Consolidated Financial Statements of

PARTNERS REAL ESTATE INVESTMENT TRUST

(Formerly Charter Real Estate Investment Trust)

December 31, 2010

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Partners Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Partners Real Estate Investment Trust, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations and comprehensive loss, unitholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Partners Real Estate Investment Trust as at December 31, 2010 and, 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Signed" Deloitte & Touche LLP

Chartered Accountants
Calgary, Alberta
March 9, 2011

PARTNERS REAL ESTATE INVESTMENT TRUST
(Formerly Charter Real Estate Investment Trust)
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For the years ended December 31, 2010 and 2009

PARTNERS REAL ESTATE INVESTMENT TRUST

(Formerly Charter Real Estate Investment Trust)

Consolidated Balance Sheets

		As at December 31, 2010		As at December 31, 2009
ASSETS				
Cash	**$**	**6,869,242**	$	1,074,765
Accounts receivable (Note 6)		**1,092,045**		819,243
Income producing properties (Note 7)		**138,612,235**		122,216,906
Intangible assets (Note 8)		**10,058,263**		9,738,939
Deferred costs (Note 9)		**390,528**		403,390
Other assets (Note 10)		**3,291,985**		346,206
	$	**160,314,298**	$	134,599,449
LIABILITIES				
Secured debt (Note 11)	**$**	**107,086,726**	$	71,725,963
Credit facility (Note 12)		**-**		20,500,000
Accounts payable and other liabilities		**5,046,083**		2,363,035
Distributions payable		**412,687**		246,776
Intangible liabilities (Note 8)		**209,551**		267,611
		112,755,047		95,103,385
UNITHOLDERS' EQUITY		**47,559,251**		39,496,064
	$	**160,314,298**	$	134,599,449

Subsequent events (Note 21)

APPROVED ON BEHALF OF THE BOARD OF TRUSTEES

"Patrick Miniutti"

…………………………………… Trustee

"Paul Dykeman"

…………………………………… Trustee

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

PARTNERS REAL ESTATE INVESTMENT TRUST

(Formerly Charter Real Estate Investment Trust)

Consolidated Statements of Operations and Comprehensive Loss

		Years Ended December 31,		
		2010		2009
REVENUE				
Revenues from income producing properties	**$**	**16,948,183**	$	17,118,069
Interest income		**32,015**		21,675
		16,980,198		17,139,744
EXPENSES				
Operating costs from income producing properties		**6,905,584**		6,377,991
Interest expense on long-term secured debt and credit facility		**4,809,528**		4,964,427
Interest expense on short-term secured debt and credit facility		**620,061**		254,330
General and administrative expenses		**1,115,176**		1,145,361
Depreciation and amortization of income producing properties		**3,840,762**		3,713,160
Amortization of deferred costs		**247,779**		214,945
Amortization of intangible assets		**1,877,517**		2,213,302
Incentive unit option compensation		**-**		28,625
Other transaction costs (Note 15)		**1,037,114**		-
		20,453,521		18,912,141
NET LOSS AND COMPREHENSIVE LOSS	**$**	**(3,473,323)**	$	(1,772,397)
LOSS PER UNIT (Note 16)				
Basic	**$**	**(0.16)**	$	(0.10)
Diluted	**$**	**(0.16)**	$	(0.10)

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

PARTNERS REAL ESTATE INVESTMENT TRUST

(Formerly Charter Real Estate Investment Trust)

Consolidated Statements of Unitholders' Equity

	Years Ended December 31, **2010**	2009
Trust Units (Note 13)		
BALANCE, BEGINNING OF YEAR	**$ 54,697,477**	$ 54,544,101
Issuance of units under rights offering and standby agreement, net of costs	**8,415,079**	-
Issuance of units under public offering, net of costs	**6,470,807**	-
Issuance of units under distribution reinvestment plan, net of costs	**264,980**	494,555
Units cancelled under normal course issuer bid, including costs	**-**	(341,179)
BALANCE, END OF YEAR	**69,848,343**	54,697,477
Contributed Surplus		
BALANCE, BEGINNING OF YEAR	**1,040,336**	769,048
Incentive unit option compensation	**-**	28,625
Value associated with units cancelled under normal course issuer bid	**-**	242,663
BALANCE, END OF YEAR	**1,040,336**	1,040,336
Deficit and Accumulated Other Comprehensive Loss		
BALANCE, BEGINNING OF YEAR	**(16,241,749)**	(11,527,061)
Net loss	**(3,473,323)**	(1,772,397)
Distributions to unitholders	**(3,614,356)**	(2,942,291)
BALANCE, END OF YEAR	**(23,329,428)**	(16,241,749)
TOTAL UNITHOLDERS' EQUITY	**$ 47,559,251**	$ 39,496,064
Units issued and outstanding (Note 13)	30,909,067	18,465,531

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

PARTNERS REAL ESTATE INVESTMENT TRUST

(Formerly Charter Real Estate Investment Trust)

Consolidated Statements of Cash Flows

	Years Ended December 31, 2010	2009
OPERATING ACTIVITIES		
Net loss	**$ (3,473,323)**	$ (1,772,397)
Adjusted for non-cash items:		
Depreciation and amortization	**5,966,058**	6,141,407
Amortization of below-market rate leases	**(58,060)**	(85,203)
Non-cash portion of interest expense	**145,995**	89,574
Incentive unit option compensation	-	28,625
Leasing costs	**(204,144)**	(167,753)
Net change in non-cash working capital	**(1,690,395)**	198,391
Net cash provided by operating activities	**686,131**	4,432,644
FINANCING ACTIVITIES		
Proceeds from secured debt, net of financing costs	**27,402,339**	-
Financing fees on credit facility	**(40,000)**	(280,619)
Principal repayments on secured debt	**(2,595,366)**	(1,008,719)
Drawdowns on credit facility	**5,150,000**	1,000,000
Repayments of credit facility	**(25,650,000)**	(200,000)
Cancellation of units under normal course issuer bid	-	(96,280)
Proceeds from public offering (Note 13)	**8,236,800**	-
Proceeds from units issued under rights offering (Note 13)	**9,883,024**	-
Cost of issuance and cancellation of units	**(1,578,001)**	(9,001)
Distributions to unitholders	**(3,177,516)**	(2,435,809)
Net cash provided by (used in) financing activities	**17,631,280**	(3,030,428)
INVESTING ACTIVITIES		
Acquisitions of income producing properties (Note 7)	**(10,682,276)**	-
Additions to tenant improvements	**(1,658,474)**	(587,590)
Additions to building improvements	**(182,184)**	(1,566,962)
Net change in restricted cash (Note 5)	-	422,830
Net cash used in investing activities	**(12,522,934)**	(1,731,722)
NET INCREASE (DECREASE) IN CASH DURING THE YEAR	**5,794,477**	(329,506)
CASH, BEGINNING OF YEAR	**1,074,765**	1,404,271
CASH, END OF YEAR	**$ 6,869,242**	$ 1,074,765
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid (Note 17)	**$ -**	$ -
Interest paid	**$ 5,305,534**	$ 5,070,618

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

1. ORGANIZATION

Effective November 3, 2010, the name of Charter Real Estate Investment Trust was changed to Partners Real Estate Investment Trust. All references to "Partners Real Estate Investment Trust," "Partners REIT," the "REIT" and similar references in these financial statements refer to Charter Real Estate Investment Trust prior to the name change.

Partners Real Estate Investment Trust ("Partners REIT" or the "REIT") is an unincorporated open-ended real estate investment trust and was formed pursuant to a Declaration of Trust dated March 27, 2007.

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. Pursuant to the Arrangement, the Company is a wholly-owned subsidiary of the REIT.

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

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

2. CHANGE OF SPONSORSHIP

In April 2009, the Board of Trustees began to consider the various strategic alternatives available to Partners REIT and a committee of independent Trustees (the "Independent Committee") was formed. The mandate of the Independent Committee was to identify strategic alternatives that would enhance unitholder value including, without limitation, entering into strategic alliances, the sale of all or some of the assets of Partners REIT, the purchase by others of some or all of the outstanding units of Partners REIT, including by existing major unitholders, the issuance of units of Partners REIT from treasury to others in exchange for either cash or non-cash consideration, and the recapitalization of Partners REIT to enable additional acquisitions and the internalization of management of Partners REIT.

Pursuant to the strategic review process, Partners REIT entered into a non-binding letter of intent with League Assets Corp. ("League") and with C.A. Bancorp Inc. ("CAB") providing for the following transactions:

- CAB selling all of its units in the capital of Partners REIT, being 6,047,095 units representing approximately 33% of the outstanding Partners REIT units, to League or an affiliate of League (the "Unit Sale"); and
- CAB and Partners REIT terminating the management agreement dated March 27, 2007 between the REIT and CAB's subsidiary, C.A. Realty Management Inc. and League (or an affiliate) and Partners REIT entering into a new management agreement (the "Management Changes").

The letter also contemplated a separate transaction regarding an investment by League, which took the form of a standby purchase agreement to a Partners REIT rights offering. Under this agreement, League, or an affiliate of League, agreed to purchase all of the units not otherwise purchased by other unitholders pursuant to the exercise of the rights under the rights offering, subject to a total ownership position of no more than 49.9% of Partners REIT after the exercise of the rights.

2. CHANGE OF SPONSORSHIP (continued)

On June 4, 2010 IGW Public Limited Partnership ("IGW Public LP"), an affiliate of League, completed the Unit Sale at $1.45 per unit. The Management Changes were also completed on June 4, 2010 with LAPP Global Asset Management Corp. ("LAPP"), a wholly owned subsidiary of IGW Public LP, becoming the new manager. The new management agreement with LAPP is on substantially similar terms to the previous management agreement with C.A. Realty Management Inc.

On July 29, 2010, IGW Public LP purchased a further 6,765,765 units under the rights offering and standby purchase agreement to the rights offering. As a result, IGW Public LP owned approximately 49.9% of the outstanding units of Partners REIT.

At the end of December 2010, Partners REIT issued a further 5,148,000 units by way of a public offering, reducing IGW Public LP's ownership interest in Partners REIT to approximately 41.5%.

3. 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.

(b) Purchase price allocation

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

(i) Land

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

(ii) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) 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.

(iv) 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.

(v) 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.

(vi) 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, tenant improvements and tenant improvements acquired in an income producing property acquisition, which are carried at cost less accumulated depreciation and amortization.

(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 inducements and leasing costs incurred through leasing activities and financing costs incurred in connection with credit facilities.

Deferred costs are carried at cost less accumulated amortization.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 and intangible assets.

(g) Depreciation and amortization

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

Tenant improvements and tenant improvements acquired in an income producing property acquisition 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.

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 on a straight-line basis over the remaining terms of the associated leases.

Tenant relationship values are amortized on a straight-line basis over the expected term of the relationship.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, it is the intention of the REIT’s Trustees to make 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.

(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. All financial liabilities are classified as held for trading or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in the statement of operations. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

4. FUTURE CHANGES IN ACCOUNTING POLICIES

(a) IFRS convergence

The CICA Accounting Standards Board has adopted a strategic plan for the direction of accounting in Canada. As part of that plan, accounting standards for public companies will be required to converge with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. As a result, the REIT will present its financial statements in accordance with IFRS beginning with the quarter ending March 31, 2011.

(b) Business combinations, consolidated financial statements and non-controlling interests – Sections 1582, 1601 and 1602

The CICA has issued a new accounting standard, Section 1582, Business Combinations which will apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601, Consolidations and 1602, Non-controlling Interests will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these Sections is permitted as of the beginning of a fiscal year. All three Sections must be adopted concurrently. These Sections replace the former Sections 1581, Business Combinations and 1600, Consolidated Financial Statements.

Section 1582 establishes standards for the accounting for a business combination. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The REIT is currently considering the effect on the financial statements of the new standards.

(c) Financial Instruments – recognition and measurement – Section 3855

In April 2009, the CICA made amendments to Section 3855, Financial Instruments – Recognition and Measurement, in connection with embedded prepayment options. These amendments are effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. These amendments are not expected to have an impact on the REIT's financial statements.

5. RESTRICTED CASH

The movement in the restricted cash balance related to a deposit with the first mortgage lender on the REIT's Méga Centre property to cover capital expenditures on that property. As all such expenditures were completed, the lender restriction was released during the second quarter of 2009.

6. ACCOUNTS RECEIVABLE

	December 31, 2010	December 31, 2009
Tenant rent receivables	**$ 262,063**	$ 273,323
Unbilled recoveries and rents receivable	**46,778**	1,500
Straight-line rent receivables	**823,346**	655,562
Other receivables	**557**	21,320
	1,132,744	951,705
Allowance for doubtful accounts (Note 19)	**(40,699)**	(132,462)
	$ 1,092,045	$ 819,243

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 other receivables, using specific, known facts and circumstances that exist at the time of the analysis.

7. INCOME PRODUCING PROPERTIES

	December 31, 2010		
	Gross Book Value	**Accumulated Depreciation/ Amortization**	**Net Book Value**
Land	**$ 26,916,482**	**$ -**	**$ 26,916,482**
Buildings	**110,523,007**	**7,810,748**	**102,712,259**
Building improvements	**1,683,874**	**412,231**	**1,271,643**
Tenant improvements	**3,504,037**	**375,295**	**3,128,742**
Tenant improvements acquired in income producing property acquisitions	**8,070,055**	**3,486,946**	**4,583,109**
	$ 150,697,455	**$ 12,085,220**	**$ 138,612,235**

	December 31, 2009		
	Gross Book Value	Accumulated Depreciation/ Amortization	Net Book Value
Land	$ 22,988,880	$ -	$ 22,988,880
Buildings	95,332,538	5,380,629	89,951,909
Building improvements	1,591,715	210,048	1,381,667
Tenant improvements	2,706,826	93,818	2,613,008
Tenant improvements acquired in income producing property acquisitions	7,841,416	2,559,974	5,281,442
	$ 130,461,375	$ 8,244,469	$ 122,216,906

7. INCOME PRODUCING PROPERTIES (continued)

2010 acquisition - Wellington Southdale Plaza

On December 22, 2010, the REIT acquired Wellington Southdale Plaza located in London, Ontario, for a purchase price of $20,265,000, before closing costs. The REIT partially funded the acquisition by assuming an existing first mortgage and securing a second mortgage on the property. The remainder of the acquisition and closing costs were funded by cash.

The allocation of the total cost of the acquisition and consideration given is as follows:

Land	$	3,927,603
Building		15,190,469
Tenant improvements		228,639
Intangible assets		
Lease origination costs		1,152,506
Tenant relationships		1,044,335
		21,543,552
Working capital acquired, net		(453,481)
Total purchase price including closing costs		21,090,071
Assumption of first mortgage on acquisition		(9,690,414)
Fair value differential of assumed first mortgage		(717,381)
Purchase price net of liabilities assumed	$	10,682,276

The acquisition was funded as follows:

Proceeds from secured debt	$	2,200,547
Cash		8,481,729
Total cash paid for acquisition	$	10,682,276

8. INTANGIBLE ASSETS AND LIABILITIES

	December 31, 2010		
	Gross Book Value	**Accumulated Amortization**	**Net Book Value**
Intangible assets			
Lease origination costs	**$ 8,761,274**	**$ 4,492,652**	**$ 4,268,622**
Tenant relationships	**7,583,049**	**1,793,408**	**5,789,641**
	$ 16,344,323	**$ 6,286,060**	**$ 10,058,263**
Intangible liabilities			
Below-market rate leases	**$ 476,471**	**$ 266,920**	**$ 209,551**

	December 31, 2009		
	Gross Book Value	Accumulated Amortization	Net Book Value
Intangible assets			
Lease origination costs	$ 7,608,768	$ 3,224,393	$ 4,384,375
Tenant relationships	6,685,686	1,331,122	5,354,564
	$ 14,294,454	$ 4,555,515	$ 9,738,939
Intangible liabilities			
Below-market rate leases	$ 476,471	$ 208,860	$ 267,611

9. DEFERRED COSTS

	December 31, 2010		
	Gross Book Value	**Accumulated Amortization**	**Net Book Value**
Leasing costs	**$ 448,619**	**$ 126,990**	**$ 321,629**
Deferred financing costs	**320,619**	**251,720**	**68,899**
	$ 769,238	**$ 378,710**	**$ 390,528**

	December 31, 2009		
	Gross Book Value	Accumulated Amortization	Net Book Value
Leasing costs	$ 253,703	$ 44,441	$ 209,262
Deferred financing costs	280,620	86,492	194,128
	$ 534,323	$ 130,933	$ 403,390

10. OTHER ASSETS

	Years Ended December 31, 2010		2009	
Deposits on income producing property acquisitions	$	**2,683,584**	$	-
Prepaid expenses		**488,401**		346,206
Amounts held in escrow		**120,000**		-
	$	**3,291,985**	$	346,206

11. SECURED DEBT

Secured debt can be summarized as follows:

	December 31, 2010		December 31, 2009	
Mortgages payable	$	**98,548,141**	$	62,253,090
Corporate secured debt		**8,600,000**		10,000,000
		107,148,141		72,253,090
Unamortized balance of fair market value adjustments		**717,381**		-
Unamortized balance of commitment and other fees		**(778,796)**		(527,127)
	$	**107,086,726**	$	71,725,963

Scheduled repayments of secured debt are as follows:

		Principal Instalment Payments		Balance Maturing		Total
2011	$	**2,144,221**	$	**-**	$	**2,144,221**
2012		**2,260,290**		**8,014,133**		**10,274,423**
2013		**2,074,620**		**17,027,933**		**19,102,553**
2014		**1,787,800**		**-**		**1,787,800**
2015		**1,836,283**		**28,839,943**		**30,676,226**
Thereafter		**998,631**		**42,164,287**		**43,162,918**
Contractual obligations	$	**11,101,845**	$	**96,046,296**	$	**107,148,141**

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

Interest expense on short-term secured debt and credit facility relates to current bank charges as well as interest expense on the REIT's revolving operating and acquisition facility after May 19, 2010, when the facility's expiration was within one year (2009 – prior to May 19, 2009, when the facility was for a one-year term).

11. SECURED DEBT (continued)

(a) Mortgages payable

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 4.40% and 5.75% (December 31, 2009 – 5.15% and 5.77%) per annum and contractual rates ranging between 4.57% and 6.00% (December 31, 2009 – 5.17% and 5.65%) per annum with a weighted average effective interest rate of 5.26% (December 31, 2009 – 5.48%) per annum and a contractual rate of 5.32% (December 31, 2009 - 5.41%) per annum, and mature at various dates between 2012 and 2017.

During 2010 the following mortgages were obtained:

On the acquisition of Wellington Southdale Plaza, the REIT assumed a first mortgage loan in the amount of $9,690,414 secured by the property. The loan matures in 2016 and bears contractual interest at a rate of 6% per annum. The amortization period of the loan from the date of acquisition (December 22, 2010) was 223 months or 18.58 years.

On the acquisition of Wellington Southdale plaza, the REIT also acquired a second mortgage in the amount of $2,300,000 secured by a second mortgage on the property. The loan matures in 2016 and bears contractual interest at a rate of 4.57% per annum. The amortization period of the loan from the date of acquisition (December 22, 2010) was 300 months or 25 years.

During December 2010 the REIT acquired a first mortgage loan in the amount of $25,500,000, secured by a mortgage on the Cornwall property. The loan matures in 2015, bears contractual interest at a rate of 4.9%, and has a 25 year amortization period.

(b) Corporate secured debt

At December 31, 2010, total corporate secured debt of $8,600,000 was outstanding (December 31, 2009 - $10,000,000). The original $10,000,000 was comprised of two facilities (the “Facilities”). The first facility is an $8,600,000 five-year facility maturing in 2013 that bears interest at 8.75% per annum (effective interest rate of 9.59%) on an interest-only basis. The facility can be prepaid without penalty at any time with 45 days’ notice, 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.

Subsequent to December 31, 2010, the first facility has been repaid, without penalty, from proceeds of new debt, maturing in 2016. See Note 21.

The second facility was repaid, without penalty, during the year ended December 31, 2010. It consisted of a $1,400,000 five-year facility maturing in 2013 that bears interest at 8.75% per annum.

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

12. CREDIT FACILITY

The REIT has a revolving operating and acquisition facility (the "Acquisition Facility") with a Canadian chartered bank. 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 (including a loan-to-value ratio). The amount available to be drawn upon is calculated based on the value of a property that has been specified under the agreement. As at December 31, 2010, the REIT has no property specified as security for this facility. During 2010 and 2009, the Acquisition Facility was secured by the REIT's Cornwall Square shopping centre, providing a maximum amount of up to $26,000,000. At December 31, 2010 there was no amount outstanding under the Acquisition Facility (December 31, 2009 - $20,500,000).

Amounts drawn down bear interest at a rate equal to the Bank's prime rate plus 3.50% per annum or the Banker's Acceptance stamping fee plus 4.50% 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.

The unamortized balance of financing fees relating to the facility is $nil at December 31, 2010 (December 31, 2009 - $194,128, classified as deferred costs).

Interest expense on the Acquisition Facility is considered an operating item in the statement of cash flows.

13. UNITHOLDERS' EQUITY

(a) Authorized units

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.

(b) Public offering

On December 21, 2010, Partners REIT filed a prospectus with Canadian securities regulators to offer 4,680,000 units at $1.60 per unit by way of a public offering. The offering also granted an over-allotment option of up to an additional 468,000 units at $1.60 per unit on the same terms and conditions as the offering. Partners REIT issued 5,148,000 units under the offering for total raised capital of $8,236,800.

13. UNITHOLDERS' EQUITY (continued)

(c) Rights offering

On June 16, 2010, Partners REIT filed a prospectus with Canadian securities regulators to offer units to its unitholders by way of a $10,000,000 rights offering. Partners REIT distributed rights to subscribe for units to the unitholders of record on June 30, 2010. Each 2.5787 rights entitled the holder to purchase one unit at $1.39 per unit. The rights expired on July 23, 2010. In conjunction with the rights offering, Partners REIT entered into a standby purchase agreement, as detailed in Note 2. Partners REIT issued 7,110,089 units under the rights offering and standby purchase agreement for total raised capital of $9,883,024.

(d) Normal course issuer bid

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 expired on August 19, 2009. During the year ended December 31, 2009, 112,000 units were repurchased and cancelled at an average price of $0.86 per unit. All purchases were made at the prevailing market price at the time of such purchases in accordance with the requirements of the Exchange.

(e) Distributions

The REIT makes monthly cash distributions to unitholders in an amount of $0.01333 per unit, representing an annualized distribution of $0.16 per unit. The amount of the REIT's cash distributions is determined by, or in accordance with, the guidelines established from time to time by the Trustees. The REIT's Trustees have discretion in declaring distributions. Pursuant to the REIT's Declaration of Trust, it is the intention of the REIT's Trustees to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes under Part I of the Income Tax Act.

(f) Distribution reinvestment plan

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

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

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

Units issued in connection with the Plan are issued directly from the treasury of the REIT at a price based on the volume-weighted average of the closing price for the 20 trading days immediately preceding the relevant distribution date. Participants receive "bonus units" in an amount equal in value to 3% of each cash distribution.

The REIT has reserved for issuance with the Exchange 2,000,000 additional units to accommodate the issuance of units under the Plan.

13. UNITHOLDERS' EQUITY (continued)

(g) Outstanding units

	Years Ended December 31,					
	2010			2009		
	Units		**$**	Units		$
Units outstanding, beginning of year	**18,465,531**	**$**	**54,697,477**	18,023,485	$	54,544,101
Units issued:						
Distribution reinvestment plan	**185,447**		**271,170**	554,046		501,320
Public offering	**5,148,000**		**8,236,800**	-		-
Rights offering	**7,110,089**		**9,883,024**	-		-
Unit issue costs	**-**		**(3,240,128)**	-		(6,765)
Units cancelled:						
Normal course issuer bid	-		-	(112,000)		(338,943)
Cancellation costs	-		-	-		(2,236)
Units outstanding, end of year	**30,909,067**	**$**	**69,848,343**	18,465,531	$	54,697,477

14. 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).

There were no unit options granted to employees in the year ended December 31, 2010 or during the year ended December 31, 2009. During the year ended December 31, 2010, 1,168,000 (2009 - 152,000) options were cancelled.

The following table summarizes the information about the unit options outstanding as of December 31, 2010:

Outstanding Number of Units	Expiry Date	Exercisable Number of Units		Exercise Price
50,000	September 5, 2012	50,000	$	3.45

The weighted average remaining contractual life at December 31, 2010 for the exercisable unit options is approximately 1.7 years (December 31, 2009 – approximately 3 years).

15. OTHER TRANSACTION COSTS

Other transaction costs represent a portion of the legal, consulting and trustee fees and other costs associated with the strategic review process described in Note 2, and expenses incurred on abandoned property acquisitions.

16. PER UNIT CALCULATIONS

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

	Years Ended December 31,					
	2010			2009		
	Weighted Average Number of Units		**Loss per unit**	Weighted Average Number of Units		Loss per unit
Basic and Diluted	**21,623,523**	**$**	**(0.16)**	18,284,298	$	(0.10)

The impact of the unit options has been excluded from the per unit calculations above, as the effect would have been anti-dilutive.

17. 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”).

As currently structured, management determined 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. Pursuant to the REIT’s Declaration of Trust, the REIT intends to distribute all taxable income to its unitholders and to deduct these distributions for income tax purposes.

18. CAPITAL MANAGEMENT

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

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

At December 31, 2010, the REIT is in compliance with its debt-to-gross book value ratio at 59.8% (2009 - 62.7%), which is calculated as follows:

		As at December 31, 2010		As at December 31, 2009
Debt:				
Gross value of secured debt [(2)]	**$**	**107,148,141**	$	72,253,090
Amounts drawn on available credit facility		**-**		20,500,000
	$	**107,148,141**	$	92,753,090
Gross Book Value of Assets:				
Total assets	**$**	**160,314,298**	$	134,599,449
Accumulated depreciation and amortization		**18,749,990**		13,252,337
	$	**179,064,288**	$	147,851,786
Debt-to-Gross Book Value		**59.8%**		62.7%

(1) debt capital refers to secured debt and credit facility
(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 available and appropriate to replenish cash, for acquisitions, or other uses. The REIT has access to an Acquisition Facility, which may be used to fund the equity portion of acquisitions as well as to fund general working capital requirements.

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. Pursuant to the REIT's Declaration of Trust, it is the intention of the REIT's Trustees to make distributions in an amount not less than the amount necessary to ensure that the REIT will not be liable to pay income tax under Part I of the Income Tax Act. As a result of the REIT incurring a loss under Part I of the Income Tax Act for 2010, all of the distributions paid in 2010 were considered discretionary.

19. FINANCIAL INSTRUMENTS

(a) Fair value

The REIT's cash, accounts receivable, accounts payable, credit facility 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 4.07% and 10.00% that reflect current market conditions for instruments of similar term and risk. The fair value of the REIT's secured debt is approximately $109,000,000 at December 31, 2010 (December 31, 2009 - $71,000,000).

Financial instruments measured at fair value on the balance sheet are classified based on a three-level hierarchy that reflects the significance of the inputs used when determining the fair value as follows:

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

In accordance with the three-level hierarchy of financial instruments measured at fair value on the balance sheet, at December 31, 2010 the REIT has included cash of $6,869,242 in the Level 1 category (December 31, 2009 - $1,074,765). The Level 1 category of fair value measurements are determined by reference to quoted prices in active markets for identical assets and liabilities.

(b) Risk management

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

(i) Interest rate risk

At December 31, 2010, the REIT's 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, 2010, a 1% increase or decrease in the Bank's prime rate would have no impact on the REIT's annual interest expense (2009 - $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.

19. FINANCIAL INSTRUMENTS (continued)

(b) Risk management (continued)

(ii) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT attempts to mitigate this risk by conducting credit assessments on new lessees, by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The maximum credit risk exposure at December 31, 2010 and December 31, 2009 relates to the carrying value of the accounts receivable balance without taking into account any collateral held or other credit enhancements. Collateral held on certain leases are letters of credit or security deposits from the tenants. Refer to Note 6 for details of accounts receivable.

The REIT establishes an allowance for doubtful accounts that represents the estimated loss in respect of rents receivable. The amount that comprises the allowance is determined on a tenant by tenant basis based on the specific factors related to the tenant. The change in allowance for doubtful accounts for the year ended December 31, 2010 was a decrease of approximately $92,000 (2009 - increase of $37,000).

(iii) Liquidity risk

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

The REIT’s main liquidity requirements arise from ongoing working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures on existing properties, property acquisitions and distributions to unitholders. All of the aforementioned liquidity requirements, except for debt repayment obligations at maturity and property acquisitions, are generally funded from cash flows from operations or from drawing on the REIT’s Acquisition Facility. Debt repayment obligations (see Note 11) are generally funded from refinancing the related debt and property acquisitions are generally funded from equity raises as well as obtaining debt financing on the related property. Between capital raises, the REIT may use its Acquisition Facility to fund the equity portion of property acquisitions.

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

19. FINANCIAL INSTRUMENTS (continued)

(b) *Risk management* (continued)

(iii) Liquidity risk (continued)

The REIT attempts to mitigate its liquidity risk by staggering the maturities of its debt. As well, the REIT's distributions are made at the discretion of the REIT's Trustees. Finally, the REIT doesn't enter into property acquisitions unless it has secured or knows that it can secure the appropriate capital (debt and equity) to fund the particular acquisition.

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

		2011		2012		2013		2014		2015		Thereafter		Total
Secured debt														
Interest	$	5,470,163	$	5,539,456	$	4,797,201	$	3,988,906	$	3,897,389	$	2,028,914	$	25,722,029
Principal payments		2,144,221		2,260,290		2,074,620		1,787,800		1,836,283		998,631		11,101,845
Balances due on maturity		-		8,014,133		17,027,933		-		28,839,943		42,164,287		96,046,296
Accounts and distributions payable														
and other liabilities		5,458,770		-		-		-		-		-		5,458,770
Total	$	13,073,154	$	15,813,879	$	23,899,754	$	5,776,706	$	34,573,615	$	45,191,832	$	138,328,940

20. RELATED PARTY TRANSACTIONS

The REIT enters into related party transactions with IGW Public LP and LAPP, the REIT's major unitholder and asset manager, respectively. Prior to the transactions described under Note 2, the REIT entered into related party transactions with CAB and C.A. Realty Management Inc. 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) *Management agreement*

As part of the transactions described under Note 2, the REIT formalized management arrangements with LAPP (the "Manager"), a wholly-owned subsidiary of IGW Public LP. Pursuant to the 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.

20. RELATED PARTY TRANSACTIONS (continued)

(a) *Management agreement* (continued)

The initial term of the management agreement is for a three year period, expiring on June 3, 2013. Upon expiry of the initial term, the management agreement will renew automatically for successive three year terms, unless terminated in accordance with its terms. The management agreement also provides that the management agreement may be terminated if the independent Trustees make the decision to employ individuals directly by the REIT rather than by the Manager, where the independent Trustees determine the cost of doing so would be less on an annual basis than the fees paid to the Manager under the management agreement. 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 two 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 is providing the services of certain executives, consultants and other employees to the REIT. As the REIT grows, the Manager will provide additional executives to the REIT in order to fulfill its obligations under the management agreement as recommended by the Trustees and agreed to by the Trustees and the Manager. All costs associated with executives and personnel shall be borne by the Manager. In accordance with the terms of the management agreement, the Manager is required to consult with the independent Trustees with regard to compensation decisions for executives who devote substantially all of their time to the business of the REIT. In the event that any executive providing services to the REIT ceases to do so for any reason, the Manager will replace such individual with another employee with similar qualifications and experience.

Under the terms of the current management agreement and the old management agreement with C.A. Realty Management Inc., the REIT has incurred the following fees:

	Years Ended December 31,			
		2010		2009
Acquisition fees	**$**	**101,325**	$	-
Management fees		**477,092**		439,906
	$	**578,417**	$	439,906

The acquisition fees, as a purchase cost, have been capitalized as income producing properties in the consolidated balance sheet. The management fees were charged to general and administrative expenses in the consolidated statements of operations and comprehensive loss.

20. RELATED PARTY TRANSACTIONS (continued)

(a) Management agreement (continued)

In connection with entering into the management agreement, the Manager and League Assets LP and IGW Public LP (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 restricted 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 the equity interests in which are not all held by the Restricted Parties or their respective affiliates. 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) six months after the termination of the management agreement in certain circumstances; or (ii) the date of termination of the management agreement under other circumstances.

(b) Related party balances

Amounts owing to the Manager at December 31, 2010 are $324,480 (prior manager at December 31, 2009 - $95,165). These amounts have been classified in accounts payable and other liabilities, and consist of outstanding management fees, acquisition fees and net reimbursements payable.

21. SUBSEQUENT EVENTS

(a) Convertible Debenture Offering

On February 25, 2011, the REIT filed a final short form prospectus. The prospectus qualifies the distribution of $25,000,000 aggregate principal amount of 8% extendible convertible unsecured subordinated debentures at a price of $1,000 per $1,000 principal amount of debentures. The debentures mature on March 16, 2016. The debentures bear interest at an annual rate of 8.0% payable semi-annually, in arrears, on March 31 and September 30 in each year commencing on September 30, 2011.

Proceeds of the debentures have been used to purchase a portfolio of income producing properties (as described below) and to repay corporate secured debt of $8.6 million, see Note 11.

(b) Purchase of SDM Portfolio

On February 15, 2011, the REIT entered into an agreement to acquire six income producing properties, collectively "the SDM Portfolio," for an aggregate purchase price of $31 million. The purchase is expected to close on March 15, 2011 and has been funded by the assumption of existing mortgages of $17 million and cash.