Interim Consolidated Financial Statements of

CHARTER REAL ESTATE INVESTMENT TRUST

September 30, 2008

(unaudited)

CHARTER REAL ESTATE INVESTMENT TRUST
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September 30, 2008 (unaudited)

CHARTER REAL ESTATE INVESTMENT TRUST
Consolidated Balance Sheets
(unaudited)

	As at September 30, 2008	As at December 31, 2007
ASSETS		
Cash	$ **1,201,715**	$ 1,423,523
Restricted cash (Note 4)	**408,936**	481,475
Income producing properties (Note 5)	**123,438,342**	85,718,514
Deferred costs (Note 6)	**609,511**	759,250
Intangible assets (Note 7)	**12,432,908**	9,935,606
Accounts receivable (Note 8)	**501,966**	223,927
Other assets (Note 9)	**1,423,352**	1,034,138
	$ **140,016,730**	$ 99,576,433
LIABILITIES		
Secured debt (Note 10)	$ **72,787,955**	$ 36,316,387
Credit facilities (Notes 11 and 18)	**19,700,000**	11,500,000
Intangible liabilities (Note 7)	**376,148**	438,016
Accounts payable and other liabilities	**2,317,487**	2,424,214
	95,181,590	50,678,617
UNITHOLDERS' EQUITY	**44,835,140**	48,897,816
	$ **140,016,730**	$ 99,576,433

APPROVED ON BEHALF OF THE BOARD OF TRUSTEES

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

"Janet Graham"
…………………………………… Trustee

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	**2008**	2007
REVENUE				
Revenues from rental properties	**$ 3,921,684**	$ 2,034,248	**$ 11,231,540**	$ 3,228,359
Interest income	**16,523**	13,866	**46,659**	34,399
	3,938,207	2,048,114	**11,278,199**	3,262,758
EXPENSES				
Rental property operating costs	**1,515,807**	746,235	**4,528,520**	1,093,444
Interest expense on long-term secured debt and credit facilities	**742,057**	435,766	**1,896,323**	955,499
Interest expense on short-term secured debt and credit facilities	**269,296**	184,425	**796,808**	371,825
Incentive unit option compensation	**42,471**	150,755	**147,377**	193,444
General and administrative expenses	**330,599**	339,477	**906,123**	842,535
Depreciation and amortization of income producing properties	**811,571**	510,039	**2,288,175**	699,213
Amortization of deferred costs	**100,088**	119,601	**392,869**	177,865
Amortization of intangible assets	**467,177**	118,897	**1,362,080**	462,187
Corporate transaction costs and other (Note 15)	**-**	464,733	**-**	1,218,800
	4,279,066	3,069,928	**12,318,275**	6,014,812
NET LOSS AND COMPREHENSIVE LOSS	**$ (340,859)**	$ (1,021,814)	**$ (1,040,076)**	$ (2,752,054)
LOSS PER UNIT (Note 14)				
Basic	**$ (0.02)**	$ (0.09)	**$ (0.06)**	$ (0.57)
Diluted	**$ (0.02)**	$ (0.09)	**$ (0.06)**	$ (0.57)

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 September 30, **2008**	Three months ended September 30, 2007	Nine months ended September 30, **2008**	Nine months ended September 30, 2007
Trust Units (Note 12)				
BALANCE, BEGINNING OF PERIOD	**$ 54,485,157**	$ 6,814,054	**$ 54,069,575**	$ 902,869
Issuance of units, net of costs	**-**	47,281,107	**(15,321)**	53,156,292
Issuance of units under distribution reinvestment plan, net of costs	**383,668**	-	**814,571**	-
Units cancelled under normal course issuer bid, net of costs	**(49,222)**	-	**(49,222)**	-
Proceeds from exercise of options	**-**	-	**-**	30,000
Value associated with exercise of options	**-**	-	**-**	6,000
BALANCE, END OF PERIOD	**54,819,603**	54,095,161	**54,819,603**	54,095,161
Contributed Surplus				
BALANCE, BEGINNING OF PERIOD	**380,338**	66,719	**275,432**	30,030
Incentive unit option compensation	**42,471**	150,755	**147,377**	193,444
Value associated with units cancelled under normal course issuer bic	**16,800**	-	**16,800**	-
Value associated with exercise of options	**-**	-	**-**	(6,000)
BALANCE, END OF PERIOD	**439,609**	217,474	**439,609**	217,474
Deficit and Accumulated Other Comprehensive Loss				
BALANCE, BEGINNING OF PERIOD	**(8,905,565)**	(1,894,003)	**(5,447,191)**	(163,763)
Net loss	**(340,859)**	(1,021,814)	**(1,040,076)**	(2,752,054)
Distributions to unitholders	**(1,177,648)**	(875,258)	**(3,936,805)**	(875,258)
BALANCE, END OF PERIOD	**(10,424,072)**	(3,791,075)	**(10,424,072)**	(3,791,075)
TOTAL UNITHOLDERS' EQUITY	**$ 44,835,140**	$ 50,521,560	**$ 44,835,140**	$ 50,521,560
Units issued and outstanding (Note 12)	**18,001,858**	17,601,912	**18,001,858**	17,601,912

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

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

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
OPERATING ACTIVITIES				
Net loss	**$ (340,859)**	$ (1,021,814)	**$ (1,040,076)**	$ (2,752,054)
Adjusted for non-cash items:				
Depreciation and amortization	**1,378,836**	748,537	**4,043,124**	1,339,265
Amortization of below-market rate leases	**(23,332)**	(7,773)	**(72,745)**	(13,160)
Non cash portion of interest expense	**12,084**	7,342	**25,505**	7,342
Incentive unit option compensation	**42,471**	150,755	**147,377**	193,444
Leasing costs	**(20,480)**	(14,074)	**(47,576)**	(14,074)
Deferred recoverable expenditures	**(15,707)**	(165,103)	**(56,957)**	(165,103)
Net change in non-cash working capital	**(15,509)**	273,047	**(570,976)**	483,822
Net cash provided by (used in) operating activities	**1,017,504**	(29,083)	**2,427,676**	(920,518)
FINANCING ACTIVITIES				
Proceeds net of financing costs from new secured debt	**28,766,849**	-	**28,736,286**	27,353,579
Principal repayments on secured debt	**(92,936)**	-	**(259,540)**	-
Drawdowns on credit facilities (Note 11)	**1,500,000**	8,000,000	**10,000,000**	18,500,000
Repayments of credit facilities (Note 11)	**(1,800,000)**	(14,500,000)	**(1,800,000)**	(14,500,000)
Standby fees on credit facilities	**(127,368)**	(211,821)	**(127,368)**	(451,259)
Cancellation of units under normal course issuer bid	**(28,950)**	-	**(28,950)**	-
Proceeds from issuance of units (Note 12)	**-**	50,873,396	**-**	56,874,446
Proceeds from exercise of unit options (Note 12)	**-**	-	**-**	30,000
Cost of issuance and cancellation of units	**(3,472)**	(2,543,651)	**(68,007)**	(2,660,946)
Distributions to unitholders	**(1,015,667)**	(419,896)	**(3,322,802)**	(419,896)
Net cash provided by financing activities	**27,198,456**	41,198,028	**33,129,619**	84,725,924
INVESTING ACTIVITIES				
Income producing properties acquired (Note 5)	**(27,752,679)**	(42,604,608)	**(35,023,317)**	(82,302,648)
Additions to building and building improvements	**(593,325)**	(50,586)	**(611,525)**	(50,586)
Additions to tenant improvements	**(41,930)**	(37,966)	**(216,800)**	(37,966)
Net change in restricted cash	**-**	-	**72,539**	(525,000)
Net cash used in investing activities	**(28,387,934)**	(42,693,160)	**(35,779,103)**	(82,916,200)
NET (DECREASE) INCREASE IN CASH DURING THE PERIOD	**(171,974)**	(1,524,215)	**(221,808)**	889,206
CASH, BEGINNING OF PERIOD	**1,373,689**	3,218,548	**1,423,523**	805,127
CASH, END OF PERIOD	**$ 1,201,715**	$ 1,694,333	**$ 1,201,715**	$ 1,694,333

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

	Three months 2008	Three months 2007	Nine months 2008	Nine months 2007
Income taxes paid	**$ -**	$ -	**$ -**	$ -
Interest paid	**$ 935,210**	$ 721,927	**$ 2,649,902**	$ 1,155,334

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

1. ORGANIZATION

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

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

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

The 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, 2007 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, 2007 annual consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the REIT adopted three new accounting presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"). The policies were principally applied on a retroactive basis with restatement of prior periods and include the following:

(a) Capital disclosures – CICA Section 1535

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The REIT has included these disclosures in Note 16.

3. CHANGES IN ACCOUNTING POLICIES (continued)

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

Sections 3862 and 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation. These new sections revise and enhance disclosure requirements, and carry forward unchanged existing presentation requirements with respect to financial instruments. These new standards require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Additional disclosures have been included in Notes 8, 10 and 17 to comply with these standards.

4. RESTRICTED CASH

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

5. INCOME PRODUCING PROPERTIES

	September 30, 2008			December 31, 2007
	Gross Book Value	**Accumulated Depreciation/ Amortization**	**Net Book Value**	Net Book Value
Land	**$ 22,988,880**	**$ -**	**$ 22,988,880**	$ 12,987,047
Buildings	**95,341,713**	**2,341,755**	**92,999,958**	68,126,035
Building improvements	**854,146**	**17,144**	**837,002**	70,865
Tenant improvements acquired in a rental property acquisition	**7,841,416**	**1,228,914**	**6,612,502**	4,534,567
	$ 127,026,155	**$ 3,587,813**	**$ 123,438,342**	$ 85,718,514

Nine months ended September 30, 2008 acquisitions

(a) Canadian Tire Acquisition

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

5. INCOME PRODUCING PROPERTIES (continued)

Nine months ended September 30, 2008 acquisitions (continued)

(b) Place Val Est

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

Nine months ended September 30, 2007 acquisitions

(a) Rona properties

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

(b) Méga Centre

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

(c) Cornwall Square Shopping Centre

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

5. INCOME PRODUCING PROPERTIES (continued)

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

	Three Months Ended September 30,	
	2008	2007
Land	**$ 6,500,673**	$ 3,190,843
Building	**16,167,946**	37,173,984
Tenant improvements	**2,654,150**	2,764,147
Intangible assets		
Lease origination costs	**707,773**	(2,337,068)
Tenant relationships	**1,953,793**	2,202,254
Intangible liabilities		
Below market in-place leases	**-**	(199,155)
	27,984,335	42,795,005
Working capital acquired, net	**-**	82,231
Total purchase price including closing costs	**$ 27,984,335**	$ 42,877,236

The acquisitions were funded as follows:		
Proceeds from first mortgage	**$ 19,050,000**	$ -
Corporate secured debt	**8,702,679**	-
Cash	**-**	42,604,608
	27,752,679	42,604,608
Change in closing costs included in accounts payable	**231,656**	272,628
Total outlay for acquisitions	**$ 27,984,335**	$ 42,877,236

5. INCOME PRODUCING PROPERTIES (continued)

	Nine Months Ended September 30, 2008	2007
Land	**$ 10,001,833**	$ 11,338,548
Building	**26,391,720**	57,896,474
Tenant improvements	**2,832,890**	4,344,639
Intangible assets		
Lease origination costs	**1,456,244**	5,458,211
Tenant relationships	**2,403,138**	3,912,154
Intangible liabilities		
Below market in-place leases	**(10,877)**	(321,864)
	43,074,948	82,628,162
Working capital acquired, net	**279,249**	20,709
Total purchase price including closing costs	**$ 43,354,197**	$ 82,648,871
Assumption of first mortgage on acquisition	**8,099,224**	-
Purchase price net of liablities assumed	**$ 35,254,973**	$ 82,648,871

	2008	2007
The acquisitions were funded as follows:		
Proceeds from first mortgage,		
net of reserve fund in restricted cash	**$ 19,050,000**	$ 27,000,000
Corporate secured debt and credit facilities	**15,973,317**	10,500,000
Cash	**-**	44,802,648
	35,023,317	82,302,648
Change in closing costs included in accounts payable	**231,656**	346,223
Total outlay for acquisitions	**$ 35,254,973**	$ 82,648,871

The REIT is continuing to evaluate the fair value of the assets acquired and based on this ongoing evaluation, the purchase price allocation prepared at September 30, 2008 may be adjusted in future periods.

6. DEFERRED COSTS

	September 30, 2008			December 31, 2007
	Gross Book Value	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Leasing costs	**$ 72,509**	**$ 9,272**	**$ 63,237**	$ 46,074
Tenant improvements	**265,285**	**29,492**	**235,793**	240,788
Deferred recoverable expenditures	**243,216**	**66,273**	**176,943**	158,999
Deferred financing costs	**766,952**	**633,414**	**133,538**	313,389
	$ 1,347,962	**$ 738,451**	**$ 609,511**	$ 759,250

7. INTANGIBLE ASSETS AND LIABILITIES

	September 30, 2008			December 31, 2007
	Gross Book Value	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Intangible assets				
Lease origination costs	**$ 7,608,768**	**$ 1,562,845**	**$ 6,045,923**	$ 5,555,086
Tenant relationships	**7,007,106**	**620,121**	**6,386,985**	4,380,520
	$ 14,615,874	**$ 2,182,966**	**$ 12,432,908**	$ 9,935,606
Intangible liabilities				
Below market in-place leases	**$ 476,471**	**$ 100,323**	**$ 376,148**	$ 438,016

8. ACCOUNTS RECEIVABLE

	September 30, 2008	December 31, 2007
Tenant receivables	**$ 203,175**	$ 221,086
Rental revenue recognized on a straight-line basis	**236,337**	88,057
Corporate and other amounts receivable	**151,170**	3,500
	590,682	312,643
Allowance for doubtful accounts	**(88,716)**	(88,716)
	$ 501,966	$ 223,927

The REIT records a provision for doubtful accounts on tenant rent receivables and straight-line rent receivables on a tenant-by–tenant basis, 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.

9. OTHER ASSETS

	September 30, 2008	December 31, 2007
Deposits and costs on properties under option	$ 433,329	$ 919,266
Prepaid expenses and other assets	990,023	114,872
	$ 1,423,352	$ 1,034,138

10. SECURED DEBT

Secured debt consists of mortgages payable and corporate secured debt.

Scheduled repayments of secured debt are as follows:

	Principal instalment payments	Balance maturing	Total
2008 (remainder of the year)	152,875	-	$ 152,875
2009	1,008,719	-	1,008,719
2010	1,298,790	-	1,298,790
2011	1,697,518	-	1,697,518
2012	1,805,741	8,014,133	9,819,874
Thereafter	3,723,324	55,713,584	59,436,908
Contractual obligations	9,686,967	63,727,717	73,414,684
Unamortized debt financing costs			(626,729)
			$ 72,787,955

Commitment and other fees of $664,066 were incurred on the secured debt. At September 30, 2008, the unamortized balance of these fees is $626,729.

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

10. SECURED DEBT (continued)

(a) Mortgages payable

At September 30, 2008 mortgages payable are secured by the income-producing properties to which they relate and some of the mortgages also have recourse to the REIT. The mortgages bear interest at effective rates ranging between 5.154% and 5.77% (contractual rates between 5.166% and 5.65%) per annum with a weighted average effective interest rate of 5.46% (contractual rate of 5.41%) per annum, and mature at various dates between 2012 and 2017.

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

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

(b) Corporate secured debt

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

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

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

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

11. CREDIT FACILITIES

(a) *Acquisition facility*

In 2007, the REIT obtained a $32,250,000 revolving operating and acquisition facility (the "Acquisition Facility") from a Canadian chartered bank for a term of 364 days expiring on August 8, 2008. The Acquisition Facility is secured by the REIT's Cornwall Square shopping centre. The Acquisition Facility has been renewed effective August 9, 2008 by the lender in the amount of $31,275,000 for another 364 days. Pursuant to the terms of the Acquisition Facility, from time to time, the amount permitted to be drawn under the Acquisition Facility may be adjusted based on certain financial tests. Under the renewed terms, any amounts drawn in excess of $29,190,000 must be repaid within 120 days.

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

For the nine months ended September 30, 2008, an additional $10,000,000 was drawn and $1,800,000 was repaid under the Acquisition Facility for a total amount outstanding at September 30, 2008 of $19,700,000.

During the three months ended September 30, 2008, financing fees of $116,698 were incurred on the renewal of the Acquisition Facility. At September 30, 2008, the unamortized balance of these financing fees is $99,754 and has been classified as deferred costs.

11. CREDIT FACILITIES (continued)

(b) Bridge financing

In 2007, KingSett Capital and C.A. Bancorp Inc. (the REIT's major unitholder) (see Notes 1 and 18) had each provided the REIT with acquisition facilities, for total facilities available of $24,000,000. Of the $24,000,000 available, a total of $10,500,000 had been drawn in order to finance the Méga Centre acquisition, with $6,000,000 being drawn under the KingSett Capital facility and $4,500,000 being drawn under the C.A. Bancorp Inc. facility. Both facilities were repaid during 2007.

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

The C.A. Bancorp Inc. facility is a $14,000,000 facility. The facility bears interest at an annual rate of 12% and expires on April 1, 2009. Any principal drawn is repayable without penalty. The facility is secured by a general security agreement with the REIT, which is subordinate to the security held by other lenders. The facility can be used to fund future acquisitions subject to lender approval of the particular acquisition and other restrictions. At September 30, 2008, there were no amounts drawn on this facility.

Commitment and other fees of $357,314 were incurred on these facilities, of which $10,670 were incurred during the three months ended September 30, 2008. At September 30, 2008, the unamortized balance of these fees is $33,784 and has been classified as deferred costs.

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

12. UNITHOLDERS' EQUITY

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

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

12. UNITHOLDERS' EQUITY (continued)

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

On August 15, 2008, the REIT announced its intention to purchase up to 894,262 units for cancellation by way of a normal course issuer bid through the facilities of the TSX Venture Exchange (the "Exchange"). The normal course issuer bid expires on August 19, 2009. Any such purchases will be made by the REIT at the prevailing market price at the time of such purchases in accordance with the requirements of the Exchange. The REIT will not purchase in any 30 day period more than 357,704 units. During the three and nine months ended September 30, 2008, 15,000 units have been repurchased and cancelled at an average price of $1.93 per unit. Subsequent to September 30, 2008 and up to November 5, 2008, 25,100 units have been repurchased and cancelled at an average price of $1.33 per unit.

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

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

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

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

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

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 500,000 additional units to accommodate the issuance of units under the Plan.

12. UNITHOLDERS' EQUITY (continued)

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

Issued:

	Three Months Ended September 30,			
	2008		2007	
	Units	**$**	Units	$
Units Outstanding, Beginning of Period	**17,824,199**	**$ 54,485,159**	2,856,000	$ 6,814,054
Units issued:				
Distribution reinvestment plan	**192,659**	**383,668**	-	-
Public offering	**-**	**-**	14,745,912	50,873,396
Unit issue costs	**-**	**-**	-	(3,592,289)
Units cancelled:			-	-
Normal course issuer bid	**(15,000)**	**(45,750)**	-	-
Cancellation costs	**-**	**(3,474)**	-	-
Units Outstanding, End of Period	**18,001,858**	**$ 54,819,603**	17,601,912	$ 54,095,161

12. UNITHOLDERS' EQUITY (continued)

Issued:

	Nine Months Ended September 30,					
	2008			2007		
	Units		**$**	Units		$
Units Outstanding, Beginning of Period	**17,601,912**	**$**	**54,069,575**	600,000	$	902,869
Units issued:						
Distribution reinvestment plan	**414,946**		**829,940**	-		-
Public offering	**-**		**-**	14,745,912		50,873,396
Private placements	**-**		**-**	2,241,000		6,001,050
Proceeds from exercise of options	**-**		**-**	15,000		30,000
Value associated with exercise of options	**-**		**-**	-		6,000
Unit issue costs	**-**		**(30,688)**	-		(3,718,154)
Units cancelled:				-		-
Normal course issuer bid	**(15,000)**		**(45,750)**	-		-
Cancellation costs	**-**		**(3,474)**	-		-
Units Outstanding, End of Period	**18,001,858**	**$**	**54,819,603**	17,601,912	$	54,095,161

13. INCENTIVE UNIT OPTIONS

The REIT's incentive unit option plan provides that the maximum number of units which may be reserved and set aside for issue under the incentive unit option plan shall not exceed 10% of the issued and outstanding units at the time of the option grant (on a non-diluted basis).

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

A summary of the unit options granted at September 30, 2008 and 2007 is as follows:

Employees incentive unit options

	Three Months Ended September 30,					
	2008			2007		
	Units		**Weighted Average Exercise Price**	Units		Weighted Average Exercise Price
Options Outstanding, Beginning of Period	**1,370,000**	**$**	**3.28**	170,000	$	2.08
Options granted	**-**		**-**	1,200,000		3.45
Options Outstanding, End of Period	**1,370,000**	**$**	**3.28**	1,370,000	$	3.28
Options Exercisable at End of Period	**920,500**	**$**	**3.27**	471,000	$	3.24
Weighted Average Fair Value Per Unit of Options Granted During the Period		**$**	**-**		$	0.31

13. INCENTIVE UNIT OPTIONS (continued)

Employees incentive unit options (continued)

	Nine Months Ended September 30, 2008			2007		
	Units		**Weighted Average Exercise Price**	Units		Weighted Average Exercise Price
Options Outstanding, Beginning of Period	**1,370,000**	**$**	**3.28**	55,000	$	2.24
Options granted	-		-	1,315,000		3.32
Options Outstanding, End of Period	**1,370,000**	**$**	**3.28**	1,370,000	$	3.28
Options Exercisable at End of Period	**920,500**	**$**	**3.27**	471,000	$	3.24
Weighted Average Fair Value Per Unit of Options Granted During the Period		**$**	-		$	0.34

Non-employees incentive unit options

There are currently no non-employees incentive unit options outstanding. During the nine months ended September 30, 2007, 15,000 options were exercised with a weighted average exercise price of $2.00 per unit.

The following table summarizes the information about the unit options outstanding as of September 30, 2008.

Outstanding Number of Units	Expiry Date	Exercisable Number of Units		Exercise Price
21,500	September 15, 2010	21,500	$	2.00
33,500	October 19, 2011	22,333	$	2.40
100,000	February 26, 2012	66,667	$	2.00
15,000	February 28, 2012	10,000	$	2.00
1,200,000	September 5, 2012	800,000	$	3.45

The weighted average remaining contractual life at September 30, 2008 for the exercisable unit options is 3.8 years (September 30, 2007 – 4.8 years).

14. PER UNIT CALCULATIONS

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

	Three Months Ended September 30,			
	2008		2007	
	Weighted Average Number of Units	**Loss per Unit**	Weighted Average Number of Units	Loss per Unit
Basic and Diluted	**17,919,616**	**$(0.02)**	10,918,792	$(0.09)

	Nine Months Ended September 30,			
	2008		2007	
	Weighted Average Number of Units	**Loss per Unit**	Weighted Average Number of Units	Loss per Unit
Basic and Diluted	**17,757,767**	**$(0.06)**	4,811,538	$(0.57)

15. CORPORATE TRANSACTION COSTS AND OTHER

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

16. CAPITAL MANAGEMENT

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

The real estate industry is capital intensive by nature. As a result, debt capital is a very important aspect to 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. Although the REIT does not have a specific debt-to-gross book value threshold imposed on it in its Declaration of Trust, the REIT may operate (especially in the short-term depending on acquisition levels) at a debt-to-gross book value ratio in the 70% range. In the long-term, as the REIT grows, it is anticipated that the REIT will maintain a debt-to-gross book value ratio of 65% or less. 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 September 30, 2008, the REIT is in compliance with its debt-to-gross book value ratio at 63.5%, which is calculated as follows:

	As at September 30, 2008	As at December 31, 2007
Debt:		
Gross value of secured debt [(2)]	**$ 73,414,684**	$ 36,525,000
Amounts drawn on available credit facilities	**19,700,000**	11,500,000
	$ 93,114,684	$ 48,025,000
Gross Book Value of Assets:		
Total assets	**$140,016,730**	$99,576,433
Accumulated depreciation and amortization	**6,509,230**	2,466,106
	$146,525,960	$102,042,539
Debt-to-Gross Book Value	**63.5%**	47.1%

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

16. CAPITAL MANAGEMENT (continued)

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

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 2007 were considered discretionary.

17. FINANCIAL INSTRUMENTS

(a) Fair value

The REIT's cash, restricted cash, accounts receivable, accounts payable, credit facilities and other liabilities are carried at cost which approximates fair value due to their short-term nature. The fair value of the REIT's secured debt are based on discounted future cash flows, using interest rates ranging between 6.22% and 12.5% that reflect current market conditions for instruments of similar term and risk. The fair value of the REIT's secured debt is approximately $66,700,000 at September 30, 2008 ($34,700,000 at December 31, 2007).

(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 share. Based on the outstanding balance of the Acquisition Facility at September 30, 2008, a 1% increase or decrease in the Bank's prime rate could impact the REIT's annual interest expense by approximately $200,000.

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

17. FINANCIAL INSTRUMENTS (continued)

(b) Risk management (continued)

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.

18. RELATED PARTY TRANSACTIONS

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

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

In connection with the C.A. Bancorp Inc. credit facility as described in Note 11, during the nine months ended September 30, 2007, total standby fees of $70,000 were paid to C.A. Bancorp Inc. and are classified as deferred costs on the consolidated balance sheets. Interest paid or payable to C.A. Bancorp Inc. for the three and nine months ended September 30, 2008 amounted to $ - (three months ended September 30, 2007 - $59,178 and nine months ended September 30, 2007 - $204,986).

(b) Management agreement

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

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

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

18. RELATED PARTY TRANSACTIONS (continued)

(b) Management agreement (continued)

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

	September 30,		September 30,	
	2008	2007	**2008**	2007
Acquisition fees	**$ 136,500**	$ 208,500	**$ 210,100**	$ 392,000
Management fees	**$ 109,921**	$ 64,152	**$ 286,271**	$ 130,958

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

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

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

(c) Related party balances

Amounts owing to related parties at September 30, 2008 is $230,499 (December 31, 2007 – $148,267) and have been classified in accounts payable and other liabilities.

19. COMPARATIVE AMOUNTS

Certain comparative amounts on the statements of operations and comprehensive loss and the statements of cash flows have been reclassified to reflect the presentation adopted in the current period.