

*Interim Consolidated Financial Statements of*

**CHARTER REAL ESTATE  
INVESTMENT TRUST**

*As At and for the Three and Six Months Ended  
June 30, 2009*

*(unaudited)*

# CHARTER REAL ESTATE INVESTMENT TRUST

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June 30, 2009 (unaudited)

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# CHARTER REAL ESTATE INVESTMENT TRUST

## Consolidated Balance Sheets

(unaudited)

	As at June 30, 2009	As at December 31, 2008 (restated - Note 3)
<b>ASSETS</b>		
Cash	\$ 1,063,047	\$ 1,404,271
Restricted cash (Note 4)	-	422,830
Accounts receivable (Note 5)	741,144	847,632
Income producing properties (Notes 3 and 6)	121,568,442	122,907,634
Intangible assets (Note 7)	10,671,537	11,952,241
Deferred costs (Notes 3 and 8)	367,992	160,734
Other assets	954,169	448,047
	<b>\$ 135,366,331</b>	<b>\$ 138,143,389</b>
<b>LIABILITIES</b>		
Secured debt (Note 9)	\$ 72,234,304	\$ 72,645,108
Credit facilities (Note 10)	19,500,000	19,700,000
Accounts payable and other liabilities	1,566,774	1,659,379
Intangible liabilities (Note 7)	310,213	352,814
	<b>93,611,291</b>	<b>94,357,301</b>
<b>UNITHOLDERS' EQUITY</b>	<b>41,755,040</b>	<b>43,786,088</b>
	<b>\$ 135,366,331</b>	<b>\$ 138,143,389</b>

APPROVED ON BEHALF OF THE BOARD OF TRUSTEES

*"John F. Driscoll"*

..... Trustee

*"Janet Graham"*

..... Trustee

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

**CHARTER REAL ESTATE INVESTMENT TRUST**  
**Consolidated Statements of Operations and Comprehensive Loss**  
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
		(restated - Note 3)		(restated - Note 3)
<b>REVENUE</b>				
Revenues from income producing properties	\$ 4,216,397	\$ 3,698,924	\$ 8,740,513	\$ 7,309,856
Interest income	1,368	15,295	12,445	30,136
	<b>4,217,765</b>	<b>3,714,219</b>	<b>8,752,958</b>	<b>7,339,992</b>
<b>EXPENSES</b>				
Operating costs from income producing properties	1,545,286	1,436,752	3,274,596	3,012,713
Interest expense on long-term secured debt and credit facilities	1,172,659	594,116	2,265,689	1,154,266
Interest expense on short-term secured debt and credit facilities	75,682	262,152	250,589	527,512
General and administrative expenses	281,455	257,924	540,515	575,524
Depreciation and amortization of income producing properties (Note 3)	938,167	760,308	1,863,959	1,491,858
Amortization of deferred costs (Note 3)	64,883	92,586	117,468	236,871
Amortization of intangible assets	802,821	455,984	1,280,704	894,903
Incentive unit option compensation	1,373	50,837	18,714	104,906
	<b>4,882,326</b>	<b>3,910,659</b>	<b>9,612,234</b>	<b>7,998,553</b>
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>\$ (664,561)</b>	<b>\$ (196,440)</b>	<b>\$ (859,276)</b>	<b>\$ (658,561)</b>
<b>LOSS PER UNIT (Note 13)</b>				
Basic	\$ (0.04)	\$ (0.01)	\$ (0.05)	\$ (0.04)
Diluted	\$ (0.04)	\$ (0.01)	\$ (0.05)	\$ (0.04)

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

**CHARTER REAL ESTATE INVESTMENT TRUST**  
**Consolidated Statements of Unitholders' Equity**  
(unaudited)

	Three months ended June 30, 2009		Six months ended June 30, 2009	
		2008 (restated - Note 3)		2008 (restated - Note 3)
<b>Trust Units (Note 11)</b>				
BALANCE, BEGINNING OF PERIOD	\$ 54,369,515	\$ 54,131,977	\$ 54,544,101	\$ 54,069,575
Issuance of units, net of costs	-	-	-	(15,321)
Issuance of units under distribution reinvestment plan, net of costs	206,624	353,182	373,217	430,905
Units cancelled under normal course issuer bid, net of costs	-	-	(341,179)	-
BALANCE, END OF PERIOD	54,576,139	54,485,159	54,576,139	54,485,159
<b>Contributed Surplus</b>				
BALANCE, BEGINNING OF PERIOD	1,029,052	329,501	769,048	275,432
Incentive unit option compensation	1,373	50,837	18,714	104,906
Value associated with units cancelled under normal course issuer bid	-	-	242,663	-
BALANCE, END OF PERIOD	1,030,425	380,338	1,030,425	380,338
<b>Deficit and Accumulated Other Comprehensive Loss</b>				
BALANCE, BEGINNING OF PERIOD (Note 3)	(12,449,513)	(7,438,452)	(11,527,061)	(5,606,190)
Net loss	(664,561)	(196,440)	(859,276)	(658,561)
Distributions to unitholders	(737,450)	(1,389,016)	(1,465,187)	(2,759,157)
BALANCE, END OF PERIOD	(13,851,524)	(9,023,908)	(13,851,524)	(9,023,908)
				-
TOTAL UNITHOLDERS' EQUITY	\$ 41,755,040	\$ 45,841,589	\$ 41,755,040	\$ 45,841,589
				-
Units issued and outstanding (Note 11)	18,359,282	17,824,199	18,359,282	17,824,199

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

**CHARTER REAL ESTATE INVESTMENT TRUST**  
**Consolidated Statements of Cash Flows**  
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
		(restated - Note 3)		(restated - Note 3)
<b>OPERATING ACTIVITIES</b>				
Net loss	\$ (664,561)	\$ (196,440)	\$ (859,276)	\$ (658,561)
Adjusted for non-cash items:				
Depreciation and amortization	1,805,872	1,308,878	3,262,132	2,623,632
Amortization of below-market rate leases	(21,300)	(23,727)	(42,601)	(49,413)
Non cash portion of interest expense	(6,599)	6,817	23,751	13,421
Incentive unit option compensation	1,373	50,837	18,714	104,906
Leasing costs	(8,500)	(24,846)	(34,614)	(27,096)
Net change in non-cash working capital	(329,027)	(838,380)	(437,515)	(569,622)
Net cash provided by operating activities	777,258	283,139	1,930,591	1,437,267
<b>FINANCING ACTIVITIES</b>				
Proceeds net of financing costs from new secured debt	-	-	-	(30,563)
Financing fees on credit facilities	(275,145)	-	(275,145)	-
Principal repayments on secured debt	(250,059)	(91,735)	(434,555)	(166,604)
Drawdowns on credit facilities	-	1,000,000	-	8,500,000
Repayments of credit facilities (Note 11)	(200,000)	-	(200,000)	-
Cancellation of units under normal course issuer bid	-	-	(96,280)	-
Cost of issuance and cancellation of units	(1,630)	(13,097)	(5,441)	(64,535)
Distributions to unitholders	(525,804)	(1,031,290)	(1,084,095)	(2,307,135)
Net cash provided by (used in) financing activities	(1,252,638)	(136,122)	(2,095,516)	5,931,163
<b>INVESTING ACTIVITIES</b>				
Income producing properties acquired (Note 6)	-	(99,824)	-	(7,270,638)
Additions to building and building improvements	(87,302)	(5,799)	(375,891)	(45,295)
Additions to tenant improvements	(163,238)	(98,310)	(223,238)	(174,870)
Net change in restricted cash (Notes 4 and 10 (a))	422,830	72,539	422,830	72,539
Net cash provided by (used in) investing activities	172,290	(131,394)	(176,299)	(7,418,264)
NET INCREASE (DECREASE) IN CASH DURING THE PERIOD	(303,090)	15,623	(341,224)	(49,834)
CASH, BEGINNING OF PERIOD	1,366,137	1,358,066	1,404,271	1,423,523
CASH, END OF PERIOD	\$ 1,063,047	\$ 1,373,689	\$ 1,063,047	\$ 1,373,689
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>				
Income taxes paid	\$ -	\$ -	\$ -	\$ -
Interest paid	\$ 1,311,675	\$ 886,662	\$ 2,497,101	\$ 1,463,824

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

# CHARTER REAL ESTATE INVESTMENT TRUST

## Notes to the Consolidated Financial Statements

June 30, 2009 (unaudited)

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### 1. ORGANIZATION

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

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

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

The units of the REIT trade under the symbol “CRH.UN”.

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The accounting principles used in these interim consolidated financial statements are consistent with those used in the REIT’s December 31, 2008 annual consolidated financial statements except as described in Note 3. These interim consolidated financial statements do not include all the information and disclosure required by Canadian GAAP for annual financial statements, and should be read in conjunction with the December 31, 2008 annual consolidated financial statements.

### 3. CHANGES IN ACCOUNTING POLICIES

#### *(a) Current accounting changes*

Credit risk and the fair value of financial assets and financial liabilities – EIC-173

In January 2009, the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which requires entities to consider their own credit risk as well as the credit risk of their counterparties when determining the fair value of financial assets and financial liabilities, including derivative instruments. The standard is effective for the first quarter of 2009 and is required to be applied retrospectively without restatement of prior periods. The adoption of this standard did not have an impact on the valuation of the REIT’s financial assets or financial liabilities.

# CHARTER REAL ESTATE INVESTMENT TRUST

## Notes to the Consolidated Financial Statements

June 30, 2009 (unaudited)

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### 3. CHANGES IN ACCOUNTING POLICIES (continued)

#### Goodwill and Intangible Assets - Section 3064

Effective January 1, 2009, the REIT adopted Section 3064, Goodwill and Intangible Assets, which was issued by the Canadian Institute of Chartered Accountants ("CICA"). This Section replaced the existing Section 3062, Goodwill and Intangible Assets and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset.

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

Deferred recoverable expenditures at December 31, 2008 having a net book value of \$115,168 have been restated to record them as operating costs in the years in which the expenditures were incurred, and the amortization taken on these expenditures has also been restated. The net effect of the restatement was a charge to the opening deficit on January 1, 2008 of \$158,999, a charge to the opening deficit on January 1, 2009 of \$115,168 and a decrease in the net loss for the six months ended June 30, 2008 of \$40,656. Deferred recoverable expenditures at December 31, 2008 having a net book value of \$110,443 were reclassified as building improvements and included in income producing properties. There was no impact to net loss per unit for the six months ended June 30, 2008.

Other certain comparative amounts have also been reclassified to reflect the presentation adopted in the current period relating to tenant improvements. Tenant improvements are now classified as income producing properties rather than deferred costs.

The details of the net effect of the restatement and reclassifications on the consolidated interim financial statements is summarized below:



# CHARTER REAL ESTATE INVESTMENT TRUST

## Notes to the Consolidated Financial Statements

June 30, 2009 (unaudited)

### 3. CHANGES IN ACCOUNTING POLICIES (continued)

	Income producing properties	Deferred costs	Unitholders' equity
December 31, 2008 balance sheet			
Balance as previously reported, as at December 31, 2008	\$ 122,556,262	\$ 627,274	\$ 43,901,256
Restatement to reflect change in accounting standard	110,443	(225,611)	(115,168)
Reclassification to reflect current period presentation	240,929	(240,929)	-
Balance as restated, as at December 31, 2008	\$ 122,907,634	\$ 160,734	\$ 43,786,088

  

	Depreciation and amortization of income producing properties	Amortization of deferred costs
Three months ended June 30, 2008 statement of operations and comprehensive loss		
Balance as previously reported for the three months ended June 30, 2008	\$ 752,023	\$ 134,671
Restatement to reflect change in accounting standard	-	(33,800)
Reclassification to reflect current period presentation	8,285	(8,285)
Balance as restated for the three months ended June 30, 2008	\$ 760,308	\$ 92,586

  

	Depreciation and amortization of income producing properties	Amortization of deferred costs
Six months ended June 30, 2008 statement of operations and comprehensive loss		
Balance as previously reported for the six months ended June 30, 2008	\$ 1,476,604	\$ 292,781
Restatement to reflect change in accounting standard	-	(40,656)
Reclassification to reflect current period presentation	15,254	(15,254)
Balance as restated for the six months ended June 30, 2008	\$ 1,491,858	\$ 236,871

  

	Deficit and Accumulated Other Comprehensive Loss as at	
Statements of unitholders' equity	January 1, 2009	January 1, 2008
Balance as previously reported	\$ (11,411,893)	\$ (5,447,191)
Restatement to reflect change in accounting standard	(115,168)	(158,999)
Balance as restated	\$ (11,527,061)	\$ (5,606,190)

# CHARTER REAL ESTATE INVESTMENT TRUST

## Notes to the Consolidated Financial Statements

June 30, 2009 (unaudited)

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### 3. CHANGES IN ACCOUNTING POLICIES (continued)

#### *(b) Future accounting changes*

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

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 for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. The CICA has issued a new accounting standard, CICA Handbook 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. CICA Handbook 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 CICA Handbook Sections 1581, Business Combinations and 1600, Consolidated Financial Statements.

CICA Handbook Section 1582 establishes standards for the accounting for a business combination. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook 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.

### 4. RESTRICTED CASH

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 have been completed, the lender reimbursed the REIT during the quarter ended June 30, 2009.

# CHARTER REAL ESTATE INVESTMENT TRUST

## Notes to the Consolidated Financial Statements

June 30, 2009 (unaudited)

### 5. ACCOUNTS RECEIVABLE

	June 30, 2009	December 31, 2008
Tenant receivables	\$ 306,141	\$ 324,235
Revenues receivable from income producing properties recognized on a straight-line basis	495,626	327,791
Corporate and other amounts receivable	65,893	284,847
	867,660	936,873
Allowance for doubtful accounts	(126,516)	(89,241)
	\$ 741,144	\$ 847,632

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

### 6. INCOME PRODUCING PROPERTIES

	Gross Book Value	June 30, 2009 Accumulated Depreciation/ Amortization	Net Book Value
Land	\$ 22,988,880	\$ -	\$ 22,988,880
Buildings	95,332,538	4,165,581	91,166,957
Building improvements	1,299,037	115,795	1,183,242
Tenant improvements	501,840	55,567	446,273
Tenant improvements acquired in an income producing property acquisition	7,841,416	2,058,326	5,783,090
	\$ 127,963,711	\$ 6,395,269	\$ 121,568,442

# CHARTER REAL ESTATE INVESTMENT TRUST

## Notes to the Consolidated Financial Statements

June 30, 2009 (unaudited)

### 6. INCOME PRODUCING PROPERTIES (continued)

	December 31, 2008 (restated see Note 3)		
	Gross Book Value	Accumulated Depreciation/Amortization	Net Book Value
Land	\$ 22,988,880	\$ -	\$ 22,988,880
Buildings	95,332,538	2,950,513	92,382,025
Building improvements	997,509	40,159	957,350
Tenant improvements	278,600	37,671	240,929
Tenant improvements acquired in an income producing property acquisition	7,841,416	1,502,966	6,338,450
	<u>\$ 127,438,943</u>	<u>\$ 4,531,309</u>	<u>\$ 122,907,634</u>

### 7. INTANGIBLE ASSETS AND LIABILITIES

	June 30, 2009		
	Gross Book Value	Accumulated Amortization	Net Book Value
Intangible assets			
Lease origination costs	\$ 7,608,768	\$ 2,564,094	\$ 5,044,674
Tenant relationships	7,007,106	1,380,243	5,626,863
	<u>\$ 14,615,874</u>	<u>\$ 3,944,337</u>	<u>\$ 10,671,537</u>
Intangible liabilities			
Below market in-place leases	\$ 476,471	\$ 166,258	\$ 310,213

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

# CHARTER REAL ESTATE INVESTMENT TRUST

## Notes to the Consolidated Financial Statements

June 30, 2009 (unaudited)

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### 8. DEFERRED COSTS

	June 30, 2009		
	Gross Book Value	Accumulated Amortization	Net Book Value
Leasing costs	\$ 132,446	\$ 24,147	\$ 108,299
Deferred financing costs	275,145	15,452	259,693
	<u>\$ 407,591</u>	<u>\$ 39,599</u>	<u>\$ 367,992</u>

	December 31, 2008 (restated see Note 3)		
	Gross Book Value	Accumulated Amortization	Net Book Value
Leasing costs	\$ 82,865	\$ 12,929	\$ 69,936
Deferred financing costs	772,869	682,071	90,798
	<u>\$ 855,734</u>	<u>\$ 695,000</u>	<u>\$ 160,734</u>

# CHARTER REAL ESTATE INVESTMENT TRUST

## Notes to the Consolidated Financial Statements

June 30, 2009 (unaudited)

### 9. SECURED DEBT

Secured debt can be summarized as follows:

	June 30, 2009	December 31, 2008
Mortgages payable	\$ 62,827,254	\$ 63,261,809
Corporate secured debt	10,000,000	10,000,000
	72,827,254	73,261,809
Unamortized balance of commitment and other fees	(592,950)	(616,701)
	\$ 72,234,304	\$ 72,645,108

Scheduled repayments of secured debt are as follows:

	Principal instalment payments	Balance maturing	Total
2009 (remainder of the year)	\$ 574,164	\$ -	\$ 574,164
2010	1,298,790	-	1,298,790
2011	1,697,518	-	1,697,518
2012	1,805,741	8,014,133	9,819,874
2013	1,479,292	25,627,933	27,107,225
Thereafter	2,244,032	30,085,651	32,329,683
Contractual obligations	\$ 9,099,537	\$ 63,727,717	\$ 72,827,254

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

#### (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 5.15% and 5.77% (December 31, 2008 – 5.15% and 5.77%) per annum and contractual rates ranging between 5.17% and 5.65% (December 31, 2008 – 5.17% and 5.65%) per annum with a weighted average effective interest rate of 5.48% (December 31, 2008 – 5.46%) per annum and a contractual rate of 5.41% (December 31, 2008 – 5.41%) per annum, and mature at various dates between 2012 and 2017.

# CHARTER REAL ESTATE INVESTMENT TRUST

## Notes to the Consolidated Financial Statements

June 30, 2009 (unaudited)

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### 9. SECURED DEBT (continued)

#### (b) Corporate secured debt

At June 30, 2009, total corporate secured debt of \$10,000,000 was outstanding (December 31, 2008 - \$10,000,000). This amount is comprised of two facilities (the "Facilities"). The first facility is an \$8,600,000 five-year facility that bears interest at 8.75% per annum (effective interest rate of 9.69%) on an interest-only basis. The facility can be prepaid without penalty at any time and is secured by (a) a first charge on the REIT's three Rona properties located in Exeter, Seaforth and Zurich, Ontario; (b) second charges on the Méga Centre property, the Châteauguay property and the Canadian Tire properties; and (c) a general security agreement relating to the above properties.

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

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

### 10. CREDIT FACILITIES

#### (a) Acquisition facility

In May 2009 the REIT early renewed its revolving operating and acquisition facility (the "Acquisition Facility") that it has with a Canadian chartered bank. The Acquisition Facility is now for a two-year term expiring on May 19, 2011 (previously a one-year term) for \$26,000,000 (previously \$31,275,000). The Acquisition Facility is secured by the REIT's Cornwall Square shopping centre. 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). At June 30, 2009, \$19,500,000 was outstanding under the Acquisition Facility (December 31, 2008 - \$19,700,000).

Amounts drawn down bear interest at a rate equal to the Bank's prime rate plus 3.50% per annum (previously Bank prime plus 1% per annum) or the Banker's Acceptance stamping fee plus 4.50% per annum (previously Banker's Acceptance stamping fee plus 2% 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 renewal of the facility is \$259,693 at June 30, 2009 (December 31, 2008 - \$73,906), and has been classified as deferred costs.

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

# CHARTER REAL ESTATE INVESTMENT TRUST

## Notes to the Consolidated Financial Statements

June 30, 2009 (unaudited)

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### 11. UNITHOLDERS' EQUITY

#### *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.

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

#### *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 expires on August 19, 2009. Any such purchases will be made by the REIT at the prevailing market price at the time of such purchases in accordance with the requirements of the Exchange. The REIT will not purchase in any 30 day period more than 357,704 units. During the six months ended June 30, 2009, 112,000 units were repurchased and cancelled at an average price of \$0.86 per unit. In the period from commencement of the bid to June 30, 2009, 283,900 units have been repurchased and cancelled at an average price of \$1.03 per unit.



# CHARTER REAL ESTATE INVESTMENT TRUST

## Notes to the Consolidated Financial Statements

June 30, 2009 (unaudited)

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### 11. UNITHOLDERS' EQUITY (continued)

#### *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, the aggregate amount of cash distributions made in respect of a calendar year shall not be less than the amount necessary to ensure that the REIT will not be liable to pay income tax under Part I of the Tax Act for such year.

#### *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:

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

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

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

# CHARTER REAL ESTATE INVESTMENT TRUST

## Notes to the Consolidated Financial Statements

June 30, 2009 (unaudited)

### 11. UNITHOLDERS' EQUITY (continued)

#### *Outstanding units*

	Three Months Ended June 30,			
	2009		2008	
	Units	\$	Units	\$
Units Outstanding, Beginning of Period	18,119,378	\$ 54,369,515	17,648,511	\$ 54,131,977
Units issued:				
Distribution reinvestment plan	239,904	208,254	175,688	353,182
Unit issue costs		(1,630)		-
Units Outstanding, End of Period	18,359,282	\$ 54,576,139	17,824,199	\$ 54,485,159

  

	Six Months Ended June 30,			
	2009		2008	
	Units	\$	Units	\$
Units Outstanding, Beginning of Period	18,023,485	\$ 54,544,101	17,601,912	\$ 54,069,575
Units issued:				
Distribution reinvestment plan	447,797	376,422	222,287	446,272
Unit issue costs		(3,205)		(30,688)
Units cancelled:				
Normal course issuer bid	(112,000)	(338,943)	-	-
Cancellation costs		(2,236)		-
Units Outstanding, End of Period	18,359,282	\$ 54,576,139	17,824,199	\$ 54,485,159

# CHARTER REAL ESTATE INVESTMENT TRUST

## Notes to the Consolidated Financial Statements

June 30, 2009 (unaudited)

### 12. 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).

A summary of the unit options granted to employees at June 30, 2009 and 2008 is as follows:

	Three Months Ended June 30, 2009		2008	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Options Outstanding, Beginning of Period	1,370,000	\$ 3.28	1,370,000	\$ 3.28
Options granted	-	-	-	-
Options forfeited	(152,000)	3.43	-	-
Options Outstanding, End of Period	1,218,000	\$ 3.26	1,370,000	\$ 3.28
Options Exercisable at End of Period	868,000	\$ 3.18	520,500	\$ 3.13
Weighted Average Fair Value Per Unit of Options Granted During the Period		N/A		N/A

	Six Months Ended June 30, 2009		2008	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Options Outstanding, Beginning of Period	1,370,000	\$ 3.28	1,370,000	\$ 3.28
Options granted	-	-	-	-
Options forfeited	(152,000)	3.43	-	-
Options Outstanding, End of Period	1,218,000	\$ 3.26	1,370,000	\$ 3.28
Options Exercisable at End of Period	868,000	\$ 3.18	520,500	\$ 3.13
Weighted Average Fair Value Per Unit of Options Granted During the Period		N/A		N/A

# CHARTER REAL ESTATE INVESTMENT TRUST

## Notes to the Consolidated Financial Statements

June 30, 2009 (unaudited)

### 12. INCENTIVE UNIT OPTIONS (continued)

The following table summarizes the information about the unit options outstanding as of June 30, 2009.

<b>Outstanding Number of Units</b>	<b>Expiry Date</b>	<b>Exercisable Number of Units</b>	<b>Exercise Price</b>
19,500	September 15, 2010	19,500	\$ 2.00
33,500	October 19, 2011	33,500	\$ 2.40
100,000	February 26, 2012	100,000	\$ 2.00
15,000	February 28, 2012	15,000	\$ 2.00
1,050,000	September 5, 2012	700,000	\$ 3.45
1,218,000		868,000	\$ 3.18

The weighted average remaining contractual life at June 30, 2009 for the exercisable unit options is approximately 3 years (June 30, 2008 – approximately 4 years).

### 13. PER UNIT CALCULATIONS

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

	Three Months Ended June 30,			
	2009		2008	
	Weighted Average Number of Units	Loss per Unit	Weighted Average Number of Units	Loss per Unit
Basic and Diluted	18,246,319	\$(0.04)	17,739,123	\$(0.01)

Six Months Ended June 30,				
2009		2008		
Weighted Average Number of Units	Loss per Unit	Weighted Average Number of Units	Loss per Unit	
Basic and Diluted	18,151,997	\$(0.05)	17,675,953	\$(0.04)

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

# CHARTER REAL ESTATE INVESTMENT TRUST

## Notes to the Consolidated Financial Statements

June 30, 2009 (unaudited)

### 14. CAPITAL MANAGEMENT

The REIT actively manages both its debt capital<sup>(1)</sup> and its equity capital with the objectives of ensuring that the REIT can continue to grow and operate its business. This ultimately allows the REIT to generate appropriate returns for its unitholders commensurate with the level of risk.

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

At June 30, 2009, the REIT is in compliance with its debt-to-gross book value ratio at 63.3%, which is calculated as follows:

	As at June 30, 2009	As at December 31, 2008
<b>Debt:</b>		
Gross value of secured debt <sup>(2)</sup>	\$ 72,827,254	\$ 73,261,809
Amounts drawn on available credit facilities	19,500,000	19,700,000
	<b>\$ 92,327,254</b>	<b>\$ 92,961,809</b>
<b>Gross Book Value of Assets:</b>		
Total assets	\$135,366,331	\$138,143,389
Accumulated depreciation and amortization	10,379,205	7,889,942
	<b>\$145,745,536</b>	<b>\$146,033,331</b>
<b>Debt-to-Gross Book Value</b>	<b>63.3%</b>	<b>63.7%</b>

<sup>(1)</sup> debt capital refers to secured debt and credit facilities.

<sup>(2)</sup> represents actual balance of mortgages and corporate secured debt without netting the unamortized balance of the financing fees.

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

# CHARTER REAL ESTATE INVESTMENT TRUST

## Notes to the Consolidated Financial Statements

June 30, 2009 (unaudited)

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### 14. CAPITAL MANAGEMENT (continued)

The REIT currently makes monthly cash distributions to unitholders in an amount of \$0.01333 per unit, representing an annualized distribution of \$0.16 per unit. In accordance with the REIT's Declaration of Trust, the REIT's Trustees have discretion in declaring distributions, provided that the aggregate amount of distributions made in respect of a calendar year shall not be less than the amount necessary to ensure that the REIT will not be liable to pay income tax under Part I of the Tax Act for such year. As a result of the REIT recording a loss under Part I of the Tax Act, all of the distributions paid in 2008 were considered discretionary.

### 15. FINANCIAL INSTRUMENTS

#### (a) *Fair value*

The REIT's cash, accounts receivable, accounts payable, credit facilities and other liabilities are carried at cost which approximates fair value due to their short-term nature. The fair value of the REIT's secured debt is based on discounted future cash flows, using interest rates ranging between 5.34% and 12.75% that reflect current market conditions for instruments of similar term and risk. The fair value of the REIT's secured debt is approximately \$70,000,000 at June 30, 2009 (December 31, 2008 - \$70,000,000).

#### (b) *Risk management*

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

##### Interest rate risk

Currently the REIT's only floating rate debt is the Acquisition Facility. An increase in interest rates would increase the interest cost of the REIT's Acquisition Facility and have an adverse effect on the REIT's net loss and loss per unit. Based on the outstanding balance of the Acquisition Facility at June 30, 2009, a 1% increase or decrease in the Bank's prime rate could impact the REIT's annual interest expense by approximately \$200,000.

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

##### Credit risk

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

# CHARTER REAL ESTATE INVESTMENT TRUST

## Notes to the Consolidated Financial Statements

June 30, 2009 (unaudited)

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### 16. RELATED PARTY TRANSACTIONS

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

(a) *Management agreement*

On March 27, 2007, the REIT formalized management arrangements with C.A. Realty Management Inc. (the "Manager"), a wholly-owned subsidiary of C.A. Bancorp Inc. Pursuant to a management agreement, the Manager will provide the REIT with strategic, advisory, asset management and administrative services in exchange for an annual management fee equal to 0.30% of the "adjusted book value" of the REIT's assets, paid quarterly in arrears, and an acquisition fee equal to 0.50% of the "property cost" of each property acquired by the REIT.

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

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

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

	Three Months Ended , June 30		Six Months Ended , June 30	
	2009	2008	2009	2008
Acquisition fees	\$ -	\$ -	\$ -	\$ 73,600
Management fees	\$ 109,309	\$ 88,529	\$ 219,166	\$ 176,350

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

# CHARTER REAL ESTATE INVESTMENT TRUST

## Notes to the Consolidated Financial Statements

June 30, 2009 (unaudited)

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### 16. RELATED PARTY TRANSACTIONS (continued)

#### (a) *Management agreement (continued)*

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

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

#### (b) *Related party balances*

Amounts owing to related parties at June 30, 2009 are \$93,231 (December 31, 2008 – \$120,792) and have been classified in accounts payable and other liabilities.