 2008.

At December 31, 2008, the net book value of deferred recoverable expenditures included in deferred costs which represent betterments and will be reclassified as building improvements and included in income producing properties amount to $110,443.

3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the REIT adopted three new accounting presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants (“CICA”). The REIT applied the new accounting standards at the beginning of its 2008 fiscal year and their implementation did not have an impact on the REIT’s results of operations or financial position.

(a) Capital disclosures – CICA Section 1535

Section 1535 specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The REIT has included these disclosures in Note 17.

(b) Financial instruments – disclosures and presentation – CICA Sections 3862 and 3863

Sections 3862 and 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation. These new standards revise and enhance disclosure requirements, and carry forward unchanged existing presentation requirements with respect to financial instruments. These new standards require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Additional disclosures have been included in Notes 5, 10 and 18 to comply with these standards.

4. RESTRICTED CASH

The restricted cash balance relates to a deposit with the first mortgage lender on the REIT’s Méga Centre property to cover capital expenditures on that property. The terms of the first mortgage financing required this deposit and as amounts are spent by the REIT for the related projects, the restricted cash is released and reimbursed back to the REIT, subject to lender approval (see Note 10 (a)).

5. ACCOUNTS RECEIVABLE

	December 31, 2008	December 31, 2007
Tenant receivables	**$ 324,235**	$ 221,086
Revenues from income producing properties recognized on a straight-line basis, receivable	**327,791**	88,057
Corporate and other amounts receivable	**284,847**	3,500
	936,873	312,643
Allowance for doubtful accounts	**(89,241)**	(88,716)
	$ 847,632	$ 223,927

The REIT records an allowance for doubtful accounts on tenant rent receivables and straight-line rent receivables on a tenant-by–tenant basis and on an individual basis for corporate and other amounts receivable, using specific, known facts and circumstances that exist at the time of the analysis. Accounts are written off only when collection efforts have been exhausted.

6. INCOME PRODUCING PROPERTIES

	December 31, 2008		
	Gross Book Value	**Accumulated Depreciation/ Amortization**	**Net Book Value**
Land	**$ 22,988,880**	**$ -**	**$ 22,988,880**
Buildings	**95,332,538**	**2,950,513**	**92,382,025**
Building improvements	**885,316**	**38,409**	**846,907**
Tenant imprvoements acquired in an income producing property acquisition	**7,841,416**	**1,502,966**	**6,338,450**
	$ 127,048,150	**$ 4,491,888**	**$ 122,556,262**

	December 31, 2007		
	Gross Book Value	Accumulated Depreciation/ Amortization	Net Book Value
Land	$ 12,987,047	$ -	$ 12,987,047
Buildings	68,949,993	823,958	68,126,035
Building improvements	72,586	1,721	70,865
Tenant imprvoements acquired in an income producing property acquisition	5,008,526	473,959	4,534,567
	$ 87,018,152	$ 1,299,638	$ 85,718,514

6. INCOME PRODUCING PROPERTIES (continued)

2008 acquisitions

(a) Canadian Tire properties

On September 5, 2008, the REIT acquired a portfolio of three properties leased on a triple-net basis for a 15-year term to Canadian Tire (the vendor). The properties are located in Brockville, Strathroy and Wasaga Beach, Ontario (the “Canadian Tire Properties”) and were acquired for an aggregate purchase price of $27,250,000 (before closing costs) (the “Canadian Tire Acquisition”). The Canadian Tire Acquisition was financed with a $19,050,000 first mortgage loan secured and cross-collateralized by the Canadian Tire Properties. In addition to the first mortgage loan, the REIT obtained corporate level financing in the amount of $10,000,000, comprised of two facilities. (See Notes 10 (a) and (b)).

(b) Place Val Est

On January 31, 2008, the REIT completed the acquisition of Place Val Est located in Sudbury, Ontario, for an aggregate purchase price of $14,720,000 (before closing costs). The REIT funded the acquisition by assuming an $8,099,224 existing first mortgage loan secured by the property and the remainder of the acquisition was funded by the REIT borrowing on its acquisition facility (see Notes 10 and 11 (a)). One of the centre’s tenants, SAAN Stores Ltd. (which occupied approximately 23,000 square feet), which had entered into *Companies’ Creditors Arrangement Act* (“CCAA”) protection just prior to the REIT acquiring the centre, officially gave the REIT notice of termination of its lease during the third quarter of 2008. In connection with the Place Val Est acquisition, the REIT had received a rental guarantee from the vendor if the lease was altered or terminated through the CCAA proceedings. As such, the REIT continues to receive rent on this space through the rental guarantee. The rental guarantee expires on July 31, 2009.

6. INCOME PRODUCING PROPERTIES (continued)

2007 acquisitions

(a) Rona properties

On February 23, 2007, the REIT completed the acquisition of three free-standing, single-use retail facilities leased to Rona Ontario Inc. for an aggregate cash purchase price of $2,065,000 (before closing costs). The properties are located in Exeter, Seaforth and Zurich, Ontario.

(b) Méga Centre

On March 30, 2007, the REIT completed the acquisition of the Méga Centre, a shopping centre located in St. Laurent (Montreal), Quebec for $36,700,000 (before closing costs). The Méga Centre acquisition was financed with a $27,525,000 first mortgage loan secured by the property and the remainder through advances under two credit facilities that were subsequently repaid in 2007 (see Note11 (b)).

(c) Cornwall Square shopping centre

On August 9, 2007, the REIT completed the acquisition of Cornwall Square shopping centre, for an aggregate purchase price of $41,700,000 (before closing costs). Cornwall Square is a two-level enclosed shopping centre located in Cornwall, Ontario. The Cornwall Square acquisition was financed with the proceeds of a public offering completed on August 9, 2007.

(d) Châteauguay property

On November 30, 2007, the REIT completed the acquisition of a shopping centre located in Châteauguay (Montreal), Quebec for $14,200,000 (before closing costs). The acquisition was financed with a first mortgage loan in the amount of $9,000,000 secured by the property and the remainder of the acquisition was financed through the acquisition facility (see Notes 10 and 11(a)).

6. INCOME PRODUCING PROPERTIES (continued)

The allocation of the total cost of the acquisitions and consideration given are as follows:

	Years Ended December 31,	
	2008	2007
Land	**$ 10,001,833**	$ 12,987,047
Building	**26,382,545**	68,949,993
Tenant improvements	**2,832,890**	5,008,526
Intangible assets		
Lease origination costs	**1,456,244**	6,152,524
Tenant relationships	**2,403,138**	4,603,968
Intangible liabilities		
Below market in-place leases	**(10,877)**	(465,594)
	43,065,773	97,236,464
Working capital acquired, net	**279,249**	20,709
Total purchase price including closing costs	**43,345,022**	97,257,173
Assumption of first mortgage on acquisition	**8,099,224**	-
Purchase price net of liablities assumed	**$ 35,245,798**	$ 97,257,173

The acquisitions were funded as follows:		
Proceeds from secured debt,		
net of reserve fund in restricted cash	**$ 27,971,436**	$ 36,000,000
Credit facilities	**7,274,362**	15,500,000
Cash	**-**	45,418,339
	35,245,798	96,918,339
Change in closing costs included in accounts payable	**-**	338,834
Total cash paid for acquisitions	**$ 35,245,798**	$ 97,257,173

7. INTANGIBLE ASSETS AND LIABILITIES

	December 31, 2008		
	Gross Book Value	Accumulated Amortization	Net Book Value
Intangible assets			
Lease origination costs	$ 7,608,768	$ 1,898,693	$ 5,710,075
Tenant relationships	7,007,106	764,940	6,242,166
	$ 14,615,874	$ 2,663,633	$ 11,952,241
Intangible liabilities			
Below market in-place leases	$ 476,471	$ 123,657	$ 352,814

	December 31, 2007		
	Gross Book Value	Accumulated Amortization	Net Book Value
Intangible assets			
Lease origination costs	$ 6,152,524	$ 597,438	$ 5,555,086
Tenant relationships	4,603,968	223,448	4,380,520
	$ 10,756,492	$ 820,886	$ 9,935,606
Intangible liabilities			
Below market in-place leases	$ 465,594	$ 27,578	$ 438,016

8. DEFERRED COSTS

	December 31, 2008		
	Gross Book Value	Accumulated Amortization	Net Book Value
Leasing costs	$ 82,865	$ 12,929	$ 69,936
Tenant improvements	278,600	37,671	240,929
Deferred recoverable expenditures	423,003	197,392	225,611
Deferred financing costs	772,869	682,071	90,798
	$ 1,557,337	$ 930,063	$ 627,274

8. DEFERRED COSTS (continued)

	December 31, 2007 Gross Book Value	December 31, 2007 Accumulated Amortization	December 31, 2007 Net Book Value
Leasing costs	$ 47,540	$ 1,466	$ 46,074
Tenant improvements	247,295	6,507	240,788
Deferred recoverable expenditures	170,414	11,415	158,999
Deferred financing costs	639,583	326,194	313,389
	$ 1,104,832	$ 345,582	$ 759,250

9. OTHER ASSETS

	December 31, 2008	December 31, 2007
Prepaid expenses and other assets	**$ 448,047**	$ 114,872
Deposits and costs on properties under option	**-**	919,266
	$ 448,047	$ 1,034,138

10. SECURED DEBT

Secured debt consists of secured mortgages payable and corporate secured debt.

Scheduled repayments of secured debt are as follows:

	Principal instalment payments	**Balance maturing**	**Total**
2009	**1,008,719**	**-**	**$ 1,008,719**
2010	**1,298,790**	**-**	**1,298,790**
2011	**1,697,518**	**-**	**1,697,518**
2012	**1,805,741**	**8,014,133**	**9,819,874**
Thereafter	**3,723,324**	**55,713,584**	**59,436,908**
Contractual obligations	**9,534,092**	**63,727,717**	**73,261,809**
Unamortized debt financing costs			**(616,701)**
			$ 72,645,108

10. SECURED DEBT (continued)

Total commitment and other fees of $683,501 (2007 - $220,445) were incurred on the secured debt. At December 31, 2008, the unamortized balance of these fees is $616,701 (December 31, 2007 - $208,613).

Interest expense on the secured debt is considered an operating item in the statement of cash flows.

(a) Mortgages payable

At December 31, 2008 mortgages payable are secured by the income producing properties to which they relate and some of the mortgages also have recourse to the REIT. The mortgages bear interest at effective rates ranging between 5.154% and 5.77% (December 31, 2007 – 5.36% and 5.48%) per annum and contractual rates ranging between 5.166% and 5.65% (December 31, 2007 – 5.32% and 5.39%) per annum with a weighted average effective interest rate of 5.46% (December 31, 2007 – 5.39%) per annum and a contractual rate of 5.41% (December 31, 2007 - 5.34%) per annum, and mature at various dates between 2012 and 2017.

On the acquisition of Place Val Est, the REIT assumed a first mortgage loan in the amount of $8,099,224 secured by the property. The loan matures in 2015 and bears interest at a rate of 5.166% per annum. The amortization period for the loan from the date of acquisition (January 31, 2008) is 273 months or 22.75 years.

On the acquisition of the Canadian Tire Properties, the REIT obtained a first mortgage loan in the amount of $19,050,000, secured and cross-collateralized by the Canadian Tire Properties. The loan is for a 5-year term and amortizes over a 25-year period. The loan bears interest at 5.65% per annum.

During 2007 the following mortgages were obtained:

On the acquisition of Méga Centre a first mortgage loan was obtained in the amount of $27,525,000, secured by the property. The loan is for a 10-year term and is interest only for the first two years. Thereafter, the loan will be amortized over a 30-year period. The loan bears interest at 5.32%. The terms of the financing required that $525,000 be deposited with the lender to cover future capital expenditures on the property. During the year ended December 31, 2008, $72,539 (2007 - $55,995) was released and reimbursed back to the REIT as a result of the REIT completing some of the required capital expenditures and interest income of $13,894 has been earned on the funds (2007 - $12,470).

On the acquisition of the Châteauguay property, a first mortgage loan was obtained in the amount of $9,000,000 secured by the property. The loan is for a 5-year term and will be amortized over a 25-year period. The loan bears interest at 5.39%.

10. SECURED DEBT (continued)

(b) Corporate secured debt

Concurrent with the closing of the Canadian Tire Acquisition, the REIT obtained corporate financing in the total amount of $10,000,000, made up of two facilities (the "Facilities"). The Facilities were primarily used to finance the balance of the Canadian Tire Acquisition, as well as for working capital purposes.

The first facility is an $8,600,000 five-year facility that bears interest at 8.75% per annum (effective interest rate of 9.69%) on an interest-only basis. The facility can be prepaid without penalty at any time and is secured by (a) a first charge on the REIT's three Rona properties located in Exeter, Seaforth and Zurich, Ontario; (b) second charges on the Méga Centre property, the Châteauguay property and the Canadian Tire Properties; and (c) a general security agreement relating to the above properties.

The second facility is a $1,400,000 five-year facility that bears interest at 8.75% per annum (effective interest rate of 10%) on an interest-only basis for the first two years and is then self-amortizing over the final three years. The facility can be prepaid without penalty at any time and is secured by a second charge on the Cornwall Square shopping centre.

The Facilities require that the REIT maintain an overall debt-to-gross book value ratio of no more than 75%. Both of these facilities have recourse to the REIT.

11. CREDIT FACILITIES

(a) Acquisition facility

In 2007, the REIT obtained a $32,250,000 revolving operating and acquisition facility (the "Acquisition Facility") from a Canadian chartered bank for a term of 364 days expiring on August 8, 2008. The Acquisition Facility is secured by the REIT's Cornwall Square shopping centre. The Acquisition Facility was renewed effective August 6, 2008 by the lender in the amount of $31,275,000 for another 364 days. Pursuant to the terms of the Acquisition Facility, from time to time, the amount permitted to be drawn under the Acquisition Facility may be adjusted based on certain financial tests. Under the renewed terms, any amounts drawn in excess of $29,190,000 must be repaid within 120 days.

Prior to renewal, amounts drawn down under the Acquisition Facility bore interest at a rate equal to the Bank's prime rate plus 0.75% per annum or the Banker's Acceptance stamping fee plus 1.75% per annum. Under the renewed terms, amounts drawn down bear interest at a rate equal to the Bank's prime rate plus 1% per annum or the Banker's Acceptance stamping fee plus 2% per annum. However, if the REIT's drawdowns exceed $29,190,000, interest will be at a rate equal to the Bank's prime rate plus 1.50% per annum or the Banker's Acceptance stamping fee plus 2.50% per annum. The Acquisition Facility contains financial covenants with respect to maintaining a debt-to-gross book value ratio of no more than 75% as well as other tests customary for this type of facility.

11. CREDIT FACILITIES (continued)

(a) Acquisition facility (continued)

For the year ended December 31, 2008, an additional $10,000,000 (2007 - $15,500,000) was drawn and $1,800,000 (2007 - $4,000,000) was repaid under the Acquisition Facility for a total amount outstanding at December 31, 2008 of $19,700,000 (December 31, 2007 - $11,500,000).

During the year ended December 31, 2008, financing fees of $122,616 (2007 - $292,939) were incurred on the renewal of the Acquisition Facility. At December 31, 2008, the unamortized balance of these financing fees is $73,906 and has been classified as deferred costs (December 31, 2007 - $176,566).

(b) Bridge financing

In 2007, KingSett Capital and C.A. Bancorp Inc. (the REIT's major unitholder) (see Notes 1 and 19) had each provided the REIT with acquisition facilities, for total facilities available of $24,000,000. Of the $24,000,000 available, a total of $10,500,000 had been drawn in order to finance the Méga Centre acquisition, with $6,000,000 being drawn under the KingSett Capital facility and $4,500,000 being drawn under the C.A. Bancorp Inc. facility. Both facilities were repaid during 2007.

The KingSett Capital facility was a $10,000,000 facility, bore interest at an annual rate of 12% and expired on April 1, 2008. The facility was not renewed by the REIT.

The C.A. Bancorp Inc. facility is a $14,000,000 facility. The facility bears interest at an annual rate of 12% and expires on April 1, 2009. Any principal drawn is repayable without penalty. The facility is secured by a general security agreement with the REIT, which is subordinate to the security held by other lenders. The facility can be used to fund future acquisitions subject to lender approval of the particular acquisition and other restrictions. At December 31, 2008, there were no amounts drawn on this facility (December 31, 2007 - nil).

Total commitment and other fees of $357,314 were incurred on these facilities, of which $10,670 were incurred during the year ended December 31, 2008. At December 31, 2008, the unamortized balance of these fees is $16,892 and has been classified as deferred costs (December 31, 2007 - $136,823).

Interest expense on all the credit facilities is considered an operating item in the statement of cash flows.

12. UNITHOLDERS' EQUITY

The REIT is authorized to issue an unlimited number of units and special voting units. Each unit represents a single vote at any meeting of unitholders and entitles the unitholder to receive a pro rata share of all distributions. Units are redeemable at any time on demand for a price per unit (the "Redemption Price") as determined by a market formula. The Redemption Price will be paid in accordance with the conditions provided for in the Declaration of Trust.

Special voting units may only be issued in connection with or in relation to securities exchangeable, directly or indirectly, for units, in each case for the purpose of providing voting rights with respect to the REIT to the holders of such securities. Each special voting unit will entitle the holder thereof to that number of votes at any meeting of unitholders that is equal to the number of units that may be obtained upon the exchange of the exchangeable security to which it is attached. No special voting units are currently issued and outstanding.

Provided that C.A. Bancorp Inc. and its affiliates beneficially own at least 10% of the issued and outstanding units, the Trustees shall not issue or offer or agree to issue, any units to any person, unless they first make an offer to C.A. Bancorp Inc. to sell to them that number of units as would be required to ensure that C.A. Bancorp Inc. would maintain their pro rata ownership level.

On August 15, 2008, the REIT announced its intention to purchase up to 894,262 units for cancellation by way of a normal course issuer bid through the facilities of the TSX Venture Exchange (the "Exchange"). The normal course issuer bid expires on August 19, 2009. Any such purchases will be made by the REIT at the prevailing market price at the time of such purchases in accordance with the requirements of the Exchange. The REIT will not purchase in any 30 day period more than 357,704 units. During the year ended December 31, 2008, 171,900 units have been repurchased and cancelled at an average price of $1.15 per unit. Subsequent to December 31, 2008 and up to February 26, 2009, 275,900 units have been repurchased at an average price of $1.04 per unit.

In August 2007, the REIT commenced monthly cash distributions to unitholders in an amount of $0.02587 per unit, representing an annualized distribution of $0.3104 per unit. In September 2008, the REIT reduced the monthly cash distributions to $0.01333 per unit, representing an annualized distribution of $0.16 per unit. The reduction was effective for the September 2008 distribution.

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 REIT's Trustees have discretion in declaring distributions. Pursuant to the REIT's Declaration of Trust, the aggregate amount of cash distributions made in respect of a calendar year shall not be less than the amount necessary to ensure that the REIT will not be liable to pay income tax under Part I of the Tax Act for such year.

In January 2008, the REIT established a Distribution Reinvestment and Optional Unit Purchase Plan ("the Plan") to enable Canadian resident unitholders to acquire additional units of the REIT:

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

(b) 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.

12. UNITHOLDERS' EQUITY (continued)

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 3% of each cash distribution.

The REIT has reserved for issuance with the TSX Venture Exchange 2,000,000 additional units (increased from 500,000 in February 2009) to accommodate the issuance of units under the Plan.

On May 10, 2007, the Company completed its conversion to a trust structure under the Arrangement. The Arrangement resulted in shareholders of the Company transferring their shares to the REIT, in consideration for units of the REIT. Each 10 issued shares of the Company were transferred to the REIT in exchange for 1 unit of the REIT. In the following table, the units issued prior to the Arrangement have been restated to reflect the 10-for-1 consolidation associated with the Arrangement.

Issued:

	Years Ended December 31,			
	2008		2007	
	Units	**$**	Units	$
Units Outstanding, Beginning of Year	**17,601,912**	**$ 54,069,575**	600,000	$ 902,869
Units issued:				
Distribution reinvestment plan	**593,473**	**1,035,983**	-	-
Public offering	**-**	**-**	14,745,912	50,873,396
Private placements	**-**	**-**	2,241,000	6,001,050
Proceeds from exercise of options	**-**	**-**	15,000	30,000
Value associated with exercise of options	**-**	**-**	-	6,000
Unit issue costs	**-**	**(30,690)**	-	(3,743,740)
Units cancelled:				
Normal course issuer bid	**(171,900)**	**(524,295)**	-	-
Cancellation costs	**-**	**(6,472)**	-	-
Units Outstanding, End of Year	**18,023,485**	**$ 54,544,101**	17,601,912	$ 54,069,575

13. INCENTIVE UNIT OPTIONS

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 of the option grant (on a non-diluted basis).

On May 10, 2007 as part of the Arrangement, REIT unit options were issued with similar terms to replace the stock options issued by the Company, except that each 10 stock options of the Company were exchanged for 1 unit option at 10 times the applicable exercise price. In the table below, the options issued prior to the Arrangement have been restated to reflect the 10-for-1 consolidation associated with the Arrangement.

The fair value of the incentive unit options granted during the prior years were estimated on the date of grant using a Black-Scholes option pricing model. In determining the fair value of options, management is required to make assumptions that could have a material impact on the valuation. The following are the assumptions: dividend yield to July 31, 2007 of 0%; dividend yield for September 5, 2007 grant of 9.46%; expected volatility of 25% to 30%; risk-free interest rate of approximately 4.0%; and expected life of five years.

A summary of the unit options granted at December 31, 2008 and 2007 is as follows:

Employees incentive unit options

	Years Ended December 31,					
	2008			2007		
	Units	**Weighted Average Exercise Price**		Units	Weighted Average Exercise Price	
Options Outstanding, Beginning of Year	**1,370,000**	**$**	**3.28**	55,000	$	2.24
Options granted	**-**		**-**	1,315,000		3.32
Options Outstanding, End of Year	**1,370,000**	**$**	**3.28**	1,370,000	$	3.28
Options Exercisable at End of Year	**931,667**	**$**	**3.26**	482,166	$	3.22
Weighted Average Fair Value Per Unit of Options Granted During the Year		**$**	**-**		$	0.34

Non-employees incentive unit options

There are currently no non-employees incentive unit options outstanding. During the year ended December 31, 2007, 15,000 options were exercised with a weighted average exercise price of $2.00 per unit.

13. INCENTIVE UNIT OPTIONS (continued)

The following table summarizes the information about the unit options outstanding as of December 31, 2008.

Outstanding Number of Units	Expiry Date	Exercisable Number of Units	Exercise Price
21,500	**September 15, 2010**	**21,500**	**$ 2.00**
33,500	**October 19, 2011**	**33,500**	**$ 2.40**
100,000	**February 26, 2012**	**66,667**	**$ 2.00**
15,000	**February 28, 2012**	**10,000**	**$ 2.00**
1,200,000	**September 5, 2012**	**800,000**	**$ 3.45**

The weighted average remaining contractual life at December 31, 2008 for the exercisable unit options is 3.6 years (December 31, 2007 – 4.5 years).

14. PER UNIT CALCULATIONS

The weighted average number of units outstanding and loss per unit were as follows:

	Years Ended December 31,			
	2008		2007	
	Weighted Average Number of Units	**Loss per Unit**	Weighted Average Number of Units	Loss per Unit
Basic and Diluted	**17,821,282**	**$(0.07)**	8,035,413	$(0.38)

15. CORPORATE TRANSACTION COSTS AND OTHER

Corporate transaction costs in 2007 represent legal, audit, printing and other costs associated with the conversion to a real estate investment trust and due diligence costs incurred on a proposed acquisition which was not completed.

16. INCOME TAXES

On June 22, 2007, Bill C-52, *The Budget Implementation Act 2007* ("Bill C-52"), received Royal Assent for the federal income taxation of certain publicly listed or traded trusts, other than real estate investment trusts (the "SIFT legislation"). Publicly traded trusts formed after October 31, 2006, must have complied with the SIFT legislation for the 2007 taxation year.

As currently structured, management believes that the REIT qualifies as a real estate investment trust under the SIFT legislation and therefore is not subject to tax under the SIFT legislation. As a result, no provision for income taxes is required. Should it be found that the REIT fails to qualify as a real estate investment trust or undertakes subsequent activities that cause it to fail to qualify, the SIFT legislation would allow the failure to be remedied within the taxation year so that the REIT will not be subject to tax in the following taxation year. As required by its Declaration of Trust, the REIT intends to distribute all taxable income to its unitholders and to deduct these distributions for income tax purposes.

In respect of the assets and liabilities of the REIT, the net book value for accounting purposes of those net assets is less than their tax basis by approximately $740,000 (December 31, 2007 – approximately $2,900,000).

The Company (the REIT's wholly-owned incorporated subsidiary) has cumulative losses of approximately $430,000, which commence expiring in 2026. The benefit from these losses has not been recognized in the financial statements. The provision for income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rate to income before income taxes as follows:

	Years Ended December 31,	
	2008	2007
Income (loss) before taxes	**$ 20,249**	$ (1,411,195)
Combined federal and provincial income tax rate	**33.50%**	36.12%
Expected income taxes	**6,783**	(509,724)
Permanent differences	**-**	12,952
Valuation allowance	**(6,783)**	496,772
Income taxes	**$ -**	$ -

17. 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. This ultimately allows the REIT to generate appropriate returns for its unitholders commensurate with the level of risk.

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

At December 31, 2008, the REIT is in compliance with its debt-to-gross book value ratio at 63.5%, which is calculated as follows:

	As at December 31, 2008	As at December 31, 2007
Debt:		
Gross value of secured debt [2]	**$ 73,261,809**	$ 36,525,000
Amounts drawn on available credit facilities	**19,700,000**	11,500,000
	$ 92,961,809	$ 48,025,000
Gross Book Value of Assets:		
Total assets	**$138,258,557**	$99,576,433
Accumulated depreciation and amortization	**8,085,584**	2,466,106
	$146,344,141	$102,042,539
Debt-to-Gross Book Value	**63.5%**	47.1%

[1] debt capital refers to secured debt and credit facilities.
[2] represents actual balance of mortgages and corporate secured debt without netting the unamortized balance of the financing fees .

In terms of the REIT's equity capital, the REIT issues equity when it is appropriate and when it believes that it can deploy that capital accretively. The REIT has its Acquisition Facility, which it generally uses to fund the equity portion of acquisitions as well as to fund general working capital requirements. This allows the REIT to grow and manage its business between capital raises.

17. CAPITAL MANAGEMENT (continued)

The REIT currently makes monthly cash distributions to unitholders in an amount of $0.01333 per unit, representing an annualized distribution of $0.16 per unit. In accordance with the REIT's Declaration of Trust, the REIT's Trustees have discretion in declaring distributions, provided that the aggregate amount of distributions made in respect of a calendar year shall not be less than the amount necessary to ensure that the REIT will not be liable to pay income tax under Part I of the Tax Act for such year. As a result of the REIT recording a loss under Part I of the Tax Act, all of the distributions paid during the year were discretionary.

18. FINANCIAL INSTRUMENTS

(a) *Fair value*

The REIT's cash, restricted cash, accounts receivable, accounts payable, credit facilities and other liabilities are carried at cost which approximates fair value due to their short-term nature. The fair value of the REIT's secured debt is based on discounted future cash flows, using interest rates ranging between 5.44% and 12.5% that reflect current market conditions for instruments of similar term and risk. The fair value of the REIT's secured debt is approximately $70,000,000 at December 31, 2008 (December 31, 2007 - $34,700,000).

(b) *Risk management*

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

Interest rate risk

Currently the REIT's only floating rate debt is the Acquisition Facility. An increase in interest rates would increase the interest cost of the REIT's Acquisition Facility and have an adverse effect on the REIT's net loss and loss per unit. Based on the outstanding balance of the Acquisition Facility at December 31, 2008, a 1% increase or decrease in the Bank's prime rate could impact the REIT's annual interest expense by approximately $200,000.

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

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.

19. RELATED PARTY TRANSACTIONS

The REIT has various related party transactions with C.A. Bancorp Inc., the REIT's major unitholder. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(a) C.A. Bancorp Inc. credit facility

In connection with the C.A. Bancorp Inc. credit facility as described in Note 11, during the year ended December 31, 2008, total standby fees of $ nil (2007 - $70,000) were paid to C.A. Bancorp Inc. and are classified as deferred costs on the consolidated balance sheets. Interest paid or payable to C.A. Bancorp Inc. for the year ended December 31, 2008 amounted to $ nil (2007 - $204,986).

(b) Management agreement

On March 27, 2007, the REIT formalized management arrangements with C.A. Realty Management Inc. (the "Manager"), a wholly-owned subsidiary of C.A. Bancorp Inc. Pursuant to a management agreement, the Manager will provide 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" of each property acquired by the REIT.

The initial term of the management agreement is five years. Upon expiry of the initial term, the management agreement will renew automatically for successive three year terms. The management agreement provides each party with termination rights, the exercise of which may, in certain situations, require the REIT to pay a termination fee equal to three times the annual management fee paid in respect of the last full calendar year prior to the date of termination.

In accordance with the management agreement, the Manager covers all expenses of the employees providing services under the agreement, including the Manager's overhead incurred in connection with the performance of its duties thereunder.

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

	Years Ended December 31,	
	2008	2007
Acquisition fees	**$ 210,100**	$ 463,000
Management fees	**$ 396,029**	$ 210,096

The management fees were charged to general and administrative expenses in the consolidated statement of operations and comprehensive loss.

19. RELATED PARTY TRANSACTIONS (continued)

(b) Management agreement (continued)

In connection with entering into the management agreement, the Manager and C.A. Bancorp Inc. (collectively referred to as the "Restricted Parties") entered into a non-competition agreement with the REIT. Pursuant to the non-competition agreement, each of the Restricted Parties agreed that it will not, and will cause its affiliates not to, directly or indirectly, (i) create, manage or provide strategic, advisory and asset management services to another person who carries on the primary business of the acquisition, development and/or management of "retail properties" or "mixed-use retail properties" (the retail properties and mixed-use retail properties collectively are referred to as the "Restricted Real Estate Assets"); (ii) purchase any Restricted Real Estate Asset or develop any property that, on completion of development, will be a Restricted Real Estate Asset; or (iii) provide strategic, advisory and asset management services for any Restricted Real Estate Asset. Exceptions from the foregoing include the purchase of properties or the making of investments that have been first offered to the REIT and which the REIT notified the Restricted Party that it was not interested in pursuing.

The non-competition agreement remains in effect until the earlier of (i) one year after the termination of the management agreement; and (ii) the date of termination of the management agreement by Charter or the Manager under specific situations.

(c) Related party balances

Amounts owing to related parties at December 31, 2008 are $120,792 (December 31, 2007 – $148,267) and have been classified in accounts payable and other liabilities.

Charter Real Estate Investment Trust corporate directory

Officers:

John F. Driscoll	*Chairman and Chief Executive Officer*
Ari Silverberg	*President and Chief Operating Officer*
Floriana Cipollone	*Chief Financial Officer*
Ryan Caughey	*General Counsel and Corporate Secretary*

Auditors:
Deloitte & Touche LLP, Toronto, Ontario

Transfer Agent:
Computershare Trust Company of Canada, Toronto, Ontario

Counsel:
Borden Ladner Gervais LLP, Toronto, Ontario

Charter Real Estate Investment Trust
The Exchange Tower
130 King Street West, Suite 2810
P.O. Box 104
Toronto, ON M5X 1A4

Tel: 416-364-5705
1-866-928-2232
Fax: 416-861-8166

info@charterreit.com
www.charterreit.com