Condensed Consolidated Financial Statements of

PARTNERS REAL ESTATE INVESTMENT TRUST

For the three months ended March 31, 2012

(unaudited)

PARTNERS REAL ESTATE INVESTMENT TRUST
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For the period ended March 31, 2012

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

As at	March 31, 2012	December 31, 2011
ASSETS		
Non-current assets		
Income producing properties (Note 3)	**$ 388,465,535**	$ 258,510,224
	388,465,535	258,510,224
Current assets		
Notes receivable (Note 4)	**10,552,018**	-
Other assets (Note 5)	**4,712,371**	4,526,314
Accounts receivable (Note 6)	**1,753,266**	868,733
Cash	**5,118,333**	1,842,769
	22,135,988	7,237,816
	$ 410,601,523	$ 265,748,040
LIABILITIES		
Non-current liabilities		
Mortgages payable (Note 7)	**$ 205,619,725**	$ 152,598,529
Debentures (Note 8)	**26,838,706**	26,889,496
Credit facilities (Note 9)	**32,503,466**	18,545,886
	264,961,897	198,033,911
Current liabilities		
Mortgages payable (Note 7)	**6,080,340**	3,920,157
Deferred rights obligation (Note 10)	**3,420,170**	-
Accounts payable and other liabilities	**6,090,437**	4,891,719
Distributions payable	**989,200**	425,879
	16,580,147	9,237,755
	281,542,044	207,271,666
Exchangeable LP units (Note 11)	**2,104,500**	2,070,000
	283,646,544	209,341,666
UNITHOLDERS' EQUITY	**126,954,979**	56,406,374
	$ 410,601,523	$ 265,748,040

Subsequent Events (Note 23)

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

PARTNERS REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Statements of Comprehensive Income

unaudited (Cdn $)

	Three months ended March 31,	
	2012	2011
Revenues from income producing properties (Note 12)	**$ 9,077,958**	$ 4,959,732
Property operating expenses	**(1,483,017)**	(826,991)
Realty taxes	**(1,689,357)**	(1,065,397)
Property management fees	**(184,221)**	(111,339)
	5,721,363	2,956,005
Other expenses:		
Financing costs	**3,100,780**	1,558,963
General and administrative expenses	**514,555**	424,262
Other transaction costs	**-**	216,982
	3,615,335	2,200,207
Income before fair value gains	**2,106,028**	755,798
Fair value gains (Note 13)	**1,500,480**	312,140
Net income and comprehensive income	**$ 3,606,508**	$ 1,067,938
EARNINGS PER UNIT (Note 14)		
Basic and diluted	**$ 0.25**	$ 0.14

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

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

	Three months ended March 31, 2012	2011
Trust Units (Note 15)		
BALANCE, BEGINNING OF PERIOD	**$ 70,108,603**	$ 69,848,343
Issuance of units under private offering, net of costs	**48,117,172**	-
Issuance of units under public offering, net of costs	**21,100,517**	-
Issuance of units under distribution reinvestment plan, net of costs	**67,215**	58,650
BALANCE, END OF PERIOD	**139,393,507**	69,906,993
Contributed Surplus		
BALANCE, BEGINNING OF PERIOD	**569,830**	569,830
BALANCE, END OF PERIOD	**569,830**	569,830
Deficit and Accumulated Other Comprehensive Loss		
BALANCE, BEGINNING OF PERIOD	**(14,272,059)**	(16,557,825)
Net income and comprehensive income	**3,606,508**	1,067,938
Distributions to unitholders	**(2,342,807)**	(1,238,643)
BALANCE, END OF PERIOD	**(13,008,358)**	(16,728,530)
TOTAL UNITHOLDERS' EQUITY	**$ 126,954,979**	$ 53,748,293

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

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

	Three months ended March 31, 2012	2011
OPERATING ACTIVITIES		
Net income	**$ 3,606,508**	$ 1,067,938
Adjusted for non-cash items:		
Fair value gains	**(1,500,480)**	(312,140)
Employee options costs	**45,000**	-
Straight line rent	**(218,918)**	(79,107)
Amortization of tenant incentives and direct leasing costs	**66,613**	50,492
Amortization of deferred financing costs	**293,472**	186,147
Net change in working capital (Note 16)	**(348,356)**	(195,713)
Cash flow (used in) provided by operating activities	**1,943,839**	717,617
FINANCING ACTIVITIES		
Proceeds from secured debt	**50,200,000**	-
Financing costs of secured debt	**(316,012)**	(172,938)
Principal repayments on secured debt	**(1,031,935)**	(9,145,482)
Proceeds from debenture issuance	**-**	28,750,000
Cost to issue debentures	**-**	(2,142,152)
Drawdowns on credit facilities	**14,000,000**	-
Financing fees on credit facilities	**(133,879)**	-
Proceeds from private offering (Note 15)	**40,317,346**	-
Proceeds from pubic offering (Note 15)	**22,685,021**	-
Cost to issue units	**(3,217,977)**	(1,590)
Distributions to unitholders	**(2,265,273)**	(1,178,076)
Cash flow provided by financing activities	**120,237,291**	16,109,762
INVESTING ACTIVITIES		
Acquisitions of income producing properties, net of non-cash transactions	**(121,948,708)**	(14,197,345)
Improvements to income producing properties	**(28,126)**	(459,003)
Expenditures on tenant incentives and direct leasing costs	**(74,907)**	(287,787)
Proceeds from notes receivable dispositions	**3,112,209**	-
Cash from notes receivable principal repayments	**33,966**	-
Cash flow used in investing activities	**(118,905,566)**	(14,944,135)
NET INCREASE IN CASH DURING THE PERIOD	**3,275,564**	1,883,244
CASH, BEGINNING OF PERIOD	**1,842,769**	6,869,242
CASH, END OF PERIOD	**$ 5,118,333**	$ 8,752,486
Non-cash transactions		
Secured debt assumed with acquisitions of properties	**$ 4,648,633**	$ 17,212,633
Above market interest rate adjustment to property acquisition costs	**1,728,653**	1,479,580

Supplemental cash flow information (Note 16)

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

1. ORGANIZATION OF THE TRUST

Partners Real Estate Investment Trust ("Partners REIT" or the "REIT") is an unincorporated, open-ended real estate investment trust and was formed pursuant to a Declaration of Trust dated March 27, 2007 and as amended and restated on June 4, 2010 and November 3, 2010. The address of its registered office and principal place of business is 710 Redbrick Street, Suite 200, Victoria, British Columbia, V8T 5J3. The principal activity of Partners REIT is the investment in commercial retail properties. The units of the REIT are listed on the Toronto Stock Exchange as of April 3, 2012 (the "TSX") and trade under the symbol "PAR.UN". Prior to April 3, 2012, the REIT's units were listed on the TSX Venture Exchange under the same symbol.

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.

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.

On February 14, 2012 the REIT completed a 1 for 4 consolidation of units. The unit and per unit information presented in the notes to these condensed consolidated financial statements have been prepared on a post-consolidation basis.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of Presentation*

The accompanying condensed consolidated financial statements have been prepared in accordance and comply with International Accounting Standards 34 *Interim Financial Reporting* (IAS 34) as issued by the International Financial Accounting Standards Board (IASB) using the accounting policies the REIT adopted in its consolidated financial statements as at and for the year ended December 31, 2011, and any additional accounting policies as disclosed below (collectively the "accounting policies"). The accounting policies are based on the International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations that were applicable at that time. These accounting policies have been applied consistently to all periods presented in these condensed consolidated financial statements, and have been applied consistently throughout the consolidated entities.

These condensed consolidated financial statements are presented in Canadian dollars, which is the REIT's functional and presentation currency. These condensed consolidated financial statements should be read in conjunction with the REIT's 2011 annual consolidated financial statements.

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and income producing properties that are measured at fair value as explained in the accounting policies and incorporate the accounts of the REIT and its subsidiaries. Subsidiaries are all entities over which the REIT has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The results of subsidiaries are included in the REIT's statement of comprehensive income from date of acquisition, or in the case of disposals, up to the date of disposal. All transactions and balances between the REIT and its subsidiaries have been eliminated on consolidation.

In preparation of these condensed consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates.

It also requires management to exercise judgment in applying accounting policies. The areas involving a higher degree of judgment or complexity are areas where assumptions and estimates are significant to these condensed consolidated financial statements are consistent with those disclosed in the REIT's 2011 annual consolidated financial statements.

(b) *Notes receivable*

Notes receivable represent a bundle of first and second mortgage loans. The notes are classified as "available for sale" and are recorded at fair value which is measured initially as the cost to purchase the notes receivable as part of the acquisition of assets from NorRock Realty Finance Corporation, as detailed in Note 15(c). Interest income is recorded on the accrual basis provided that the loan or mortgage is not impaired. An impaired loan is any loan where, in the REIT's opinion, there has been a deterioration of credit quality to the extent that the REIT no longer has reasonable assurance as to the timely collection of the full amount of the principal and interest. As the mortgages and loans do not trade in actively quoted markets the REIT estimates fair value based upon: market interest rates, credit spreads for similar products, and the specific creditworthiness and status of the borrower. The REIT will consider, but be limited in considering, the following as part of the creditworthiness and status of the borrow: payment history, value of underlying property securing the loan or mortgage, overall economic conditions, and other conditions specific to the property or building securing the loan or mortgage.

(c) *Deferred rights obligation*

The deferred rights obligation represents the estimated liability the REIT has incurred with respect to the 3,074,160 non-transferrable rights ("Rights") issued as part of the NorRock Transaction. The deferred rights obligation is classified as a financial liability, as the REIT has a contractual obligation to deliver a variable number of units (or cash at the REIT's option), such that the equity delivered under the arrangement equals the amount of the contractual obligation. The amount of the contractual obligation may fluctuate, based on the liquidation value of the notes receivable, based on a calculation set out in Note 4. The deferred rights obligation is classified as other financial liabilities and is measured at amortized cost.

(d) *Recent accounting pronouncements*

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning January 1, 2012 or later periods. The standards are consistent with those disclosed in the REIT's 2011 annual consolidated financial statements.

3. INCOME PRODUCING PROPERTIES

As at		**March 31, 2012**		December 31, 2011
Balance, beginning of period	**$**	**258,510,224**	$	155,907,020
Acquisitions of income producing properties		**128,325,993**		96,217,178
Improvements to income producing properties		**28,126**		968,277
Expenditures on tenant incentives and direct leasing costs		**74,907**		1,102,764
Amortization of tenant incentives and direct leasing costs		**(66,613)**		(228,223)
Recognition of straight-line rent		**218,918**		599,582
Fair value gains		**1,373,980**		3,943,626
Balance, end of period	**$**	**388,465,535**	$	258,510,224

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

External valuations were obtained from the Appraisers for a cross section of properties based on different geographical locations and markets across the REIT's rental portfolio, as determined by the REIT's management.

At March 31, 2012, external appraisals were obtained for two of the REIT's properties with an aggregate fair value of $10,735,628, representing 2.8% of the fair value of the income producing property portfolio as of that date. The value of the remainder of the REIT's income producing property portfolio was determined internally by the REIT using the same assumptions and valuation techniques used by the Appraisers.

At December 31, 2011, external appraisals were obtained for four of the REIT's properties with an aggregate fair value of $44,797,000, representing 17.3% of the fair value of the income producing property portfolio as of that date. The value of the remainder of the REIT's income producing property portfolio was determined internally by the REIT using the same assumptions and valuation techniques used by the Appraisers.

The external valuation of the income producing properties utilized the "Direct Capitalization" method. This method applies the capitalization rate to stabilized net operating income. The resulting stabilized value is adjusted for factors including lost revenues and recoveries on vacant units; anticipated inducement and leasing commission costs of vacant units; and the present value of capital expenditures. Fair values are most sensitive to change in capitalization rates.

The following table outlines the range and weighted average of the capitalization rates used to determine stabilized net operating income for the REIT's properties:

As at	**March 31, 2012**	December 31, 2011
Capitalization rates		
Maximum	**8.50%**	8.50%
Minimum	**6.50%**	6.75%
Weighted Average	**7.30%**	7.55%

At March 31, 2012, a 0.50% increase in capitalization rates for income producing properties would decrease the fair value by $24.5 million (December 31, 2011 - $15.9 million) and a 0.50% decrease in capitalization rates would increase the fair value by $28.1 million (December 31, 2011 - $18.1 million).

The aggregate cost of tenant incentives and direct leasing costs included in income producing properties are recognized as a reduction of rental income over the lease term, on a straight-line basis.

As at March 31, 2012, income producing properties included $1,641,845 (at December 31, 2011 - $1,422,927) of net straight-line rent receivables arising from the recognition of rental revenue on a straight-line basis over the lease term in accordance with IAS 17 – *Leases*.

2012 acquisitions

- *Quinte Crossroads*

On March 29, 2012, the REIT completed the acquisition of Quinte Crossroads, a new development consisting of an 88,319 square foot four building power centre on 14.26 acres, in Belleville, Ontario. The REIT paid approximately $21.3 million for the property with $14.2 million funded through a new ten-year mortgage that bears interest at 4.06%, and the balance paid with available funds on hand.

- *King George Square*

On February 14, 2012, the REIT completed the acquisition of King George Square, an existing 67,100 square foot open-air centre comprised of three buildings and located on the west side of King George Road which traverses Brantford, Ontario's traditional retail node. The REIT paid approximately $16.4 million for the property. The acquisition, and the acquisition of Crossing Bridge Square, as noted below, were satisfied by a new one-year bank credit facility of $14 million bearing interest at a rate of the Canadian Imperial Bank of Commerce ("CIBC") prime rate plus 1.5% for the initial six months and the CIBC prime rate plus 2.00% for the remainder of the term, with the balance paid from the REIT's available funds on hand.

- *Thunder Centre*

On February 14, 2012, the REIT completed the acquisition of Thunder Centre, an existing 168,000 square foot power centre comprised of two big-box stores and five multi-tenant retail strips located in the primary retail node of Thunder Bay, Ontario. The REIT paid approximately $38.2 million for the property and was funded by the assumption of a first mortgage on the property in the amount of $14.8 million, which was further increased by $4.7 million for a total first mortgage of $19.5 million. The loan matures in July 2017 and has a contractual interest rate of 4.78% per annum. The balance of the purchase price was funded from the REIT's available funds on hand.

- *St Clair Beach Towne Centre*

On February 14, 2012, the REIT completed the acquisition of St. Clair Beach Towne Centre, an existing 40,100 square foot centre comprised of two buildings located in the Windsor, Ontario suburb of Tecumseh. The REIT paid approximately $11.6 million for the property and was funded by the assumption of a first mortgage on the property in the amount of $4.4 million, which was further increased by $1.85 million for a total first mortgage of $6.25 million. The loan matures in July 2017 and has a contractual interest rate of 4.60% per annum. The balance of the purchase price was funded from the REIT's available funds on hand.

- *Crossing Bridge Square*

On February 14, 2012, the REIT completed the acquisition of Crossing Bridge Square, an existing 45,800 square foot open-air centre located in Stittsville, Ontario. The centre consists of a retail strip centre and two free-standing pad sites. The REIT paid approximately $11.2 million for the property. The acquisition was funded as noted above under the acquisition of King George Square.

- *Manning Crossing*

On February 14, 2012, the REIT completed the acquisition of Manning Crossing, an existing 64,500 square foot centre comprised of a retail strip and five restaurant pads located in Edmonton, Alberta. The REIT paid approximately $20.9 million for the property and was funded by the assumption of an existing first mortgage on the property for $4.65 million that matures in August 2014 and has a contractual interest rate of 6.59% per annum; a newly acquired second mortgage on the property for a total of $8.0 million that matures in February 2017 and has a contractual interest rate of 4.02% per annum; with the balance funded from the REIT's available funds on hand.

- *Plaza des Seigneurs*

On February 1, 2012, the REIT completed the acquisition of Plaza des Seigneurs, an existing 20,833 square foot open-air centre anchored by necessity-based tenants located in Terrebonne, Québec. The REIT paid approximately $4.05 million for the property with $2.25 million funded through a new five-year mortgage that bears interest at 3.5%, with the balance paid from the REIT's available funds on hand.

4. NOTES RECEIVABLE

On February 1, 2012, the REIT acquired eight mortgages receivable as a result of the NorRock Transaction, as detailed in Note 15(c). On March 29, 2012 the REIT sold three of the mortgage assets with a combined carrying value of approximately $3.7 million for proceeds of $3.2 million, the difference applied as a reduction to the fair value adjustment.

(a) Composition of notes receivable

The notes receivable are comprised of the following:

As at		**March 31, 2012**		December 31, 2011
Balance, beginning of period	**$**	**-**	$	-
Notes receivable acquisitions		**15,229,129**		-
Fair value adjustment on acquisitions		**(1,405,697)**		-
Notes receivable acquisitions, fair value		**13,823,432**		-
Notes receivable dispositions		**(3,743,108)**		-
Fair value adjustment related to disposed mortgages		**505,660**		-
Notes receivable dispositions, fair value		**(3,237,448)**		-
		10,585,984		
Notes receivable, principal repayment		**(33,966)**		
Notes receivable, fair value	**$**	**10,552,018**	$	-
Notes receivable, principal amount of first mortgages	**$**	**8,689,555**	$	-
Notes receivable, principal amount of second mortgages		**2,762,500**		-
Notes receivable, total principal		**11,452,055**		-
Notes receivable, fair value adjustment		**(900,037)**		-
	$	**10,552,018**	$	-

(b) Terms of the notes receivable

Notes receivable are at fixed rates and have a weighted average yield as follows:

Weighted average yield		**March 31, 2012**		December 31, 2011
0% to 10.00%	**$**	**4,000,000**	$	-
10.01% to 12.50%		**6,099,657**		-
More than 12.50%		**1,352,398**		-
Notes receivable, total principal		**11,452,055**		-
Notes receivable, fair value adjustment		**(900,037)**		-
	$	**10,552,018**	$	-

Notes receivable have contractual maturities as follows:

	March 31, 2012			December 31, 2011		
Months		**Principal balance**	**Weighted average effective interest rate**		Principal balance	Weighted average effective interest rate
>0 to 12	**$**	**7,452,055**	**12.7%**	$	-	0.0%
>12 to 24		**-**			-	
>24		**4,000,000**	**5.0%**		-	0.0%
Notes receivable, total principal		**11,452,055**	**10.0%**		-	0.0%
Notes receivable, fair value adjustment		**(900,037)**				
	$	**10,552,018**	**10.8%**	$	-	0.0%

(c) Concentration

The notes receivable are extended to borrowers across Canada.

(d) Non-performing loans

The REIT considers non-performing loans as loans which are 90 days in arrears on its interest payments. As at March 31, 2012, the REIT has three non-performing notes receivable with an aggregate principal balance of approximately $6.0 million (December 31, 2011 – nil). The REIT considers these non-performing loans as recoverable at $5,774,518 (December 31, 2011 – nil) and an impairment provision of $225,482 has been provided at March 31, 2012 (December 31, 2011 – nil).

(e) Fair value disclosures

As at March 31, 2012 the REIT has determined that the average of the low and high values of each note receivable as determined by an independent valuator effective September 30, 2011 constitutes their fair value. The valuations were prepared in accordance with the disclosure standards of the Investment Industry Regulatory Organization of Canada (“IIROC”) applicable to formal valuations.

5. OTHER ASSETS

The major components of other assets are as follows:

As at		March 31, 2012		December 31, 2011
Prepaid realty taxes and insurance	$	1,316,224	$	583,276
Restricted cash - amounts held in escrow		2,089,362		1,429,421
Deposits on acquisitions		902,655		1,454,655
Deferred acquisition costs		181,635		742,861
Prepaid expenses and other		222,495		316,101
	$	4,712,371	$	4,526,314

Cash is considered restricted when it is held in escrow and is only available for use for specific purposes. Restricted cash totaled $2.1 million at March 31, 2012 (December 31, 2011 – $1.4 million) and its permitted use is to fund certain future capital expenditures in the REIT's income producing property portfolio.

6. ACCOUNTS RECEIVABLE

As at		March 31, 2012		December 31, 2011
Rents receivable	$	1,223,602	$	498,426
Unbilled recoveries and rents receivable		554,441		395,084
		1,778,043		893,510
Allowance for doubtful accounts		(24,777)		(24,777)
	$	1,753,266	$	868,733

The REIT records an allowance for doubtful accounts on tenant rent receivables on a tenant-by-tenant, using specific, known facts and circumstances that exist at the time of the analysis. See Note 21 for the REIT's exposure to credit risk regarding its receivables, and precautions taken to mitigate these risks.

7. MORTGAGES PAYABLE

As at		March 31, 2012		December 31, 2011
Mortgages payable	$	209,455,728	$	155,639,032
Unamortized above market interest rate adjustments		3,591,956		1,994,065
Unamortized commitment and other fees		(1,347,619)		(1,114,411)
	$	211,700,065	$	156,518,686
Non-current	$	205,619,725	$	152,598,529
Current		6,080,340		3,920,157
	$	211,700,065	$	156,518,686

Scheduled repayments of secured debt are as follows:

	Principal instalments	Principal maturing	Total
2012	$ 4,240,222	$ -	$ 4,240,222
2013	5,884,156	21,027,933	26,912,089
2014	5,506,954	24,870,435	30,377,389
2015	4,839,727	32,267,407	37,107,134
2016	3,693,451	28,376,013	32,069,464
Thereafter	5,279,709	73,469,721	78,749,430
Contractual obligations	$ 29,444,219	$ 180,011,509	$ 209,455,728

(a) Mortgages payable

Mortgages payable are secured by the income producing properties to which they relate; with some having recourse to the REIT. The mortgages bear interest at effective rates ranging between 3.58% and 8.53% (December 31, 2011 – 3.64% and 8.55%) per annum and contractual rates ranging between 3.42% and 7.00% (December 31, 2011 – 3.42% and 7.00%) per annum. The REIT's weighted average effective interest rate is 4.66% (December 31, 2011 – 4.95%) per annum.

During the three months ended March 31, 2012 the following mortgages were obtained:

In March 2012, upon the acquisition of Quinte Crossroads, the REIT acquired a first mortgage on the property for a total of $14.2 million. The loan matures in April 2022, has a contractual interest rate of 4.06% per annum, and an amortization period of 25 years.

In February 2012, upon the acquisition of Thunder Centre, the REIT assumed a first mortgage on the property in the amount of $14.8 million and increased the existing mortgage by $4.7 million for a total first mortgage of $19.5 million. The loan matures in July 2017, has a contractual interest rate of 4.78% per annum, and an amortization period of 20 years.

In February 2012, upon the acquisition of St. Clair Beach Towne Centre, the REIT assumed a first mortgage on the property in the amount of $4.4 million and increased the existing mortgage by $1.85 million for a total first mortgage of $6.25 million. The loan matures in July 2017, has a contractual interest rate of 4.60% per annum, and an amortization period of 20 years.

In February 2012, upon the acquisition of Manning Crossing, the REIT assumed an existing first mortgage on the property for a total of approximately $4.65 million. The loan matures in August 2014 and has a contractual interest rate of 6.59% per annum. The REIT also acquired a second mortgage on the property for a total of $8.0 million. The loan matures February 2017, has a contractual interest rate of 4.02% per annum, and an amortization period of 25 years.

In February 2012, upon the acquisition of Plaza des Seigneurs, the REIT acquired a first mortgage on the property for a total of $2.25 million. The loan matures in February 2017, has a contractual interest rate of 3.5% per annum, and an amortization period of 20 years.

8. DEBENTURES

As at		March 31, 2012		December 31, 2011
Debentures, excluding convertible feature	$	27,950,000	$	27,950,000
Fair value of convertible feature at issuance		800,000		800,000
		28,750,000		28,750,000
Issue costs		2,113,420		2,107,652
Accumulated amortization of issue costs		(472,126)		(367,148)
Issue costs, net		1,641,294		1,740,504
		27,108,706		27,009,496
Accumulated fair value gain on convertible feature		(270,000)		(120,000)
	$	26,838,706	$	26,889,496

On March 8, 2011 the REIT closed its public offering of $25.0 million in aggregate principal amount of 8.0% extendible convertible unsecured subordinated debentures, and on March 15, 2011 closed the overallotment option of the public offering for an additional $3.75 million of similar debt, for a total issuance of $28.75 million aggregate principal amount. The debentures bear interest at an annual rate of 8% payable semi-annually, in arrears, on March 31 and September 30 in each year commencing on September 30, 2011. The debentures mature on March 31, 2016.

The debentures are convertible into units of the REIT at the option of the holder at any time on the earlier of the maturity date, or the date fixed for redemption of the debentures at a conversion price of $8.80 per unit.

The debentures may not be redeemed by the REIT before March 31, 2014, except in certain limited circumstances. During the period on or after March 31, 2014 to March 31, 2015 the debentures may be redeemed in part or in whole at the option of the REIT, at a price equal to the principal amount plus accrued and unpaid interest, if the weighted average of the trading price is not less than 125% of the conversion price for 20 consecutive days ending on the fifth trading day preceding the date on which the notice of redemption is given. On or after March 31, 2015, the debentures may be redeemed in whole or in part at the option of the REIT at a price equal to their principal amount plus accrued and unpaid interest.

The convertible feature of the debentures is an embedded derivative and is classified as a financial liability at fair value through profit or loss (“FVTPL”). At the issuance date, the fair value of the convertible feature of the debentures was determined by applying a convertible bond pricing model. At each reporting period, the model’s variables are updated and the convertible feature is revalued. At March 31, 2012, the model incorporated a volatility variable of 19% (December 31, 2011 – 21%) calculated based on an exponentially weighted moving average of weekly historical trade prices of the underlying units experienced over a time period reflecting the remaining life of the option, a risk free rate of 1.1% (average of the Bank of Canada three year and five year bond rates), and a credit spread of 6.6% on a continuing compound basis (a measure of volatility of credit spreads over the risk-free interest rate over the term structure). The resulting fair value estimate of the convertible feature of the debentures at issuance was $800,000. As at March 31, 2012, the fair value of the convertible feature is $530,000 (December 31, 2011 – $680,000). Under IFRS, the embedded derivative is not considered to be an equity instrument, and as such the value of the convertible feature of outstanding debentures is included in liabilities in the statements of financial position. IAS 39 requires the liability to be revalued at each reporting period. Change in fair value is recognized in profit or loss.

The debentures, without the convertible feature, are classified as other financial liabilities and are measured at amortized cost of $26.3 million at March 31, 2012 (December 31, 2011 – $26.2 million). Including the fair value of the convertible feature the total liability of the REIT's debentures at March 31, 2012 is $26.8 million (December 31, 2011 – $26.9 million).

9. CREDIT FACILITIES

As at		**March 31, 2012**		December 31, 2011
Credit facilities, excluding unit purchase warrants	**$**	**33,003,000**	$	19,003,000
Fair value of unit purchase warrants at funding date		**197,000**		197,000
		33,200,000		19,200,000
Issue costs		**1,270,797**		1,142,680
Accumulated amortization of issue costs		**(519,911)**		(430,651)
Issue costs, net		**750,886**		712,029
		32,449,114		18,487,971
Accumulated fair value loss on warrants		**16,000**		36,000
Accumulated fair value accretion of warrants		**38,352**		21,915
	$	**32,503,466**	$	18,545,886

In February 2012, the REIT obtained a one year $14.0 million credit facility secured against King George Square and Crossing Bridge Square properties. The credit facility bears interest at a rate of the Canadian Imperial Bank of Commerce prime rate plus 1.50% for the initial six months and the Canadian Imperial Bank of Commerce prime rate plus 2.00% for the remainder of the term.

In September 2011, the REIT obtained a revolving loan facility for $13.5 million secured against the REIT's portfolio of properties with a floating interest rate equal to the greater of 9.00% or the TD Canada Trust Posted Bank Prime Rate of Interest plus 4.00%. The revolving loan facility also included a funding fee, whereby the lender received 625,000 unit purchase warrants to purchase 625,000 Partners REIT units. Each whole warrant entitles the lender to receive one Partners REIT unit at $7.20 per Partners REIT unit for a term of three years from the interest adjustment date (September 1, 2011) of the loan.

The revolving loan facility's unit purchase warrants is an embedded derivative and is classified as a financial liability at FVTPL. At the issuance date, and at each reporting period thereafter, the fair value of the unit purchase warrants was determined by applying a binomial option pricing model. At March 31, 2012 the model incorporated a volatility variable of 19% (December 31, 2011 – 21%) (calculated on an exponentially weighted moving average of weekly historical trade prices of the underlying units experienced over a time period reflecting the remaining life of the warrants), a dividend yield of 8.74% (December 31, 2011 – 8.84%) (annual distributions divided by the current price of the underlying units), a risk free rate of 1.0% (December 31, 2011 – 1.0%) (Bank of Canada three year bond rate), and an exercise multiple of 2.5 times (December 31, 2011 – 2.5 times) (reflects the holder's risk aversion and is based on past experience of the REIT's asset manager). The fair value of the embedded derivative as at March 31, 2012 is $213,000 (December 31, 2011 - $233,000).

Under IFRS, the embedded derivative is not considered to be an equity instrument, and as such, the value of the unit purchase warrants is included in liabilities in the condensed consolidated statements of financial position. IAS 39 requires the embedded derivative to be revalued at each reporting period. Changes in fair value are recognized in profit or loss.

The revolving loan facility is initially reduced by an amount equal to the fair value of the unit purchase warrants. The underlying principal amount of the loan of $13.5 million must be paid in full at maturity. The initial amount of $197,000 will be expensed using the effective interest rate method, thereby increasing the principal amount to $13.5 million, with the offsetting amount recorded to financing costs.

On May 16, 2011 the REIT renewed its 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.

The REIT specified the Centuria Urban Village property as security for this facility, providing a maximum amount of up to $5.8 million.

The facility was renewed and the interest rate was revised to be equal to the Bank’s prime rate plus 2.25% per annum or the Banker’s Acceptance stamping fee plus 3.25% per annum. Prior to May 16, 2011, amounts drawn under the facility incurred 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% (refer to Note 19) as well as other tests customary for this type of facility (debt service coverage ratio, minimum unitholder equity amount); all of which the REIT is in compliance with.

10. DEFERRED RIGHTS OBLIGATION

As part of settling the NorRock Transaction the REIT issued 3,074,160 Rights with an aggregate value of $3,420,170 (December 31, 2011 – nil) deferred payment to holders of NorRock Realty Finance Corporation (TSXV: RF.H) (“NorRock”) Class A shares and holders of NorRock stock appreciation rights.

The Rights entitle the holder to receive REIT units (or, in the REIT’s discretion, a cash payment in lieu of all or a portion of such units) corresponding to that holder’s pro rata share of the Deferred Payment described below. The number of REIT units to be issued, if any, will be calculated based on the five day volume weighted average trading price of the REIT units determined at the time of issue.

Holders of the Rights may receive additional payments after closing in accordance with the terms of the Rights, which will be paid on a pro rata basis based upon the number of issued and outstanding Rights. The aggregate of such payments (the “Deferred Payment”), if any, will be equal to the (A) Liquidated Value plus the Retained Value (both as defined below) less (B) the assets at closing payment less (C) 20% of the amount (if any) that the Liquidated Value exceeds the assets at closing payment. To the extent that the Deferred Payment is equal to or less than $0.01 per Right, a payment of $0.01 will be payable per Right.

The REIT may choose to sell the mortgages and other non-cash assets it has purchased from NorRock. If the REIT chooses to sell any of such assets before July 1, 2012, such assets will be valued at the net sale price (in the case of a sale to parties that are arm’s-length to the REIT, or at a price equal to or above an independent valuation if such asset is sold to a party that is not arm’s-length to the REIT) (the “Liquidated Value”). If the REIT continues to hold any such assets on July 1, 2012, it will have such assets valued as of July 1, 2012 by two independent and qualified valuators by August 1, 2012. The average valuation will be considered to be the “Retained Value” for such assets. Partners REIT has entered into an agreement with League Assets Corporation (“LAC”), which provides that, at any time, the REIT has the option to sell to LAC the remaining non-cash assets it has purchased from NorRock, and LAC will purchase the remaining non-cash assets at the Retained Value.

In accordance with the terms of the Rights, the Deferred Payment will be made up to 90 days following the earlier of:

(a) the liquidation of all non-cash assets acquired by the REIT from NorRock; and

(b) August 1, 2012.

The Rights are not and will not be listed on any stock exchange. The Rights are not transferable by an initial holder except by operation of law or to the heirs, executors and successors of an initial holder.

11. EXCHANGEABLE LP UNITS

Exchangeable LP units represents 287,500 units of 137th Avenue LP issued to the participating third party vendor in exchange for a property acquired by 137th Avenue LP. The units are exchangeable on a one-for-one basis, at the option of the holder, into Partners REIT units. The Exchangeable LP units are presented as a liability under IFRS and are measured at FVTPL. The fair value of the Exchangeable LP units is determined by multiplying the issued Exchangeable LP units by the market price of the REIT's units at close of market at period end. The closing price on the Partners REIT units on Friday, March 30, 2012 was $7.32 per unit. The fair value of the Exchangeable LP Units as at March 31, 2012 was $2,104,500 (December 31, 2011 – $2,070,000).

The holder of the Exchangeable LP Units of 137th Avenue LP is entitled to receive distributions on a per unit amount equal to a per Partners REIT unit distribution amount that is paid to the holders of Partners REIT units. Under IFRS, these distributions are considered interest expense and are included in financing costs in the condensed consolidated statements of comprehensive income.

12. REVENUES FROM INCOME PRODUCING PROPERTIES

Revenues recognized from income producing properties for the three months ended March 31, 2012 were $9,077,958 (March 31, 2011 - $4,959,732). The REIT leases commercial retail properties under operating leases generally with lease terms of between one and fifteen years, with options to extend for successive five year periods. Included in revenues from income producing properties are recoveries from tenants for the three months ended March 31, 2012 of $2.5 million (three months ended March 31, 2011 - $1.5 million), which represents the recovery of common area maintenance costs, realty taxes, insurance, and other permissible recoverable costs. Deducted from revenues are the amortization of tenant incentives and direct leasing costs.

As at March 31, 2012, the REIT is entitled under its non-cancellable tenant operating leases to the following minimum future receipts:

	Within 12 months	2 to 5 years	Beyond 5 years
Operating lease revenue	$ 26,848,280	$ 84,398,599	$ 71,845,060

13. FAIR VALUE GAINS

The components of fair value gains are as follows:

		Three months ended March 31,		
		2012		2011
Income producing properties	**$**	**1,373,980**	$	312,140
Financial liabilities designated as FVTPL				
Deferred unit-based compensation		**(9,000)**		-
Unit purchase warrants		**20,000**		-
Convertible feature of debentures		**150,000**		-
Exchangeable LP units		**(34,500)**		-
Total fair value gains	**$**	**1,500,480**	$	312,140

14. PER UNIT CALCULATIONS

Under IAS 33 – *Earnings Per Share*, if the number of ordinary or potential ordinary units decreases as a result of a reverse unit split, the calculation of the basic and diluted earnings per unit for all years presented must be adjusted retrospectively. When these changes occur after the year end but before the financial statements are authorized for issue, the per unit calculations for those and any prior year financial statements presented must be based on the new number of units. On February 14, 2012, the REIT completed a 1 for 4 consolidation of units. The table below presents the net income per unit and weighted average units outstanding calculations, which reflects the REIT's unit consolidation. Only dilutive elements have been included in the calculation of diluted per unit amounts.

The table below presents the net income per unit and weighted average units outstanding calculations.

NOTE 14 - PER UNIT CALCULATIONS

		Three months ended March 31,		
		2012		2011
Numerator				
Net income and comprehensive income - basic	**$**	**3,606,508**	$	1,067,938
Loss on fair value adjustment to unit purchase warrants		**(20,000)**		-
Interest savings of dilutive convertible debt		**-**		-
Net income and comprehensive income - diluted	**$**	**3,586,508**	$	1,067,938
Denominator				
Weighted average units outstanding - basic		**14,306,130**		7,731,909
Dilutive convertible units		**2,554**		5,698
Weighted average units outstanding - diluted(1)		**14,308,684**		7,737,607

(1) *The calculation of diluted per unit amounts for the period ended March 31, 2012 excludes unexercised deferred options , convertible debentures and Exchangable LP units as their inclusion is anti-dilutive.*

Earnings per unit - basic and diluted	**$**	**0.25**	$	0.14

15. 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 January 24, 2012, Partners REIT filed a prospectus with Canadian securities regulators to offer 2,688,250 units at $7.44 per unit by way of a public offering. The offering also granted an over-allotment option of up to an additional 403,238 units at $7.44 per unit on the same terms and conditions as the offering. Partners REIT issued 3,049,062 units under the offering for total raised capital of $22,685,021 and incurred issue costs of $1,580,504.

(c) *Private offering*

On October 17, 2011 the REIT entered into an acquisition agreement with NorRock whereby the REIT would acquire substantially all of the assets of NorRock. The transaction was approved by the REIT on December 15, 2011 and closed on February 1, 2012.

On February 1, 2012 the REIT acquired substantially all the assets of NorRock, consisting of cash, cash equivalents, mortgages and other assets from NorRock in exchange for the issuance of REIT units, certain rights to acquire REIT units and cash (the "NorRock Transaction").

The REIT issued units for consideration in the amount of $41,742,531 (which amount includes a credit to NorRock of $1,425,000 on account of expenses) for the cash and cash equivalents held by NorRock. In addition, the REIT issued units for consideration in the amount of $9,422,980 and issued 3,074,160 Rights for the non-cash assets of NorRock.

The consideration was settled as follows:

- 7,393,833 units were issued to holders of NorRock preferred shares and Class A shares;
- $344,050 was paid to those holders of NorRock preferred shares that elected to receive partial consideration in cash;
- $217,717 was paid on account of the stub period dividend payment for the NorRock preferred shares to holders of such shares;
- $88,500 was paid to holders of NorRock stock appreciation rights; and
- 3,074,160 Rights were issued to holders of NorRock Class A shares and holders of NorRock stock appreciation rights.

(d) Distributions

The REIT currently makes monthly cash distributions to unitholders in an amount of $0.05333 per unit, representing an annualized distribution of $0.64 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 Tax Act.

(e) Distribution reinvestment plan

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

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

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

Units issued in connection with the Plan are issued directly from the treasury of the REIT at a price based on the volume-weighted average of the closing price for the 20 trading days immediately preceding the relevant distribution date. Participants receive "bonus units" in an amount equal in value to 5% (prior to June 16, 2011: 3%) of each cash distribution.

The REIT has reserved for issuance with the TSX 500,000 additional units to accommodate the issuance of units under the Plan.

(f) Outstanding units

As at	**March 31, 2012**			December 31, 2011		
	Units		**Dollars**	Units		Dollars
Units outstanding, beginning of period	**7,765,603**	**$**	**70,108,603**	7,727,267	$	69,848,343
Units issued:						
Distribution reinvestment plan	**10,560**		**77,534**	38,337		266,659
Public offering	**3,049,062**		**22,685,021**	-		-
Private offering	**7,393,833**		**51,165,326**	-		-
Unit issue costs	**-**		**(4,642,977)**	-		(6,399)
Units outstanding, end of period	**18,219,058**	**$**	**139,393,507**	7,765,603	$	70,108,603

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

Period ended		**March 31, 2012**		March 31, 2011
Supplemental				
Income taxes paid (Note 18)	**$**	**-**	$	-
Interest paid	**$**	**3,562,670**	$	1,467,945
Net change in working capital				
Net change in accounts receivable	**$**	**(884,533)**	$	(167,361)
Net change in other assets		**(186,057)**		2,060,168
Net change in current mortgages payable market interest rate adjustment		**(130,763)**		-
Net change in accounts payable and other liabilities(1)		**289,676**		(2,088,520)
Net change in distributions payable		**563,321**		-
	$	**(348,356)**	$	(195,713)

(1) The change in accounts payable and other liabilites between March 31, 2012 and December 31, 2011 includes $54,000 of non-working capital relating to liabilities from deferred unit based compensation and $855,042 relating to non-cash changes in deferred revenues included in accounts payable and other liabilities.

17. DEFERRED UNIT-BASED COMPENSATION

The REIT's incentive unit option plan provides that the maximum number of units which may be reserved and set aside for issue under the incentive unit option plan shall not exceed 10% of the issued and outstanding units at the time that the options were granted (on a non-diluted basis). Options issued by the REIT vest evenly over three years and expire five years after the grant date.

Deferred unit-based compensation is comprised of the following:

	Three months ended March 31, 2012			Year ended December 31, 2011		
	Units		**Weighted Average Exercise Price**	Units		Weighted Average Exercise Price
Options outstanding, beginning of period	**237,500**	**$**	**7.36**	12,500	$	13.80
Options granted	**364,500**		**7.30**	255,000		7.00
Options canceled	**-**		**-**	(30,000)		7.00
Options outstanding, end of period	**602,000**	**$**	**7.32**	237,500	$	7.36
Options exercisable, end of period	**86,971**	**$**	**7.36**	12,500	$	13.80

On March 23, 2012, the REIT granted 364,500 options under its unit option plan with an exercise price of $7.30 per unit (February 18, 2011 – 255,000 units, exercise price $7.00 per unit).

At the grant date, the options each had a weighted average fair value of $0.10 determined by applying a binomial option pricing model. At each reporting period, the model's variables are updated and the options are revalued. At March 31, 2012, the model incorporated a volatility variable of 19% (December 31, 2011 – 21%) (calculated based on an exponentially weighted moving average of weekly historical trade prices of underlying units experienced over a time period reflecting the remaining life of the option), a dividend yield of 8.74% (December 31, 2011 – 8.84% (annual distributions divided by current price of underlying units), a risk free rate of 1.46% (December 31, 2011 – 1.1%) (average of the Bank of Canada three year and five year bond rates), an employee exit rate of 5% (December 31, 2011 – 5%) (as determined by reference to past experience of the REIT's asset manager), and an exercise multiple of 2.5 times (December 31, 2011 – 2.5 times) (as determined by reference to past experience of the REIT's asset manager). The resulting total compensation estimate of $108,000 is charged to expense over the vesting period of the options granted by using the graded vesting method.

Under IFRS, the options are not considered to be equity instruments, and as such the unexercised, outstanding options are included in liabilities in the condensed consolidated statements of financial position. IAS 39 requires the liability to be revalued at each reporting period. Changes to the fair value is recognized in profit or loss such that the cumulative expense reflects the amount amortized to date over the vesting period if the amortized amount was otherwise re-calculated at the end of the reporting period.

As at March 31, 2012, the fair value of the deferred unit-based compensation liability is $107,000 (December 31, 2011 – $53,000). During the three months ended March 31, 2012 the REIT recorded $45,000 of employee compensation expense (March 31, 2011 – $17,000).

The weighted average remaining contractual life at March 31, 2012 for the exercisable unit options is approximately 3.7 years (December 31, 2011 – approximately 0.7 years).

18. INCOME TAXES

On June 22, 2007, new legislation relating to, among other things, the federal income taxation of a specified investment flow-through trust or partnership (a "SIFT") was enacted (the "SIFT Rules"). A SIFT includes a publicly listed or traded partnership or trust, such as an income trust.

Under the SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as returns of capital should generally not be subject to the tax.

The SIFT Rules do not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Exemption"). The REIT has reviewed the REIT Exemption, including the Proposed Amendment, and has assessed their interpretation and application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the SIFT Rules, the REIT believes that it has met the prescribed conditions of the SIFT Rules, assuming the Proposed Amendment is enacted, for the year ended December 31, 2012. In the event the Proposed Amendment is not enacted as proposed, the REIT met the prescribed conditions for 2011 and believes it will meet them for 2013 and beyond. However, the REIT will not meet the prescribed conditions, absent the Proposed Amendment, throughout the year ended December 31, 2012, due to the acquisition of certain non-qualified assets as part of the NorRock Transaction; but will meet them by the end of such period due to the in-place contractual disposal of such assets prior to the end of 2012. The requirement to record a liability for current taxes will be determined by the REIT at the end of that period. However, the REIT does not expect to have taxable income before any deduction for distributions.

Current income tax

The REIT qualifies as a mutual fund trust for Canadian income tax purposes. The REIT expects to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. Accordingly, no provision for Canadian income tax payable is required. One of the REIT's corporate entities, Charter Realty Holdings Ltd. (the "Company") does not have current taxes payable because it has a sufficient non-capital loss carryforward balance from previous years to apply against any taxable income in the current year. All of the other corporate entities that consolidate into the REIT are nominee corporations and do not have any taxable income and therefore do not have any current income tax payable.

19. CAPITAL MANAGEMENT

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

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

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

At March 31, 2012, the REIT is in compliance with its debt-to-gross book value ratio at 64.1%, (December 31, 2011 – 73.0%), which is calculated as follows:

As at		**March 31, 2012**		December 31, 2011
Debt				
Mortgages payable	**$**	**209,455,728**	$	155,639,032
Debentures, excluding fair value of convertible feature at issuance		**27,950,000**		27,950,000
Credit facilities, excluding fair value of warrants at funding date		**33,003,000**		19,003,000
	$	**270,408,728**	$	202,592,032
Gross Book Value of Assets				
Original cost of income producing properties [(2)]	**$**	**396,178,639**	$	266,725,072
Book value of all other assets		**22,135,988**		7,237,816
Deferred financing fees		**3,739,799**		3,566,944
	$	**422,054,426**	$	277,529,832
Debt-to-Gross Book Value including debentures		**64.1%**		73.0%
Debt-to-Gross Book Value excluding debentures		**57.4%**		62.9%

(1) Debt capital refers to secured debt, debentures and credit facilities excluding deferred financing costs, the value of the debentures' convertible feature, fair value of embedded derivatives, and unamortized above market interest rate adjustments.

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

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.

20. FINANCIAL INSTRUMENTS

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

	2012	2013	2014	2015	2016	Thereafter
Mortgages payable						
Interest	$ 9,322,960	$ 9,260,406	$ 7,948,302	$ 6,707,341	$ 4,702,099	$ 4,009,915
Principal payments	4,240,222	5,884,156	5,506,954	4,839,727	3,693,451	5,279,710
Balances due on maturity	-	21,027,933	24,870,435	32,267,407	28,376,013	73,469,720
Debentures						
Interest	2,300,000	2,300,000	2,300,000	2,300,000	1,150,000	-
Balances due on maturity	-	-	-	-	28,750,000	-
Credit facilties						
Interest	1,613,618	1,417,642	908,754	-	-	-
Balances due on maturity	-	19,700,000	13,500,000	-	-	-
Deferred rights obligations	3,420,170	-	-	-	-	-
Accounts and distributions payable						-
and other liabilities	7,079,637	-	-	-	-	-
Total	$ 27,976,607	$ 59,590,137	$ 55,034,445	$ 46,114,475	$ 66,671,563	$ 82,759,345

21. RISK MANAGEMENT

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

(a) *Interest rate risk*

The REIT is exposed to interest rate risk when funds are drawn under the Acquisition Facility, which has a floating rate of interest. 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 comprehensive income and earnings per unit. Based on the outstanding balance of the Acquisition Facility and variable rate mortgages at March 31, 2012, a 1% increase or decrease in the Bank's prime rate would have an impact of $97,000 on the REIT's annual interest expense (December 31, 2011 – $97,000) for the period then ended.

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

(b) *Credit risk*

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT attempts to mitigate this risk by conducting credit assessments on new lessees, by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The maximum credit risk exposure at March 31, 2012, and December 31, 2011 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.

(c) *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 (Note 7) 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.

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 does not 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.

22. RELATED PARTY TRANSACTIONS

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

The REIT entered into related party transactions with IGW Public LP ("IGW Public") and its subsidiary LAPP Global Asset Management Corp. ("LAPP"), the REIT's major unitholder and asset manager, respectively. 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*

Pursuant to the REIT's management agreement with IGW Public's subsidiary LAPP, LAPP provides the REIT with strategic, advisory, asset management and administrative services in exchange for an annual management fee equal to: (i) 0.30% of the "adjusted book value" of the REIT's assets, paid quarterly in arrears, and (ii) 0.25% of the "adjusted book value" of the REIT's assets, paid quarterly in arrears, if the "adjusted book value" of the REIT's assets is greater than $1 billion, and an acquisition fee equal to: (i) 0.50% of the "property cost" of such real property if prior to such acquisition the "adjusted book value" of the REIT's assets is less than or equal to $1 billion; and (ii) 0.40% of the "property cost" of such real property if prior to such acquisition the "adjusted book value" of the REIT's assets is greater than $1 billion. "Adjusted book value" equals the original property cost of the income producing properties, plus the book value of all other assets, and plus the add-back of accumulated amortization of deferred costs. In addition, the agreement allows for an incentive fee of 15% of fund from operations in excess of $0.70 per unit. The hurdle of funds from operations of $0.70 per unit increases by 1.5% per year.

The initial term of the management agreement is for a three year period, expiring on March 15, 2015. Upon expiry of the initial term, the management agreement renews automatically for successive three year terms, unless terminated in accordance with its terms. The management agreement may be terminated if the independent trustees make the decision to employ individuals directly by the REIT rather than by LAPP, where the independent trustees determine the cost of doing so would be less on an annual basis than the fees paid to LAPP under the management agreement; or if otherwise determined that it is in the best interests of the REIT to have the management of the REIT performed on a full time basis by individuals employed directly by the REIT. 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, LAPP is providing the services of certain executives, consultants and other employees to the REIT. As the REIT grows, LAPP 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 LAPP. All costs associated with the executives and personnel shall be borne by LAPP. In accordance with the terms of the management agreement, LAPP 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, LAPP will replace such individual with another employee with similar qualifications and experience.

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

	Three months ended March 31, **2012**	2011
Acquisition fees	**$ 621,606**	$ 154,850
Asset management fees	**328,150**	158,298
Property management and accounting fees	**44,456**	-
	$ 994,212	$ 313,148

The acquisition fees were capitalized to income producing properties in the condensed consolidated statements of financial position, in accordance with IAS 40. The management fees were charged to general and administrative expenses in the condensed consolidated statements of comprehensive income.

In connection with entering into the management agreement, the Manager and League Assets LP and IGW Public (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 and other related parties at March 31, 2012 are $23,322 (December 31, 2011 - $50,460). Subsequent to March 31, 2012 all amounts owing to the Manager and related parties have been paid. These amounts have been classified in accounts payable and other liabilities, and consist of outstanding reimbursements payable.

23. SUBSEQUENT EVENTS

Purchase of Grand Bend Towne Centre Property

On May 1, 2012, the REIT completed the acquisition of Grand Bend Towne Centre, an existing 36,100 square foot centre located in downtown Grand Bend, Ontario, for an aggregate purchase price of $7.9 million. The purchase price was funded by the assumption of an existing first mortgage of approximately $3.2 million with an effective interest rate of 3.85%, and was increased by another $0.8 million with an effective interest rate of 3.6%, for a total first mortgage of $4.0 million. The total first mortgage will mature in July 2017. The balance of the acquisition will be satisfied by the REIT's available funds on hand.

24. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated financial statements were approved and authorized for issue by the Board of Trustees on May 10, 2012.