Consolidated Financial Statements of

PARTNERS REAL ESTATE INVESTMENT TRUST

For the year ended December 31, 2011

Deloitte.

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Independent Auditor's Report

To the Unitholders of Partners Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Partners Real Estate Investment Trust, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive income, consolidated statements of changes in unitholders' equity and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Partners Real Estate Investment Trust as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte + Touche LLP

Chartered Accountants

March 15, 2012
Calgary, Alberta

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PARTNERS REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Financial Position

As at		December 31, 2011		December 31, 2010 (1)		January 1, 2010 (1)
ASSETS						
Non-current assets						
Income producing properties (Note 5)	**$**	**258,510,224**	$	155,907,020	$	130,582,867
Deferred financing costs (Note 10)		**-**		68,899		-
		258,510,224		155,975,919		130,582,867
Current assets						
Other assets (Note 6)		**4,526,314**		3,291,985		346,206
Accounts receivable (Note 7)		**868,733**		268,699		257,811
Cash		**1,842,769**		6,869,242		1,074,765
		7,237,816		10,429,926		1,678,782
	$	**265,748,040**	$	166,405,845	$	132,261,649
LIABILITIES						
Non-current liabilities						
Mortgages payable (Note 8)	**$**	**152,598,529**	$	104,942,506	$	70,427,173
Debentures (Note 9)		**26,889,496**		-		-
Revolving credit facilities (Note 10)		**18,545,886**		-		20,305,872
		198,033,911		104,942,506		90,733,045
Current liabilities						
Mortgages payable (Note 8)		**3,920,157**		2,144,221		1,298,790
Accounts payable and other liabilities		**4,891,719**		5,046,083		2,363,034
Distributions payable		**425,879**		412,687		246,776
		9,237,755		7,602,991		3,908,600
		207,271,666		112,545,497		94,641,645
Exchangeable LP units (Note 11)		**2,070,000**		-		-
		209,341,666		112,545,497		94,641,645
UNITHOLDERS' EQUITY		**56,406,374**		53,860,348		37,620,004
	$	**265,748,040**	$	166,405,845	$	132,261,649

Subsequent Events (Note 24)

(1) Refer to Note 3 for an explanation of the effects of the adoption of IFRS.

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

PARTNERS REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Comprehensive Income

	Year ended December 31, 2011	2010[1]
Revenues from income producing properties (Note 12)	**$ 24,164,527**	$ 16,675,123
Property operating expenses	**(3,779,313)**	(3,080,956)
Realty taxes	**(4,529,163)**	(3,408,063)
Property management fees	**(545,415)**	(416,364)
	15,310,636	9,769,740
Other expenses:		
Financing costs	**9,577,253**	5,562,803
General and administrative expenses	**1,781,006**	1,115,376
Other transaction costs (Note 13)	**730,573**	1,037,114
	12,088,832	7,715,293
Income before fair value gains	**3,221,804**	2,054,447
Fair value gains (Note 14)	**4,031,626**	2,649,388
Net income and comprehensive income	**$ 7,253,430**	$ 4,703,835
EARNINGS PER UNIT (Note 15)		
Basic	**$ 0.94**	$ 0.87
Diluted	**$ 0.87**	$ 0.87

[1] Refer to Note 3 for an explanation of the effects of the adoption of IFRS.

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

PARTNERS REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Changes in Unitholders' Equity

	Year ended December 31, 2011	2010[1]
Trust Units (Note 16)		
BALANCE, BEGINNING OF YEAR	**$ 69,848,343**	$ 54,697,477
Issuance of units under rights offering and standby agreement, net of costs	**-**	8,415,079
Issuance of units under public offering, net of costs	**-**	6,470,807
Issuance of units under distribution reinvestment plan, net of costs	**260,260**	264,980
BALANCE, END OF YEAR	**70,108,603**	69,848,343
Contributed Surplus		
BALANCE, BEGINNING OF YEAR	**569,830**	569,830
BALANCE, END OF YEAR	**569,830**	569,830
Deficit and Accumulated Other Comprehensive Loss		
BALANCE, BEGINNING OF YEAR	**(16,557,825)**	(17,647,303)
Net income and comprehensive income	**7,253,430**	4,703,835
Distributions to unitholders	**(4,967,664)**	(3,614,357)
BALANCE, END OF YEAR	**(14,272,059)**	(16,557,825)
TOTAL UNITHOLDERS' EQUITY	**$ 56,406,374**	$ 53,860,348

[1] Refer to Note 3 for an explanation of the effects of the adoption of IFRS.

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

PARTNERS REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Cash Flows

	Year ended December 31, 2011	2010[1]
OPERATING ACTIVITIES		
Net income	**$ 7,253,430**	$ 4,703,835
Adjusted for non-cash items:		
Fair value gains	**(4,031,626)**	(2,649,388)
Employee options costs	**57,000**	-
Straight line rent	**(599,582)**	(316,904)
Amortization of tenant incentives and direct leasing costs	**228,223**	214,999
Amortization of deferred financing costs	**644,220**	311,224
Net change in working capital	**(2,041,727)**	(273,618)
Cash flow provided by (used in) operating activities (Note 17)	**1,509,938**	1,990,148
FINANCING ACTIVITIES		
Proceeds from secured debt	**51,050,000**	27,800,240
Financing costs of secured debt	**(701,262)**	(397,662)
Principal repayments on secured debt	**(19,771,742)**	(2,595,366)
Proceeds from debenture issuance	**28,750,000**	-
Cost to issue debentures	**(2,107,652)**	-
Drawdowns on revolving credit facilities	**19,200,000**	-
Repayments of revolving credit facilities	**-**	(20,500,000)
Financing fees on revolving credit facilities	**(822,063)**	(40,000)
Proceeds from rights offering (Note 16)	**-**	8,236,800
Proceeds from pubic offering (Note 16)	**-**	9,883,024
Cost to issue units	**(6,401)**	(3,240,126)
Distributions to unitholders	**(4,687,812)**	(3,177,516)
Cash flow provided by financing activities	**70,903,068**	15,969,394
INVESTING ACTIVITIES		
Acquisitions of income producing properties, net of non-cash transactions	**(75,368,438)**	(11,135,758)
Improvements to income producing properties	**(968,277)**	(572,278)
Expenditures on tenant incentives and direct leasing costs	**(1,102,764)**	(457,029)
Cash flow used in investing activities	**(77,439,479)**	(12,165,065)
NET INCREASE (DECREASE) IN CASH DURING THE YEAR	**(5,026,473)**	5,794,477
CASH, BEGINNING OF YEAR	**6,869,242**	1,074,765
CASH, END OF YEAR	**$ 1,842,769**	$ 6,869,242
Non-cash transactions		
Secured debt assumed with acquisitions of properties	**$ 17,212,633**	$ 9,690,414
Exchangeable LP units issued in connection with acquisition of property	**2,070,000**	-
Above market interest rate adjustment to property acquisition costs	**1,566,107**	717,381

Supplemental cash flow information (Note 17)

[1] Refer to Note 3 for an explanation of the effects of the adoption of IFRS.

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 TSX Venture Exchange (the "Exchange") and trade under the symbol "PAR.UN".

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.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies that are used in the preparation of these consolidated financial statements:

(a) Statement of compliance

The consolidated financial statements represent the first annual financial statements of the REIT prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The REIT adopted IFRS in accordance with IFRS 1 – *First Time Adoption of International Financial Reporting* Standards ("IFRS 1") as described in Note 3.

(b) Basis of presentation

The financial statements have been prepared on a going concern basis and have been presented in Canadian dollars. The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of income producing properties and certain financial instruments at fair value (as discussed in Note 2(d) and Note 2(g)). The accounting policies set out below have been applied consistently in all material respects. Standards and guidelines not effective for the current accounting period are described in Note 4.

(c) Basis of consolidation

Subsidiaries are all entities over which the REIT has the power to govern the financial and operating policies generally accompanying an ownership of more than half of the voting rights. The existence and effect of any potential voting rights that are currently exercisable or convertible are considered when assessing whether the REIT controls another subsidiary. Subsidiaries are fully consolidated from the date on which control is obtained by the REIT. They are deconsolidated from the date that control ceases.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated, in full, upon consolidation.

(d) Income producing properties

Income producing properties fall within the definition of investment properties under IAS 40 – *Investment Properties* ("IAS 40") and consist of commercial retail properties held to earn rental income and properties that are being constructed, developed, or redeveloped for future use as income producing properties.

Management must assess whether the acquisition of property through the purchase of a corporate vehicle, or directly should be accounted for as an asset purchase or a business combination. Where the acquisition contains significant assets, liabilities or activities in addition to property and related mortgage debt, particularly where there is an integrated set of activities and assets, capable of being conducted and managed for the purpose of providing a return, lower costs or other economic benefits, the transaction is accounted for as a business combination. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided. Where there are no such items the transaction is treated as an asset acquisition.

Commercial retail properties, developments and redevelopments are measured initially at cost. Cost includes all amounts relating to the acquisition, including transaction costs (except transaction costs related to a business combination), and improvement of the properties. All costs associated with upgrading and extending the economic life of the existing facilities, other than ordinary repairs and maintenance, are capitalized to income producing properties. Costs that are directly attributable to income producing properties under development or redevelopment are capitalized. These costs include direct development costs, realty taxes and other costs directly attributable to the development.

Subsequent to initial recognition, income producing properties are measured at fair value, determined based on valuations performed by third-party appraisers or available market evidence in accordance with IAS 40. Gains or losses arising from changes in the fair value of income producing properties are included in profit and loss in the period in which they arise.

The carrying value of income producing properties includes straight-line rent receivable, tenant incentives and direct leasing costs, since these amounts are incorporated in the appraised values of real estate properties.

Income producing properties are reclassified to assets held for sale when criteria set out in IFRS 5 - *Non-Current Assets Held for Sale and Discontinued Operations* are met.

An income producing property is derecognized upon disposal or when the property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(e) Income Taxes

The REIT is a "mutual fund trust" as defined under the Income Tax Act (Canada), (the "Tax Act") and accordingly is not taxable on income to the extent that taxable income is distributed to Unitholders.

The Company is the REIT's wholly-owned incorporated subsidiary and is subject to tax on its taxable income. Current tax payable is based on taxable income for the year, as defined by the Tax Act. Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available to apply against the temporary differences that can be utilized.

(f) Revenue recognition

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The REIT has retained substantially all of the risks and benefits of ownership of its income producing properties and therefore, accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right to use the leased assets. Generally, this occurs on the lease inception date or, when the REIT is required to make additions to the property in the form of tenant improvements which enhances the value of the property when substantially complete. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease. A straight-line rent receivable is included in the carrying amount of the income producing property and is recorded for the difference between the rental revenue recorded and the contractual amount received. Deducted from revenues are the amortization of tenant incentives and direct leasing costs.

Rental revenue also includes percentage participating rents and recoveries of operating expenses, including realty taxes. Percentage participating rents are recognized when tenants' specified sales targets have been met. Operating expense recoveries are recognized in the period that recoverable costs are chargeable to tenants.

(g) Financial instruments

Financial assets and financial liabilities are recognized when the REIT becomes a party to the contractual provisions of the instrument.

In accordance with IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39"), financial instruments and derivatives are initially measured at fair value. Financial instruments and derivatives are presented and disclosed in accordance with IFRS 7 – *Financial Instruments: Disclosures* ("IFRS 7") and IAS 32 – *Financial Instruments: Presentation* ("IAS 32"). Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets at 'fair value through profit or loss' ("FVTPL"); 'held to maturity' investments; 'available-for-sale' financial assets; and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the REIT manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the REIT's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the REIT has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

Available for sale ("AFS") financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables; (b) held-to-maturity investments; or (c) financial assets at FVTPL. AFS financial assets are measured at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including accounts receivables, cash, and other assets including deposits on potential acquisitions and amounts held in escrow) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortized cost of an instrument and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Partners REIT's financial assets

The following summarizes the REIT's classification and measurement of its financial assets:

Financial asset	Classification	Measurement
Other assets	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost

The REIT derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all of the risks and rewards of ownership of the asset to another entity.

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Generally, the carrying amount of the financial asset is reduced by the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the REIT are recognized at the proceeds received, net of direct issue costs. Repurchase of the REIT's own equity instruments is recognized and deducted directly in contributed surplus. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the REIT's own equity instruments. Distributions paid on the REIT's equity instruments subsequent to, declared prior to, and with a record date at or prior to, the reporting date, are recorded as a liability.

Financial liabilities

Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the REIT manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the REIT's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective interest basis.

The effective interest method is a method of calculating the amortized cost of a debt instrument and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

These transaction costs are presented net of the financial liability when there is a balance; otherwise they are presented as a financial asset. In the second quarter of 2011, management restated the opening balance with respect to the deferred financing costs related to the Acquisition Facility; which was reclassified and netted against the Acquisition Facility (see Note 10). Prior to the second quarter of 2011, there was no balance outstanding on the Acquisition Facility; therefore, the deferred financing costs were classified as an asset.

Partners REIT financial liabilities

The following summarizes the REIT's classification and measurement of its financial liabilities:

Financial liability	**Classification**	**Measurement**
Mortgages payable	Other financial liabilities	Amortized cost
Debentures	Other financial liabilities	Amortized cost
Embedded derivatives	FVTPL	Fair value
Revolving credit facilities	Other financial liabilities	Amortized cost
Accounts payable and other liabilities - Deferred unit-based compensation	FVTPL	Fair value
Accounts payable and other liabilities – trade and other payables	Other financial liabilities	Amortized cost
Exchangeable LP units (Note 11)	FVTPL	Fair value

The REIT derecognizes a financial liability when, and only when, the REIT's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

(h) Deferred unit-based compensation

Deferred unit-based payments, in the form of options to purchase units at a future date with a fixed price issued to employees, trustees and certain contractors, are measured at the fair value of the option at the grant date, which is calculated using an option valuation model. It is recognized over the vesting period to compensation expense using the graded vesting method.

The fair value of the options is categorized as a liability on the consolidated statements of financial position and remeasured at the end of each reporting period until settlement. 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.

(i) Provisions

Provisions are recognized when the REIT has a present obligation (legal or constructive) as a result of a past event, it is probable that the REIT will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(j) Critical judgment in applying accounting policies

i. Income producing properties

The REIT's accounting policy relating to income producing properties is described in Note 2(d) above. In applying this policy, judgment is applied in determining the extent and frequency of utilizing independent, third-party appraisals to measure the fair value of the REIT's investment property. Judgment is also applied in determining whether certain costs are additions to the carrying amount of the property and, for property under development, identifying the point at which practical completion of the property occurs and identifying the directly attributable costs to be included in the carrying value of the development property. In addition, judgment is also applied to assess whether the acquisition of property through the purchase of a corporate vehicle or directly should be accounted for as an asset acquisition or a business combination.

The REIT's policy relating to deferred income tax is described in Note 2(e) above. Canadian deferred income taxes are not recognized in the REIT's financial statements on the basis that the REIT is not taxable on income to the extent that taxable income is distributed to Unitholders. The REIT expects to continue to qualify as a real estate investment trust under the Tax Act and intends to continue to distribute its taxable income to Unitholders, at the discretion of the Trustees.

iii. Leases

The REIT's policy for property rental revenue recognition is described in Note 2(f) above. The REIT makes judgments in determining whether certain leases, in particular tenant leases, as well as, leased storage space which are considered leases under IFRS, where the REIT is the lessor, are operating or finance leases. The REIT has determined that all of its leases are operating leases.

iv. Financial instruments

The REIT's accounting policies relating to financial instruments are described in Note 2(g). The critical judgments inherent in these policies relate to applying the criteria set out in IAS 39 to designate financial instruments into categories (FVTPL, etc.) and to determine the identification of embedded derivatives in certain hybrid instruments that are subject to fair value measurement.

(k) Key accounting estimates and assumptions

The REIT makes estimates and assumptions that affect carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of earnings for the year. Actual results could materially differ from estimates. The estimates and assumptions that are critical to the determination of the amounts reported in the financial statements relate to the following:

i. Income producing properties

The choice of valuation method to determine the fair value of the REIT's income producing properties and the critical estimates and assumptions underlying the fair value determination of its commercial retail properties are set out in Note 5. Significant estimates used in determining the fair value of the REIT's income producing properties includes capitalization rates and net operating income (which is influenced by inflation rates, vacancy rates, standard costs). A change to any one of these inputs could significantly alter the fair value of an income producing property.

ii. Financial liabilities at FVTPL

The fair valuation of embedded derivatives and deferred unit-based compensation employs pricing models. The models require estimates and assumptions to be made with regard to the models' inputs, such as, the underlying asset volatility, risk free rates, employee exit rates and option holder's risk aversion, as applicable. Changes in assumptions about these factors could affect the reported fair value of the financial liability. Fair values are most sensitive to change in asset volatility. The following table demonstrates the change in fair value of the convertible feature of the debenture, the deferred unit-based compensation, and the unit purchase warrants:

	Change in volatility	
As at December 31, 2011	-1%	+1%
Convertible feature of debtenture	$ (110,000)	$ 100,000
Deferred unit-based compensation	(8,058)	8,370
Unit purchase warrants	(21,366)	21,760

3. TRANSITION TO IFRS

The REIT has adopted IFRS, effective January 1, 2011 (the "Effective Date") with comparative figures for the prior year commencing January 1, 2010 (the "Transition Date"), and has prepared its opening IFRS consolidated statement of financial position as at January 1, 2010. Prior to the adoption of IFRS, the REIT prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

(a) Elected exemptions from full retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1 – *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), the REIT has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below.

i. Business combinations

The REIT would have applied the business combinations exemption in IFRS 1 to not apply IFRS 3 – *Business Combinations* retrospectively to past business combinations had any of its acquisitions been treated as business combinations. Accordingly, the REIT has not restated the business combinations that took place prior to the Transition Date.

ii. Financial instruments

Under IFRS 1, an entity is required to identify, recognize, classify and measure, as appropriate, all financial assets and financial liabilities qualifying at the Transition Date for recognition in accordance with IFRS. IFRS 1 allows the entity to treat any adjustment to the carrying amount of a financial asset or financial liability as a result of adopting IFRS as a transition adjustment to be recognized in the opening balance of retained earnings at the Transition Date. The REIT has applied this exemption to deferred unit-based compensation. Previously, under Canadian GAAP this was categorized as equity; under IFRS this is categorized as a liability.

(b) Mandatory exceptions to retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1 the REIT has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied are with regard to estimates. Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the REIT under Canadian GAAP are consistent with the application under IFRS.

(c) Reconciliation of equity as reported under Canadian GAAP and IFRS

The following is a reconciliation of the REIT's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at the Transition Date:

		Trust units	Contributed surplus	Retained earnings (deficit)	**Total Unitholders' equity**
As reported under Canadian GAAP - Dec. 31 2009		$ 54,697,477	$ 1,040,336	$ (16,241,749)	**$ 39,496,064**
Differences increasing (decreasing) reported amount:					
Deferred unit-based compensation	(i)	-	(470,506)	470,506	**-**
Investment property	(ii)	-	-	(1,876,060)	**(1,876,060)**
As reported under IFRS - Jan. 1, 2010		$ 54,697,477	$ 569,830	$ (17,647,303)	**$ 37,620,004**

The following is a reconciliation of the REIT's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at December 31, 2010:

			Trust units		Contributed surplus		Retained earnings (deficit)		**Total Unitholders' equity**
As reported under Canadian GAAP - Dec.31, 2010		$	69,848,343	$	1,040,336	$	(23,329,428)	**$**	**47,559,251**
Differences increasing (decreasing) reported amount:									
Deferred unit-based compensation	(i)		-		(470,506)		470,506		**-**
Investment property	(ii)		-		-		6,301,097		**6,301,097**
As reported under IFRS - Dec. 31, 2010		$	69,848,343	$	569,830	$	(16,557,825)	**$**	**53,860,348**

i. Deferred unit-based compensation

Under IAS 32, the options issued as deferred unit-based compensation are considered financial liabilities under IFRS and reclassified from equity to liabilities on the financial statements. As at the Transition Date, the REIT determined that the fair value of the outstanding options was nil (December 2010: nil). Amounts previously recorded under Canadian GAAP to contributed surplus with regard to the valuation of the options were reclassed to retained earnings as they would have been recorded as compensation expense under IFRS.

ii. Investment property

The REIT considers its income producing properties to be investment properties under IAS 40. Investment property includes land and buildings held primarily to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or services or for sale in the ordinary course of business. Similar to Canadian GAAP, investment property is initially recorded at cost under IAS 40. However, subsequent to the initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for the investment property. The REIT has elected to use the fair value model upon initial transition to IFRS and in subsequent reporting periods. This adjustment to retained earnings represents the cumulative unrealized gain (loss) in respect of the fair value of the REIT's investment property under IFRS on January 1, 2010 and December 31, 2010. This fair value adjustment is net of the derecognition of related intangible assets and liabilities which are inherently reflected in the fair value of income producing property, and the reclassification of straight-line rent receivable, tenant incentives and direct leasing costs.

(d) Reconciliation of net income and comprehensive income as reported under Canadian GAAP and IFRS

The following is a reconciliation of the REIT's net income reported in accordance with Canadian GAAP to its net income in accordance with IFRS for the year ended December 31, 2010:

			Year ended December 31, 2010
Net loss and comprehensive loss as reported under Canadian GAAP		$	(3,473,323)
Differences increasing reported amount:			
Investment property	(i)		
Fair value gain			2,649,388
Reverse Canadian GAAP amortization expense			5,527,770
Net income and comprehensive income as reported under IFRS		$	4,703,835

i. Investment property

As permitted under IFRS, the REIT measures income producing properties, which are classified as investment property under IFRS, at fair value and records changes in fair value in profit or loss in the year of change. The REIT's income producing properties were, under Canadian GAAP, recorded at cost and amortized over its estimated life. In addition, the amortization of intangible assets and liabilities recognized on the acquisition of income producing properties was amortized to profit or loss under Canadian GAAP, which will no longer be the case under IFRS as the value of the intangible assets and liabilities are considered in the determination of the fair value of the income producing properties.

(e) Financial assets and liabilities

Upon adoption of IFRS, all previously recognized financial assets and financial liabilities have been designated consistent with the designations under Canadian GAAP, with the exception of the deferred unit-based compensation which has been designated as FVTPL under IFRS. As a result of this designation, the deferred unit-based compensation plan is recorded at fair value. This financial liability was previously designated as equity under Canadian GAAP.

(f) Changes to the statement of cash flows

There were no material adjustments to the operating, investing or financing activity subtotals in the December 31, 2010 consolidated statements of cash flow as a result of the conversion to IFRS.

4. FUTURE ACCOUNTING POLICIES

From time to time, the International Accounting Standards Board ("IASB") issues new accounting standards and revises existing accounting standards. The following standards, not yet effective as at the date of these consolidated financial statements and accordingly not applied to these consolidated financial statements, may have a future impact:

Financial instruments

IFRS 9 – *Financial Instruments* ("IFRS 9") was issued by the IASB in November 2009 and contains requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39") for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains or losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added in October 2010, and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss would generally be recorded in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The REIT is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

Consolidated Financial Statements

IFRS 10 – *Consolidated Financial Statements* ("IFRS 10") builds on existing principals and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. IFRS 10 will not have any impact on the REIT's consolidated financial statements.

Joint Arrangements

IFRS 11 – *Joint Arrangements* ("IFRS 11") establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. IFRS 11 will not have any impact on the REIT's consolidated financial statements.

Disclosure of Interests in Other Entities

IFRS 12 – *Disclosure of Interests in Other Entities* ("IFRS 12") provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. IFRS 12 will not have any impact on the REIT's consolidated financial statements.

Fair Value Measurement

IFRS 13 – *Fair Value Measurement* ("IFRS 13") defines fair value, requires disclosure of fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The REIT has not yet evaluated the impact of IFRS 13 on its consolidated financial statements.

Employee Benefits

IAS 19 – *Employee Benefits ("IAS 19")* eliminates the corridor approach, with all changes to the defined benefit obligation and plan assets recognized when they occur. Retrospective application is required with certain exceptions. IAS 19 is effective for annual periods beginning on or after January 1, 2013. IAS 19 will not have any impact on the REIT's consolidated financial statements.

Separate Financial Statements

IAS 27 – *Separate Financial Statements* ("IAS 27") provides guidance on the accounting and disclosure requirements for subsidiaries, jointly controlled entities, and associates in separate, or unconsolidated, financial statements. It will not have any impact on the REIT's consolidated financial statements. IAS 27 is effective for annual periods beginning on or after January 1, 2013.

Investments in Associates and Joint Ventures

IAS 28 – *Investments in Associates and Joint Ventures* ("IAS 28") is a revision of the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 is effective for annual periods beginning on or after January 1, 2013. The REIT has not yet evaluated the impact of IAS 28 on its consolidated financial statements.

Presentation of Financial Statements

IAS 1 – *Presentation of Financial Statements* ("IAS 1") provides guidance on the presentation of items contained in other comprehensive income ("OCI") and their classification within OCI. Retrospective application is required. IAS 1 is effective for annual periods beginning on or after July 1, 2012. The REIT is currently evaluating the impact to the consolidated financial statements as a result of adopting this standard.

Financial Instruments: Disclosures, Amendment Regarding Disclosures on Transfer of Financial Assets

IFRS 7 – *Financial Instruments: Disclosures* ("IFRS 7") requires that the REIT provide the disclosures for all transferred financial assets that are not derecognized and for a continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred.

The REIT will start the application of IFRS 7 in the financial statements effective from January 1, 2012. The REIT does not expect any impact to the consolidated financial statements as a result of adopting this standard.

Deferred Tax: Recovery of Underlying Assets

IAS 12 – *Income Taxes* ("IAS 12") provides amendments that are applicable to the measurement of deferred tax liabilities and deferred tax assets where investment property is measured using the fair value model in IAS 40 – *Investment Property*. The amendments introduce a rebuttable presumption that, for purposes of determining deferred tax consequences associated with temporary differences relating to investment properties, the carrying amount of an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments to IAS 12 are effective for annual periods beginning on or after January 1, 2012. The REIT is currently evaluating the impact to the consolidated financial statements as a result of adopting this standard.

5. INCOME PRODUCING PROPERTIES

As at	**December 31, 2011**	December 31, 2010
Balance, beginning of year	**$ 155,907,020**	$ 130,582,867
Acquisitions of income producing properties	**96,217,178**	21,543,553
Improvements to income producing properties	**968,277**	572,278
Expenditures on tenant incentives and direct leasing costs	**1,102,764**	457,029
Amortization of tenant incentives and direct leasing costs	**(228,223)**	(214,999)
Recognition of straight-line rent	**599,582**	316,904
Fair value gains	**3,943,626**	2,649,388
Balance, end of year	**$ 258,510,224**	$ 155,907,020

At the Transition Date, all income producing properties, which are classified as investment properties under IFRS, were appraised at fair value by qualified external valuation professionals ("Appraisers") in accordance with IAS 40. 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 recent experience in the valuation of properties in the relevant locations.

At December 31, 2010, the properties (except Wellington Southdale, which was appraised, just prior to its acquisition, on November 1, 2010) were also appraised at fair value by the Appraisers. Subsequent to December 31, 2010, 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 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	**December 31, 2011**	December 31, 2010	January 1, 2010
Capitalization rates			
Maximum	**8.50%**	8.50%	9.00%
Minimum	**6.75%**	7.25%	7.50%
Weighted Average	**7.55%**	7.86%	8.17%

At December 31, 2011, a 0.50% increase in capitalization rates for income producing properties would decrease fair value by $15.9 million (December 31, 2010 - $9.5 million; January 1, 2010 - $7.7 million) and a 0.50% decrease in capitalization rates would increase fair value by $18.1 million (December 31, 2010 - $10.8 million; January 1, 2010 - $8.8 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 December 31, 2011, income producing properties included $1,422,927 (at December 31, 2010 - $823,345) 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*.

2011 acquisitions

– 137th Avenue Shoppers Drug Mart and PartSource

On December 19, 2011, the REIT completed the acquisition of an existing Shoppers Drug Mart and PartSource development in Edmonton, Alberta. The REIT paid approximately $4.09 million for the property, which was funded by the assumption of a $1.64 million mortgage bearing interest at 4.23%. The balance of the purchase price was satisfied through the issuance of 1,150,000 exchangeable limited partnership units (287,500 post-consolidation units) with a value of $2.07 million and $380,000 in cash. The Exchangeable LP Unit is exchangeable on a one for one basis into Partners REIT units, upon the vendor's election.

– Evergreen Shopping Centre

On September 1, 2011, the REIT completed the acquisition of the Evergreen Shopping Centre, a five building 88,200 square foot open-air shopping centre located in Sooke, British Columbia approximately 37 kilometers west of Victoria. The shopping centre was acquired for approximately $15.8 million and was funded by a new $10.5 million five-year mortgage on the property with a contractual interest rate of 3.8%. The balance of the purchase price was effectively paid in cash from the REIT's $4.0 million secondary loan, bearing interest at 7.0%, and its Acquisition Facility.

– Place Desormeaux

On August 31, 2011, the REIT completed the acquisition of Place Desormeaux, a 250,000 square foot enclosed shopping centre in Longueuil, Québec on the south shore of the Greater Montreal Region. The REIT paid approximately $32.2 million for the property with approximately $3.6 million in additional acquisition and capital improvement costs to be incurred in the future. The purchase was funded by a $23.0 million loan; secured by the property with a three year term and bearing contractual interest at a rate of 4.05%. The balance of the purchase price was funded by a portion of the $13.5 million, three year revolving loan facility, secured against the REIT's portfolio of properties. The revolving loan facility bears a floating interest rate that is the greater of 9.00% or the TD Canada Trust Posted Bank Prime Rate of Interest plus 4.00%. This facility also included a funding fee whereby the lender received warrants to purchase 625,000 units of Partners REIT at $7.20 per unit (refer to Note 8).

– Centuria Urban Village

On May 16, 2011, the REIT completed an acquisition of the majority of the retail units in Centuria Urban Village, a food and drug store anchored mixed-use retail and high-rise residential property located in Kelowna, British Columbia, for a cost of $8.9 million. The purchase has been funded by cash from the proceeds of the REIT's debenture offering and the REIT's Acquisition Facility.

– Shoppers Drug Mart Properties

On March 17, 2011, the REIT completed the acquisition of five properties in Manitoba and one in Québec aggregating approximately 104,000 square feet of gross leasable area, for a cost of $32.5 million. The properties are fully occupied, primarily by Shoppers Drug Mart. The acquisition was partially funded by the assumption of existing mortgages with contractual values of $17.2 million, with the balance funded by cash from the proceeds of the REIT's debenture offering. An above market interest rate adjustment of $1.5 million has been included in the determination of the total cost of this acquisition.

2010 acquisition

– Wellington Southdale Plaza

On December 22, 2010, the REIT acquired Wellington Southdale Plaza located in London, Ontario, for a cost of $21.0 million. The REIT partially funded the acquisition by assuming an existing first mortgage and securing a second mortgage on the property in the amounts of $9.7 million and $2.3 million, respectively. An above market interest rate adjustment of $0.7 million has been included in the determination of the total cost of this acquisition.

Above market interest rate adjustments increases the mortgage payable balance, which reduces the effective interest rate over the current term of the mortgage.

6. OTHER ASSETS

The major components of other assets are as follows:

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Prepaid realty taxes and insurance	**$ 583,276**	$ 324,931	$ 287,030
Restricted cash - amounts held in escrow	**1,429,421**	120,000	-
Deposits on acquisitions	**1,454,655**	-	-
Deferred acquisition costs	**742,861**	2,683,584	-
Prepaid expenses and other	**316,101**	163,470	59,176
	$ 4,526,314	$ 3,291,985	$ 346,206

Cash is considered restricted when it is held in escrow and is only available for use for specific purposes. Restricted cash totaled $1.4 million at December 31, 2011 (December 31, 2010 – $0.1 million; January 1, 2010 – nil) and its permitted use is to fund certain future capital expenditures at Place Desormeaux and Wellington Shopping Centre.

7. ACCOUNTS RECEIVABLE

As at		December 31, 2011		December 31, 2010		January 1, 2010
Rents receivable	**$**	**498,426**	$	262,063	$	273,322
Unbilled recoveries and rents receivable		**395,084**		46,778		1,500
Other receivables		**-**		557		21,322
		893,510		309,398		296,144
Allowance for doubtful accounts		**(24,777)**		(40,699)		(38,333)
	$	**868,733**	$	268,699	$	257,811

The REIT records an allowance for doubtful accounts on tenant rent receivables on a tenant-by-tenant basis and on an individual basis for other receivables, using specific, known facts and circumstances that exist at the time of the analysis. See Note 22 for the REIT's exposure to credit risk regarding its receivables, and precautions taken to mitigate these risks.

8. MORTGAGES PAYABLE

As at		December 31, 2011		December 31, 2010		January 1, 2010
Mortgages payable	**$**	**155,639,032**	$	98,548,141	$	62,253,090
Corporate secured debt		**-**		8,600,000		10,000,000
		155,639,032		107,148,141		72,253,090
Unamortized above market interest rate adjustments		**1,994,065**		717,382		-
Unamortized commitment and other fees		**(1,114,411)**		(778,796)		(527,127)
	$	**156,518,686**	$	107,086,727	$	71,725,963
Non-current	**$**	**152,598,529**	$	104,942,506	$	70,427,173
Current		**3,920,157**		2,144,221		1,298,790
	$	**156,518,686**	$	107,086,727	$	71,725,963

Scheduled repayments of secured debt are as follows:

		Principal instalments		Principal maturing		Total
2012		4,141,873		-		4,141,873
2013		4,281,608		21,027,938		25,309,546
2014		3,886,050		20,609,472		24,495,522
2015		3,260,995		32,267,407		35,528,402
2016		2,044,261		28,376,013		30,420,274
Thereafter		2,287,970		33,455,445		35,743,415
Contractual obligations	$	19,902,757	$	135,736,275	$	155,639,032

(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 3.64% and 8.55% (December 31, 2010 – 4.64% and 5.75%; January 1, 2010 – 5.15% and 5.77%) per annum and contractual rates ranging between 3.42% and 7.00% (December 31, 2010 – 4.57% and 6.00%; January 1, 2010 – 5.17% and 5.65%) per annum. The REIT's weighted average effective interest rate is 4.95% (December 31, 2010 – 5.26%; January 1, 2010 – 5.48%) per annum.

During the twelve months ended December 31, 2011 the following mortgages were obtained:

In December 2011, upon the acquisition of 137th Avenue, the REIT acquired a first mortgage on the property for a total of $2.55 million. The loan matures in January 2017, has a contractual interest rate of 4.23% per annum, and has an amortization period of 20 years.

In September 2011, upon the acquisition of Evergreen Shopping Centre, the REIT acquired a first mortgage on the property for a total of $10.5 million. The loan matures in October 2016, has a contractual interest rate of 3.80% per annum, and has an amortization period of 25 years.

In August 2011, upon the acquisition of Place Desormeaux, the REIT acquired a first mortgage on the property for a total of $23.0 million. The loan matures in October 2014, has a contractual interest rate of 4.05% per annum, and has an amortization period of 20 years.

In July 2011, the REIT obtained a second mortgage in the amount of $4 million secured on five Shoppers Drug Mart properties located in Manitoba. It is an interest only loan maturing April 30, 2013 and bears interest at a floating rate of the Royal Bank prime plus 4.00%.

In March 2011, upon the acquisition of the Shoppers Drug Mart properties, the REIT assumed first mortgages on each of the six properties for a total of $17.2 million. The loans mature between 2015 and 2021 and have a weighted average interest rate, adjusted to market, of 3.61% per annum. The mortgages are secured by the properties.

During 2010 the following mortgages were obtained:

On the acquisition of Wellington Southdale Plaza, the REIT assumed a first mortgage loan in the amount of $9.7 million secured by the property. The loan matures in 2016 and bears interest at a rate, adjusted to market, of 3.49% per annum. The amortization period of the loan from the date of acquisition (December 22, 2010) was 223 months or 18.6 years.

On the acquisition of Wellington Southdale Plaza, the REIT also acquired a second mortgage in the amount of $2.3 million secured by a second mortgage on the property. The loan matures in 2016 and bears contractual interest at a rate of 3.79% per annum. The amortization period of the loan from the date of acquisition (December 22, 2010) was 300 months or 25 years.

During December 2010 the REIT acquired a first mortgage loan in the amount of $25.5 million, secured by a mortgage on the Cornwall property. The loan matures in 2015, bears contractual interest at a rate of 4.9% per annum, and has a 25 year amortization period.

(b) Corporate secured debt

At December 31, 2011 there was no corporate secured debt outstanding (December 31, 2010 - $8,600,000; January 1, 2010 - $10,000,000). The original $10,000,000 was comprised of two facilities (the “Facilities”).

During the three months ended March 31, 2011, the first facility was repaid, without penalty, from proceeds of new debt, maturing in 2016. It consisted of an $8,600,000 five-year facility maturing in 2013 that bears interest at 8.75% per annum.

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

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

9. DEBENTURES

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Debentures, excluding convertible feature	**$ 27,950,000**	$ -	$ -
Issue costs	**(2,107,652)**	-	-
Accumulated amortization of issue costs	**367,148**	-	-
	26,209,496	-	-
Fair value of convertible feature	**680,000**	-	-
	$ 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 $3.8 million of similar debt, for a total issuance of $28.8 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 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 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 December 31, 2011, the model incorporated a volatility variable of 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 upon issuance was $800,000, and as at December 31, 2011, is now $680,000 (2010 – nil). Under IFRS, the embedded derivative is not considered to be equity instruments, 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 $26.2 million at December 31, 2011 (2010 – nil). Including the fair value of the convertible feature of $680,000 (2010 - nil), the total liability of the REIT's debentures at December 31, 2011 is $26.9 million (2010 – nil).

10. REVOLVING CREDIT FACILITIES

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Revolving credit facilities, excluding unit purchase warants	**19,003,000**	-	20,500,000
Fair value of unit purchase warrants	**197,000**	-	-
	19,200,000	-	20,500,000
Issue costs	**1,142,680**	320,619	280,862
Accumulated amortization of issue costs	**(430,651)**	(251,720)	(86,734)
Issue costs, net	**712,029**	68,899	194,128
	18,487,971	(68,899)	20,305,872
Fair value gain on warrants	**36,000**	-	-
Fair value accretion of warrants	**21,915**	-	-
Revolving credit facilities liability (deferred financing costs)	**18,545,886**	(68,899)	20,305,872

The REIT has a revolving operating and acquisition facility (the "Acquisition Facility") with a Canadian chartered bank. Pursuant to the terms of the Acquisition Facility, from time to time, the amount permitted to be drawn under the Acquisition Facility may be adjusted based on certain financial tests (including a loan-to-value ratio). The amount available to be drawn upon is calculated based on the value of a property that has been specified under the agreement.

On May 16, 2011, the REIT specified the Centuria Urban Village property as security for this facility, providing a maximum amount of up to $5.8 million. During 2010 the Acquisition Facility was secured by the REIT's Cornwall Square shopping centre, providing a maximum amount of up to $26.0 million, which was replaced in December 2010 by a new first mortgage loan.

On May 16, 2011, 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 20) 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.

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 loan facility revolves until August 31, 2013 at which time any outstanding balance can be extended for one year upon payment of an additional 2% fee on such balance. 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, the fair value of the unit purchase warrants was determined by applying a binomial option pricing model. The model incorporated a volatility variable of 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 8.84% (annual distributions divided by the current price of the underlying units), a risk free rate of 1% (Bank of Canada three year bond rate), and an exercise multiple of 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 December 31, 2011 is $233,000.

Under IFRS, the embedded derivative are not considered to be equity instruments, and as such, the value of the unit purchase warrants is included in liabilities in the 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.

11. EXCHANGEABLE LP UNITS

Exchangeable LP units represent units issued to the participating third party vendor in exchange for a property acquired by 137th Avenue LP. The accounts of 137th Avenue LP are consolidated into the REIT, and therefore, included in the consolidated financial statements of the REIT. 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 using the closing price as at December 31, 2011 of the Partners REIT units, since all of the 287,500 Exchangeable LP Units (1,150,000 pre-consolidation units) of 137th Avenue LP are exchangeable on a one-for-one basis, at the option of the holder, into Partners REIT units. The closing price on the Partners REIT units on Friday, December 30, 2011 was $7.24 per unit ($1.81 per pre-consolidation unit). The fair value of the Exchangeable LP Units as at December 31, 2011 was immaterial ($11,500) and is not recorded in the consolidated financial statements.

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 consolidated statements of comprehensive income.

12. REVENUES FROM INCOME PRODUCING PROPERTIES

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 year ended December 31, 2011 of $6.8 million (year ended December 31, 2010 - $5.3 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 December 31, 2011, 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	$ 19,314,824	$ 59,169,359	$ 54,510,206

13. OTHER TRANSACTION COSTS

Other transaction costs during the year ended consists of expenses incurred on property acquisitions no longer pursued of $67,117 (December 31, 2010 - $171,558), costs incurred upon early extinguishment of debt of $501,111 (December 31, 2010 - nil), costs incurred to transition to IFRS reporting of $162,345 (December 31, 2010 - nil), and did not consist of any corporate transaction costs (December 31, 2010 - $865,556). Corporate transaction costs represent a portion of the legal, consulting and trustee fees and other costs associated with a strategic review process completed in the year ended December 31, 2010.

The strategic review process commenced in April 2009 with a mandate to identify strategic alternatives that would enhance unitholder value including, without limitation, entering into strategic alliances; the sale of all or some of the assets of Partners REIT; the purchase by others of some or all of the outstanding units of Partners REIT, including by existing major unitholders; the issuance of units of Partners REIT from treasury to others in exchange for either cash or non-cash consideration; and the recapitalization of Partners REIT to enable additional acquisitions and internalization of management of Partners REIT.

The strategic review process culminated in the change of sponsorship in which the prior sponsor, C.A. Bancorp Inc., sold all of its Partners REIT units to the new sponsor, IGW Public Limited Partnership (“IGW Public LP”), an affiliate of League Assets Corp. (“League”) on June 4, 2010. At the same time, LAPP Global Asset Management Corp., a wholly owned subsidiary of IGW Public LP, became the asset manager of Partners REIT.

14. FAIR VALUE GAINS

The components of fair value gains are as follows:

	Year ended December 31, **2011**	2010
Income producing properties	**$ 3,943,626**	$ 2,649,388
Financial liabilities designated as FVTPL		
Deferred unit-based compensation	**4,000**	-
Unit purchase warrants	**(36,000)**	
Convertible feature of debentures	**120,000**	-
Total fair value gains	**$ 4,031,626**	$ 2,649,388

15. 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. As described in Note 24, 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 reverse unit split. 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.

	Year ended December 31,			
		2011		2010
Numerator				
Net income and comprehensive income - basic	**$**	**7,253,430**	$	4,703,835
(Loss) on fair value adjustment to unexercised deferred units		**(120,000)**		-
Interest savings of dilutive convertible debt		**1,881,076**		-
Net income and comprehensive income - diluted	**$**	**9,014,506**	$	4,703,835
Denominator				
Weighted average units outstanding - basic		**7,745,519**		5,405,881
Dilutive convertible units		**2,672,452**		-
Weighted average units outstanding - diluted[1]		**10,417,971**		5,405,881

(1) *The calculation of diluted per unit amounts for the year ended December 31, 2011 excludes unexercised deferred options and warrants as their inclusion is anti-dilutive (December 31, 2010 - unexercised deferred options were anti-dilutive) and is presented on the effective basis of the completion of the one for four consolidation.*

Earnings per unit - basic	**$**	**0.94**	$	0.87
Earnings per unit - diluted	**$**	**0.87**	$	0.87

16. UNITHOLDERS' EQUITY

(a) Authorized units

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

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

(b) Public offering

On December 21, 2010, Partners REIT filed a prospectus with Canadian securities regulators to offer 4,680,000 units (1,170,000 post-consolidation units) at $1.60 per unit ($6.40 per post-consolidation unit) by way of a public offering. The offering also granted an over-allotment option of up to an additional 468,000 units (117,000 post-consolidation units) at $1.60 per unit ($6.40 per post-consolidation unit) on the same terms and conditions as the offering. Partners REIT issued 5,148,000 units (1,287,000 post-consolidation units) under the offering for total raised capital of $8.2 million and incurred issue costs of $1.8 million.

(c) Rights offering

On June 16, 2010, Partners REIT filed a prospectus with Canadian securities regulators to offer units to its unitholders by way of a $10.0 million rights offering. Partners REIT distributed rights to subscribe for units to the unitholders of record on June 30, 2010. Each 2.5787 rights entitled the holder to purchase one unit at $1.39 per unit ($5.56 per post-consolidation unit). The rights expired on July 23, 2010. In conjunction with the rights offering, Partners REIT entered into a standby purchase agreement. Partners REIT issued 7,110,089 units (1,777,522 post-consolidation units) under the rights offering and standby purchase agreement for total raised capital of $9.9 million and incurred issue costs of $1.5 million.

(d) Distributions

The REIT currently makes monthly cash distributions to unitholders in an amount of $0.05333 per unit ($0.01333 per pre-consolidation unit), representing an annualized distribution of $0.64 per unit ($0.16 per pre-consolidation 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 Exchange 500,000 additional units (2,000,000 pre-consolidation units) to accommodate the issuance of units under the Plan.

(f) *Outstanding units*

As at	**December 31, 2011**			December 31, 2010		
	Units		**Dollars**	Units		Dollars
Units outstanding, beginning of year	**30,909,067**	**$**	**69,848,343**	18,465,531	$	54,697,477
Units issued:						
Distribution reinvestment plan	**153,346**		**266,659**	185,447		271,170
Public offering	-		-	5,148,000		8,236,800
Rights offering	-		-	7,110,089		9,883,024
Unit issue costs	-		**(6,399)**	-		(3,240,128)
Units cancelled:						
Normal course issuer bid	-		**-**	-		-
Cancellation costs	-		**-**	-		-
Units outstanding, end of year	**31,062,413**	**$**	**70,108,603**	30,909,067	$	69,848,343
Unit consolidation 1:4, February 14, 2012	**7,765,603**	**$**	**70,108,603**	7,727,267	$	69,848,343

17. SUPPLEMENTAL CASH FLOW INFORMATION

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

Year ended		**December 31, 2011**		December 31, 2010
Supplemental				
Income taxes paid (Note 19)	**$**	**-**	$	-
Interest paid	**$**	**8,553,988**	$	5,305,534
Net change in working capital				
Net change in accounts receivable	**$**	**(600,034)**	$	(10,888)
Net change in other assets		**(1,234,329)**		(2,945,779)
Net change in accounts payable and other liabilities(1)		**(207,364)**		2,683,049
	$	**(2,041,727)**	$	(273,618)

(1) Accounts payable and other liabilites at December 31, 2011 includes $53,000 of non-working capital relating to liabilities from deferred unit based compensation

18. 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 on a post-consolidation basis:

	Year ended December 31, 2011			Year ended December 31, 2010		
	Units		**Weighted Average Exercise Price**	Units		Weighted Average Exercise Price
Options outstanding, beginning of year	**12,500**	**$**	**13.80**	304,500	$	13.04
Options granted	**255,000**		**7.00**	-		-
Options canceled	**(30,000)**		**7.00**	(292,000)		12.48
Options outstanding, end of year	**237,500**	**$**	**7.36**	12,500	$	13.80
Options exercisable, end of year	**12,500**	**$**	**13.80**	12,500	$	13.80

On February 28, 2011, the REIT granted 255,000 options (1,020,000 pre-consolidation options) under its unit option plan with an exercise price of $7.00 per unit ($1.75 per pre-consolidation unit) (2010 – nil).

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 December 31, 2011, the model incorporated a volatility variable of 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 8.84% (annual distributions divided by current price of underlying units), a risk free rate of 1.1% (average of the Bank of Canada three year and five year bond rates), an employee exit rate of 5% (as determined by reference to past experience of the REIT's asset manager), and an exercise multiple of 2.5 times (as determined by reference to past experience of the REIT's asset manager). The resulting total compensation estimate of $82,000 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 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 December 31, 2011, the fair value of the deferred unit-based compensation liability is $53,000 (2010 – nil). During the twelve months ended December 31, 2011 the REIT recorded $57,000 of employee compensation expense (2010 – nil).

The weighted average remaining contractual life at December 31, 2011 for the exercisable unit options is approximately 0.7 years (December 31, 2010 – approximately 1.7 years).

19. 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 has reviewed the SIFT Rules 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 throughout the years ended December 31, 2011 and December 31, 2010 (refer to Note 24(e)).

Current income tax

The REIT qualifies as a mutual fund trust and real estate investment 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.

Deferred Income Tax

The source of the deferred tax balances relates only to the Company and is as follows:

As at		**December 31, 2011**		December 31, 2010		January 1, 2010
Deferred tax assets related to non-capital losses	**$**	**159,763**	$	168,008	$	173,363
Deferred tax liabilities related to difference in tax and book basis, net		**532,303**		470,914		459,682
Net deferred tax liabilities before valuation allowance		**372,541**		302,906		286,320
Valuation Allowance		**(372,541)**		(302,906)		(286,320)
Net deferred tax liabilities	**$**	**-**	$	-	$	-

The Company had deferred tax assets of $159,763 as at December 31, 2011 (December 31, 2010 - $168,008; January 1, 2010 - $173,363) related to non-capital losses, which expire over the next 16 to 20 years.

The deferred tax liability arises from temporary differences between the carrying value and the tax basis of the net assets in the Company. The tax effects of temporary differences arise from income producing properties. The valuation allowance represents tax planning measures that would effectively eliminate the net deferred tax liability.

20. 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, corporate secured debt, debentures and Acquisition Facility, divided by the gross book value of its assets.

At December 31, 2011, the REIT is in compliance with its debt-to-gross book value ratio at 73.0%, (December 31, 2010 – 55.0%, January 1, 2010 – 56.1%), which is calculated as follows:

As at		**December 31, 2011**		December 31, 2010		January 1, 2010
Debt						
Secured debt	**$**	**155,639,032**	$	107,148,141	$	72,253,090
Debentures, excluding fair value of convertible feature		**27,950,000**		-		-
Revolving credit facilities		**19,003,000**		-		20,500,000
	$	**202,592,032**	$	107,148,141	$	92,753,090
Gross Book Value of Assets						
Original cost of income producing properties [2]	**$**	**266,725,072**	$	167,837,271	$	145,094,494
Book value of all other assets		**7,237,816**		10,429,926		1,678,782
Deferred financing fees		**3,566,944**		847,695		721,255
	$	**277,529,832**	$	179,114,892	$	147,494,531
Debt-to-Gross Book Value[3]		**73.0%**		59.8%		62.9%

[1] *debt capital refers to secured debt, debenture and revolving 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.*

[3] *Refer to Subsequent Events Note 24(a) regarding the issuance of $50 million of the REIT's units for the Purchase of NorRock Realty Finance Corporation Assets and Note 24(b) regarding the issuance of $22.3 million of the REIT's units in regard to the closing of the Public Offering. These two transactions, which took place in 2012, along with the closing of the acquisition of six properties (Note 24(c) and 24(d)) will have a consequential implicit impact reducing the REIT's Debt-to Gross Book Value ratio.*

In terms of the REIT's equity capital, the REIT issues equity when it is available and appropriate to replenish cash, for acquisitions, or other uses. The REIT has access to an Acquisition Facility, which may be used to fund the equity portion of acquisitions as well as to fund general working capital requirements.

The REIT currently makes monthly cash distributions to unitholders in an amount of $0.05333 per unit ($0.01333 per pre-consolidation unit), representing an annualized distribution of $0.64 per unit ($0.16 per pre-consolidation unit). In accordance with the REIT's Declaration of Trust, the REIT's Trustees have discretion in declaring distributions. Pursuant to the REIT's Declaration of Trust, it is the intention of the REIT's Trustees to make distributions in an amount not less than the amount necessary to ensure that the REIT will not be liable to pay income tax under Part I of the Tax Act. As a result of the REIT incurring a loss under Part I of the Tax Act for 2010, all of the distributions paid in 2010 were considered discretionary.

21. FINANCIAL INSTRUMENTS

Fair value is the amount that arm's length parties are willing to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. The fair values of the REIT's financial instruments were determined as follows:

(a) Short-term assets and liabilities

The carrying amounts for cash, accounts receivable, accounts payable, Acquisition Facility and other liabilities approximate their fair values due to the short-term nature of these items.

(b) Mortgages payable

The fair value of secured debt is based on discounted future cash flows, using interest rates ranging between 3.05% and 9.00% that reflect current market conditions for instruments of similar term and risk. The fair value of the secured debt is approximately $178.2 million at December 31, 2011 (December 31, 2010 - $109.0 million; January 1, 2010 - $71.0 million).

(c) Debentures

The debenture, without the convertible feature, is classified as other financial liabilities and measured at amortized cost. The fair value of the debentures are approximately $26.2 million at December 31, 2011 (December 31, 2010 - nil; January 1, 2010 - nil).

(d) Embedded derivatives

The convertible feature of the debentures is an embedded derivative and is classified as a financial liability at FVTPL. The fair value of the embedded derivatives is approximately $680,000 for the convertible feature of the debentures and $233,000 for the unit purchase warrants related to the revolving loan facility for the year ended December 31, 2011 (December 31, 2010 – nil and nil; January 1, 2010 – nil and nil).

(e) Deferred unit-based compensation

The unit option plan is classified as a financial liability at FVTPL. The fair value of the deferred unit-based compensation liability is approximately $53,000 at December 31, 2011 (December 31, 2010 - nil; January 1, 2010 - nil).

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

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

In accordance with the three-level hierarchy of financial instruments measured at fair value on the consolidated statements of financial position, at December 31, 2011 the REIT has included in the Level 2 category the convertible feature related to the debentures of $680,000 (2010 – nil), unit purchase warrants related to the revolving loan facility of $233,000 (2010 – nil), deferred unit-based compensation of $53,000 (2010 – nil), and nil related to the redeemable feature of the Exchangeable LP Units (2010 – nil).

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	$ 7,320,159	$ 6,871,785	$ 5,749,590	$ 4,739,991	$ 2,805,466	$ 1,553,830
Principal payments	4,141,873	4,281,608	3,886,050	3,260,995	2,044,261	2,287,970
Balances due on maturity	-	21,027,938	20,609,472	32,267,407	28,376,013	33,455,445
Debentures						
Interest	2,300,000	2,300,000	2,300,000	2,300,000	1,150,000	-
Balances due on maturity	-	-	-	-	28,750,000	-
Accounts and distributions payable and other liabilities	5,317,598	-	-	-	-	-
Total	$ 19,079,630	$ 34,481,331	$ 32,545,112	$ 42,568,393	$ 63,125,740	$ 37,297,245

22. 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 December 31, 2011, 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, 2010 – no impact) for the year 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 December 31, 2011, December 31, 2010 and January 1, 2010 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 7 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 (see Notes 8 and 9) 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 doesn't enter into property acquisitions unless it has secured or knows that it can secure the appropriate capital (debt and equity) to fund the particular acquisition.

23. 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 and LAPP Global Asset Management Corp. (“LAPP”), the REIT’s major unitholder and asset manager, respectively. Prior to June 4, 2010, the REIT’s major unitholder and asset manager was C.A. Bancorp (“CAB”) and C.A. Realty Management Inc. (“CA Realty”), respectively. Transactions with CAB and CA Realty prior to June 4, 2010 are included as related party transactions. 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

Effective June 4, 2010, the REIT formalized management arrangements with LAPP (the “Manager”), a wholly-owned subsidiary of IGW Public LP. Pursuant to the management agreement, the Manager will provide the REIT with strategic, advisory, asset management and administrative services in exchange for an annual management fee equal to 0.30% of the “adjusted book value” of the REIT’s assets, paid quarterly in arrears, and an acquisition fee equal to 0.50% of the “property cost” of each property acquired by the REIT. In addition, the management agreement allows for property management and accounting fees and expenses to be paid to the Manager, or affiliate thereof, at market rates as approved by the independent Trustees.

The initial term of the management agreement is for a three year period, expiring on June 3, 2013. Upon expiry of the initial term, the management agreement will renew automatically for successive three year terms, unless terminated in accordance with its terms. The management agreement also provides that the management agreement may be terminated if the independent Trustees make the decision to employ individuals directly by the REIT rather than by the Manager, where the independent Trustees determine the cost of doing so would be less on an annual basis than the fees paid to the Manager under the management agreement. The management agreement provides each party with termination rights, the exercise of which may, in certain situations, require the REIT to pay a termination fee equal to two times the annual management fee paid in respect of the last full calendar year prior to the date of termination.

In accordance with the management agreement, the Manager is providing the services of certain executives, consultants and other employees to the REIT. As the REIT grows, the Manager will provide additional executives to the REIT in order to fulfill its obligations under the management agreement as recommended by the Trustees and agreed to by the Trustees and the Manager. All costs associated with executives and personnel shall be borne by the Manager. In accordance with the terms of the management agreement, the Manager is required to consult with the independent Trustees with regard to compensation decisions for executives who devote substantially all of their time to the business of the REIT. In the event that any executive providing services to the REIT ceases to do so for any reason, the Manager will replace such individual with another employee with similar qualifications and experience.

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

	Year ended December 31, 2011	2010
Acquisition fees	**$ 460,075**	$ 101,325
Asset management fees	**898,341**	477,092
Property management and accounting fees	**104,930**	-
	$ 1,463,346	$ 578,417

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

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

The non-competition agreement remains in effect until the earlier of: (i) six months after the termination of the management agreement in certain circumstances; or (ii) the date of termination of the management agreement under other circumstances.

(b) Related party balances

Amounts owing to the Manager and other related parties at December 31, 2011 are $50,460 (December 31, 2010 - $324,480; prior manager at January 1, 2010 - $95,165). Subsequent to December 31, 2011 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.

(c) Compensation of key management

The REIT’s key management personnel are the independent Trustees, Louis Maroun, Paul Dykeman, Saul Shulman, and John van Haastrecht; Chief Executive Officer, Adam Gant; President and Chief Operating Officer, Patrick Miniutti; and Chief Financial Officer, Dionne Barnes. The remuneration of the REIT’s key management personnel was as follows:

	Year ended December 31,		Year ended December 31,	
	2011	2010	**2011**	2010
	Trustees		**Key Management**	
Compensation and benefits	**$ 253,387**	$ 183,819	**$ 416,845**	$ 282,532
Deferred unit-based compensation	**-**	-	**57,000**	-
	$ 253,387	$ 183,819	**$ 473,845**	$ 282,532

24. SUBSEQUENT EVENTS

(a) Purchase of NorRock Realty Finance Corporation Assets (NorRock)

On February 1, 2012, the REIT closed on the acquisition of substantially all of the assets of NorRock, consisting of cash, cash equivalents, mortgages and other assets of NorRock, in exchange for the issuance of Partners REIT units, certain rights to acquire Partners REIT units, and cash.

Partners REIT paid $41,742,531 (which amount includes a credit to NorRock of $1,425,000 on account of expenses and a payment of $1,200,000 in respect of certain cash equivalents) (the “Cash at Closing Payment”) for the cash and cash equivalents held by NorRock. In addition, it has paid $9,422,980 (the “Assets at Closing Payment”) for the non-cash assets of NorRock. Since October 17, 2011, NorRock had sold assets with a value of $3,177,020, which amount has been deducted from the Assets at Closing Payment and added to the Cash at Closing Payment.

Partners REIT made the Cash at Closing Payment and Assets at Closing Payment by transferring (or directing the transfer) to NorRock the following units and cash (excluding the stub period dividend payments and payments to stock appreciation rights holders which were funded by NorRock) to NorRock:

- for each NorRock preferred share, 13.72824 Partners REIT units, together with cash equal to any stub period dividend payment, or, if the holder has so elected, 12.71676 Partners REIT units and $1.75 in cash together with cash equal to any stub period dividend payment;
- for each NorRock Class A share, 3.29445 Partners REIT units, a number calculated by determining the amount of the Cash at Closing Payment and Assets at Closing Payment, less an amount equal to the number of issued and outstanding NorRock preferred shares multiplied by $23.75, and dividing the result by the number of outstanding NorRock Class A shares (the amount per share being the “NorRock Class A Share Consideration”) and then dividing by $1.73; and
- for each of the 150,000 NorRock stock appreciation rights outstanding, $0.59 paid in cash per stock appreciation right, a number calculated by subtracting $5.11 from the NorRock Class A Share Consideration.

In connection with the closing:

- 29,575,333 Units (7,393,833 post-consolidation units) were issued (representing approximately 95% of the currently issued and outstanding Units) to holders of NorRock preferred shares and NorRock 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 (as defined below) will be issued to holders of NorRock Class A shares and holders of NorRock stock appreciation rights.

In addition to the Partners REIT units issued and cash paid at closing as described above, at Closing Partners REIT issued 3,074,160 non-transferable rights (“Rights”) to NorRock with an initial estimated value of $4,400,000. Under the plan of arrangement, NorRock is obligated to distribute these Rights to the holders of its NorRock Class A shares and stock appreciation rights. The Rights will entitle the holder to receive Partners REIT units (or, in Partners 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. 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 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. The number of Partners REIT units to be issued, if any, will be calculated based on the five day volume weighted average trading price of the Partners REIT units determined at the time of issue.

(b) Closing of Public Offering

On February 8, 2012 the REIT closed on its public offering of 10,753,000 units (2,688,250 post-consolidation units) at a price of $1.86 per unit ($7.44 per post-consolidation unit), representing gross proceeds of approximately $20 million, on a bought deal basis, to a syndicate of underwriters. The REIT granted the underwriters an over-allotment option, exercisable in whole or in part at any time up to 30 days following the closing of the offering, to purchase up to an additional 403,237 post-consolidation units at the same offering price. On March 5, 2012, the underwriters exercised 360,812 over-allotment options to purchased 360,812 over-allotment units at a purchase price of $7.44 per unit for gross proceeds of $2,684,441 (to be paid on March 8, 2012).

The net proceeds to the REIT from the public offering, net of underwriters' fees is approximately $19.1 million. The net proceeds are expected to be used by the REIT to pay out a loan facility entered into in connection with certain property purchases and to pay down a portion of the REIT's Acquisition Facility advanced in respect of a property purchase completed in 2011.

(c) Purchase of Plaza des Seigneurs

In February 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, Quebec (about 30 minutes north of Montreal), for an aggregate purchase price of $4.05 million. The purchase price was funded with a new $2.25 million five-year mortgage that bears interest at 3.5% and the balance paid with funds on hand.

(d) Purchase of Properties in Ontario and Alberta

In February 2012, the REIT completed the acquisition of four properties in Ontario from unrelated vendors and one property in Alberta, aggregating approximately 392,000 square feet. The aggregate purchase price is approximately $98.9 million and was funded by new credit facilities of $14 million bearing interest at 3.6%, the assumption of existing mortgages which were increased in the aggregate to $38.5 million of which $8 million is currently not funded, bearing effective interest rates between 3.5% to 3.6%, and $54.4 million in proceeds from the NorRock Realty Finance Corporation transaction (refer to (a) above) and the public offering transaction (refer to (b) above). The four properties in Ontario are: Crossing Bridge Square, an existing 45,800 square foot open-air centre located in Stittsville, Ontario; King George Square, an existing 67,100 square foot open-air centre comprised of three buildings located in Brantford, Ontario; St. Clair Beach Towne Centre, an existing 40,100 square foot centre comprised of two buildings located in Windsor, Ontario; and Thunder Centre, an existing 168,000 square foot power centre comprised of two box stores and 5 multi-tenant retail strips located in Thunder Bay, Ontario. The property located in Edmonton, Alberta, Manning Crossing, is an existing 64,500 square foot centre comprised of a retail strip and five restaurant pads.

The REIT also expects to complete the acquisition of Grand Bend Towne Centre, an existing 36,100 square foot centre, with a planned 6,100 square foot expansion, located in Grand Bend, Ontario in April 2012. The aggregate purchase price of this property is approximately $9.3 million and will be funded by the assumption of a $3.3 million mortgage with an effective interest rate of 3.85%, an increase to the existing mortgage of $1.6 million at an interest rate of 3.6%, with the balance paid from funds on hand.

(e) One for Four Consolidation of Units

On February 10, 2012, the REIT received approval from the Exchange to consolidate its issued and outstanding units on the basis of one post-consolidation unit for every four pre-consolidation units. The exercise price and number of units of the REIT's issuable upon the exercise of outstanding options, warrants and convertible debentures will be proportionately adjusted with the implementation of the unit consolidation. The post-consolidation of the units began trading on the Exchange on February 14, 2012.

In connection with, and immediately following, the consolidation of Partners REIT units, each Partners REIT unitholder that receives fractional Partners REIT units on the consolidation will irrevocably deposit all such fractional Partners REIT units with their agent, Computershare Investor Services Inc. ("Computershare"). Computershare, as soon as practicable, will aggregate all such fractional Partners REIT units into marketable blocks of units and, as agent for the relevant holders of such fractional Partners REIT units, sell such Partners REIT units on the Exchange for cash proceeds. Computershare will then remit the net sale proceeds from the sale of all such fractional Partners REIT units pro-rata to the relevant holders.

(f) Purchase of Quinte Crossroads, Belleville, Ontario

In March 2012, the REIT expects to complete the acquisition of Quinte Crossroads, a new development consisting of 88,319 square feet of recently constructed four building power centre in Belleville, Ontario for an aggregate purchase price of $21.25 million; subject to final adjustments and other acquisition costs. The purchase will be funded by the placement of a new mortgage of $14.2 million, with the remainder of the balance coming from funds on hand.

(g) Conditional Approval of Graduation to the TSX

The REIT announced on March 1, 2012 that it has received conditional approval to list its securities on the Toronto Stock Exchange (TSX) at which point such securities will no longer be listed on the TSX Venture Exchange. The approval is conditional upon Partners REIT fulfilling the conditions of the approval. Partners REIT expects that it will receive final listing approval shortly.

(h) 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, throughout 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 believes it 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 (refer to Note 19).

25. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorized for issue by the Board of Trustees on March 15, 2012.